"THE COOPERATIVE HAS NO BORDERS"

DECLARED AGROPUR'S FOUNDERS IN 1938

2008 ANNUAL REPORT

Agropur cooperative

agropur

VICTORIA

BRITISH COLUMBIA | CANADA

The employees soon start their work day.

LITTLE CHUTE

WISCONSIN | U.S.A.

It's snack time!

EVERYWHERE... ALL THE TIME

What do a receptionist in Victoria, a deliveryman in Wisconsin, a dairy farmer in the Eastern Townships, and a Chief Operating Officer in Argentina all have in common? They are all on a quest for excellence initiated by Agropur to offer the best possible products and quality service to satisfied customers and consumers.

70 YEARS OF HISTORY

The history of Agropur is part of the Canadian economic legacy. Its 70 years of history relay the story of Quebec milk producers who looked beyond borders. Our cooperative is now present in three countries, and its 3,615 members and over 5,000 employees are working very hard. No matter where they work, they are all striving for the same objective: to ensure the continuity and expansion of the organization.

Since the Cooperative was founded in 1938, consumers have recognized the quality and authenticity of the products that bear the name Agropur, the largest dairy cooperative in Canada, with nearly $3 billion in sales. Our committed and energetic employees produce quality products that meet consumers' needs. This is the result of several decades of knowledge and expertise.

GRANBY

QUEBEC | CANADA

Milk collection began several hours ago, and is still going.

FERREYRA

CORDOBA | ARGENTINA

Lunch is over: back to work!

MISSION

Our mission is to provide a wide range of quality dairy products reflecting current and future consumer demand.

The Cooperative's expertise and know-how enable it to offer consumers products of impeccable quality. For several decades the organization has been a part of consumers' daily lives by providing them with dairy products that meet their expectations: Agropur listens to their needs so that they can enjoy fresh, healthy and delicious dairy products.

Innovation is one of the Cooperative's priorities and a core element of its growth. Since its creation, the organization continues to break down barriers to excellence by applying high-quality standards to all its products, as well as with its members through its farm quality intervention program, and in its plants.

Efforts in Research and Development (R&D) help consumers lead a healthy and active life, and are a factor in meeting their many needs. This is why the R&D Centre opened its doors in 2008. This new centre, with state-of-the-art technology, will ensure greater innovation and speed up the development of new products.

Moreover, Agropur has distinguished itself and demonstrated its capacity for innovation by receiving several prestigious awards. The Cooperative received the World's Best Aged Cheddar prize three times at the World Championship Cheese Contest in Wisconsin, a *Caseus d'or*, in Quebec, for its Champfleury cheese, the Canadian Grand Prix New Product Awards six times over the last eight years, not to mention the innumerable other awards received at the provincial, national and international levels.

With a flurry of product launches, 2008 was, once again, a prolific year. Agropur was able to maintain its reputation as a leader in innovation, always looking for new ways to adapt a naturally healthy and nutritious product to the needs of consumers now and in the future.

OUR MISSION, OUR VISION, AND OUR VALUES GUIDE OUR ACTIONS AND ARE BENCHMARKS FOR ALL OF US.

VISION

To consolidate our position as a leading Canadian provider of dairy products, to become an influential player across North America, and to grow our global markets.

Becoming an organization without borders, while maintaining its profitability, is where Agropur is headed. This vision clearly demonstrates the direction that the Cooperative is taking. It is considering the strategies prescribed by management, which enables it to increase its expertise, expand its line of products and ensure continuity, among other things. In fact, there are several reasons driving Agropur to pursue its strategy to expand internationally, including erasing geographical borders with customers, consolidating milk processing and distribution, and global growth in the dairy sector.

Faced with a shifting economy and increasingly fierce competition, Agropur must solidify its presence in Canada and pursue an active development strategy abroad. This vision also enables Agropur to better position itself on the global stage.

It is with this in mind that the Cooperative made new acquisitions in 2008. Agropur made a foray into the South American market, reinforced its presence in the United States and strengthened its position in Canada. These acquisitions, south of the Canadian border, mark the beginning of an expansion movement in North America and enable the organization to make headway in the global dairy sector, and, consequently, to take advantage of the growth that the dairy industry is currently experiencing worldwide.

TOGETHER, WE CAN CARRY OUT AGROPUR'S VISION.

CHAIRMAN'S MESSAGE

We are proud of Agropur's achievements. The Cooperative's financial health is a crucial element that enables us to pursue our mission and achieve our vision.

The year 2008 marked 70 years of existence for Agropur and we are proud of our cooperative's achievements over that period. "The Cooperative has no borders," declared Agropur's founders. They dreamt big and with good reason: they wanted to found an organization without borders and this is precisely what Agropur has become.

Our cooperative has had to adapt itself to its environment several times in order to ensure its continuity. At the start of the 21st century, the organization is facing some significant challenges. Changes are occurring at a fast pace and the Cooperative keeps adapting itself to an ever-changing environment.

Today, our mission is to provide a wide range of quality dairy products reflecting current and future consumer demand. This mission confirms our desire to remain focused on what we know best, milk processing. The vision is to consolidate our position as a leading Canadian provider of dairy products, to become an influential player across North America, and to grow our global market.

Agropur's financial health is a crucial element that enables us to pursue our mission and achieve our vision. Our cooperative's expansion and vision for development are bolstered largely by the support received from our members during the last consultation meetings. Both in 2002 and 2007, members stated their support for a strategy based on the development of their organization.

The ties that bind Agropur members are stronger than ever and create a special dynamic. In fact, we regularly consult them in full respect of the basic rules of democracy inherent to our cooperative.

During the 2008 Annual General Meeting, the Board of Directors presented the findings of the 2007 Strategic Reflection, launched during the 68th General Meeting, and which led to a change to the Cooperative's by-laws. This review aimed to gather members' points of view about three major subjects of interest pertaining to Agropur's future: recruitment of new members, its democratic structure and community life, and the growth of the organization. The findings from the Strategic Reflection will be used to provide the Board with directional and decision-making guidance in the coming years.

To further clarify, let's have a look at our progress. Since the member consultation in 2002, Agropur has increased sales by more than one billion dollars and its volume of milk processed by half a billion litres. Since 2002, we have also invested nearly $350 million in our plants and declared close to $500 million in patronage dividends to our members.

The Board of Directors continues to look out for the best interests of its members and the Cooperative in light of the issues that the dairy industry will face over the next several years.

Last July, talks at the World Trade Organization (WTO), namely on the liberalization of agriculture, broke down, but that does not mean the end of the Doha Round. With the likely renewal of negotiations in 2009 at the WTO, we might see substantial changes, such as the liberalization of international trade. These risks are always present and the Canadian dairy industry is likely benefiting from a short-term respite.

During the year, we expressed our support several times for the supply management system in place in Canada. It enables the Cooperative and its members to take advantage of the stability of the Canadian market, while capitalizing on the dairy industry's international growth through foreign acquisitions. Whatever the future holds in store, the fact remains that one day an agreement will be reached between the various member countries of the WTO, resulting in heavy pressure on our system. Our industry must be able to rely on government support similar to that given in other dairy-producing countries, so that we can compete on equal terms.

In the international sphere, Agropur has been involved with SOCODEVI[1] for many years, in various projects, including one in Paraguay that wrapped up in 2008, and that aimed at promoting the development of eight dairy cooperatives in this country. We are happy to continue our support for this organization by participating in another project in Eastern Europe, specifically in Ukraine. Agropur and *La Coop fédérée* are both committed to hundreds of hours of time and resources to the project, over the next five years. Our main objective is obviously to help this country's dairy producers to be better organized, but this is also an opportunity to learn about and familiarize ourselves with the dairy industry in this specific region.

Regarding the regulatory changes, on December 26, 2007, the federal government published new regulations on compositional standards for cheese, which means that, starting in December 2008, cheeses produced in Canada must respect the new guidelines on the use of milk ingredients. Agropur is the only major processor that favours implementing these standards, since the increase in the importation of low-cost ingredients constitutes a significant threat to our Canadian milk marketing system. As this goes to press, we still do not know how the government intends to apply these regulations.

Also, as part of a process to change Quebec regulations, we have agreed, along with the *Fédération des Producteurs de lait du Québec*, on a new standard that will limit the use of milk ingredients in yogurt production in Quebec. This standard must become a Canadian standard as soon as possible, as it is a question of equality for the country's processors.

At a special General Meeting on June 4, we adopted a draft modifying the general by-law of the Cooperative as well as a new capital structure that will now consist of only three categories of shares. At press time, we were still awaiting confirmation from the federal fiscal authorities.

In conclusion, along with the other Board members, I would like to express my satisfaction with the 2008 results. I would like to thank our Chief Executive Officer, Pierre Claprood, and his team, for their hard work in making Agropur the successful dairy organization that it is today. Finally, I would like to express my gratitude to all the members and employees who support the Cooperative daily in achieving its mission and vision.

Serge Riendeau
Chairman

[1] Société de coopération pour le développement international [a network of cooperatives for international development].

VALUES

Agropur is built on a tradition that goes back 70 years, passed down by its members and all of its employees, day after day.

Despite its expansion, the Cooperative has remained faithful to its original values, the values that set it apart from other organizations, and the same ones that live on in its employees decades later. Its current values were inherited from its rich past and its experiences acquired through time. Year after year, Agropur evolves and changes, and its family expands, hence the need to reaffirm its values.

HUMAN VALUES

The Cooperative's success depends on its employees and on the honest and rewarding relationships that it develops with them. **Respect** for everyone and the appreciation of each person's knowledge are essential components of Agropur's development. The environment in which employees grow allows everyone to reach their potential according to their own needs, and **teamwork** is strongly encouraged.

SURE VALUES

The organization emphasizes safety through a well-established occupational health and safety program; this program's objective is to create a **safe work environment** and to encourage all employees to adopt **preventive attitudes and behaviours**. Also, Agropur is committed to **protecting the environment** because it represents the heritage we will leave for future generations.

