Agropur cooperative

BUILDERS

OF A VERY PROMISING FUTURE

2012 ANNUAL REPORT

agropur

TOGETHER
to win

In anticipation of the arrival of its 75th anniversary year, Agropur devoted a great deal of effort in 2012 to a reflection process with a view to remaining on the road to success and accelerating its growth. This process, which was named **Agropur 2015**, mobilized and united many of the Cooperative's employees, and was unquestionably the focal point of the fiscal year that has just ended. Through this process, Agropur established the fundamental strategic orientations around which it will evolve over the coming years.

In order to successfully accomplish this formidable task and review all of Agropur's activities, five key pillars were identified: **brand strategy, innovation, cost leadership, human resources and international strategy**. This Annual Report has been designed to reflect these foundational pillars, as you will discover as you read on. Each pillar brought its share of analyses, discoveries and new approaches. The next few years will be rich in new projects aimed at building the Agropur of tomorrow.

The Agropur 2015 project is perfectly keeping with the objective of ensuring the longevity of the organization. As a Cooperative that is built on human values and that remains faithful to its dairy vocation, Agropur's primary objective is to maintain its position as a leading player in its industry. This position allows the organization to continue to make an enormous difference in the lives of thousands of individuals and countless families, including those of its members and employees and all of the communities in which they live. In 2013, within the context of its 75th anniversary celebrations, Agropur will highlight the beginnings of this dairy cooperative, a collective effort that started locally, and then expanded to the provincial, national, and North American levels, and is now on the verge of international growth.

2012 was a pivotal year, in which Agropur turned its focus toward creating an even more promising future built around the unifying theme: "Together to win".

The Agropur 2015 project
was based on

FIVE KEY PILLARS:

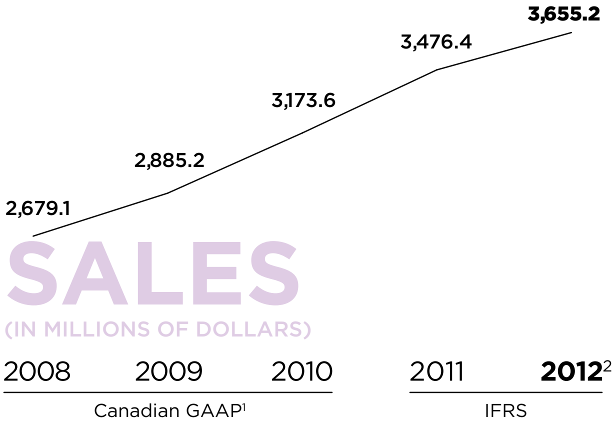
BRAND STRATEGY

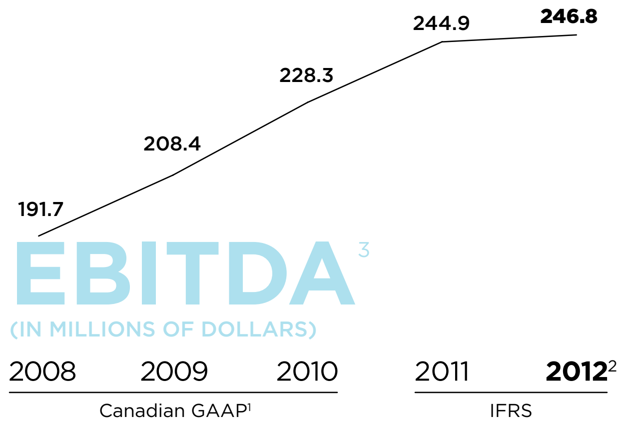
INNOVATION

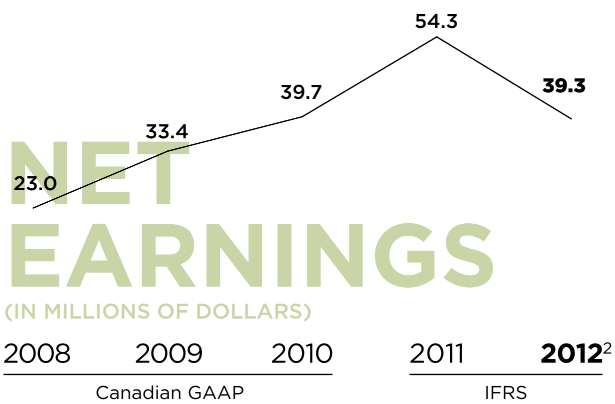
COST LEADERSHIP

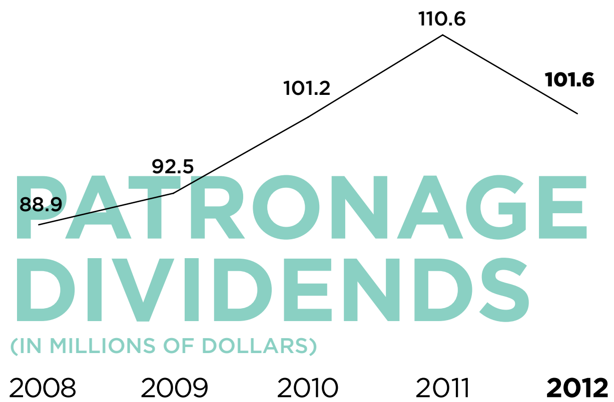
HUMAN RESOURCES

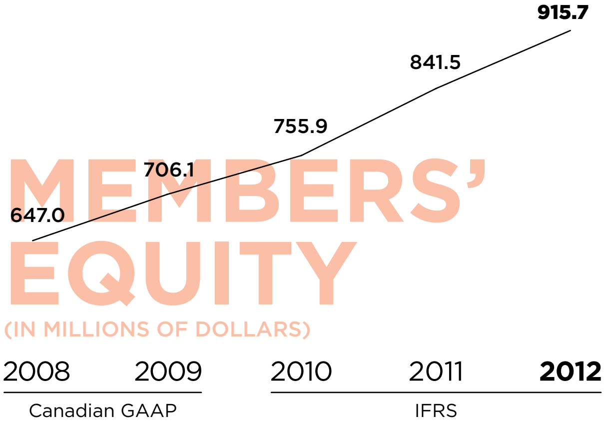
INTERNATIONAL STRATEGY

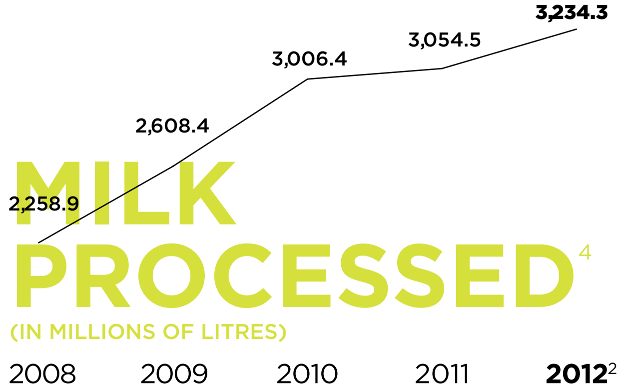












[1] Canadian GAAP: investments in joint ventures using the equity method.
[2] Fiscal year including 53 weeks.
[3] Earnings before interest, income taxes, depreciation, amortization and joint ventures.
[4] Milk processed includes joint ventures.

AGROPUR 2015:
STRATEGIC REVIEW

Major findings and orientations

The Agropur 2015 project was launched in a spirit of teamwork, transparency, integrity and respect. All employees were asked to share their ideas, especially with respect to actions that would accelerate the pace of carrying out the Cooperative's operations, simplify its business processes, avoid redundancies and increase efficiency. This process was based on the desire to explore new ways of working and seizing opportunities that would make a difference and contribute to the renewed success of Agropur, which is a source of great pride for its dairy producer members, its employees and the communities in which the Cooperative operates.

In order to review the Cooperative's activities from the perspective of the key pillars that were established and to issue recommendations to the Executive Management Committee and the Board of Directors, a number of work teams were created, reflecting the organization's various sectors and divisions. Close to 60 Agropur employees were actively involved in these teams, and were assisted by approximately 20 consultants from an outside firm. Their work provided the basis for an unprecedented team effort that will become more common in the organization in the future. The decisions and orientations resulting from the project were announced to all employees in early October 2012. The following months were devoted to establishing action plans and organizing the projects that have made it possible to initiate changes. These changes entail numerous opportunities for the organization and its employees, and of course, new changes and projects will continue to be introduced throughout 2013 and into 2015.

Over the coming years, many actions will be implemented that are directly linked to the objectives of Agropur 2015, as follows: ***Continue to accelerate our growth and become a leader in the global dairy products industry, which is rapidly consolidating. Take advantage of increased profitability in order to innovate and invest in our brands, our infrastructures and our human resources with a view to ensuring the longevity of our organization and maintaining our relevance. Finally, pool our services and methodologies in order to optimize the effectiveness of our organization and simplify our processes, while continuing to hold our divisions accountable for their results to a significant degree.***

In terms of implementing these actions, more than 25 projects will be launched between now and 2015 in all areas of the organization.

In order to optimize the synergy among the divisions, it was necessary to modify the Cooperative's organizational structure. The management team was enhanced through the creation of a number of new corporate positions, with a focus on Customer Development (managing major accounts), Strategic Procurement, Information Technology, and finally, Operational Excellence. In addition, Agropur created a change management office in order to provide support for its employees during this rapid evolution.

The organization also decided to combine the Institutional Affairs and Communications functions, and to group Legal Affairs with the Corporate Secretary and Member Relations functions.

Agropur's two cheese divisions have also been consolidated under the Cheese and Ingredients Division, while the corporate and divisional Human Resources teams and certain divisional financial services have been also consolidated into corporate functions. Finally, Division Natrel will be responsible for its development in the area of fresh products, and its president will sit on the Board of Directors of the joint venture, Ultima Foods. All these changes are in keeping with the Cooperative's commitment to improving its processes and operational efficiency.

Within the context of the Agropur 2015 project, the Cooperative also revisited its international strategy, focusing specifically on its interest in the La Lácteo joint venture in South America. This exercise enabled Agropur to better identify its development orientations and to conclude that its presence in Argentina does not fit with its international strategy at the present time. The prevailing economic climate in Argentina and the significant capital requirements led Agropur to terminate its activities in that country. In light of the analyses that were carried out, the decision was made to sell its holdings in the joint venture that was formed in 2007 with its Argentine partner, Adecoagro. As a result of this decision, the Cooperative proceeded with the impairment of its investment in this joint venture in the amount of $9.1 million. Pulling out of Argentina may require additional amounts.

Over the coming months, Agropur will examine the various options that are available. However, the organization is convinced of the need to pursue its international development and to focus on sectors that are conducive to its long-term development. Its growth objectives remain significant, and it is always eagerly looking for opportunities that are in keeping with its development strategy.

The industry in which Agropur evolves is transforming and becoming increasingly more competitive, which means that the organization must accelerate its development by enhancing its competitiveness and acquiring strategic companies. Agropur 2015 will enable the organization to establish a foundation that will propel it to rank among the largest international players in terms of growth and profitability.

Our brands are growing

IN GROCERY STORES

For many years, Agropur has built its reputation on its portfolio of strong and well-respected brands.


OKA
GREKO
Québon
Lait Homo
Natrel

BRAND STRATEGY

One of the factors in the success of Agropur is its impressive portfolio of products built on its many strong and well-respected brands. In order to remain dynamic and carve out a preferred position in its industry and in the hearts of consumers, the Cooperative has relied upon the development of its brands, which have built an enviable reputation over the years.

It is no longer necessary to create consumer trust in the Cooperative's products, because this trust has already been well established. However, it must be maintained without compromise. Thanks to its broad range of high-quality products associated with healthy living, Agropur is a daily presence in the lives of consumers in Canada and the United States. Its fresh products are found among many segments of dairy products. Every day, the Cooperative shares many special moments at the tables of consumers who bring its products into their homes.

One of the elements that has created such extensive consumer trust in Agropur products is quality. At Agropur, quality is the top priority, and in 2012, the organization achieved the goal of GFSI (Global Food Safety Initiative) compliance for all of its workplaces. This certification is endorsed by the world's major food distributors. A number of teams throughout the organization were involved in this project, which has been an essential focus since 2010. Under the supervision of the Corporate Quality Assurance team, the divisional Quality Assurance teams oversaw the rigorous follow-up that was required in order to obtain GFSI certification.

The new iögo™ brand that was launched at the end of the summer of 2012 by Ultima Foods, which is a joint venture involving two cooperatives—Agropur and Agrifoods—was a significant event that represented a perfect fit with Agropur's brand strategy of building strong brands that deliver added value. The iögo brand, which features a range of innovative products that allow it to stand apart from its competition, has already garnered a very positive response from both clients and consumers. iögo is not only a brand of yogurt, it is also a brand that is 100% Canadian, with products manufactured by a company that is 100% Canadian, and above all, iögo is the new way to say yogurt!

Within the context of the Agropur 2015 project, the work teams reviewed the organization's brand strategies and studied how to update them in order to identify opportunities that would ensure the development of the Cooperative's brands. Within its existing portfolio, Agropur intends to invest in its most profitable specialty products, which feature a unique character and high brand potential, with a view to developing these products into leaders in their categories. The organization has already introduced changes to its structure in order to achieve this objective, most notably the consolidation of its cheese divisions into the Cheese and Ingredients Division.