ADDED VALUES

Agropur and all its partners are driven and committed to **excellence** in what they do. They transform new ideas into products and services that **exceed members' and consumers' expectations**. They view change as a source of new opportunities and think beyond the conventional framework.

PROFESSIONAL VALUES

Agropur is available to **listen to consumers**; it employs **transparency, openness and honesty** with them; the fulfillment of their needs is its main concern. It holds itself accountable to its customers and is conscious of the important role that it plays. By demonstrating leadership and encouraging social initiatives, Agropur fully assumes its role of **good corporate citizen**.

HUMAN VALUES

SURE VALUES

ADDED VALUES

PROFESSIONAL VALUES

CHIEF EXECUTIVE OFFICER'S MESSAGE

Another good year marked by several acquisitions.

Agropur had another good year marked by acquisitions in Canada, the U.S. and Argentina, which contributed to the growth of our $2.8 billion sales figure. Net earnings before dividends and taxes neared $121.3 million, which is lower than in 2007, but comparable once we exclude the 53rd week in 2007 and the devaluation difference in commercial papers.

Although the price of whey products on the international market dropped significantly, earnings in our cheese divisions are nonetheless up, thanks among other things, to favourable results from Trega Foods, in the U.S., which benefited from higher prices on the U.S. market in 2008, as well as the continued improvement of results in the Fine Cheese Division.

Despite an increase in raw material and energy costs, Division Natrel continues to grow and increase its efforts to protect its market shares in an extremely competitive environment.

Regarding our joint venture, Ultima Foods, we are seeing a market recovery and it is posting a growth rate of approximately 8%, a rate we had become accustomed to over the last decade.

As for La Lacteo, our joint venture in Argentina, several factors make it difficult to achieve profitability; it is posting a loss, which can be attributed in large part to the unstable dairy policies, prevalent in the country, in an effort to cope with inflation. Added to that are the new regulations restricting exports, as well as domestic prices being lower than international prices. However, with the solid management team that is now in place, we expect to invest in these two plants, and to be able to capitalize on the business opportunities that arise and on a possible economic recovery in the country.

Today's organization is the result of numerous mergers and acquisitions. With an enviable financial situation, Agropur made several investments this year, in Canada and abroad. In 2008, several acquisitions were made: La Lacteo, Trega Foods, Laiterie Lamothe and more recently, Schrœder Milk[2]. These acquisitions are in line with every aspect of Agropur's growth strategy and we continue to study other possible acquisitions. We have also invested $58 million in our plants and infrastructures. The Fine Cheese Division's new administrative centre and the R&D Centre opened their doors in 2008. Start of production of cottage cheese and sour cream, in spring 2008, in Amqui, Quebec, is also worth mentioning.

[2] This acquisition is not included in the results of 2008 financial year.

With an historical know-how for product development, Agropur is able to create innovative and quality products proactively in response to market trends. In keeping with its reputation as an innovative organization, the Cooperative once again produced several new products this year, including Oka L'Artisan cheese, Natrel Nature~Pure Filtered Organic milk and Yoplait Minigo immuni+ Jr. fresh cheese.

Members and employees are working to market superior quality products, thanks to cutting-edge processes, HACCP[3]-certified facilities and a controlled environment. This undeniable quality meets all requirements and enables us to set ourselves apart, thereby developing long-term relationships with consumers and customers.

This year also marked 50 years of partnership with Kraft. For a half-century, this association has symbolized Agropur and Kraft's commitment to excellence in order to create healthy products that meet consumers' needs and expectations. In fact, Kraft has always encouraged the Cooperative to expand its horizons and improve. We are proud of this strong relationship that is based on mutual respect.

Today, Agropur is faced with major challenges; business and operations are becoming more complex as the organization grows. As the Cooperative breaks boundaries, new employees join our large Agropur family, and we must effectively communicate our mission, vision and values to them. Despite our growth, we have remained faithful to our original values, the ones that distinguish us from others, in particular the importance of our employees. In fact, our greatest asset is and always will be the professionalism, commitment and dedication of our employees. Agropur can only achieve healthy growth through hard-working and competent people.

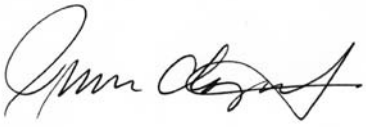
During the year, the Cooperative also signed five collective agreements of over five years, which provides stability for all parties involved. The health of our colleagues is near and dear to us and we intend to do everything in our power to protect them. Nothing that we do justifies an accident. Even if our goal of zero accidents in 2009 is not achieved at all of our facilities, we are doubling our efforts and dedication in order to reach this target, as quickly as possible.

Thanks to its healthy, dedicated and motivated employees, Agropur will be able to reach its objectives. The organization is in a healthy financial situation and will be able to take advantage of business opportunities that may arise in the future. In light of this, we recently decided to reorganize the Management Committee. Benoit Gagnon will assume the position of Executive Vice-President, Global Development; as such, he is now in charge, along with the divisions, of the organization's growth, in Canada and outside of the country, and of implementing business plans for new product development. Furthermore, to replace Benoit Gagnon, Jocelyn Lauzière joined the Management Committee as Chief Financial Officer. This reorganization comes on the heels of two other nominations to the Management Committee in early 2008, namely Lorraine Bédard to the position of Corporate Secretary and Vice-President, Member Relations, and Michel St-Louis to the position of Vice-President, Legal Affairs.

At a time when the processing industry is becoming more centralized, the WTO is still exerting pressure and the Canadian market is at maturity, Agropur's vision is focused on global growth and hinges on three pillars: geographic expansion through acquisitions, improvement of our operations profitability and, finally, innovation, which opens the door to success in new markets.

I cannot neglect to mention the economic slowdown that is occuring in Canada and internationally. We have the opportunity to work in a sector that is vital to the economy. While this sector is generally less affected than most during a recession, certain effects can be felt. With a debt-free and financially sound organization such as ours, we feel we are well equipped to deal with this difficult economic situation.

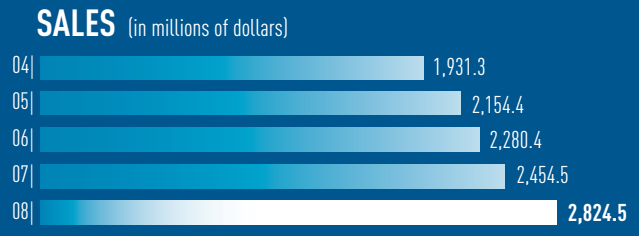
In conclusion, I would like to take this opportunity to thank all Agropur employees for their significant contribution to the success of the Cooperative. Indeed, it is your skills, continuous efforts and dedication that have made Agropur what it is today. I would also like to thank Agropur's Chairman, Serge Riendeau, all the members of the Board of Directors and Management Committee, for their collaboration and their support throughout the year.



Pierre Claprood
Chief Executive Officer

[3] Hazard Analysis Critical Control Point.

HIGHLIGHTS



REVIEW OF ACTIVITIES

INVESTMENTS

In addition to the acquisitions made in 2008, Agropur is also investing in its plants and infrastructures. The brand new Fine Cheese Division administrative centre welcomed its employees last May; this centre is better equipped and able to meet the division's current and future needs. The R&D Centre started operations in October 2008 and represents the last phase of a $40-million investment, which is both historic and strategic for the Cooperative.

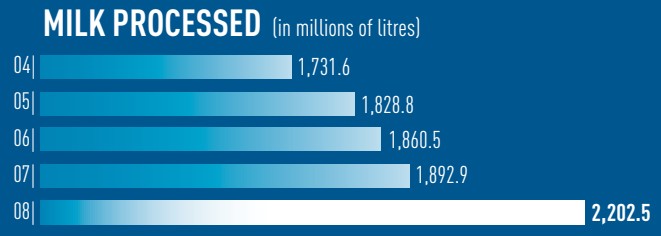
Finally, investments were required in order to increase production capacity at several plants, to meet the demand in all divisions. Investments are regularly injected into all the work sites and divisions, with the aim of increasing production and replacing obsolete equipment.

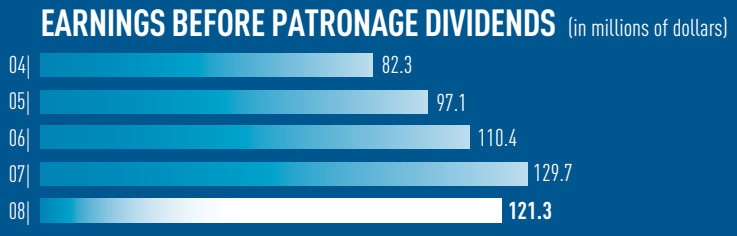
MARKETING

The past year was profitable for all divisions thanks to the repositioning of certain brands, the launch of new products and the expansion of product lines.

The first Agropur fine cheese umbrella brand made its appearance in November 2007: Agropur Signature. This seal of quality guarantees a high-calibre product and conveys the following values: respect for tradition, quality, pride and authenticity. This new signature also enables us to be more competitive and to enhance our reputation on the Canadian fine cheese market by providing products with the Agropur guarantee of quality. This new name allows the organization to group several fine cheese brands together for added value under one umbrella brand, for a more synergistic and elaborate marketing campaign. In addition to printed promotional material, 10-to-20 second television ads, with a cohesive and effective message, were broadcasted across Canada during targeted periods on various French and English language channels.

A second umbrella brand emerged in 2008: Agropur Import Collection. This marketing strategy enables us to group together several imported fine cheese brands and, in doing so, increase Agropur's visibility thanks to the distinctive seal.





The new marketing orientations for the fine cheese sector were very successful. They are more targeted and much more aggressive than those in the past, which has had a direct effect on sales. On top of optimizing marketing tools, such as launching an interactive website (pleasureandcheeses.com or through agropur.com) last December, we also launched several new products to meet consumers' needs.

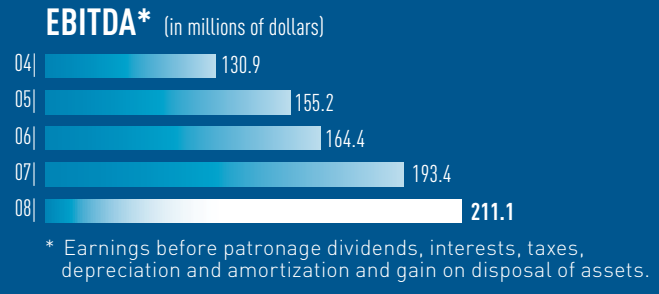
The Oka line of fine cheeses is growing with the arrival of two new cheeses: Oka with mushrooms and Oka L'Artisan. The Chevalier line of brie cheeses added three new flavours: pepper, fine herbs, and basil and tomatoes. In 2008 the entire new line of Rondoux fine cheeses were unveiled. Finally, a new flavour of Délicrème cheese was added to the eight existing flavours: Délicrème Nature.

Division Natrel was once again recognized for its innovation. As with fine cheeses, several new products were launched during the year: Sealtest/Québon chocolate milk sweetened with Splenda, Sealtest/Québon choco-hazelnut milk, Natrel Pro milk with probiotics and prebiotics and Natrel Nature~Pure Filtered Organic milk. Natrel milk in its 4L format became the first in its category to be sold in oxo-biodegradable bags; this initiative is another step toward offering more ecofriendly packaging.

Natrel Ultra'Milk has become Natrel Nature~Pure in order to increase its market share with a stronger brand in the premium milk sector. The vast advertising campaign that followed showcased Agropur member milk producers and the organization's fundamental values related to the earth and the production of the best possible milk products.

Finally, as for the Ultima Foods joint venture, the new Yoplait Minigo immuni+ Jr. fresh cheese was released in January 2008. Two new flavours were added to the line of Yoplait Source yogurts, Exotik Selection (650 g format) and Vanilla Tango. To offer more products, two new packaging formats were released on the market: 8 x 100 g Yoptimal yogurts, and 150 g formats of certain flavours of Yoplait Source and Yoplait Creamy. In the 650 g format of Yoptimal, red berries and blackberry-blueberry have been added to the other flavours. Finally, Yoplait Tubes were a hit with young consumers with some limited edition flavours. Yoplait is the first and only yogurt company in Canada to include both vitamin D and calcium in all of its products.

HIGHLIGHTS



SALES

This year, all divisions combined, sales rose to the historic level of $2.8 billion; this growth can be largely attributed to acquisitions.

Growth in fine cheese sales increased considerably compared to previous years and exceeded 10% for 2008. The Atlantic provinces and Western Canada generated the largest sales growth. In order to reach the most consumers and encourage them to try Agropur's line of fine cheeses, the sales teams were restructured for Ontario and British Columbia.

In 2008, cheese and functional product sales grew slightly despite a drop in the price of whey products on the international market and the fact that this financial year was one week shorter than last year. Recall that 2007 had posted record prices for whey products. In addition, the concentration of the primary players makes growth more difficult.

Increasing sales and distribution in Western Canada is another challenge that Agropur must face, even with gains in British Columbia. It is also interesting to note that, in regard to Division Natrel, the strongest sales growth also comes from this province, thanks to Island Farms products.

As for yogurt, 2008 marked a recovery in the market. Sales growth was higher than in 2007; it was bolstered by the active health segment. Growth opportunities also arose on the Ontario and Western Canada markets, where sales of these products has not reached its cruising speed. The line of Olympic Dairy organic yogurts continues to perform well, mainly in the West.

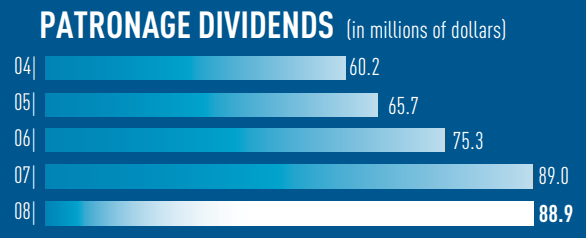
OPERATIONS

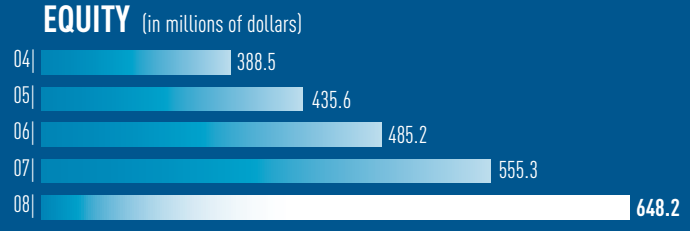
After more than a $6-million investment, the Division Natrel plant, located in Amqui, Quebec, began production of Sealtest brand cottage cheese and sour cream, for this plant that produces Québon milk, Sealtest butter and Le Petit Gaspésien cheddar.

FIXED ASSETS

Rationalization equals efficiency. The plant on Annacis Island, in the suburb of Vancouver, British Columbia, saw its primary vocation changed; it is now a distribution centre for Division Natrel, enabling the concentration of processing in Victoria and Chilliwack, thus maximizing its operational capacity.

Finally, Agropur divested itself of certain assets; the Cooperative had been looking to sell infrastructures, located in Quebec, specifically in Chambord and Saint-Alexandre, for several years. The Brantford plant, located in Ontario, was also sold.





RESEARCH AND DEVELOPMENT

The new R&D Centre is the first Canadian centre in the dairy industry dedicated to R&D. It is equipped with a pilot plant containing all the equipment needed to recreate a production environment comparable to that of conventional milk plants and which enables the Cooperative to increase innovation and develop new products at a faster rate. These activities are paid special attention, given that innovation is a key factor to Agropur's success and growth.

R&D work is emphasized in cheese and functional products, in order to offer products like cheese with probiotics. Agropur is also developing new recipes, value-added functional products like Crinolac, as well as ingredient bases in order to optimize the recipes used.

In conclusion, investments in R&D are paying off as many new products were launched this year. These new products stand out for their originality and, in some cases, their functionality. Overall, it was a year of growth.

FINANCIAL REVIEW

The highlight of 2008 was no doubt the acquisitions of companies outside of Canada, which, represents an important breakthrough for the Cooperative beyond Canadian borders. An initial move was made in 2002 with the acquisition of the Deutsch Käse Haus cheese factory, located in Indiana, U.S.A. This acquisition, which added $26 million to the 2008 sales figure, was Agropur's first foray south of the border to become more familiar with this market. After considering several projects, the 2008 acquisition of Trega Foods in Wisconsin generates approximately $400 million in annual sales. An initial investment was made in South America, with the acquisition of a 50% share in La Lacteo joint venture, located in Argentina. This acquisition was the first step toward business opportunities in this area, in partnership with our new South American partner, Adecoagro. In Canada, Agropur also acquired Laiterie Lamothe in Drummondville, thus increasing our market share in this region and benefiting from its range of organic products.

These acquisitions propelled the Cooperative past the milestone of $1 billion in assets and $2.8 billion in sales. The Cooperative's earnings before patronage dividends and incom taxes were $121.3 million, and unusual items accounted for the $8.3 million drop compared to last year.

Governance

The audit committee reviewed the financial statements in this annual report. This committee is comprised of five board members. Several Agropur senior executives, as well as representatives of our external auditors, attend the committee meetings. The latter, along with the internal audit department, periodically present the results of their work.

Moreover, in a concern for stringency, management has implemented a hierarchical attestation process, inspired by Bill 198, under which senior executives must attest to the accuracy of the financial information presented in financial statements.

REVIEW OF 2008 FINANCIAL STATEMENTS

The following comments are a review of the financial statements presented on page 21 of this annual report.

Accounting policies

Unlike other corporations, the Cooperative continues to amortize the goodwill recorded during business acquisitions, in compliance with guidelines in the Canadian Institute of Chartered Accountants Handbook. This practice must be reviewed alongside the adoption of international accounting standards. While the obligation stemming from the application of international standards is subject to pending guidelines, regarding Agropur, these guidelines are expected to be adopted by fiscal year 2012. It is still too early to evaluate their impact.

In light of the convergence of Canadian, U.S. and international standards, accounting standards are evolving at a rapid rate. For many years now, priority has been given to the measurement of balance sheet items. Last year's introduction of the comprehensive income statement is a good example of this. The multiplication of standards for measuring and presenting financial instruments, and the increasingly complex terminology make it difficult to understand financial statements. While the Cooperative's statements are mainly intended for its members, compliance with accounting standards means that the statements are increasingly less understandable to the uninitiated. In fact, the complexity of the information presented is not always proportional to its financial worth. Note 19 on employee future benefits is certainly proof of this. Insofar as possible, we have tried to simplify complex information.

Results

In 2008, Agropur's sales reached $2.8 billion, 87% of which was earned in Canada. Compared to last year, this represents an increase of $370 million, or $416 million if we discount the fact that 2007 had 53 weeks. Each of the divisions contributed to this increase. Moreover, the three companies acquired during the financial year contributed a total of $314 million.

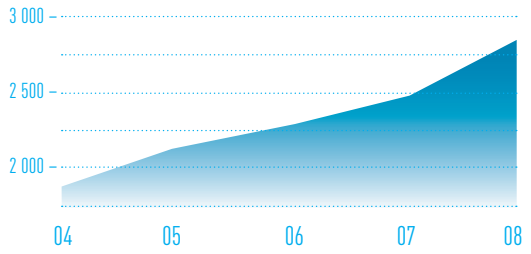
If we take a closer look, the volume of cheese sales to further processors and food service customers dropped by $3.8 million of kilograms, explained mainly by the decline in orders by a major client. The volume of milk thus freed up was transformed into butter and powder. In the Fine Cheese Division, sales were up 11.5%. The launch of the Agropur Signature brand and the Agropur Import Collection label, combined with several new distinctive products, contributed to this performance.