Thanks to its broad range of high-quality products associated with healthy living, Agropur is a daily presence in the lives of consumers in Canada and the United States. Its fresh products are found among many segments of dairy products.

More specifically, the Ingredients Sector of the Cheeses and Ingredients Division decided in 2012 to refine its image. With a view to unifying its message to its Canadian and U.S. clientele, the sector adopted a new graphic identity and its very own logo: Agropur Ingredients. The promotional items and packages used for its products, which will be supported by this new identity, will feature an image that is more contemporary and refined. This orientation will also help to reinforce Agropur's reputation, and further enhance the Sector's two key brands, namely CRINO™, which encompasses convenience products, and ISO CHILL™, which features added-value product, and all the brands from the activities of Main Street Ingredients in the U.S.

Agropur is very proud of its brands and is committed to expanding them by building on its decades of experience and expertise. The coming years are very promising, as the focus is placed on specific brands that are rich in opportunities and that the organization expects to rely on even more: brands that only want to be loved!

SOME OF OUR

WELL-RESPECTED BRANDS


CREME
Grand
Cheddar

BABOO™,
a new product for the growth of toddlers between the ages of 12 and 24 months, was introduced in Canada in January 2012.

New ideas and innovations become reality at

THE R&D CENTRE

True to its mission, Agropur is dedicated to meeting the current and future consumer demand. In order to accomplish this, it must remain attentive, think, create, analyze, share, study, develop, innovate … In addition, Agropur continues to rely on its unmatched quality assurance. The Agropur Research and Development Centre, which is located in Quebec, has been a technology leader since it was opened in 2008, and continues to be the hub of innovation for the Cooperative. It was custom-designed to be able to meet the needs of Agropur's teams in terms of R&D, and to make a direct contribution to maintaining the organization's reputation as an innovator.

In addition to the products themselves, research and development also focuses on other important facets of Agropur's marketing of dairy products. Every aspect may be subject to analysis, rethinking, revision and improvement, from creating a new product to enhancing a texture, a colour or a production process, and even the product packaging. The research and development teams at Agropur carry out numerous projects every year, always focused on meeting the needs of clients and consumers.

2012 was no exception. Once again this year, the Cooperative brought innovative, value-added healthy products to the launching pad. The year started off strong with the national launch of Baboo, a brand new category of dairy product intended for toddlers aged 12 to 24 months. Baboo contains fresh milk and is specifically designed to complement a toddler's balanced diet.

In addition, a number of new fine cheese products and formats were introduced on the market, all designed to adapt to the requirements of consumers. A new line of fixed-weight 200 g Gouda products, sold under the ANCO umbrella brand, was launched at the beginning of the year in response to market demand for this type of format. The line of Spreadable Fine Cheeses that was launched in 2011 was expanded with the addition of a new product, Crème de Grand Cheddar, and a triple crème was added to the Agropur Signature L'Extra family.

Finally, the Fine Cheese team has created Agropur 75, an exclusive cheese that was developed to commemorate the Cooperative's 75th anniversary. Produced at its Oka cheese plant, this artisanal washed-rind cheese is aged for a minimum of 110 days, and features a natural rind that starts off with a yellow-orange tint and finishes with a burnt copper colour in aging. This cheese, which includes a moulded Agropur logo, is actually two wheels pressed together and separated by a fine layer of food-grade vegetable ash. It is sold exclusively at cheese boutiques in Quebec in 2013.

The most significant launch of 2012 for the Cooperative and its joint venture, Ultima Foods, ranks among the most historic launches for both enterprises: iögo, the new way to say yogurt! Introduced in August, this new brand features seven different lines of exceptional products, all made with no gelatin or artificial colours or flavours. A 100% Canadian brand, iögo encompasses 65 products that were developed as the result of 18 months of research.

Natrel dark chocolate milk was also launched at the beginning of the year, and the lactose-free line was expanded with a 35% cream featuring the Natrel label. Natrel dark chocolate milk is the first high-end chocolate milk with a rich chocolate taste. Made with a dose of REAL chocolate and fresh 1% milk, this exceptional beverage can satisfy the most irresistible chocolate cravings while providing a daily allowance of calcium, vitamin D and protein, an outstanding energy source. Natrel 35% lactose-free whipping cream allows people who are lactose intolerant to enjoy the pleasure of adding a touch of cream to their coffee or a spoonful of whipped cream to a delicious dessert, which they could never do before!

Natrel Café, the line of flavoured coffee creams, has also been given a new look, with a redesigned bottle that highlights its unique character: made with real cream! The new bottle features a younger visual, is sleeker and more ergonomic, and has a pouring cap that allows for better control of the amount of cream being poured. The top-of-the line contemporary label reflects the quality of the product.

PRIZES AND DISTINCTIONS

With all of these innovations, combined with the quality of Agropur products, the Cooperative stands apart and posts exceptional performances at local, national and international competitions. 2012 was a banner year for Agropur in this regard.

Natrel dark chocolate milk was selected as one of the 10 most innovative products at the **Grocery Innovations Canada**. These 10 products are selected by the grocers and delegates who attend the event, based on three criteria: specificity, the ability to generate sales and consumer reaction. The Spreadable Fine Cheeses won first prize in the cheese category at the **Gaïa Awards**, which celebrate excellence in Quebec companies in the areas of marketing and food packaging using recyclable or environmentally friendly materials. The Spreadable Fine Cheeses also garnered the grand prize at the **2011 Food Innovation Awards at SIAL Canada** in Montreal in May 2012.

At the **American Cheese Society** competition in North Carolina, Agropur earned top ranking for its Rondoux Triple Crème (Triple Crème—soft ripened/cream added—all milks category) and Allégro probio 7% (Fat Free and Low Fat cheeses category). At the **Wisconsin State Fair**, Agropur won, among others, four first place awards for its Cheddar, Mozzarella, Feta and Feta basil and tomato. The Cooperative also performed extremely well at the **International Cheese Awards** in the United Kingdom, winning Gold in the "Best Overseas Cheese" category and Gold in the "Cheese made from unpasteurized milk" category for its Grand Cheddar, and being awarded the John Webb Trophy for the "Best cheese made from unpasteurised milk". Finally, Agropur aged cheddar was a big winner at the **World Championship Cheese Contest** in Wisconsin, taking the titles of "Best Cheese" in its category and the overall favorite among the Sweet 16. Agropur earned a total of 11 medals during this important competition. The Cooperative also posted excellent results in November 2012 during the **Royal Agricultural Winter Fair** in Toronto. Agropur won first place for its Rondoux pure goat cheese in the Mold Ripened Cheeses category, and OKA L'Artisan was named Grand Champion for the third consecutive year. In addition, its Grand Cheddar had the distinction of earning four first place rankings.

The new iögo brand was not left out of this annual harvest of awards. In fact, only a few months after its launch, iögo has performed admirably at several large competitions. Ultima Foods received the following prizes during the **Gaïa Awards**:

+ Best Packaging Award for fresh products: iögo Greko
+ Award for Best Packaging Line: iögo
+ Special Jury Prize: the overall iögo campaign

During the **Elixir Gala**, which recognizes excellence in project management, Ultima Foods won the 2012 Project of the Year Award for its new brand launch. As the winner of the 2012 Project of the Year Award, Ultima Foods is automatically entered in the 2013 edition of the international component of the contest.

To top it off, the iögo line of products was named as the winner in its category, and Ultima Foods was awarded the Grand Prize at the ***Prix innovation en alimentation 2012*** competition (2012 food innovation awards).

Health and safety innovations

Agropur is not content to limit its innovation to products and marketing. Its employees regularly propose new ways to improve occupational health and safety (OHS) and prevent potential accidents. Every Agropur workplace has an OHS committee consisting of several employees from different sectors. These teams meet together every year to share information, experiences and specific cases, and to learn about the overall picture at all of the workplaces in terms of OHS performance. Among the many improvements that were introduced by these OHS committees in 2012, the one that was proposed by employees at the Saint-Laurent plant deserves special mention. This project involved enhancing the safety of the milk fillers. Thanks to this innovation, the committee was named as a finalist in the *Large corporations* category of the ***Grands Prix santé et sécurité du travail*** (OHS awards) for the Montreal region, which are presented by the Commission de la santé et de la sécurité du travail du Québec (CSST).

Focusing on another area, following an initiative by Agropur, as of October 31, 2015, all tankers in Quebec must be equipped with a **walkway** in order to protect samplers and milk collection workers. For several years now, Agropur has been recommending that these devices be included in the equipment specifications, and that they become standard in Quebec. Since 2004, Agropur has been developing, improving and installing these walkways on its tankers in order to protect employees from falls. These devices served as a model during negotiations related to the most recent Transportation Agreement, and were developed thanks to an initiative devised by the Occupational Health and Safety Committee involving the Cooperative's milk transport activity. All of Agropur's milk transport vehicles have been equipped with walkways since the winter of 2012. Agropur has been recognized for this innovation in recent years at the CSST's annual *Grands Prix* competition.

Innovation is at the heart of the Cooperative's activities in many respects. The dairy producers who are members of the Cooperative are also called upon to innovate in order to stay in business. Over the years, they have refined their techniques, modernized their installations and assured that they deliver a basic product that meets expectations: always fresh and of high quality.

CLAUDE
is part of a skilled workforce at Agropur's R&D Centre, at the heart of innovation.

Modernizing facilities at

OUR PLANTS

In order to pursue its development and become a world-class player, Agropur must invest even more in its workplaces.

COST LEADERSHIP

Cost leadership is one of the key pillars that was a particular focus of the teams that participated in the Agropur 2015 project. The Cooperative is committed to becoming a leader in the area of cost management. All the required elements for achieving this objective have been reviewed for the purpose of ensuring that their use is managed properly and that losses are minimized and purchases are optimized, among other things.

Another very important aspect of cost leadership is the efficiency of the production lines and the simplification of the processes through the elimination of complexity. In 2012, Agropur initiated a number of major projects aimed at modernizing its facilities, including the plant in Luxemburg, Wisconsin, which was acquired by Agropur in 2008 in a transaction with Trega Foods that included two other plants, Little Chute and Weyauwega. The Luxemburg plant processes 100% of the whey from the Little Chute plant and the surplus from Weyauwega. Agropur intends to modernize some of the facilities and equipment at the plant in order to significantly increase production capacity at the cheese plant. The expansion project for the Luxemburg plant includes three major projects that represent a total investment of $108 million:

+ Building a new cheese plant that will increase plant production to 2.5 times its current capacity.
+ Increasing the capacity of the membranes and replacing the permeate dryer with a proven technology that features greater capacity.
+ Upgrading the wastewater treatment plant in order to satisfy the new standards and support the growth of the plant.

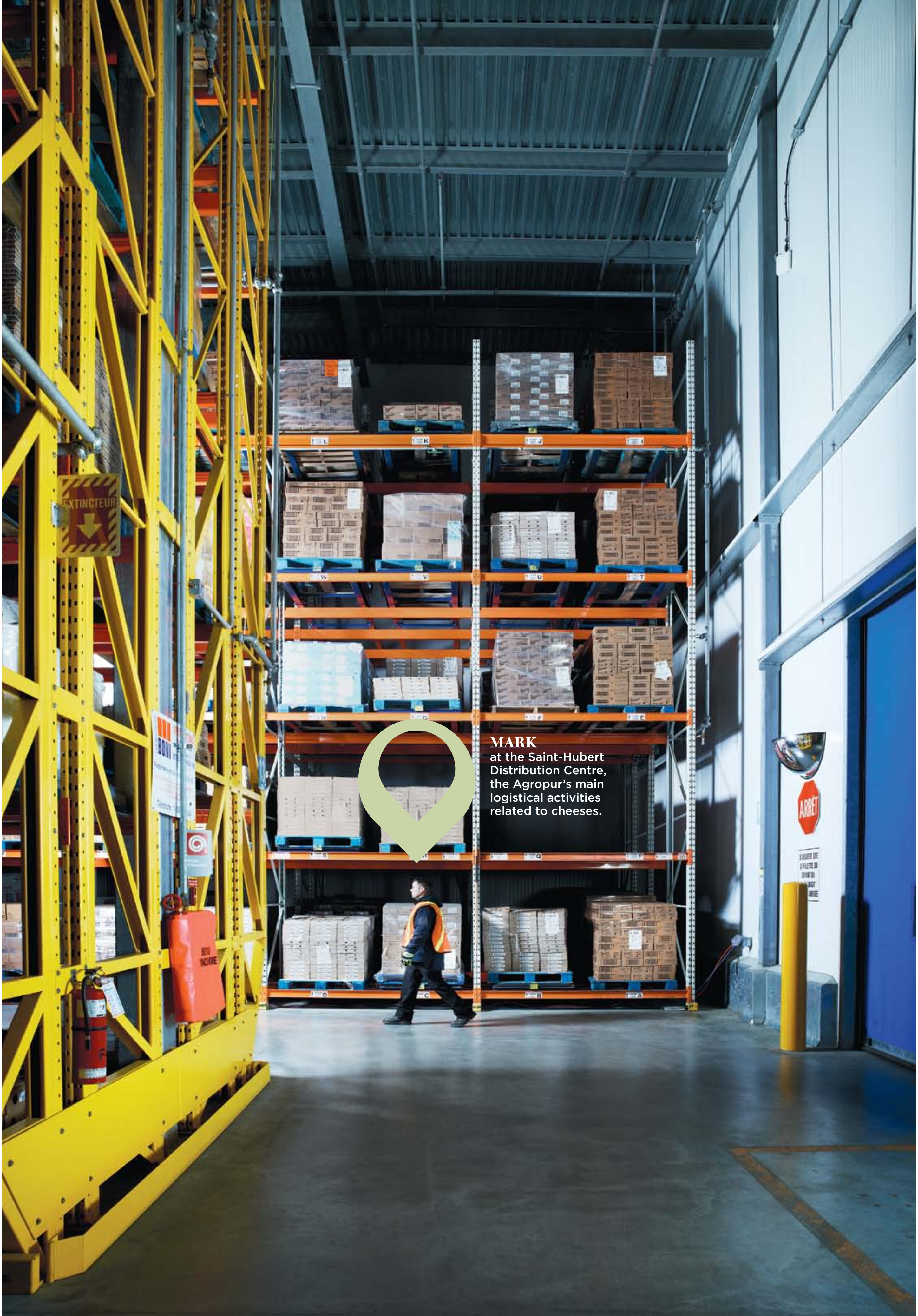
With the exception of acquisitions, this investment represents by far the largest capital investment made by the Cooperative in its history.

The Cooperative is committed to becoming a leader in the area of cost management. All the required elements for achieving this objective have been reviewed for the purpose of ensuring that their use is managed properly.

Cost leadership is essential to Agropur's development in order to ensure the success of its future projects and to become a world-class organization. Processing costs must be extremely competitive, and the organization must offer top-quality products. In order to achieve this objective, the organization must simplify its product portfolio, improve its supply practices, primarily by pooling purchases and monitoring losses, and ensure operational excellence at its plants and with respect to distribution. A centralized team that is responsible for strategic procurement will be formed in order to carry out these actions.

Another strategic group that focuses on continuous improvement has been formed with a view to supporting operational excellence. This group will be specifically responsible for simplifying and applying best practices at the Cooperative's workplaces, promoting best operational practices, accelerating continuous improvement initiatives and standardizing equipment and processes. A reflection process also identified opportunities for consolidation, automation and synergy throughout the organization. There is no doubt that other initiatives like those listed above will be added during the coming years.

Finally, in order to achieve its objectives in the areas of cost reduction, improving efficiency and growth, Agropur will invest significant amounts into the installation of a new integrated management information system. In fact, all of the organization's information systems will be replaced by a new platform using cutting-edge technology over the next three years. This initiative reflects the Cooperative's commitment to pursuing its development and becoming a leading player on the world stage.



MARK
at the Saint-Hubert Distribution Centre, the Agropur's main logistical activities related to cheeses.

Enhancing our

HR PRACTICES

Agropur is convinced that its employees possess exceptional potential, and it is committed to revitalizing its human resources management with a view to promoting their development.

HUMAN RESOURCES

Agropur has 5,568 employees who play a key role in the pursuit of the organization's objectives. They are specialized, engaged, loyal and united behind a common goal: the growth of the Cooperative. Their main priority is to manufacture basic products that contribute to the health of multitudes of consumers: fresh, high-quality dairy products. Whether they are located in Montreal, Toronto, Lethbridge, Victoria, St-Paul, Maplewood, Luxemburg or elsewhere, they all work in the same industry, which is becoming more and more competitive.

In 2012, Agropur decided to modify its organizational structure in order to modernize the organization's human resources practices and programs, with a view to adapting to its new reality. As a result, certain departments will now be centralized. However, the divisional presence will be maintained, in alignment with the Cooperative's business strategies, and to create consolidated service offers with a view to harmonizing processes and tools among the divisions.

The success of the Cooperative will always be a reflection of the achievements of its employees. In fact, each individual is a key player in Agropur's manifold success.

Thanks to its commitment to its employees, Agropur can count on enthusiastic, dedicated and talented human resources working together toward a common objective. Agropur recognizes that its employees represent an essential resource and are its most valuable asset in terms of achieving its objectives, both as a leader of the Canadian dairy industry and as a significant player in the U.S. market. The success of the Cooperative will always be a reflection of the achievements of its employees. In fact, each individual is a key player in Agropur's manifold success. The future of the organization depends on the motivation, competence, dynamism and creativity of its employees.

Agropur is convinced that its employees possess exceptional potential, and in conjunction with the new organizational structure, the Cooperative will be introducing modern methods for managing its human resources that will enable them to develop even more. To ensure its success, the organization must count on the motivation of its employees. For Agropur, there is no doubt that the participation and involvement of every employee will make the Cooperative even stronger!

NATHALIE AND MARIE-HÉLÈNE were among the 144 cyclists from Agropur who took part in the 48-Hour Ride event for Make-A-Wish Quebec, which was held on Île Notre-Dame from September 14 to 16, 2012.

SOCIAL RESPONSIBILITY

//

Social responsibility is an integral part of the culture at Agropur. The organization considers giving back to society in a variety of ways to be an essential function. The organization also adopts the best possible practices in terms of managing its activities, because it believes that sound governance is essential.

Donations and sponsorships

The organization's concern for the human dimension is also especially apparent in the communities where Agropur operates. Through its donation and sponsorship program, its annual employee fundraising campaign, its involvement in the dairy industry and its international commitment, the Cooperative contributes to the economic and social development of dozens of cities in which its various workplaces are located across North America.

In addition to sponsoring a large number of specific events, Agropur donates to many different organizations working in a variety of sectors. This includes the donation of food through the Club des petits déjeuners du Québec, Breakfast Clubs of Canada, the Fondation OLO and numerous food banks across Canada, and funding scholarships at various educational institutions with a view to supporting the next generation. The organization also contributes to the donation of significant sums through some programs organized for its brands and consumers, most notably through its support for the LOVE foundation with Québon, which is recognized for its work to prevent violence among young people, and donations from Natrel to the Literacy Foundation. The Cooperative spent more than $1.5 million on these various initiatives in 2012.

Commitment of Agropur employees

Every year, Agropur employees are encouraged to take part in the fundraising campaign that runs from April to September, in which they can select the local causes that they wish to support. The Cooperative matches every dollar that is collected at the workplaces that take part in this campaign. Through this program, the following organizations benefited from the generosity of Agropur employees in 2012: the Toronto Sick Kids Hospital Foundation, Leucan Montérégie, the Canadian Multiple Sclerosis Society, the Luxemburg-Casco Food Pantry and Harbor House Domestic Abuse Programs in Wisconsin, the Charles LeMoyne Hospital Foundation on Montreal's South Shore, Maison Victor-Gadbois and Maison Adhémar-Dion in Montreal, the ALS Society of BC, the BC Children's Hospital Foundation and the MS Society of Victoria BC in British Columbia, and finally, the Canadian Cancer Society, Ontario Division. A total of **$104,352 was donated to these organizations**, which were lovingly selected for this major fundraising campaign by employees from 17 Agropur workplaces, including the Cooperative's matching contribution.

> By implementing socially responsible initiatives, the Cooperative maintains its stance as a responsible organization that is not only concerned with sharing wealth, but also with ensuring its own development and the growth of the communities in which it operates.

In addition, a number of teams were also formed to support Make-A-Wish Quebec in its 48-Hour Ride for Wishes, which was held during the same period, in September 2012. After four years of active participation, this event has become a veritable tradition for Agropur and its joint venture, Ultima Foods, as the 24 teams composed of six people each strove to run a bicycle relay for 48 consecutive hours. With the involvement and generosity of all of these people who are associated with the Cooperative, **a cheque for close to $159,000** was presented to Make-A-Wish Quebec following the event, which is an important activity for some families in Quebec. Thanks to their athleticism and the generosity of their loved ones, these teams made it possible for ten children to see their wishes come true.

International commitment: SOCODEVI

Agropur's partnership with SOCODEVI, which was initiated in 1985, continues to be the best example of the Cooperative's international commitment. Established as a network of cooperatives and mutuals in Quebec that sought to share the experiences and expertise of its partners, SOCODEVI now supports a large number of projects in many countries in Africa, Latin America, Asia, and more recently, Europe. Agropur has invested in many projects by drawing upon the experience of some of its members and its workforce. The organization is proud to have contributed to more than 68 technical missions in 17 different countries between 1987 and 2011. Since its creation, SOCODEVI has made a real difference in the lives of millions of people, while at the same time putting the emphasis on cooperation. Agropur is proud to renew its commitment to SOCODEVI year after year, and to share its experience and expertise for the benefit of numerous communities. Agropur's international commitment represents a source of inspiration for many of its employees.

The environment: An issue that affects the entire organization

In terms of the environment, Agropur increases its efforts. In addition to the Environmental Policy and environment committees that were introduced a number of years ago with a primary mandate of ensuring compliance with increasingly rigorous regulatory requirements, the Cooperative also implements other initiatives, particularly in the areas of recycling, reduction of packaging, air quality and energy conservation. Moreover, one of the factors that is considered when developing new products is their environmental impact, which is becoming increasingly significant during the R&D stage.

More specifically, the Division Natrel plant in Saint-Laurent completed the installation of a new effluent treatment system in 2012, at a cost of $3.9 million. In recent years, the plant had focused its efforts on reducing waste at the source, and this commitment has been rewarded. The quality of the effluent improved significantly and achieved its objective. In 2010, in keeping with its commitment to protecting the environment, the organization decided to install a pre-treatment system in order to significantly reduce waste and ensure the long-term viability of the plant.

On the transportation front, Division Natrel installed FMZ (*Fuel MaximiZer*) devices on the 37 tractors in its fleet of trucks. This initiative enabled the Division to realize annual fuel savings, which is in keeping with the Cooperative's commitment to protecting the environment by reducing its gasoline consumption and greenhouse gas emissions. This new technology has been used for several years to manage engine power on heavy trucks as a function of the weight of the load being transported.

Agropur's plants are not the only component of the Cooperative that are involved in environmental protection projects. In the summer of 2012, the Award for sustainable development in dairy production, which is presented by the Dairy Farmers of Canada, was presented to Ferme M. Grenier et fils in Stanstead (Eastern Townships region), which is an Agropur member farm. The Stanstead farm was quick to implement innovative and economical practices aimed at benefiting the environment by using materials and buildings in a different manner. More specifically, they employed the technique of using strips of grass to slow down the flow of water and limit soil erosion.

By implementing socially responsible initiatives, the Cooperative maintains its stance as a responsible organization that is not only concerned with sharing wealth, but also with ensuring its own development and the growth of the communities in which it operates. In addition, its own environmental impact is a top priority for the Cooperative, and this is reflected in its actions. All of these values are characteristic of the cooperative model, and are an integral part of the DNA of Agropur, which always prioritizes longevity in order to ensure a promising future for everyone involved with the organization.

Amqui (Quebec)
Beauceville (Quebec)
Granby (Quebec)
Notre-Dame-du-Bon-Conseil (Quebec)

Oka (Quebec)
Plessisville (Quebec)
Quebec City (Quebec)
Saint-Bruno (Quebec)
Saint-Hyacinthe (Quebec)
Saint-Laurent (Quebec)

Chilliwack (British Columbia)
Delta (British Columbia)
Victoria (British Columbia)

Lethbridge (Alberta)

Ottawa (Ontario)
Toronto (Ontario)
Woodstock (Ontario)

Maplewood (Minnesota, U.S.)

Hull (Iowa, U.S.)

La Crosse (Wisconsin, U.S.)
Little Chute (Wisconsin, U.S.)
Luxemburg (Wisconsin, U.S.)
Weyauwega (Wisconsin, U.S.)

Grand Rapids (Michigan, U.S.)

Deploying our
INTERNATIONAL STRATEGY

The international development strategy remains a top priority for Agropur!

Even though the Cooperative made the decision to withdraw from Argentina in 2012, Agropur's international development strategy remains more than ever essential to its success! The organization is always on the lookout for business opportunities, both in North America and around the world. It is constantly seeking information concerning potentially promising markets in which the Cooperative can thrive. Over the past few years, a growing number of resources have been dedicated to corporate development, with a view to pursuing the Cooperative's international development. Thanks to the high level of collaboration between the corporate functions and the divisions, the acquisitions in the U.S. in recent years are clear evidence of these efforts and teamwork.

The history of the Cooperative features a vast array of mergers and acquisitions, which have made a significant contribution to its success and longevity. Since 1938, Agropur has been involved in approximately 125 mergers and acquisitions that have allowed it to diversify its product portfolio, establish a presence in new territories and expand the scope of its expertise and experience in a constantly evolving dairy industry. As the founders of Agropur stated: "The Cooperative has no borders!" This key phrase, which provides inspiration for everyone who is involved in the Cooperative, still rings true today for an organization that depends on its own development in order to ensure its longevity.