In the Division Natrel, business development remained a challenge in a globally stagnant market. This division is making significant efforts to stand out by developing new products and re-positionning the brand. A prime example is the launch of Natrel Nature~Pure filtered organic milk and the migration from Natrel Ultra'Milk to Natrel Nature~Pure brand.

Regarding our joint venture, Ultima Foods, yogurt sales grew compared to 2007, due in part to the strong performance by Yoplait Source and to the April 2007 launch of Yoptimal Immuni+ yogurt outside of Quebec. As for our Argentinean joint venture, La Lacteo, we are continuing to learn about the South American market. However, the Argentinean government's price-control measures and export restrictions are affecting the profitability of this investment.

The following graph presents the progression in sales over the last 5 years, climbing from $1.931 billion in 2004, to $2.824 billion in 2008, i.e. 46.2% growth, or an average of 10.0% annually.

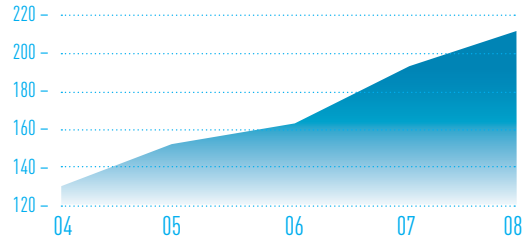
SALES FIGURE (in millions of dollars) **– 2004 TO 2008**



The operating surplus, defined as earnings before interest, taxes, depreciation and amortization (EBITDA), hit a new level of $211.1 million, up $17.8 million compared to the previous year. Although up, the EBITDA represents 7.5% of total sales, compared to 7.9% in 2007. Even if they were affected by rising energy costs, the 2008 results were bolstered by revenues from new business acquisitions and by the increased performance of fine cheeses and yogurts. Also note that the rise in the price of whey products on the international market contributed to 2007 improved revenues of approximately $14.0 million. Moreover, the widest price variation affecting permeate powder, the price of which hit US$1,300 per tonne compared to US$300, in October 2008. Finally, another factor that positively affected the 2007 results of $4 million was the inclusion of a 53rd week.

The operating surplus rose from $130.9 million in 2004 to $211.1 million in 2008, a 61.3% increase, or an average of 12.7% annually.

EBITDA (in millions of dollars) **– 2004 TO 2008**



We will face many challenges in improving our profitability in 2009, including cost control and the growth of sales of value-added products. Given the expansion of our operations outside of Canada, the volatility of the Canadian dollar compared to its U.S. counterpart will have an increasingly significant effect on our sales figure and results. Although we use forward exchange contracts to limit the repercussions of the fluctuating Canadian dollar on our domestic operations, our operations outside of the country remain vulnerable to these fluctuations. According to certain experts, the volatility of the stock markets, the uncertainty in the financial markets, the tightening of credit and the significant variations in energy costs risk plunging us into a recession, which is already the case in the United States. However, since our company works in a vital sector of the economy, the effects of a recession are generally lessened. Our results could be affected by volatile energy costs, by increased pension plan expenses and by difficulties experienced by our clients and suppliers.

From the EBITDA of $211.1 million, we subtract depreciation expenses of $70.9 million, up $14.5 million compared to 2007, as a result of the amortization of the new business acquisitions. Financial expenses are posted at $11.9 million. Last year, the financial expenses included a $10 million allowance for asset-backed commercial paper (ABCP). At the balance sheet date, i.e. November 1, 2008, we had reassessed these papers and accounted an additional allowance of $15 million.

Accounting standards require us to estimate the fair value of these papers as at the balance sheet date, despite the lack of information available and the current absence of a market. Therefore, we evaluated the fair value based on an economic model of discounting future cash flows, requiring us to make assumptions on the performance levels expected by a virtual market of buyers, since this market is currently non-existent. This estimated value is subject to change once restructuring is completed.

This new allowance reflects the growing volatility of the financial markets, the increase in lender lines of credit and the risk related to the lack of information available. Since August 2007, the liquidity crisis related to asset-backed commercial paper has meant that the temporary, short-term investment of $84 million purchased by our bankers, at the best credit ratings in the country and distributed among 12 different trusts, have long since fallen due. At the time this report was written, we were expecting the ABCP to be converted into long-term securities, whose values and returns, and the presence of a secondary market, are uncertain. Happily, our healthy financial situation, a reflection of our low debt load and enviable results, has allowed us to continue pursuing our development plan.

During the fiscal year, a $1.3 million gain was made on the sale of assets from old plants in Chambord, Saint-Alexandre and Brantford that had been decommissioned due to lack of profitability. Income taxes of subsidiaries and joint ventures was $8.2 million, mainly due to the addition of positive results from U.S. subsidiary Trega Foods.

This year, Agropur's earnings before patronage dividends and income taxes were $121.3 million, compared to $129.7 million in 2007. In summary, if we

discount the effect of the 53rd week in 2007, the higher prices of whey products, and the new business acquisitions and additional allowance for ABCP in 2008, we can conclude that the results for 2008 are comparable to those of 2007, a record year for the Cooperative.

The Board of Directors approved patronage dividends of $88.9 million, corresponding to 7.08% of the value of members' milk deliveries. These dividends are payable in a proportion of 25% cash and 75% investment shares. These investment shares, issued in 2008, are eligible for the federal tax deferral. At the time this report was written, we still had had no reply to our request concerning the Quebec tax deferral program and the Cooperative Investment Plan (CIP). The Cooperative hopes to change the eligibility conditions to enable its members to qualify for these tax benefits despite the organization's excellent financial performance.

Finally, given the earnings and the amount of patronage dividends approved, an expenditure of $9.4 million was reported in the Cooperative's income tax. After income taxes, 2008 net earnings paid into the reserve were $23.0 million.

Cash flows

Cash flows related to operating activities, before the change in non-cash items, was $198.3 million, up $15.9 million compared to 2007. Non-cash items generated $19.4 million, the details of which are presented in Note 7 of the financial statements. Inventories dropped by $17 million, mainly in terms of powdered milk and butter. Accounts payable increased by $14.0 million, mainly due to amounts owed for payment of milk. Regarding employee future benefits related to employee pension plans, an additional disbursement of $8.0 million was required, partially due to lower pension plan returns.

Proceeds on disposal of assets added another $4.2 million in cash inflows. The use of $10.6 million in liquidity and borrowing facilities, combined with previous sources of funding, led to cash outflows of $232.5 million.

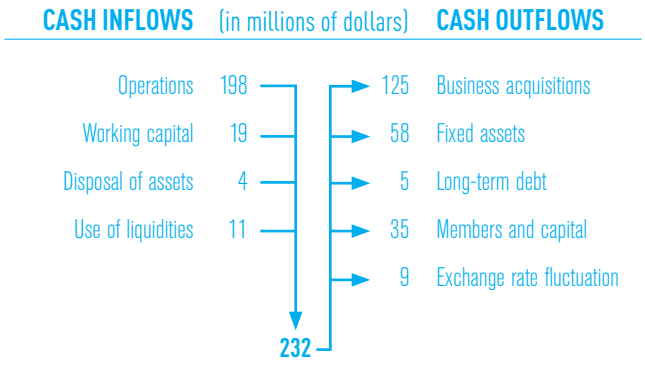
Note disbursements of $124.6 million for the three new business acquisitions; this represents the value of assets acquired, net of assumed liabilities. This is an addition to an amount of $58.0 million for new fixed assets. Note that $11.6 million were spent in 2008 to build the Research and Development Centre in Saint-Hubert, Quebec, and $3.7 million for the new Fine Cheese Division administrative centre, topping up a total investment of over $40 million at this site.

Moreover, $5.2 million were used to reimburse a portion of the long-term debt. Payments to members totalled $35.4 million, i.e. $22.2 million for the December payment of the cash portion of patronage dividends and $13.2 million for share redemptions.

New investments outside of Canada and the major fluctuations in the exchange rate led to a $9.4 million drop in liquid assets, due to the liquidity of our subsidiaries and joint ventures, as well as our $34.7 million loan in U.S. currency.

Although the funds required by the investments made in 2008 are substantial, note that the level of cash flow generated by operations significantly limited the Cooperative's need to dip into available liquidities.

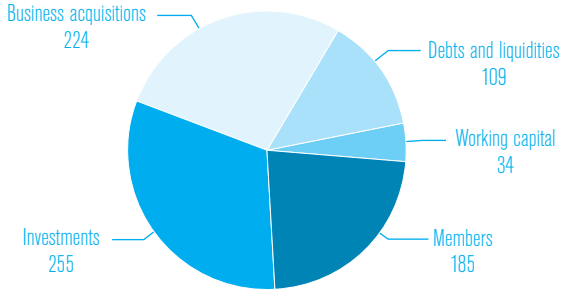
The following table summarizes the funding sources in 2008 totalling $232.5 million and what this cash flow was used for.



For the past five years, cash inflows have totalled $807.5 million, $184.5 million or 22.8% of which was paid to members as patronage dividends and share redemptions. Disbursements related to the acquisition of Olympic Dairy Products, Island Farms, Bright Cheese House, La Lacteo, Trega Foods and Laiterie Lamothe totalled $224.3 million. This is in addition to capital investments in the amount of $255.3 million, including the major expansion of yogurt production capacities, the new mozzarella line, the new cottage cheese and sour cream lines and, obviously, the new Saint-Hubert site comprising the cheese warehouses, the R&D Centre and the Fine Cheese Division's administrative offices. The increase in working capital required an injection of $33.8 million, excluding the working capital already included with the business acquisitions. The remaining $109.6 million was used to reimburse the debt and replenish liquidities.

The graph below summarizes the use of this $807.5 million fund generated in the past five years.

USE OF FUNDS ($807 millions) – 2004 TO 2008



Balance sheet

In 2008, the Cooperative's assets exceeded the $1 billion mark for the first time, i.e. $1.097 billion on November 1, 2008, up $189.9 million from 2007. This increase is explained mainly by the addition of assets from companies acquired during the year. Non-cash working capital was $51.0 million.