PLAYERS IN A
PROSPEROUS
future


GILLES THIBODEAU
Steve's father and co-owner of Ferme Thidard LLP, Agropur member since 1983
MARIE-JO PARENT
Steve's wife and collaborator on the farm
RENECK CAYEN
Cheese and Ingredients Division, employee since 2005
LUIS MELENDEZ
Quality Sector at the Saint-Hyacinthe plant, Agropur employee since 2010
EMY THIBODEAU
Daughter of Steve and Marie-Jo, representing the 5th generation on the farm

MESSAGE FROM
THE CHAIRMAN

The Board of Directors and I are extremely satisfied with the results and the accomplishments that were achieved during the year just ended. It was truly a year of change. The Cooperative maintained its sound financial condition, and we are very optimistic about its future. We are looking forward to a year of celebrations marking the 75th anniversary of the Cooperative, which has gotten off to an enthusiastic start.

From the beginning, 2012 was a year marked by a major change in senior management, with the arrival of Robert Coallier as Chief Executive Officer. This role is of critical importance to the management of the entire organization.

Robert was a guest member of Agropur's Board of Directors and Audit Committee for the last few years, and that experience enabled him to become familiar with the issues that the Cooperative is facing. With his leadership abilities, the Board of Directors and I are convinced that he has what it takes to lead the organization through the next phase of development and expansion, and that the Agropur team will reach new heights under his governance.

The year that just ended was highlighted by the International Year of Cooperatives, which provided us with many opportunities to promote the cooperative model, which is such a great source of pride for us. During the **International Summit of Cooperatives**, which was held in Quebec City in October 2012, we had the privilege of presenting our cooperative to the leaders of other cooperatives from 94 countries around the world, and to exchange views related to a number of subjects. During this event, of which we were a major sponsor, the importance and relevance of the cooperative movement became unmistakably evident. If the 300 largest cooperatives and mutuals were to form a country, it would be the 9th largest economy and the largest democracy in the world. That was the conclusion of a study that was unveiled during the Summit by IRECUS (*Institut de recherche et d'éducation pour les coopératives et les mutuelles de l'Université de Sherbrooke*).

Agropur also organized a forum, within the context of the International Summit of Cooperatives, that was attended by the large majority of dairy cooperatives in Canada. The success of this event far exceeded our expectations. With guests from Europe, New Zealand, the United States and three CEOs from Canadian cooperatives, the participants had an opportunity to develop a portrait of the global and Canadian dairy industries, and to consider the impact of the presence of all of these international players in our changing dairy environment. The forum was one of the highlights of the Summit, and it allowed us, as players in the Canadian dairy processing industry, to meet and discuss issues so that we would get to better know each other and forge stronger relationships.

The International Year of Cooperatives also saw the organization presented with an award that I am especially proud of. The Institute for Governance of Private and Public Organizations (IGPPO) was inspired by the theme of the International Year of Cooperatives for its annual tribute evening, at which Agropur was named a "**Major Builder of the Quebec Economy**", along with the Desjardins Group and the Coop fédérée. Another prestigious award for our Cooperative!

Thanks to the determination of two cooperatives, Agropur and Agrifoods, to remain in the yogurt sector, we were privileged to witness an historic and inspiring achievement by our joint venture Ultima Foods: **the launch of iögo**. The early results are extremely promising. With the positioning of the brand and our significant investments, we have been able to establish widespread distribution in record time. In addition, in response to growing demand, investments have been announced for the Ultima plant in Granby, Quebec, with a view to increasing production capacity, not only for the production of iögo, but also in light of our six-year production agreement with Yoplait S.A.S. Following this major launch and the agreement, our future in the yogurt sector looks very promising. I would like to extend my thanks to the entire Ultima Foods team. I have no doubt that our future generations will reap the benefits.

Agropur has enjoyed excellent results over the last 20 years, and in order to ensure that the organization remains on the path to success, it launched the Agropur 2015 strategic review process, which serves as the overall theme of this Annual Report. The review process was conducted with the full support of all members of the Board of Directors, who have always prioritized the growth and future of their cooperative. The results of this exercise have enabled management to establish the foundations on which the growth of our organization will be built for years to come. For its part, the Agropur Board of Directors decided to conduct a **consultation process involving the members** of the Cooperative. This process, which was launched during the 2012 regional meetings, will culminate at the 2014 Annual General Meeting.

In determining the orientation of the consultation process, the Board of Directors was guided and influenced by a number of elements related to the business environment in which the Cooperative evolves. Within the context of the 75th anniversary of the founding of Agropur, we believe that it would be appropriate for the members to take the time to reflect upon the **identifying characteristics** of the Cooperative. This exercise, based on a careful examination of the experience of the Cooperative, will enable members to project themselves into the future and identify the **values** that are important to them. It will also allow them to identify the values upon which they wish to build the future of our cooperative. Once these values are established, they will serve as benchmarks for the Board of Directors in the future in terms of guiding the decisions that they must make and the development strategies that they must adopt. The members will also be asked to consider the Cooperative's **governance model** within the context of this exercise. Once the process is completed, the members will have reflected upon the identity of Agropur and its values with a view to ensuring its current and future development and determining the best form of governance for achieving this goal.

In order to keep members properly informed with respect to the activities of their Cooperative, the **Extranet for members of Agropur** has been officially on line since November. This secure portal enables members to remain in direct contact with their cooperative and to learn about the most recent news related to Agropur and the events that are being held in their region, as well as to consult their personalized information. All of the services that are available to members are also presented there. In setting up this on-line platform, Agropur has taken a concrete step toward increasing the level of engagement among its members and promoting greater cohesiveness.

In November, Agropur took part in an important event organized by the GO5 in support of the **Canadian supply management system**. During the event, we clearly reiterated our support for this model, which serves producers, processors and consumers well. We are all aware of the pressures on the Canadian dairy system, and keep a close eye on articles that appear in the Canadian media, which often paint an unflattering picture of the supply management system, sometimes describing it as a restraint on the federal government's desire to sign free-trade agreements.

Elsewhere, negotiations between Canada and Europe are in their final phase, and we are monitoring the situation closely in order to determine how it will impact the Canadian dairy sector. Following a unanimous motion in the House of Commons, the federal government gave us a clear indication that it supports the supply management system. During the past year, the federal government invited all of the stakeholders in the Canadian dairy sector to adjust our system in order to ensure the growth of the industry. We are aware that the Canadian dairy system must evolve and adapt to changing realities, because its survival depends on our doing so. On the one hand, we must adjust our pricing mechanisms to manage structural surpluses and allow them to be sold in more lucrative markets by adopting a win-win approach for producers and processors. On the other hand, in terms of growth, the Canadian dairy industry must decide how best to adjust if it is to take advantage of the available opportunities.

In the United States, we are continuing to monitor the changes that may arise as a result of the adoption of a new Farm Bill. Modifications to the U.S. dairy policy that could affect the future of the industry have been discussed. The economic context in the U.S. is favorable, and could lead to growth opportunities for Agropur.

Supplying plants with milk remains a prerequisite for business growth. Major efforts in this respect were deployed in Canada in 2012, and more must be done to satisfy the needs of the plants. In Wisconsin, the increase in dairy production convinced us that we could go ahead with a major investment aimed at renovating and increasing the capacity of our Luxemburg plant in response to the growing needs of our clients.

The world dairy industry is growing, and the consumption of dairy products in emerging countries continues to increase. In light of this, we are pursuing our quest for international growth opportunities. In order to remain relevant in our existing markets, we must become a major player on international markets. Our challenge is to adopt strategies that will enable us to remain a leader on the Canadian market, by reducing our costs, simplifying our processes and growing through innovation, and to position ourselves to profit from global growth.

This year, our Cooperative is celebrating its 75th anniversary. Since 1938, Agropur has worked hard every day to meet the needs of thousands of consumers. Toward that end, our 3,288 members add their expertise to that of our employees and the many people who are involved in milk collection and distribution in order to ensure that the final product meets our high expectations. This remarkable collective effort is a source of inspiration for us: **75 years of passion!**

In conclusion, on behalf of the Board of Directors, I would like to thank all of our members for their dedication to their cooperative, and I would like to congratulate the entire Agropur team, and especially our Chief Executive Officer, Robert Coallier, and the Executive Management Committee, for their exceptional work.

S. Riendeau

SERGE RIENDEAU
Chairman

MESSAGE FROM THE
CHIEF EXECUTIVE OFFICER

I would like to begin by expressing the tremendous pride that I feel in this organization and the Agropur team that I had the good fortune to join this year. Overall, the situation remains more solid than ever for the Cooperative. Our earnings from operations have attained a remarkable level of performance again this year, and we have maintained our exemplary financial health, which ensures that we have the resources required for the growth of the organization.

As we approach our 75th anniversary, we were convinced that it was the right time to launch the strategic review process that we named Agropur 2015, with a view to ensuring the longevity of the Cooperative. The main objective of the exercise was to ensure that we determine the best possible strategy that will allow us to continue to be a significant player in our industry, which is becoming increasingly competitive. We also wanted to be sure to adopt a strategy that will promote the development and growth of our organization. More specifically, the plan was established with a view to identifying our long-term objectives and defining clear orientations for the years 2013 to 2015.

We adopted a clear and precise strategy whose implementation will continue over the coming years. We believe that the Cooperative will derive great benefits from the elements of this new growth and development strategy.

This exercise underwent a process of evolution during the year, and began to take shape in a more concrete manner this fall, revolving around the theme ***Together to win***. In fact, the main decisions and orientations were announced to all employees in October. I would like to thank our employees for their participation in this major project, and I would especially like to thank the members of the various work teams who made Agropur 2015 a reality. Considering all of these changes, and our organization's commitment to supporting our employees during this next phase of our development, a **change management office** was created in order to provide support for activities related to Agropur 2015.

Action plans are being developed and implemented with the objective of generating $75 million in increased earnings before interest, income taxes, depreciation, amortization and joint ventures over a three-year period. In addition, we have modified our organizational structures in order to optimize the synergies among our divisions. All of these improvements were initiated over the last few months, but new projects will be introduced throughout 2013 and over the next two years. It is worth noting that all these changes reflect our commitment to improving our processes and enhancing our operational efficiency.

From the perspective of human resources, one major focus will be the **employee engagement** component. During the last employee engagement survey, which was conducted in June, we noted that a great deal of work remains to be done in terms of improving the level of engagement among our human resources. I am convinced that our employees possess incredible strengths, and that we must develop management procedures that will take advantage of their knowledge and experience and help them to grow within our organization.

The teams that were involved in the Agropur 2015 project did an excellent job, and they demonstrated their ability to review specific paradigms. The fruit of their labour is represented by the host of new business opportunities that have the potential to significantly contribute to Agropur's future and its results. I encourage all of our employees, members and business partners to follow their example and join us in focusing on the theme: ***Together to win!***

The past year was rich in new product development. We have expanded our brand portfolio with the addition of Baboo, other innovations under the Natrel banner and our fine cheeses. The other major highlight of the past year was undoubtedly the launch of the iögo brand by our joint venture, Ultima Foods. This project was driven by an agreement that we signed with Yoplait S.A.S. in June 2012 in connection with the Yoplait brand. The agreement stipulates that our joint venture will manufacture Yoplait yogurt for the next six years, and has the effect of terminating the franchise agreement. Once the agreement was signed, we were free to launch our own brand of yogurt on the market.

The launch of iögo was made possible because of the dedication of our members, who unconditionally supported the largest investments ever made to support the launch of a new product in this category. Thanks to the vision of our members and our partner, Agrifoods, we have not only been able to maintain the level of activity at the Granby plant, but also to demonstrate our ability to launch a new brand in an extremely competitive environment.

Based on the results that we have seen since the launch in August, we have no doubt that the new iögo brand is a success! The products are clearly differentiated, and clients and consumers have quickly adopted them. As a result, we have already gained a remarkable share of the market, exceeding even our most optimistic expectations. Although the investments related to the creation of iögo amount to more than $90 million, we believe that the brand represents an essential foundation for our longevity and the continuity of our cooperative in this growing sector. We still face numerous challenges, but we have spared no effort, and our team at Ultima Foods has done a remarkable job. We expect the joint venture to regain profitability within the next three years. I would like to thank everyone who was involved in this success, from members, clients, retailers and consumers to all of those who act as ambassadors of this new brand, which we have adopted so quickly and in such large numbers.

In order to ensure our development and remain competitive, we must invest in our facilities. In terms of investments in 2012, CAD$78 million was invested mainly in buildings and equipments. Significant investments will also be made in 2013, including projects in the United States aimed at increasing our cheese production capacity, which entails continuing the Luxemburg plant project that began in 2012 and that represents a total investment of $108 million. A variety of other projects are planned for 2013, involving an unprecedented total of several hundred millions of dollars.

The growth of our organization and the reduction of our costs have become a necessity if we wish to maintain and improve our financial performance year after year. However, in order to ensure the longevity of the Cooperative, we must also achieve a critical size that will allow us to be a significant player in the global dairy industry, which is undergoing a consolidation process. We intend to pursue our growth in the United States, both internally and through acquisitions, while continuing to be a dominant player in Canada. Above all, we are convinced that we have sound business plans and the team we need to achieve our objectives. Agropur made a number of changes to its organizational structure in 2012, and there are more to come, all with a view to placing ourselves in a better position to adapt to emerging issues.