Cash net of interest-bearing debt totalled $24.0 million. At the beginning of the year, the Cooperative settled an agreement with a financial institution to implement a credit facility of $85.0 million to compensate for amounts invested and frozen in the ABCP. This new credit facility was used for the acquisition of Trega Foods. The loan balance of $41.8 million as at the balance sheet date is presented with bank overdrafts and bank loans.

Note 15 of the financial statements details the Cooperative's capital. The latter increased by $53.5 million in the last 12 months to reach $411.0 million dollars, i.e. a 15.0% increase. During the year, the members and investment shareholders approved a reorganization project of capital aimed at simplifying the structure. Currently, Agropur's capital comprises 14 categories and different series, whereas the proposed structure has only three categories. This restructuring, scheduled for implementation in 2009, is conditional on a favourable decision by federal tax authorities, as the Quebec government has already given us the green light.

Comprehensive income

Comprehensive income reached $39.4 million in 2008. Earnings of $15.4 million were added to the net earnings of $23.0 million, to account for the variation in the exchange rate, measured from the date of acquisition of the independent foreign subsidiaries and joint ventures, including Trega Foods and La Lacteo. At the time of these investments, the Canadian dollar was at par or even higher than its U.S. counterpart. As at the balance sheet date, November 1, 2008, the Trega Foods assets were converted at a rate of U.S.$0.83 for every CAD dollar. The conversion of the Argentinean peso to the Canadian dollar in the La Lacteo joint venture also contributed to the earnings mentioned previously.

Comprehensive income also takes into account unrealized gains of $0.5 million for currency contracts signed before November 1, 2008, to cover exchange rate fluctuations on upcoming transactions in the next few months. These transactions outside of Canada involve the sale of finished products and the purchase of imported fine cheeses and various inputs.

In perspective

The year 2008 was very good, with appreciable results and an EBITDA of $211.1 million. Despite major investments, Agropur's financial situation remains healthy, with a balance sheet presenting very little interest-bearing debt. In the 2008 fiscal year, the Cooperative acquired three companies followed by the Schroeder Milk acquisition in December 2008 and plans to continue on this path. The next acquisitions should be in the United States and South America, although Canada is not ruled out.

The results for 2009 should be comparable to those for 2008, although the economic situation makes forecasts more risky.

I would like to take this opportunity to thank the Board of Directors and the CEO for their trust and support.

Jocelyn Lauzière
Chief Financial Officer

AUDITOR'S REPORT

December 18, 2008

To the Members of Agropur cooperative

We have audited the consolidated balance sheet and the accumulated other comprehensive income of **Agropur cooperative** as at November 1, 2008 and the consolidated statements of earnings and reserve, cash flows and comprehensive income for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Cooperative as at November 1, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP [1]

[1] Chartered accountant auditor permit No. 19042

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

CONSOLIDATED STATEMENT OF EARNINGS AND RESERVE

(in thousands of dollars)	**2008** (52 weeks)	2007 (53 weeks)
Sales	**2,824,489**	2,454,541
Operating expenses	**2,613,353**	2,261,169
Earnings from operations before the following items	**211,136**	193,372
Depreciation and amortization (note 4)	**70,943**	56,398
Net financial expenses (notes 4 and 6)	**11,903**	4,555
Gain on disposal of assets	**(1,274)**	(1,501)
Income taxes of subsidiaries and joint ventures	**8,226**	4,243
Earnings before patronage dividends and the Cooperative's income taxes	**121,338**	129,677
Patronage dividends (note 5)	**88,897**	88,963
Cooperative's income taxes	**9,413**	14,847
Net earnings	**23,028**	25,867
Reserve – Beginning of year	**198,259**	172,392
Reserve – End of year	**221,287**	198,259

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of dollars)	**2008** (52 weeks)	2007 (53 weeks)
CASH FLOWS FROM		
Operating activities		
Earnings before patronage dividends and the Cooperative's income taxes	**121,338**	129,677
Cooperative's income taxes payable	**(7,622)**	(11,550)
Items not involving use of funds		
Depreciation and amortization	**70,943**	56,398
Future income taxes of subsidiaries and joint ventures	**(94)**	(621)
Devaluation of commercial paper (note 6)	**15,000**	10,000
Others	**(1,274)**	(1,501)
	198,291	182,403
Change in non-cash items (note 7)	**19,354**	(22,621)
	217,645	159,782
Financing activities		
Repayment of long-term debt	**(5,157)**	(26,559)
Investing activities		
Purchase of investments (note 6)	**-**	(83,329)
Business acquisitions (note 3)	**(124,587)**	(39,931)
Purchase of fixed assets	**(58,037)**	(66,708)
Addition of other assets	**-**	(2,418)
Proceeds on disposal of assets	**4,245**	2,571
Variance on cross-currency swap agreement to hedging	**139**	260
	(178,240)	(189,555)
Activities with members and on share capital		
Patronage dividends payable in cash (note 5)	**(22,224)**	(22,241)
Issuance of shares (note 15)	**20**	35
Redemption of shares (note 15)	**(13,185)**	(22,078)
	(35,389)	(44,284)
Effect of exchange rate fluctuations on cash position	**(9,442)**	-
Net change in cash position during the year	**(10,583)**	(100,616)
Cash position – Beginning of year	**47,238**	147,854
Cash position – End of year	**36,655**	47,238

Cash position consists of cash and temporary investment, which are cashable at all times, and of bank overdrafts and bank loans.

CONSOLIDATED BALANCE SHEET

(in thousands of dollars)	November 1 **2008**	November 3 2007
ASSETS		
Current assets		
Cash and temporary investment	**79,905**	52,461
Accounts receivable	**175,134**	141,916
Inventories (note 8)	**228,123**	222,629
Income taxes	**2,150**	699
Prepaid expenses	**7,973**	7,732
Future income taxes (note 9)	**4,706**	4,107
	497,991	429,544
Investments in commercial paper (note 6)	**61,829**	74,329
Fixed assets (note 10)	**395,829**	298,647
Other assets (note 11)	**141,845**	105,035
	1,097,494	907,555
LIABILITIES		
Current liabilities		
Bank overdrafts and bank loans (note 12)	**43,250**	5,223
Accounts payable and accrued liabilities (note 13)	**364,513**	322,010
Income taxes	**2,608**	-
Current portion of long-term debt (note 14)	**4,880**	-
	415,251	327,233
Long-term debt (note 14)	**7,792**	1,000
Future income taxes (note 9)	**26,272**	24,054
	449,315	352,287
EQUITY		
Share capital (note 15)	**411,020**	357,512
Reserve	**221,287**	198,259
Accumulated other comprehensive income (loss)	**15,872**	(503)
	648,179	555,268
	1,097,494	907,555

Approved by the Board of Directors

Serge Riendeau
Director

René Grimard
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of dollars)	**2008** (52 weeks)	2007 (53 weeks)
Net earnings for the year	**23,028**	25,867
Other items		
Financial instruments designated as cash flow hedges (note 16)		
Unrealized gains (losses), net of income taxes of 222 (2007 - 257)	**474**	(529)
Reversal in the consolidated statement of earnings, net of income taxes of 257 (2007 - 150)	**529**	321
Variance on currency translation adjustments in self-sustaining foreign operations, net of hedging activities and income taxes of 825 (2007 - 26)	**15,372**	(30)
	16,375	(238)
Comprehensive income for the year	**39,403**	25,629

STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES

(in thousands of dollars)	November 1 **2008**	November 3 2007
Financial instruments gains (losses) designated as cash flow hedges	**474**	(529)
Currency translation adjustments in self-sustaining foreign operations, net of hedging activities	**15,398**	26
Accumulated other comprehensive income (loss)	**15,872**	(503)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 1, 2008

NOTE 1 STATUTES OF INCORPORATION

Agropur cooperative ("the Cooperative") was established on August 29, 1938 under the Act Respecting Cooperative Agricultural Associations and, since October 26, 2000, has been governed by the Canadian Cooperatives Act.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements include the accounts of the Cooperative and its subsidiaries as well as its share of the assets, liabilities, revenues and expenses of joint ventures.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts in the financial statements.

ACCOUNTING CHANGES

On November 4, 2007, the Cooperative adopted the following new Handbook recommendations issued by the Canadian Institute of Chartered Accountants:

Accounting changes

The Cooperative adopted Handbook Section 1506 "Accounting changes". This Section revises standards for changes in accounting policies, changes in accounting estimates and corrections of errors. Futhermore, the Section requires the disclosure of a new generally accepted accounting principle applicable to the Cooperative that has been issued but is not yet effective. The adoption of the new recommendations had no impact on the Cooperative's financial results.

Financial instruments – Disclosure and presentation

Section 3862 "Financial Instruments – Disclosures" provides specific guidance on disclosures and imposes more precision for the classification of financial instruments and the related risks.

Section 3863 "Financial Instruments – Presentation" provides specific guidance on the standards for presentation of financial instruments and non-financial derivatives.

The adoption of the new recommendations had no impact on the Cooperative's financial results.

Capitalization disclosures

Section 1535 "Capital Disclosures" establishes guidelines for the disclosure of information regarding an entity's capital and debt and how they are managed.

The adoption of the new recommendations had no impact on the Cooperative's financial results.

INVENTORIES

Finished goods and goods in process are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of cost and replacement value, cost being determined under the first-in, first-out method.

FIXED ASSETS

Fixed assets are recorded at cost, net of applicable government grants.

Depreciation is calculated over the estimated useful lives of the assets based on the following methods and rates:

• Buildings	Diminishing balance	5%
• Equipment	Diminishing balance	15% and 20%
• Office furniture	Diminishing balance	20%
• Computer equipment	Straight-line	20% and 25%
• Rolling stock	Diminishing balance	30%

OTHER ASSETS

Other assets consist mainly of goodwill which is amortized on a straight-line basis over periods not exceeding 20 years. The Cooperative determines if a permanent impairment in the value of goodwill has occurred. To support this valuation, the Cooperative determines mainly whether estimated future cash flows on an undiscounted basis exceed the net book value of assets purchased.