I would like to close by expressing my sincere thanks to the members of the Board of Directors, and especially our Chairman, for their confidence and their support. This was my first year at the helm of the Cooperative, which I view as an exceptional organization with a very promising future. I am also extremely grateful for the support of the members of the Executive Management Committee and all of those who have taken on new responsibilities. Finally, I would like to thank all of our employees once again for their participation in the Agropur 2015 project, which included its share of stimulating challenges and extra work in 2012, and for their daily contributions to the renewed success of our cooperative year after year.

ROBERT COALLIER
Chief Executive Officer

BOARD OF
DIRECTORS

Serge Riendeau, Chairman
Estrie 1991

Gaétan Jodoin
Granby 1996

Réal Brunet, Guest Member of the Board of Directors and of the Audit Committee 2012

Darie Gagné
Chaudière 1997

Lorna Jean Neveu
Laurentides/Lanaudière 1996

Luc Chassé
Des Seigneuries 2006

Valère Lieutenant[1]
Des Appalaches 2012

Daniel Gagnon
Est du Québec 2008

René Moreau[1], Vice-Chairman
Bois-Francs 1998

Michel Couture[1], First Member of the Executive
De L'Érable 2001

Roger Massicotte
Mauricie/Portneuf 2003

Céline Delhaes
Salaberry 2011

Daniel Lamy[1], Third Member of the Executive
Berthier/Maskinongé 2004

Jean-Pierre Lacombe,
Second Member of the Executive
Yamaska 2007

Vital Vouligny[1]
Lac Saint-Pierre 2007

Jean Filiatrault
Acton 1993

Legend
Director/
Administrative region/
Year elected to the Board

[1] Directors whose term expires in 2013, but who can be re-elected.

EXECUTIVE
MANAGEMENT COMMITTEE

Benoit Gagnon
Executive Vice-President,
Corporate Development

Serge Fortier
Senior Vice-President,
Information Technology

Jocelyn Lauzière
Senior Vice-President
and Chief Financial Officer

Louis Lefebvre
President, Cheese and Ingredients Division

Dominique Benoit
Senior Vice-President,
Institutional Affairs
and Communications

Michel Saint-Louis
Vice-President, Fine Cheese
Unit Business, formely
Vice-President Legal Affairs

Robert Coallier
Chief Executive Officer

Lorraine Bédard
Senior Vice-President,
Legal Affairs, Member Relations
and Corporate Secretary

Serge Paquette
President, Division Natrel

Robert Gour
Senior Vice-President,
Change Management

Scott McDonald
Senior Vice-President,
Human Resources

FINANCIAL **REVIEW**

The financial situation of the Cooperative remains healthy, with low debt and enviable level of liquidities, due to inflows from operational activities. This will allow us to support future development. Over the next few years, the Cooperative will continue to assess strategic business acquisition opportunities, in order to increase our presence on the main North American and international markets. Growth will also come from investments in existing installations to increase production capacities and improve operational efficiency while maintaining our high standards of product quality.

In the year ended November 3, 2012, sales of the Cooperative continued their growth to reach a new peak of $3.7 billion, an increase of 5.1% over last year. It should be noted, however, that the 2012 fiscal year had 53 weeks, compared to 52 weeks in 2011. Earnings before interest, income taxes, depreciation, amortization and joint ventures (earnings from operations) were up $1.8 million and amounted to $246.8 million for the 2012 financial year. Earnings before patronage dividends, Cooperative's income taxes and income taxes of subsidiaries, however, were down $15.6 million. This decline is primarily due to joint ventures. With regard to La Lácteo, we wrote down our investment by $9.1 million. At Ultima Foods, earnings declined due to the cost of launching iögo, our new brand of yogurt. We will return to these two points later.

Despite a slight decline in net earnings, the Cooperative has maintained an enviable level of patronage dividends, reaching $101.6 million, representing a 7.35% premium on the value of dairy production of Agropur members in 2012.

Governance

The Audit Committee reviewed the financial statements in this Annual Report. The Committee consists of five members of the Board of Directors and a Guest Member. In August, the Board announced the appointment of Mr. Réal Brunet as its guest member of the Board and of the Audit Committee. A few Agropur senior executives as well as representatives of our external auditors, participate in the Committee meetings. They, along with the Internal Audit Department, periodically present their findings at these meetings. Moreover, there is a hierarchical attestation process, inspired by Multi-lateral Instrument 52-109, under which senior executives must attest for the quality of the financial information presented in the financial statements.

Review of the 2012 Financial Statements

The following comments serve as a review of the financial statements appearing on page 43 of this Annual Report.

Accounting policies and IFRS

These are the first consolidated annual financial statements presented according to International Financial Reporting Standards (IFRS). These standards have been applied consistently in the consolidated financial statements for the fiscal year ended on November 3, 2012, and the comparative information for the fiscal year ended on October 29, 2011 and the opening balance sheet as at October 31, 2010 that have been restated. The restatements were made in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards." During this transition, we always made sure to respond to the needs of the primary users of the financial statements, the members of the Cooperative, while respecting IFRS.

These new standards have an impact with respect to the presentation and volume of information, with the introduction of the new statement of changes in members' equity and new disclosures in the notes to the financial statements. An important effect of the transition is in the presentation of joint ventures. The new recognition method for the joint ventures does not modify the net earnings and members' equity of the Cooperative, but has an impact on each of the items of the financial statements. In fact, each of the items in the financial statements previously included the proportionate share in joint ventures, while now, the proportionate interest in the earnings of joint ventures is consolidated under Share of net earnings of joint ventures in the consolidated statement of earnings and is accounted for in investments on the balance sheet.

In terms of earnings, the largest impact on the earnings of the Cooperative is the cessation of amortization of goodwill, representing the difference between the price paid for the acquisition of a company and the value of all identifiable net assets acquired. This change has the effect of increasing earnings before patronage dividends and income taxes for 2011 by $13.3 million, or $10.3 million of net earnings after recognition of income taxes related to this restatement.

On the balance sheet, the main impact is in the employee future benefits with the immediate and direct recognition in comprehensive income of actuarial gains and losses of employee pension plans. This change of standard has had the effect of reducing the members' equity by $20.8 million in 2010 and by an additional $10.0 million in 2011. Note 22 to the financial statements summarizes all of the elections associated with the first adoption of IFRS standards as well as the consolidated impacts on the statement of earnings, statement of comprehensive income, statement of cash flows and balance sheet.

As mentioned in previous years, the cash position of the Cooperative is not affected by the transition involving accounting standards. It is only the presentation of the financial information that has changed. The transition to IFRS has been a long process that began in 2008 and ends with the 2012 financial statements. In the future, we must follow the evolution of international standards and integrate them in our financial statements while making sure to produce financial information that is useful to our members.

Earnings

Fiscal 2012 ended with sales of $3.7 billion, of which 27.2% were from our activities outside Canada. Compared to last year, this represents an increase of $178.8 million, or of $117.5 million if the effect of the 53rd week is excluded. All business units contributed to this growth.

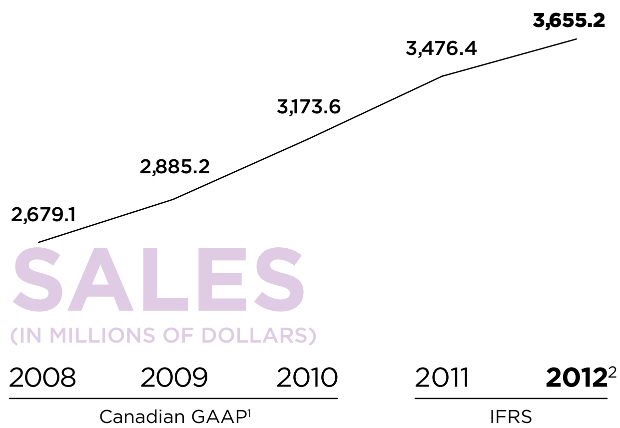
Sales from Canadian activities of the Cheese and Ingredients Division were relatively stable. The volume of milk processed was up by 63 million litres. Nearly half of this growth came from Alberta and was processed in our Lethbridge plant. It should be noted that the annualized capacity of this plant is now 95 million litres, and we anticipate that the milk supply for this plant will continue to increase in coming years. Sales of fine cheeses are rising in volume and have increased by 6.3% in value, due to good performance by both manufactured and imported products.

The U.S. activities of the Cheese and Ingredients Division have seen sales rise by $94.7 million, resulting from an 8.0% growth in volumes of cheese and the contribution of Main Street Ingredients, which had an additional 10 weeks in its 2012 calendar. The milk supply situation is good and we have generally obtained all the milk necessary for our production. Major investments were announced and are underway to increase the production capacity at our plant in Luxemburg, Wisconsin by 70 million pounds of cheese. Other large projects for our plants in Weyauwega and Hull in the United States are under study.

In Canada, Division Natrel's sales are up $45.2 million despite decreased milk consumption throughout the Canadian market. The division has renewed and signed a number of agreements with major clients in 2012. However, as in previous years, business development remains a challenge since it cannot depend on market growth. In order to improve profitability, a number of projects are under way and we will maintain the necessary efforts to generate new ideas to reduce operating costs and to innovate to promote growth.

Division Natrel's U.S. sales are higher, with an increase of $10.0 million resulting from 3.0% higher sales volume. Investments were made in new equipment to increase production capacity, and we are confident that growth will continue in the future.

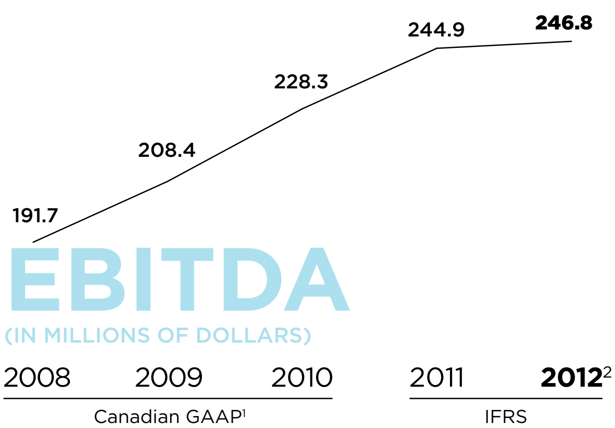
The following chart illustrates the development of consolidated sales over the last five years. Sales for 2011 and 2012 are presented according to IFRS, while those from 2008 to 2010 are presented according to Canadian Generally Accepted Accounting Principles, with investments in joint ventures recognized according to the equity method in order to be comparable to IFRS. Cooperative's sales have risen from $2.7 billion in 2008 to $3.7 billion in 2012, which is growth of $1.0 billion or 8.1% on average when expressed on an annual basis. This growth was achieved essentially in the United States, as a result of the business acquisitions of the past few years.



Earnings from operations or EBITDA reached $246.8 million, up $1.8 million over the previous year. The profitability of the cheese divisions in both Canada and the U.S. has improved. Favourable prices for cheese and the dairy ingredient market have had a positive impact on earnings in both countries. Earnings from operations from the Canadian and American activities of Division Natrel are declining. The increase in net prices has not covered additional costs due to inflation. The amounts devoted to our strategic review process have also reduced earnings from operations. The positive effects of this process will be felt in the next fiscal years.

The following graph shows the changes in consolidated EBITDA over the past five years. The EBITDA of 2011 and 2012 are presented according to IFRS and those for 2008 to 2010 are presented according to Canadian Generally Accepted Accounting Principles, with the investments in the joint ventures recognized according to the equity method. The EBITDA for 2008 to 2010 are not entirely comparable because they have not been restated according to IFRS, except for recognition of joint ventures, but still give a very good idea of growth. Since 2008, the EBITDA has improved by $55.1 million, rising from $191.7 million to $246.8 million.

[1] Canadian GAAP: investments in joint ventures using the equity method.
[2] Fiscal year including 53 weeks.



From the EBITDA of $246.8 million of 2012, we deducted a depreciation and amortization expense of $67.4 million, compared to $76.1 million in 2011. During fiscal 2012, the Cooperative reviewed the useful life of equipment and the depreciation method for buildings. As a result of these changes in accounting estimates, the depreciation expense for 2012 was reduced by $6.7 million. Financial expenses amounted to $0.8 million, compared to $1.7 million in 2011. The income tax expense of subsidiaries is up $9.0 million, due to the growth of earnings in the United States.

Our share of net earnings of joint ventures was a loss of $7.3 million, compared to a surplus of $10.0 million in the previous year. One of the highlights of the past year was undoubtedly the launch of the iögo yogurt brand by our joint venture Ultima Foods. An agreement signed with Yoplait S.A.S. last June confirmed the end of the Yoplait licence we had had for nearly 40 years as well as of our marketing of Yoplait brand products. This agreement provides that we will still manufacture Yoplait brand products as a co-packer for the next six years. After signing this agreement, we could bring our own yogurt brands to the market. The launch of iögo, in August 2012, was a great success throughout Canada, and the sales volumes have exceeded our initial forecasts. We acquired a market share of more than 12% only 2 months after launching, and brand recognition has already exceeded 82% in Quebec and 63% in Canada. In order to satisfy demand, investments in the Ultima Foods plant in Granby were made and others have been announced in order to increase production capacity. The challenges remain numerous but every effort has been devoted to this undertaking, and we are confident that iögo has a very promising future. Still, in the short term, the large sums necessary for the launch of iögo negatively affected the earnings of this joint venture and thus of our share.