Furthermore, deferred charges for procurement contracts are accounted for and amortized on a straight-line basis according to their useful life.

EMPLOYEE FUTURE BENEFITS

The Cooperative accounts for its obligations under the employee benefit plans and related costs net of the plan assets. The cost of pension and other retirement benefits earned by employees is determined from actuarial calculations according to the projected benefit method prorated on years of service based on management's best estimate assumptions about the investment returns on the plans, salary projections and the retirement ages of employees. Assets and accrued benefit obligations are evaluated three months before the date of the financial statements. The fair value of assets is determined using the fair market value. The estimated rate of return on the plan assets is based on the long-term estimated rate of return and the value of the plan assets assessed at fair value. The excess of the net actuarial gain (loss) over 10% of accrued benefit obligations, or over 10% of the fair value of the plan assets where such amount is higher, is amortized over the average remaining service life of employees. The cost of past services resulting from changes to the plans is amortized over the average remaining service life of employees.

INCOME TAXES

Income taxes are accounted for using the liability method of tax allocation. Under this method, future income taxes are calculated on the difference between the tax basis and the carrying amount of the various assets and liabilities. Future income tax assets and liabilities are measured using the tax rates that are expected to be in effect in the years when the timing differences are expected to reverse. Income tax assets are recognized when it is more likely than not that the asset will be realized.

TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date, whereas transactions denominated in foreign currencies are translated at the average monthly exchange rates for the period. The resulting foreign currency translation gains and losses, net of hedging operations, are included in the statement of earnings.

Foreign operations

All assets and liabilities of the self-sustaining foreign operations are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Foreign currency unrealized gains and losses resulting from this translation are included as an element of the accumulated other comprehensive income in the equity. Foreign currency gains and losses are reduced from hedging operations using a bank loan in US dollars. Revenues and expenses are translated at the average exchange rates for the period.

Hedging

The Cooperative documents the risk management strategy for establishing the relationship to apply hedge accounting. At the signing of the hedging contract, management documents the hedged item (an asset, a liability or an anticipated transaction), details of the hedging instrument used and the valuation method of effectiveness. Realized gains or losses on hedges are deferred until realization of the hedged item for best matching in the statement of earnings.

FINANCIAL INSTRUMENTS

The following financial assets and liabilities are accounted for at their initial transaction value, which approximates their cost as at the balance sheet date considering their nature and short-term maturity: cash and temporary investment, accounts receivable composed mainly of trade accounts receivable, accounts payable composed mainly of trade accounts payable, and bank overdrafts and bank loans.

Investments in commercial paper (see note 6) are accounted for at their fair value estimated as at the balance sheet date.

In the event of a significant loss in value of these financial assets or liabilities, this depreciation would be accounted for in the statement of earnings.

FUTURE ACCOUNTING POLICIES

Inventories

In March 2007, the Canadian Institute of Chartered Accountants issued the new Section 3031 "Inventories" replacing the Section 3030 of the same title. The new Section describes methods of measuring inventories and allows reversal of any previous writedown in case of increase of value. The new Section specifies also the disclosures related to the inventories. The Cooperative will adopt the new recommendations for the year beginning November 2, 2008, and no impact is expected on the financial results.

International financial reporting standards

In 2008, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under International Financial Reporting Standards, effective in 2011.

The Cooperative is currently evaluating the impact of this transition on the consolidated financial statements.

NOTE 3 BUSINESS ACQUISITIONS

On February 29, 2008, the Cooperative acquired all the assets of Trega Foods, a cheese company located in the United States, for a cash consideration of $108,823,000.

Also, on November 7, 2007, the Cooperative acquired 50% of the shares of La Lacteo, a milk company located in Argentina, and on March 12, 2008, all the shares of Laiterie Lamothe, located in Quebec.

The acquisition costs allocation is detailed as follows:

(in thousands of dollars)	Trega Foods	Others	Total
Current assets	36,005	7,400	**43,405**
Fixed assets	71,755	4,467	**76,222**
Procurement agreements and others	18,225	9,428	**27,653**
Goodwill	10,077	6,900	**16,977**
Accounts payable and other liabilities	(16,786)	(8,478)	**(25,264)**
Net assets acquired	119,276	19,717	**138,993**
Cash position	744	5,624	**6,368**
Long-term debt	(11,197)	(3,209)	**(14,406)**
Acquisition cost	108,823	22,132	**130,955**
Cash position	(744)	(5,624)	**(6,368)**
Cash flows from acquisitions	108,079	16,508	**124,587**

The goodwill accounted for Trega Foods is deductible for tax purposes for an amount of $48,039,000.

NOTE 4 EARNINGS

The following items are included in the consolidated statement of earnings:

(in thousands of dollars)	2008	2007
Depreciation of fixed assets	**49,681**	40,731
Amortization of other assets	**21,262**	15,667
Interest on long-term debt	**711**	1,066

NOTE 5 PATRONAGE DIVIDENDS

The patronage dividends to members are paid $22,224,000 (2007 – $22,241,000) in cash and $66,673,000 (2007 – $66,722,000) through the issuance of investment shares.

NOTE 6 INVESTMENTS IN COMMERCIAL PAPER

As at the balance sheet date, the Cooperative held temporary investments in asset-backed commercial paper for an initial amount of $83,329,000. A cumulative writedown of $25,000,000 was recorded, $15,000,000 of which in 2008. Interest of $3,500,000 were also recorded.

These commercial paper had been purchased as a temporary investment for cash in 12 independent Canadian trusts with the highest credit rating in the country. These temporary investments are still being held due to the liquidity crisis that has affected the commercial paper market since August 2007. A Canada-wide committee was formed at the beginning of the crisis and a solution is still pending.

In the absence of a market for commercial paper, the fair value was established using an economic model for discounted future cash flows, requiring assumptions about the composition of the trust assets portfolio, returns, maturity dates and discount rates, among other things. Using these assumptions could result in the fair value being significantly different upon settlement.

NOTE 7 CASH FLOWS

Cash flows related to non-cash items have increased (decreased) as follows:

(in thousands of dollars)	**2008**	2007
Accounts receivable	**(4,225)**	(7,834)
Inventories	**16,984**	(15,355)
Income taxes	**1,328**	(7,019)
Prepaid expenses	**92**	(53)
Accounts payable and accrued liabilities	**14,016**	14,474
Other assets – Employee future benefits	**(7,977)**	629
Other assets – Procurement agreements and others	**(864)**	(7,463)
	19,354	(22,621)

Net interest paid amounts to $1,151,000 (2007 – $2,355,000 received). Income taxes paid amount to $16,476,000 (2007 – $23,225,000).

NOTE 8 INVENTORIES

(in thousands of dollars)	**2008**	2007
Finished goods	**194,398**	197,337
Raw materials, goods in process and supplies	**33,725**	25,292
	228,123	222,629

NOTE 9 FUTURE INCOME TAXES

The main components of the Cooperative's future income tax assets and liabilities are as follows:

(in thousands of dollars)	**2008**	2007
Future income tax assets		
Accrued expenses, provisions and other reserves that are tax deductible only at the time of disbursement	**4,706**	4,107
Future income tax liabilities		
Fixed and other assets	**26,272**	24,054

NOTE 10 FIXED ASSETS

(in thousands of dollars)			2008	2007
	Cost	Accumulated depreciation	Net	Net
Land	23,503	-	**23,503**	21,581
Buildings	212,552	70,762	**141,790**	94,763
Equipment	533,070	327,849	**205,221**	155,132
Office furniture	6,382	5,416	**966**	661
Computer equipment	45,356	36,859	**8,497**	9,862
Rolling stock	44,276	28,424	**15,852**	16,648
	865,139	469,310	**395,829**	298,647

As at November 1, 2008, the net value of fixed assets includes an amount of $11,590,000 for equipment under capital leases.

NOTE 11 OTHER ASSETS

(in thousands of dollars)	2008	2007
Goodwill	**76,597**	68,939
Employee future benefits (note 19)	**13,876**	5,899
Procurement agreements and others	**51,372**	30,197
	141,845	105,035

NOTE 12 BANK LOANS

The Cooperative and its joint ventures have lines of credit to a maximum of $198,479,000 which bear interest at variable rates generally not exceeding the prime rate. Bank loans are not secured by any of the Cooperative's assets. The Cooperative's lines of credit are generally renewable annually.

NOTE 13 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of dollars)	2008	2007
Members	**116,186**	82,192
Third parties	**248,327**	239,818
	364,513	322,010

NOTE 14 LONG-TERM DEBT

(in thousands of dollars)	2008	2007
Obligations under capital leases [1]	**11,575**	-
Other loans	**1,097**	1,000
	12,672	1,000
Current portion	**4,880**	-
	7,792	1,000

[1] Obligations under capital leases bear interest at rates ranging from 7.55% to 8.76% and mature at various dates until May 2015.

Estimated principal repayments of the long-term debt required over the next years are as follows:

(in thousands of dollars)

2009	4,880
2010	1,496
2011	1,628
2012	1,773
2013	1,232
2014 and thereafter	1,663

NOTE 15 SHARE CAPITAL

The following constitutes a summary of certain privileges, rights and conditions related to the Cooperative's shares. Reference can be made to the statutes of the Cooperative for the full text of these conditions.

The share capital of the Cooperative's members is variable and unlimited as to the number of shares in each class that can be issued, with the exception of Class C investment shares whose number is limited to 100,000,000. The shares have a nominal value of $1 each, with the exception of member shares ($100), Class M investment shares, Series 1 ($20), Series 2 ($1,500), Series 3 ($400) and Series 4 (to be determined when first issued).

When joining, new members subscribe to one member share and 10 Class M investment shares. Voting rights are restricted to one vote per member.

In consideration of patronage dividends, the following investment shares are issued: either Class A, Series A1 (A before 2004) and Class B, Series B1 (B before 2004), or Class C, Series AAA and BBB, as per the member's choice.