As part of our strategic review process, our international development plan was reviewed and we decided to put our interest in our joint venture in Argentina, La Lácteo, up for sale. The economic uncertainty in that country and the investments that would be necessary for the development of that joint venture led us to decide to cease our operations in Argentina. Based on that decision, the investment in La Lácteo was written down by $9.1 million. However, it is certain that we intend to continue our international development in markets that will better match our long term objectives. In addition to the write-down, our share of the joint venture's operating losses was $1.5 million higher than last year.

After reviewing the earnings, the Board of Directors approved patronage dividends of $101.6 million, compared to $110.5 million in 2011. The patronage dividends correspond to a rate of 7.35% of the value of members' milk deliveries. These patronage dividends are payable as follows: 25% in cash and 75% in investment shares. According to the by-laws, members who have not reached the minimum capital investment will be issued shares in exchange for the cash component of their patronage dividends, until the minimum investment is reached.

[1] Canadian GAAP: investments in joint ventures using the equity method.
[2] Fiscal year including 53 weeks.

Finally, after deductions of the patronage dividends, an expenditure of $11.4 million was recorded for the purposes of the Cooperative's income taxes. Net earnings added to the reserve in 2012 are therefore $39.3 million.

Comprehensive income was $30.4 million for fiscal 2012, which is detailed as follows: added to net earnings of $39.3 million were the items recorded under accumulated other comprehensive income, consisting of a gain of $1.3 million to take into account the effect of exchange rate fluctuations on the consolidation of the assets and liabilities of our U.S. subsidiaries. Further to the write-down of our Argentinean joint venture, the translation adjustment corresponding to a loss of $2.1 million was reversed and added to the comprehensive income. On November 3, 2012, the exchange rate was US$1.00 for one Canadian dollar, compared to $1.01 and $0.98 on October 29, 2011 and October 30, 2010 respectively. The strengthening of the Canadian dollar in recent years has resulted in a cumulative unrealised translation loss from foreign subsidiaries over the past few years of $33.4 million. However, these results will continue to fluctuate on paper with the evolution of the Canadian dollar in relation to the U.S. dollar. Then the components transferred to the reserve, consisting of actuarial losses on defined benefit pension plans for a total amount of $12.1 million, are deducted. These losses are caused by the drop in the discount rate on pension plan obligation. Current interest rates are extremely low and a firming of rates would result in a rapid reduction of these actuarial losses.

Cash flows

Cash flows from operating activities, before the change in non-cash items, totalled $246.5 million, up $4.1 million. Non-cash items, which are presented in note 8 to the financial statements, required $40.4 million. Increased inventories of $14.0 million are mainly due to the higher price of cheese in the United States and larger inventories of butter in Canada. Accounts payable were $9.0 million lower, mainly due to the cut-off in milk payments. The other assets also increased as the result of payments for supply contracts with many clients.

Proceeds from disposals of assets allowed adding $1.0 million to cash flow. The preceding sources of funds, added to the $30.2 million from the sale of commercial paper in December, enabled us to have cash outflows of $179.0 million, repay $11.4 million in debt and increase liquidities by $87.3 million.

Issues and redemptions of shares of $32.4 million, added to patronage dividends payable in cash of $25.4 million, brought outflows for activities with members and on capital to $57.8 million, or 20.8% of the outflows for the year.

Investments in property, plant and equipment and intangible assets totalled $77.6 million, mainly for equipment. Additions were equally divided between Canada and the United States.

Combined with our credit facilities of $436.9 million, the level of profitability is bringing in funds that support our current rate of growth and support our future projects.

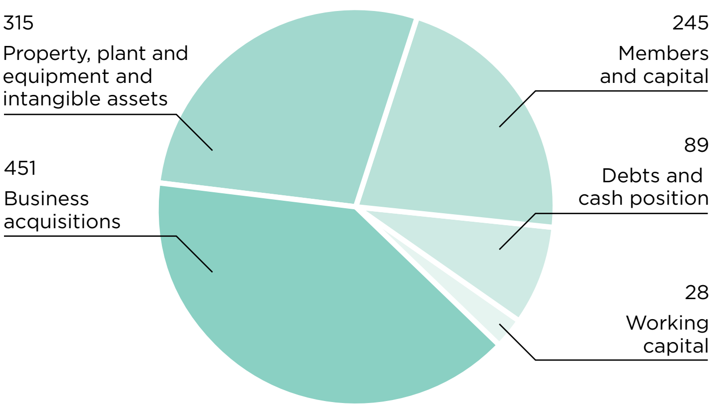
INFLOWS
(IN MILLIONS OF DOLLARS)

278	**Total**
247	Operations
30	Commercial paper
1	Disposals

OUTFLOWS
(IN MILLIONS OF DOLLARS)

278	**Total**
78	Property, plant and equipment and intangible assets
58	Members and capital
99	Debts and cash position
40	Working capital
3	Investment in a joint venture

Cash flows over the past five years total $1.1 billion, of which $245 million or 22.3% were turned over to members as patronage dividends and capital redemptions. Outflows related to business acquisitions total $451 million. Another $315 million was added for investment in property, plant and equipment and intangible assets.



USE OF FUNDS
($1.1 BILLION) – 2008 TO 2012[1]
(IN MILLIONS OF DOLLARS)

Balance sheet

As at November 3, 2012, assets totalled $1.4 billion, up $65.9 million, compared to October 2011. In addition to the increase in cash position, this growth is also explained by an increase in inventories of the cheese divisions. Canadian inventories of butter and powdered milk and the higher block market price of cheese in the United States largely account for this increase.

During fiscal 2012, the Cooperative sold all of its remaining commercial paper for $30.2 million. A write-down of $25.0 million of this commercial paper had been made in previous years, and the write-down proved to be relatively accurate since an adjustment of only $0.2 million was recorded after the sale of the commercial paper.

The Cooperative has a low level of debt with interest-bearing debt of $3.3 million. This situation, combined with a cash amount of $130.9 million, positions us favourably for the Cooperative's future projects. The pension plan obligation amounts to $30.2 million, an increase of $12.4 million, mainly caused by the very low level of interest rates.

Note 16 of the financial statements details members' share capital. On November 3, 2012, members' share capital reached $607.4 million, increased by $43.8 million in Class A share capital from the issue of patronage dividends net of redemptions made during the fiscal year. In 2012, with the approval of members and holders of Class A shares, Classes B, C and D investment shares were created.

[1] 2008 to 2010 according to Canadian GAAP with investment in joint ventures using the equity method.

Looking ahead

Looking ahead, the situation of the Cooperative remains solid, despite the substantial expenses injected in launching iögo and major future investments to increase production capacity and on information technology. We maintain financial health that allows our organization to grow. We have engaged in a strategic review process to improve our processes and operational efficiency. We will continue to make every effort to find new ways to improve our efficiency and reduce our costs in order to maintain and improve our financial performance. We will also pursue investments to increase our production capacity and remain on the lookout for opportunities to make strategic acquisitions.

In 2013, results should continue to progress. However, the competitive dairy products market contains challenges that include the pressure and volatility of milk and whey product prices. The fluctuations of the Canadian dollar against the U.S. dollar are also difficult to predict. We are however well positioned to face these elements and maintain good financial performances in the years to come.

This fiscal year end provides me with an opportunity to thank the Board of Directors and the Chief Executive Officer for their support.

JOCELYN LAUZIÈRE
Senior Vice-President
and Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

December 18, 2012

To the members of Agropur Cooperative

We have audited the accompanying consolidated financial statements of Agropur Cooperative (the "Cooperative"), which comprise the consolidated balance sheets as at November 3, 2012, October 29, 2011 and October 31, 2010 and the consolidated statement of earnings, consolidated statement of cash flows, consolidated statement of comprehensive income and consolidated statement of changes in members' equity for the years ended November 3, 2012 and October 29, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Cooperative as at November 3, 2012, October 29, 2011 and October 31, 2010 and its financial performance and its cash flows for the years ended November 3, 2012 and October 29, 2011 in accordance with IFRS.

PricewaterhouseCoopers LLP[1]

Chartered Professional Accountants
Montréal, Quebec

[1] CPA auditor, CA, public accountancy permit No. A116853

CONSOLIDATED STATEMENT OF EARNINGS

(IN THOUSANDS OF CANADIAN DOLLARS)	**2012** **(53 weeks)**	2011 (52 weeks)
Sales	**3,655,220**	3,476,414
Operating expenses excluding depreciation and amortization (note 4)	**3,408,456**	3,231,497
Earnings before interest, income taxes, depreciation, amortization and joint ventures	**246,764**	244,917
Depreciation and amortization (notes 10 and 11)	**67,375**	76,136
Operating earnings	**179,389**	168,781
Net financial expenses (notes 4 and 8)	**816**	1,694
Loss (gain) on disposal of assets	**406**	(230)
Income taxes of subsidiaries (note 5)	**9,527**	496
Share of net earnings of joint ventures	**7,293**	(10,039)
Impairment of investment in a joint venture (note 7)	**9,098**	-
Earnings before patronage dividends and the Cooperative's income taxes	**152,249**	176,860
Patronage dividends (note 6)	**101,560**	110,551
Cooperative's income taxes (note 5)	**11,400**	11,988
Net earnings	**39,289**	54,321

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IN THOUSANDS OF CANADIAN DOLLARS)	**2012** **(53 weeks)**	2011 (52 weeks)
Net earnings	**39,289**	54,321
Items recorded under accumulated other comprehensive income (loss)		
Net change in fair value of derivative instruments designated as cash flow hedges, net of income taxes of $101 (2011 – $50) (note 18)	**(255)**	133
Change in foreign currency translation adjustment of foreign operations	**1,266**	(13,224)
Reversal of a foreign currency translation adjustment of foreign operations	**2,098**	-
Share of other comprehensive income (loss) of joint ventures	**103**	(117)
	3,212	(13,208)
Items transferred to the reserve		
Actuarial loss on the accrued benefit obligation, net of income taxes of $4,143 (2011 – $3,538) (note 20)	**(11,392)**	(10,551)
Share of actuarial loss on the accrued benefit obligation of joint ventures	**(710)**	(663)
	(12,102)	(11,214)
Total other comprehensive loss	**(8,890)**	(24,422)
Total comprehensive income	**30,399**	29,899

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS)	**2012** **(53 weeks)**	2011 (52 weeks)
CASH FLOWS FROM		
Operating activities		
Earnings before patronage dividends and the Cooperative's income taxes	**152,249**	176,860
Cooperative's current income taxes	**(3,503)**	(9,979)
Dividends from joint ventures	**5,388**	6,860
Items not involving use of funds		
Depreciation and amortization	**67,375**	76,136
Share of net earnings of joint ventures	**7,293**	(10,039)
Deferred income taxes of subsidiaries	**8,052**	2,733
Impairment of investment in a joint venture (note 7)	**9,098**	-
Others	**592**	(131)
	246,544	242,440
Patronage dividends payable in cash (note 6)	**(25,360)**	(27,615)
Change in non-cash items (note 8)	**(40,353)**	2,690
	180,831	217,515
Financing and share capital activities		
Repayment of long-term debt and issuance expenses	**(11,413)**	(4,075)
Issuance and redemption of shares	**(32,441)**	(27,175)
	(43,854)	(31,250)
Investing activities		
Business acquisition (note 3)	**-**	(78,786)
Additions of property, plant and equipment and intangible assets (notes 10 and 11)	**(77,566)**	(62,163)
Investment in a joint venture	**(2,982)**	-
Sales of commercial paper (note 7)	**30,219**	16,340
Proceeds from disposal of assets	**1,044**	337
	(49,285)	(124,272)
Effect of exchange rate fluctuations on cash position	**(406)**	791
Net change in cash position over the year	**87,286**	62,784
Cash position – Beginning of year (note 8)	**43,566**	(19,218)
Cash position – End of year (note 8)	**130,852**	43,566
Additional information:		
Member and share capital activities		
Patronage dividends payable in cash	**(25,360)**	(27,615)
Issuance of shares	**47**	43
Redemption of shares	**(32,488)**	(27,218)
	(57,801)	(54,790)

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	**November 3 2012**	October 29 2011	October 31 2010
ASSETS			
Current assets			
Cash and temporary investment	**130,852**	45,661	3,171
Accounts receivable	**204,014**	207,489	197,472
Inventories (note 9)	**268,170**	254,002	230,784
Income taxes	**3,688**	157	477
Prepaid expenses	**8,767**	7,561	8,463
	615,491	514,870	440,367
Investments (note 7)	**26,793**	73,687	88,424
Property, plant and equipment (note 10)	**502,611**	485,824	473,105
Intangible assets (note 11)	**46,505**	53,779	53,307
Goodwill (note 11)	**144,445**	144,054	108,786
Other assets (note 12)	**18,232**	7,998	8,945
Deferred income taxes (note 5)	**805**	8,789	11,389
	1,354,882	1,289,001	1,184,323
LIABILITIES			
Current liabilities			
Bank overdrafts and bank loans (note 13)	**-**	2,095	22,389
Accounts payable and accrued liabilities (note 14)	**382,621**	391,047	372,841
Income taxes	**878**	3,704	3,474
Current portion of long-term debt (note 15)	**2,729**	8,572	1,380
	386,228	405,418	400,084
Long-term debt (note 15)	**605**	5,726	3,164
Deferred income taxes (note 5)	**22,165**	18,494	18,150
Pension plan obligation (note 20)	**30,209**	17,846	7,068
	439,207	447,484	428,466
MEMBERS' EQUITY			
Share capital (note 16)	**607,359**	563,600	507,839
Reserve	**341,809**	314,622	271,515
Accumulated other comprehensive loss (note 17)	**(33,493)**	(36,705)	(23,497)
	915,675	841,517	755,857
	1,354,882	1,289,001	1,184,323

Approved by the Board of Directors, on December 17, 2012.

Serge Riendeau, Director

René Moreau, Director

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS)	Class M and member shares	Classes A and B shares	**Total shares (note 16)**	Reserve	Comprehensive loss ("AOCL")[1]	**Total**
As at October 31, 2010	**1,083**	**506,756**	**507,839**	**271,515**	**(23,497)**	**755,857**
Net earnings	-	-	**-**	54,321	-	**54,321**
Other comprehensive loss	-	-	**-**	(11,214)	(13,208)	**(24,422)**
Issuance of shares as payment for patronage dividends	-	82,936	**82,936**	-	-	**82,936**
Issuance of shares for cash	9	34	**43**	-	-	**43**
Redemption of shares	(48)	(27,170)	**(27,218)**	-	-	**(27,218)**
As at October 29, 2011	**1,044**	**562,556**	**563,600**	**314,622**	**(36,705)**	**841,517**
As at October 30, 2011	**1,044**	**562,556**	**563,600**	**314,622**	**(36,705)**	**841,517**
Net earnings	-	-	**-**	39,289	-	**39,289**
Other comprehensive loss	-	-	**-**	(12,102)	3,212	**(8,890)**
Issuance of shares as payment for patronage dividends	-	76,200	**76,200**	-	-	**76,200**
Issuance of shares for cash	18	29	**47**	-	-	**47**
Redemption of shares	(29)	(32,459)	**(32,488)**	-	-	**(32,488)**
As at November 3, 2012	**1,033**	**606,326**	**607,359**	**341,809**	**(33,493)**	**915,675**

[1]Accumulated other comprehensive loss

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 3, 2012

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

1. GENERAL INFORMATION

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 Canada Cooperatives Act.

The Cooperative, its subsidiaries and joint ventures carry on the business of processing and selling dairy products. Facilities are located in Canada, the United States and Argentina. The head office is located in Longueuil, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These consolidated financial statements of the Cooperative have been prepared in accordance with International Financial Reporting Standards ("IFRS") in effect as at November 3, 2012, as issued by the International Accounting Standards Board ("IASB"). Previously, they were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), Part V. The Cooperative has consistently applied the same accounting policies in its opening IFRS balance sheet. Year 2012 was the first year in which IFRS were applied, and comparative financial information was restated in order to apply IFRS retrospectively. The Cooperative has prepared these financial statements in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards". Note 22 summarizes the impact of this first-time adoption on the Cooperative's financial statements.

CONSOLIDATION PRINCIPLES

These consolidated financial statements include the accounts of the Cooperative and its subsidiaries. Joint ventures Ultima Foods Inc. and La Lácteo are recognized in investments, in accordance with the equity method.

ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions, in particular with respect to the fair value measurement of net assets acquired as part of a business acquisition, the election of depreciation and amortization methods and the estimate of the years of useful life of depreciable or amortizable assets, and impairment tests of assets.

CASH POSITION

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

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 net realizable value, cost being determined under the first-in, first-out method.

Borrowing costs attributable to mature inventories are included in the cost of the finished goods inventory.

INVESTMENTS

The joint ventures are accounted for in accordance with the equity method. Under the equity method, the investment is initially recognized at cost, which is adjusted for changes in the share of the net assets of the joint ventures after the acquisition date. The Cooperative's share of net earnings of the joint ventures is included in its statement of earnings.

Investments are tested for impairment by the Cooperative if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of an investment's value in use using discounted future cash flows and its fair value less costs to sell .

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost, net of applicable government grants.

As at October 30, 2011, the Cooperative reviewed the useful life of equipment and the depreciation method for buildings. According to management's estimate, the new depreciation method better reflects the pattern in which the buildings' future economic benefits are expected to be consumed by the Cooperative.

As a result of these changes in accounting estimates, the depreciation expense for 2012 was reduced by $6,734.

Depreciation of property, plant and equipment is calculated over their estimated useful lives, mainly using the following methods and rates:

• Buildings	Straight-line	40 years
• Equipment	Diminishing balance	10% and 15%
• Rolling stock	Diminishing balance	30%

Property, plant and equipment are tested for impairment by the Cooperative if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of the value in use using discounted future cash flows and the fair value less costs to sell. For the purposes of the impairment test, property, plant and equipment are grouped at the lowest level for which there are identifiable cash flows.

INTANGIBLE ASSETS

Intangible assets mainly consist of customer relationships, trademarks and software. These assets are accounted for under the cost method or at fair value during business acquisitions. Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives.

Intangible assets with finite useful lives are tested for impairment if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of the value in use using discounted future cash flows and the fair value less costs to sell. For the purposes of the impairment test, intangible assets are grouped at the lowest level for which there are identifiable cash flows.

GOODWILL

Goodwill is initially recognized as the excess of the acquisition cost over the fair value of the identified assets and liabilities.

Goodwill is not amortized. Goodwill is tested annually for impairment by reporting business units in order to determine if there is an impairment loss. Reporting business units are determined according to the smallest identifiable group of assets that generates cash inflows. To evaluate if there is an impairment loss, the Cooperative compares the recoverable amount of the business unit to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount exceeds the recoverable amount, an impairment loss is recorded.

For every reporting business unit, the recoverable amount was measured with cash flow projections before income taxes from business plans approved by management. The projections reflect management's evaluation of gross margin based on previous results and forecasts of market development. This calculation is based on key assumptions of the management. A change in a key assumption could cause an important impact on the recoverable amount.

OTHER ASSETS

Deferred charges for procurement contracts related to customers are amortized on a straight-line basis according to their useful lives.

BUSINESS COMBINATIONS

The Cooperative uses the acquisition method of accounting to account for business combinations. Under this method, the Cooperative allocates the acquisition cost to tangible and intangible assets acquired and liabilities assumed, based on their fair values as at the date of acquisition, with the excess of the acquisition cost being allocated to goodwill. Business combination costs are included in the statement of earnings during the year in which they are incurred.

REVENUE RECOGNITION

Revenue is recognized, net of charges for procurement contracts, upon delivery of goods.

EMPLOYEE FUTURE BENEFITS

The Cooperative accounts for its obligations arising from employee benefit plans and related costs, net of the plan assets.
The discount rate used to measure the accrued benefit obligation is determined according to the return of high quality corporate bonds on the market as at the valuation date. The cost of pension and other retirement benefits earned by employees is calculated 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. The fair value of assets is determined using 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 measured at market value. Actuarial gains (losses) are recorded in other comprehensive loss.
The cost of past services resulting from changes to the plans is recognized in earnings when the rights are vested.

INCOME TAXES

Income tax expenses include current income tax and deferred income tax expenses. Current income tax expenses are calculated using enacted or substantively enacted income tax rates as at the balance sheet date. Deferred income taxes are measured according to differences between tax bases and carrying amounts of assets and liabilities. However, deferred tax is not recognized on the initial recognition of goodwill and the initial recognition of assets and liabilities when the related transaction is not a business combination and does not affect accounting and tax earnings. Deferred income tax assets and liabilities are measured using the tax rates that are expected to be in effect in the years when these temporary differences are expected to reverse. Income tax assets are recognized when it is more likely than not that the assets will be realized.

TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions
Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing as at the balance sheet date, while transactions denominated in foreign currencies are translated at the average monthly exchange rates for the year. The resulting foreign currency translation gains or losses, net of hedging operations, are included in the statement of earnings.

Foreign operations
All assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing as at the balance sheet date. Unrealized foreign currency gains and losses resulting from this translation are included as a component of accumulated other comprehensive loss in members' equity. Foreign currency gains or losses are reduced of hedging operations by using a bank loan in U.S. dollars. Revenues and expenses are translated at the average exchange rate for the year.

Hedging operations
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 instruments used and the method of assessing effectiveness. Realized gains and losses on hedges are consequently deferred until realization of the hedged item for the fairest matching in the statement of earnings.

FINANCIAL INSTRUMENTS

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

Investments in commercial paper (see note 7) are recognized at fair value estimated as at the balance sheet date.

In the event of the material impairment of any of the financial assets or financial liabilities, such impairment loss is recorded in the statement of earnings.

FUTURE ACCOUNTING POLICIES

Presentation of financial statements
In June 2011, the IASB published a revised version of IAS 1, "Presentation of Financial Statements". Amendments apply to the presentation of items of other comprehensive loss ("IOCL") in financial statements.

These amendments are effective for years beginning on or after July 1, 2012. The Cooperative will adopt these amendments as at the first quarter of its 2013 fiscal year, but does not anticipate any significant impact on the consolidated financial statements.

Employee benefits
In June 2011, the IASB published a revised version of IAS 19, "Employee Benefits", modifying accounting rules for defined benefit pension plans. The updated version of the standard includes a number of amendments, regarding the use of asset-performance assumptions and the presentation and disclosure requirements for these plans.

Amendments are effective for years beginning on or after January 1, 2013. The Cooperative will adopt the new standard as at the first quarter of its 2014 fiscal year and has not completed its assessment of the impact of these changes on its consolidated financial statements.

Fair value measurement
In May 2011, the IASB issued a new standard: IFRS 13, "Fair Value Measurement". IFRS 13 is a comprehensive standard for fair value measurement that specifies the disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset as at the measurement date. It also establishes fair value measurement disclosure requirements. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards, which may produce different results.

This new standard is effective for years beginning on or after January 1, 2013.

The Cooperative will adopt these new standards as at the first quarter of its 2014 fiscal year and has not completed its assessment of the impact of these changes on its consolidated financial statements.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

3. BUSINESS ACQUISITION

On December 21, 2010, the Cooperative acquired all the shares of Main Street Ingredients, a milk ingredients company located in the United States, for a cash consideration of $72,295 (US$71,807).

The acquisition cost allocation is detailed as follows:

Current assets	27,130
Property, plant and equipment	24,608
Intangible assets	9,258
Goodwill	37,069
Liability assumed	(6,663)
Net asset acquired	91,402
Long-term debt and cash position	(19,107)
Acquisition cost	72,295
Cash position	6,491
Cash flows from acquisition	78,786

The goodwill accounted for is deductible for income tax purposes for an amount of $50,019. Acquisition costs amounted to $600.

4. EARNINGS

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

	2012 **(53 weeks)**	2011 (52 weeks)
Raw materials and other inputs	**2,262,920**	2,152,845
Salaries and employee benefits	**384,913**	360,419
Interest on long-term debt	**525**	849

5. INCOME TAXES

The income tax expense is as follows:

	2012 **(53 weeks)**	2011 (52 weeks)
Current income taxes	**4,978**	7,742
Deferred income taxes	**15,949**	4,742
	20,927	12,484
Comprised of:		
The Cooperative's income taxes	**11,400**	11,988
Income taxes of subsidiaries	**9,527**	496

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Reconciliation of income taxes:

	2012 **(53 weeks)**	2011 (52 weeks)
Income taxes, calculated at Canadian statutory rates of 26.52% (2011 – 28.04%)	**17,906**	15,919
Differences attributable to the following:		
Impairment of investment in a joint venture	**2,413**	-
Difference in tax rates of foreign subsidiaries	**4,836**	1,813
Changes in tax laws and rates	**(47)**	(551)
Tax benefit from a financing structure	**(4,530)**	(4,289)
Others	**349**	(408)
Income tax expense	**20,927**	12,484

During the year, Canadian statutory tax rates decreased by 1.5% as a result of a federal income tax reduction from 16.5% to 15.0% in 2012.

The income tax consequences of temporary differences that result from deferred tax assets and liabilities are as follows:

	2012	2011	2010
Deferred tax assets			
Goodwill	**13,100**	18,017	18,884
Intangible assets and other assets	**-**	597	-
Accounts payable and accrued liabilities	**8,046**	7,485	4,596
Tax losses carry forward	**8,077**	10,106	9,407
Commercial paper	**-**	2,342	-
Pension plan obligation	**7,968**	4,708	1,899
Others	**986**	-	662
	38,177	43,255	35,448
Deferred tax liabilities			
Property, plant and equipment	**56,266**	49,134	41,091
Intangible assets and other assets	**741**	-	1,118
Outside basis difference on investment in subsidiaries	**2,530**	3,531	-
Others	**-**	295	-
	59,537	52,960	42,209

Presented in the financial statements as:

	2012	2011	2010
Deferred tax assets	**805**	8,789	11,389
Deferred tax liabilities	**(22,165)**	(18,494)	(18,150)
Total deferred tax liabilities, net	**(21,360)**	(9,705)	(6,761)

No deferred tax liabilities are recorded on the investments in joint ventures because temporary differences are not likely to be reversed in the foreseeable future. Deferred income taxes on these unrecognized temporary differences totalled $3,237 (2011 – $5,149). Deferred tax assets expected to be recovered in less than 12 months amount to $7,872 (2011 – $6,945 and 2010 – $4,351).