Class A, Series A and A1, Class B, Series B and B1 and Class C, Series AA and BB investment shares are eligible under the Registered Retirement Savings Plan and can be held by auxiliary members. No Class B, Series E investment shares formerly signed under the Cooperative Investment Plan have been issued since January 1, 1996.

Class C, Series AAA and BBB investment shares are issued according to the terms governing the Class A, Series A and A1 and Class B, Series B and B1 investment shares respectively, under the Cooperative Investment Plan. These investment shares are also eligible under the Registered Retirement Savings Plan.

Member shares as well as all classes of the investment shares are redeemable under certain conditions at their par value upon resolution of the Board of Directors. Share redemptions are subject to certain financial ratios. In addition, for Class B, Series E and Class C, Series AAA and BBB investment shares, issued before 2004, the law requires that the reserve be increased by 50% of the amount of the redemption since issuance.

At year-end, shares issued and fully paid were as follows:

(in thousands of dollars)	**2008**	2007
Member shares	**364**	383
Investment shares		
Class A, Series A and A1	**230,363**	188,224
Class B, Series B, B1 and E	**103,213**	87,740
Class C, Series AA	**24,291**	26,967
Class C, Series BB	**13,344**	13,630
Class C, Series AAA	**23,605**	24,563
Class C, Series BBB	**10,815**	10,918
Class M, Series 1, 2 and 3	**5,025**	5,087
	411,020	357,512

During the year, share capital changed as follows:

(in thousands of dollars)	2008	2007
Balance – Beginning of year	**357,512**	312,833
Issuance of shares as payment for patronage dividends	**66,673**	66,722
Instalments on member shares and Class M investment shares	**20**	35
Redemption of shares in cash	**(13,185)**	(22,078)
Balance – End of year	**411,020**	357,512

As at November 1, 2008, inactive members held shares of the Cooperative for a total amount of $12,206,000 (2007 – $6,686,000).

NOTE 16 FINANCIAL INSTRUMENTS

FAIR VALUE

The book value of financial instruments is assumed to approximate their fair value due to their short-term maturity. These financial instruments generally include cash and temporary investment, accounts receivable, bank overdrafts and bank loans, and accounts payable and accrued liabilities.

The fair value of the long-term debt estimated according to the current market conditions approximates the book value as at the balance sheet date.

INTEREST RATE RISK

The financial assets and liabilities do not bear interest, except for cash, temporary investment, bank overdrafts and bank loans and long-term debt.

CASH FLOW HEDGE AGAINST FOREIGN EXCHANGE RISK

Currency forward contracts

The Cooperative hedges against foreign exchange risks for projected future transactions by means of currency forward contracts, mainly in US dollars, euros and pounds sterling. Foreign currency unrealized gains and losses are recorded initially in the consolidated comprehensive income and reversed in earnings at the expiry of the contracts. At the presentation date of the financial information, the foreign exchange contracts, spread over periods not exceeding one year and are as follows:

Purchases	US$6,851,000
Sales	US$1,314,000
Purchases	7,244,000 euros
Sales	3,625,000 GBP

OTHER RISKS

The Cooperative is not exposed to other significant risks except for risks related to the normal course of business.

NOTE 17 INVESTMENTS IN JOINT VENTURES

The Cooperative's share in the statements of earnings, cash flows and balance sheets of the joint ventures is summarized as follows:

(in thousands of dollars)	2008	2007
Assets	**83,663**	53,954
Liabilities	**34,155**	24,121
Sales	**145,348**	125,538
Cash flows from operating activities	**17,418**	24,371
Cash flows from investing activities	**(11,344)**	(12,557)

NOTE 18 COMMITMENTS AND CONTINGENCIES

a) Commitments relating mainly to operating leases are as follows:

(in thousands of dollars)	
Total commitments (including 6,550 for next year)	**27,382**

b) The Cooperative is party to litigations in the normal course of business. Even if the outcome of these litigations cannot be expressed with certainty, the related liability is recorded when it is likely that it will result in a loss and that the amount can be estimated. Furthermore, management estimates that the losses that could result from these litigations will be negligible.

NOTE 19 EMPLOYEE FUTURE BENEFITS

Employee future benefits relate mainly to pension plans. The obligations of the defined benefit plans are based on the employee's length of service and the pay of the last years of service. The pension benefits can be adjusted according to a formula based on the return on plan assets and the consumer price index. The actuarial valuation of the plans are performed at least every three years, the last valuations were performed mainly in January 2006 and January 2008.

Net expense is as follows:

(in thousands of dollars)	**2008**	2007
Defined contribution plans		
Net expense	**6,869**	5,972
Defined benefit plans		
Current service cost	**2,930**	2,689
Interest cost on accrued benefit obligation	**4,158**	4,030
Actual return on plan assets	**1,620**	(7,778)
Difference between actual return and expected return	**(6,349)**	3,561
Actuarial loss (gain) on accrued benefit obligation	**(1,687)**	2,057
Difference between actual actuarial loss and the amount recognized for the year	**2,371**	(283)
Amortization of transitional balance	**(962)**	(903)
Net expense	**2,081**	3,373

The information on defined benefit plans is as follows:

(in thousands of dollars)	**2008**	2007
Plan assets		
Fair value – beginning of year	**74,371**	66,709
Actual return on plan assets	**(1,620)**	7,778
Employer contributions	**2,954**	2,737
Employee contributions	**933**	844
Benefits paid	**(3,569)**	(3,697)
Fair value – end of year	**73,069**	74,371

The above contributions approximate the total cash payments. Equity securities included 58% (2007 – 59%) of total plan assets, invested mainly in Canada.

(in thousands of dollars)	2008	2007
Accrued benefit obligation		
Balance – beginning of year	**78,119**	72,196
Current service cost	**2,930**	2,689
Interest cost	**4,158**	4,030
Employee contributions	**933**	844
Benefits paid	**(3,569)**	(3,697)
Actuarial loss (gain)	**(1,687)**	2,057
Plan modification	**(2,639)**	-
Balance – end of year	**78,245**	78,119

(in thousands of dollars)	2008	2007
Employee future benefit assets		
Funding status – plan assets net of obligations (deficit)	**(5,176)**	(3,748)
Less: Transitional assets at the beginning, unrecorded and to be amortized	**(2,791)**	(3,216)
Plus: Actuarial loss, unrecorded and to be amortized	**15,666**	12,232
Plus: Employer contributions after valuation date	**6,177**	631
Employee future benefit assets	**13,876**	5,899

For pension plans with an accrued benefit obligation that was higher than the assets, the accrued benefit obligation is $47,100,000 (2007 – $45,389,000) and the assets are $38,635,000 (2007 – $38,500,000).

Employee future benefit assets are presented with other assets in the balance sheet.

	2008	2007
Weighted-average assumptions		
Accrued benefit obligation		
Discount rate	**6.00%**	5.50%
Long-term inflation rate of salary expense	**4.00%**	4.00%
Net benefit expense		
Discount rate	**5.50%**	5.50%
Expected return on plan assets	**6.75%**	6.75%
Long-term inflation rate of salary expense	**4.00%**	4.00%

The Cooperative participates in multi-employer defined benefit plans for certain unionized employee groups. These plans are accounted for as defined contribution plans. Contributions for the year amount to $659,000.

NOTE 20 SEGMENT DISCLOSURES

The Cooperative carries on the business of processing and selling dairy products. The Cooperative's Management has determined that Agropur carries on business in only one operating sector, dairy products. Products are distributed to a large number of customers, including major food chains and industrial customers. 87% of sales are made primarily in Canada. Fixed assets and goodwill are at 77% located in Canada. The Cooperative's other activities are in the United States, in Europe and in Argentina.

Four customers represent respectively more than 10% of the sales figure, for a sales volume amounting to $1,421,000,000.

NOTE 21 SUBSEQUENT EVENT

On December 16, 2008, the Cooperative concluded an agreement to acquire all the shares of a milk company located in the United States, for an approximate cash consideration of US$73,000,000.

BOARD OF DIRECTORS

Standing: from left to right

Gaétan Jodoin [1]		Granby	1996
Darie Gagné		Chaudière	1997
Daniel Gagnon		Est du Québec	2008
Vital Vouligny		Lac Saint-Pierre	2007
Daniel Lamy		Berthier / Maskinongé	2004
Jean-Pierre Lacombe [1]		Yamaska	2007
Lorna Jean Neveu		Laurentides / Lanaudière	1996
Roger Daoust		Salaberry	1993
Luc Chassé [1]		Des Seigneuries	2006
Jean Filiatrault		Acton	1993

Seated: from left to right

Roger Massicotte (E.C.) [1]		Mauricie / Portneuf	2003
René Moreau (E.C.)		Bois-Francs	1998
Serge Riendeau (E.C.) [1]	Chairman	Estrie	1991
René Grimard (E.C.)	Vice-Chairman	Des Appalaches	1995
Michel Couture (E.C.)		De L'Érable	2001

Legend: Director / Administrative region / Year elected to the Board
(E.C.) Executive Committee members [1] Directors whose term expires in 2009; however, they can be re-elected

MANAGEMENT COMMITTEE

Standing: from left to right

Serge Paquette	President, Division Natrel
Michel St-Louis	Vice-President, Legal Affairs
Jean Brodeur	Vice-President, Communications and Public Relations
Robert Gour	President, Fine Cheese Division
Louis Lefebvre	President, Cheese and Functional Products Division
Scott McDonald	Vice-President, Human Resources

Seated: from left to right

Benoit Gagnon	Executive Vice-President, Global Development
Lorraine Bédard	Corporate Secretary and Vice-President, Member Relations
Pierre Claprood	Chief Executive Officer
Jocelyn Lauzière	Chief Financial Officer

In recent years, companies' social responsibility has become an increasing concern. This section describes the types of contributions that Agropur is making, internally and externally for its employees, members and community. The Cooperative tends to consider economic, social and environmental issues in its daily activities, in order to meet the expectations of various stakeholders. Agropur believes that long-lasting relationships, whether they are with partners, customers or consumers, are built on employees' commitment to offering superior quality products, everywhere, all the time, with the same goal in mind: consumer satisfaction.

SOCIAL RESPONSIBILITY

COMMUNITY INVOLVEMENT

Agropur has been an organization involved in its community for 70 years. It is actively involved in the economic, community and social development of the communities in which it works. Through its multiple projects, it is involved at both the local and the international level, and demonstrates its role as a good corporate citizen through concrete actions.

Agropur encourages all its employees to be active in their community, by participating in annual fundraising activities for various organizations. Agropur gives $1 for every dollar raised by employees through its Fundraising campaign.

One noteworthy initiative, commended by Agropur's management consisted in biking across Canada in seven days, around the clock, rain or shine, from Victoria (B.C.) to Saint-Hubert (QC). This was a challenge initiated by the

DONATION PROGRAM TOTALLED CLOSE TO 1% OF AGROPUR'S NET EARNINGS.

Sales management team at the Fine Cheese Division to, on the one hand, strengthen team unity and, on the other hand, collect funds to help a national cause, the Breakfast Clubs of Canada. On top of Agropur's donation of $80,000, $45,000 were also raised.

Through its Donation and Sponsorship Program, Agropur has made a significant contribution to making dairy products available to children, pregnant women and the less fortunate, thanks to its direct involvement with several Canadian food banks, the *Club des petits déjeuners du Québec*, Breakfast Clubs of Canada, Breakfast for Learning as well as the OLO foundation[4]. The Cooperative also gives out several grants to worthy college and university students studying in a field related to agriculture. In 2008, this donation program, along with all of the previously mentioned initiatives, totalled close to 1% of Agropur's net earnings.

Finally, following the completion of the Paraguay project, in which Agropur was involved for three years, the organization has once again partnered with SOCODEVI for a new development project, in Ukraine. The expected results are increased competitiveness in the dairy sector, through the improvement of the marketing conditions for dairy products and increased efficiency of milk production on the farm, the development of entrepreneurship in the dairy sector, and, finally, the implementation of a strategic vision for the dairy sector.

[4] Provides future mothers, in financial difficulties, with nutritious basic food and vitamin supplements.

IN NORTHERN QUEBEC 60,142 JACK PINES WERE PLANTED OVER MORE THAN 300,000 m².

THE ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Today's society grants much more importance to the environment and sustainable development. Canadians, Americans and Argentineans are more conscious than ever of how important it is to leave future generations a healthier planet. Leaving as small an ecological footprint as possible is one of the challenges the Cooperative must face.

Agropur is aware of its responsibility to the communities in which it works. The environmental issue is constantly scrutinized and managed so as to ensure the legal compliance of our environmental practices. A coordinating committee supervised by the environment committee is in charge of an evaluation system for continually monitoring each entity's situation in order to better follow up on corrective measures. Each year, the Cooperative dedicates a specific budget amount to the environment.

Agropur is backing its words with actions by adopting measures that enable it to limit the amount of waste it produces, thus reducing water and energy consumption. The fluid milk division has installed GPS devices, speed limiters and heaters in its fleet of tractors and trailers.

In December 2007, the organization decided to launch a promotional campaign entitled *Just For You!* to encourage Agropur members and employees to be more conscious of the environment, by giving them a reusable bag for shopping, instead of using non-biodegradable plastic bags.

In May 2008, in the wake of launching Natrel Nature~Pure milk, Agropur implemented the *Replanting nature* program, in cooperation with several large Quebec retailers. For one month, every time a 4L bag of Natrel Nature~Pure milk was sold, one tree was planted in Northern Quebec. By buying milk, consumers enabled the planting of 60,142 jack pines over more than 300,000 m². Their gesture will help to absorb more than 7 million kg of carbon monoxide (CO) over 20 years.

The 4L Natrel milk packaging was also changed: in addition to being recyclable, the outside bags are now oxo-biodegradable, which means that when exposed to oxygen and sunlight, the bags will decompose within three years, leaving only water, carbon dioxide and organic matter.

Finally, Agropur held its first carbon neutral event, during the annual meeting of senior executives, in October 2008. Agropur offset the greenhouse gas emissions created by participant travel by donating to the organization CarbonZero, which invested these funds in an energy efficiency project in Montreal. The Cooperative also worked closely with all suppliers, including the hotel, to reduce waste and provide recycling bins for paper, Natrel milk bottles and other recyclable items. For meals, local and fair-trade products were used, where possible.

60% OF FACILITIES REACHED THEIR GOAL OF "ZERO LOST-TIME ACCIDENTS".

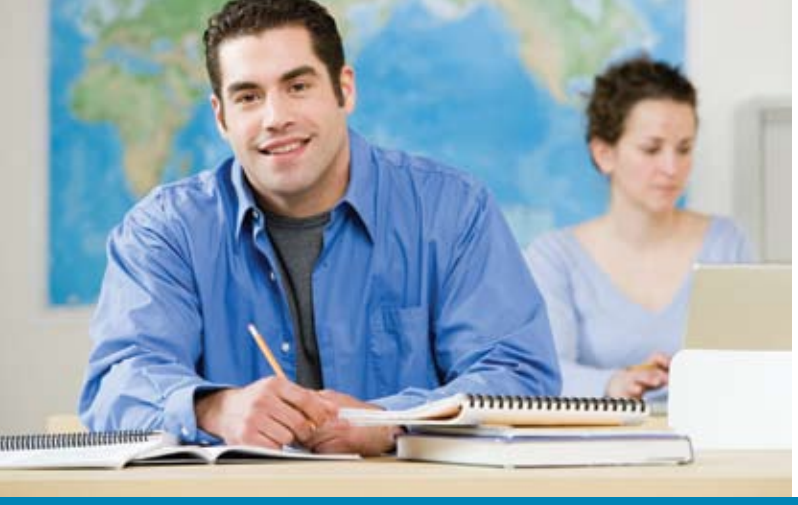
OCCUPATIONAL HEALTH AND SAFETY

Over the years, Agropur has made health and safety a priority. The organization believes it is essential to protect the health and safety of its employees. It makes certain that its facilities and the equipment used at all work sites are safe. Action and prevention plans are in place and target the development of responsible safety behaviours, because while there is no such thing as being risk-free, it is certainly possible to reach our objective of zero accidents.

Also, to reach this target, Agropur created a charter on occupational health and safety (OHS); it established safe behaviours throughout the organization. Even though the Cooperative didn't reach the objective of zero accidents, as set in 2005, we should not give up. Great advances have been made, and in 2008, a little over 60% of facilities reached their goal of zero lost-time accidents. It should be recognized that this strategy, which was implemented in 2005, is truly starting to show results.

To reach this goal, an action plan was proposed, in the aim of implementing concrete and uniform actions at all work sites. Employee action is crucial to reaching these objectives, and we will not be able to attain them without everyone's commitment.

Agropur has also contributed to the health and well-being of its employees by providing an annual vaccine clinic for the past several years, to protect against seasonal influenza. The organization also offers an Employee and Family Assistance Program (EFAP), intended for employees and their family members with problems that could affect their work.



Acting on its founding principles, Agropur strives to ensure its employees are fulfilled by offering them safe working conditions, encouraging them to contribute to their community's social development, ensuring that they have access to additional training offering them career opportunities, and fostering and maintaining respect for the environment. Finally, the Cooperative stays in close touch with its members all year long, by inviting them to several training and information activities.

CONTINUING EDUCATION

Having made the continuity of knowledge and the preparation of its staff its focus, Agropur is prioritizing employee skill development. As such, approximately two million dollars are injected into employee training and development, annually.

Agropur wants to expand the knowledge and skill sets of all employees, by providing them with tailor-made training sessions that enable them to meet their career objectives. As such, employees can take advantage of new tools that can help them tackle the constant changes of an evolving industry, not to mention the strategic issues that are forthcoming.

ASSOCIATIVE LIFE

Agropur encourages members to grow through a rich associative life, which promotes exchange between members and executives. This commitment is materialized through a calendar of close to 60 meetings, held throughout the year in every region of the province of Quebec. At the same time, members can learn about the Cooperative's growth or the various other aspects of the dairy sector in which we work and evolve. The associative life model, developed in 1949, meets a common need among members for involvement in education, training and the dissemination of information.

The support that the Cooperative offers its members enables them to produce a superior quality raw material. The year 2008 also marked the 20th annual contest to select the Grand Champion in the Excellence in Milk Quality Club. Agropur can assume its role as industry leader in consumer product excellence and quality.

The growth of the organization is indeed important, as is member continuity. In this vein, Agropur has created a bursary to incite youth in the industry to take advantage of the training internships offered to them since 1984. On February 12, 2008, the first provincial internship for young farmers began, with the participation of 15 young member interns. The primary goal of the one-year internship is to integrate young farmers into Agropur's democratic and community life, while encouraging them to participate in various activities. Named after Omer Deslauriers, Chairman of the Cooperative from 1941 to 1962, the bursary symbolizes the organization's desire to see the work of its predecessors live on.

AGROPUR COOPERATIVE
101 Roland-Therrien Blvd. Suite 600
Longueuil, Quebec J4H 4B9
450 646-1010

CHEESE AND FUNCTIONAL PRODUCTS DIVISION
510 Principale Street
Granby, Quebec J2G 7G2
450 375-1991

FINE CHEESE DIVISION
4700 Armand-Frappier Street
Saint-Hubert, Quebec J3Z 1G5
450 443-4838

DIVISION NATREL
101 Roland-Therrien Blvd. Suite 600
Longueuil, Quebec J4H 4B9
450 646-1010

ULTIMA FOODS INC.*
2177 Fernand-Lafontaine Blvd.
Longueuil, Quebec J4G 2V2
450 651-3737

LA LACTEO*
Camino Cap. de los Remedios, Km 5.5
5020 Ferreyra, Cordoba
Argentina
0351 4976010

* Joint venture

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