The Cooperative has also accumulated $10,000 of capital losses for which no deferred tax asset has been accounted for. These losses may be carried forward indefinitely.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

6. PATRONAGE DIVIDENDS

Patronage dividends are paid out to members as follows: $25,360 (2011 – $27,615) in cash and $76,200 (2011 – $82,936) through the issuance of investment shares.

7. INVESTMENTS

	2012	2011	2010
Joint ventures	**26,793**	43,659	42,056
Commercial paper	**-**	30,028	46,368
	26,793	73,687	88,424

INVESTMENTS IN JOINT VENTURES

The Cooperative's proportionate share in the statement of earnings and balance sheets of the joint ventures is summarized as follows:

	2012	2011	2010
Current assets	**35,159**	33,662	30,278
Non-current assets	**45,537**	46,329	44,809
Current liabilities	**47,503**	30,341	26,873
Non-current liabilities	**4,203**	4,102	3,688
Sales	**168,496**	174,197	n/a

The Cooperative's share of commitments of joint ventures is $1,691 for the next year and $743 from 2014 to 2017.

During the year, Ultima Foods and Yoplait SAS concluded a six-year agreement for processing Yoplait products. Furthermore, Ultima Foods announced the launching of a new yogurt brand during the fourth quarter of this year, resulting in considerable launching costs.

Last June, the Board of Directors decided to end the Cooperative's operations in Argentina. Consequently, the investment in the joint venture La Lácteo was tested for impairment. The investment recoverable amount has been estimated with the fair value less costs to sell. Management determined that the recoverable amount is not significant, considering anticipated future losses and management's analysis of the market. The impairment amounts to $9,098, which includes a reversal of the foreign currency translation adjustment of foreign operations of $2,098. Since then, and because it has no legal or implied obligation, losses from La Lácteo are not accounted for by the Cooperative. If there is no purchaser for La Lácteo, fees could be engaged to discontinue operations.

COMMERCIAL PAPER

In December 2011, the Cooperative completed the sale of its asset-backed commercial paper for an amount of $30,219. The Cooperative also received $60 in interest and recorded a final gain of $191, which was accounted for against financial expenses.

During 2011, due to principal repayments and sales of notes, the Cooperative cashed $16,340 in capital, which was applied against investments in commercial paper. The Cooperative also cashed $478 in interest earned, which was applied against financial expenses.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

8. CASH FLOWS

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

	2012 (53 weeks)	2011 (52 weeks)
Accounts receivable	**3,530**	883
Inventories	**(13,980)**	(9,770)
Income taxes	**(6,347)**	546
Prepaid expenses	**(1,187)**	995
Accounts payable and accrued liabilities	**(8,963)**	12,475
Other assets and others	**(13,406)**	(2,439)
	(40,353)	2,690

Interest and income taxes paid are as follows:

	2012 (53 weeks)	2011 (52 weeks)
Interest paid	**870**	2,304
Income taxes paid	**11,071**	7,278

The cash position is as follows:

	2012	2011
Cash and temporary investment	**130,852**	45,661
Bank overdrafts and bank loans	**-**	(2,095)
	130,852	43,566

9. INVENTORIES

	2012	2011	2010
Finished goods	**210,882**	192,092	187,233
Raw materials, goods in process and supplies	**57,288**	61,910	43,551
	268,170	254,002	230,784

The cost of goods sold amounting to $3,083,513 (2011 – $2,940,969) mainly comprises the amount of inventories accounted for in expenses.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

10. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings	Equipment	Rolling stock	Total
As at October 31, 2010				
Cost	255,437	669,922	48,061	**973,420**
Accumulated depreciation and amortization	(78,443)	(387,937)	(33,935)	**(500,315)**
Net carrying amount	**176,994**	**281,985**	**14,126**	**473,105**
Year 2011				
Additions	16,326	40,685	3,031	**60,042**
Business acquisition	13,051	11,199	358	**24,608**
Disposals	-	(38)	(68)	**(106)**
Depreciation and amortization	(8,304)	(52,562)	(4,339)	**(65,205)**
Translation adjustment	(1,594)	(5,007)	(19)	**(6,620)**
Balance as at October 29, 2011	**196,473**	**276,262**	**13,089**	**485,824**
Cost	283,144	700,274	49,773	**1,033,191**
Accumulated depreciation and amortization	(86,671)	(424,012)	(36,684)	**(547,367)**
Net carrying amount	**196,473**	**276,262**	**13,089**	**485,824**
Year 2012				
Additions	14,545	57,892	2,359	**74,796**
Disposals	(405)	(896)	(149)	**(1,450)**
Depreciation and amortization	(6,367)	(46,711)	(4,183)	**(57,261)**
Translation adjustment	243	459	-	**702**
Balance as at November 3, 2012	**204,489**	**287,006**	**11,116**	**502,611**
Cost	297,591	745,998	48,071	**1,091,660**
Accumulated depreciation and amortization	(93,102)	(458,992)	(36,955)	**(589,049)**
Net carrying amount	**204,489**	**287,006**	**11,116**	**502,611**

The net carrying amount of property, plant and equipment as at November 3, 2012 includes an amount of $1,498 for equipment under capital leases.

Buildings and equipment include a major work in progress of which an amount of $18,844 is unamortized.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

11. INTANGIBLE ASSETS AND GOODWILL

	Customer relationships	Trademarks, software and other rights	Total intangible assets	Goodwill
As at October 31, 2010				
Cost	42,427	52,573	**95,000**	**108,786**
Accumulated depreciation and amortization	(11,271)	(30,422)	**(41,693)**	**-**
Net carrying amount	**31,156**	**22,151**	**53,307**	**108,786**
Year 2011				
Additions	-	3,659	**3,659**	**-**
Business acquisition	8,507	751	**9,258**	**37,069**
Depreciation and amortization	(5,329)	(5,697)	**(11,026)**	**-**
Translation adjustment	(997)	(422)	**(1,419)**	**(1,801)**
Balance as at October 29, 2011	**33,337**	**20,442**	**53,779**	**144,054**
Cost	49,771	56,421	**106,192**	**144,054**
Accumulated depreciation and amortization	(16,434)	(35,979)	**(52,413)**	**-**
Net carrying amount	**33,337**	**20,442**	**53,779**	**144,054**
Year 2012				
Additions	-	2,970	**2,970**	**-**
Depreciation and amortization	(4,882)	(5,609)	**(10,491)**	**-**
Translation adjustment	167	80	**247**	**391**
Balance as at November 3, 2012	**28,622**	**17,883**	**46,505**	**144,445**
Cost	44,977	55,449	**100,426**	**144,445**
Accumulated depreciation and amortization	(16,355)	(37,566)	**(53,921)**	**-**
Net carrying amount	**28,622**	**17,883**	**46,505**	**144,445**

The useful lives of the intangible assets vary between 4 and 12 years.

The carrying amount of goodwill is allocated to the reporting business units as follows:

	2012	2011	2010
Cheese and Ingredients Division – Canada	**8,556**	8,556	8,556
Division Natrel – Canada	**30,518**	30,518	30,518
Cheese and Ingredients Division – United States	**43,087**	42,927	6,589
Division Natrel – United States	**62,284**	62,053	63,123
	144,445	144,054	108,786

A sensitivity analysis of the recoverable amount is calculated by the Cooperative in order to follow its exposure to a possible impairment. A change in a key assumption could cause the business unit carrying amount to exceed its recoverable amount. For one reporting business unit, the recoverable amount exceeded the carrying amount by $14,300. The net asset value of this unit is $147,300. An increase of 0.75% of the discount rate could cause the business unit carrying amount to exceed its recoverable amount. No impairment loss resulted from the impairment tests made on November 3, 2012, October 29, 2011 and October 31, 2010.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

12. OTHER ASSETS

	2012	2011	2010
Procurement agreements and others	**18,232**	7,998	8,945

13. BANK LOANS

The Cooperative and its subsidiaries have lines of credit to a maximum of $36,881, bearing interest at variable rates and generally not exceeding the prime rate. Bank loans are not secured by any of the Cooperative's assets. In general, the Cooperative's lines of credit are renewable annually.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011	2010
Members	**78,892**	131,803	128,380
Third parties	**303,437**	258,943	244,271
Joint ventures	**292**	301	190
	382,621	391,047	372,841

The decrease of the accounts payable to members as at November 3, 2012 compared to the previous year is mainly attributable to the milk payment calendar.

15. LONG-TERM DEBT

	2012	2011	2010
Obligations under capital leases [1]	**1,623**	3,077	4,544
Other loans of subsidiaries [2]	**1,711**	11,221	-
	3,334	14,298	4,544
Current portion	**2,729**	8,572	1,380
	605	5,726	3,164

[1] Obligations under capital leases bear interest at rates ranging from 8.45% to 8.76%, and mature at various dates until May 2015.

[2] This loan bears interest at a rate of 6.32%.

The Cooperative has a revolving term loan of $400,000 that was unused as at November 3, 2012, which is repayable in July 2016 if no request for an extension is submitted to the lenders and accepted by them. The loan interest rate may vary between the prime rate and the prime rate plus 1.25%. The unused portion of this loan is subject to standby fees.

Principal repayments of the long-term debt to be made over the next years are as follows:

2013	2,729
2014	274
2015	331

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

16. SHARE CAPITAL (in dollars)

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 full text.

Voting rights are restricted to one vote per member. Each member subscribes to one member share, for a par value of $100. Furthermore, each member subscribes to 10 Class M investment shares, whether Series 1 for a par value of $20 each or Series 2 for a par value of $1,000, according to the membership application date. Other Class M investment shares series could be issued later, further to a resolution by the Board of Directors.

Class A investment shares are issued in consideration of patronage dividends. Should a minimum threshold of capital per hectolitre of produced milk fail to be reached, deductions shall be made from the cash payment of patronage dividends and milk deliveries. The minimum threshold of capital per member varies from $5 to $10 per hectolitre, according to the application date and is subject to revision. The Class A investment shares can be transferred to auxiliary members and are also eligible, under certain conditions, for the Registered Retirement Savings Plan, the Cooperative Investment Plan and tax deferral.

On June 19, 2012, the Board of Directors approved the creation of Class B investment shares, Class C investment shares and Class D investment shares, which shares have no voting rights, and cannot be transferred without the Board of Directors approval. Only Classes B, C and D shareholders have the right to receive any dividend declared by the Board of Directors on these shares.

Share capital is variable and unlimited as to the number of shares in each class, except for Classes B, C and D investment shares, which are limited at 10 shares each. Member shares as well as Class A investment shares are redeemable under certain conditions at their par value further to a resolution by the Board of Directors, depending on short-and long-term treasury needs.

17. ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF INCOME TAXES

	2012	2011	2010
Gains (losses) on financial instruments designated as cash flow hedges	**(8)**	247	114
Foreign currency translation adjustment of foreign operations, net of hedging operations	**(33,448)**	(36,812)	(23,588)
Share of accumulated other comprehensive loss of joint ventures	**(37)**	(140)	(23)
	(33,493)	(36,705)	(23,497)

18. FINANCIAL INSTRUMENTS

FAIR VALUE

The carrying amount of short-term 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 current market conditions approximates the carrying amount as at the balance sheet date.

LIQUIDITY RISK

Centralized treasury and financing management allows the Cooperative to reduce liquidity risk. If there is a surplus of liquidity, it is invested in quality short-term instruments.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

CREDIT RISK

Accounts receivable mainly relate to trade receivables generated in the normal course of business. Although there are some major accounts resulting from a certain volume concentration in the food industry, the diversification of customer market segments (retailers, wholesalers, manufacturers, food services) and the extent of the Cooperative's geographical activities reduce credit risk. Moreover, credit risk is reduced by the terms of payment in connection with the relatively fast cycle of product consumption. At year-end, 3% of accounts receivable exceeded normal terms of payment by more than 30 days.

INTEREST RATE RISK

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

FOREIGN EXCHANGE RISK

The Cooperative carries on activities outside Canada, mainly in the United States, via subsidiaries. Consequently, the Cooperative is exposed to risks due to exchange rate fluctuations affecting its net investment in foreign subsidiaries.

During the year ended November 3, 2012, if the U.S. dollar had increased by an average of $0.01 compared to the Canadian dollar, and assuming all other variables remained constant, the impact of this increase on earnings before income taxes would have been marginal, and the impact on comprehensive income would have resulted in an increase of $4,239.

The Cooperative also carries on certain purchasing and selling activities in foreign currencies. The Cooperative hedges against foreign exchange risks for projected future transactions by means of currency forward contracts, mainly in U.S. dollars, euros and pounds sterling. Unrealized foreign exchange gains and losses are recorded initially in comprehensive income and reversed in earnings at the expiry of the contracts. As at the reporting date, the foreign exchange contracts, spread out over periods not exceeding one year, are as follows:

Purchases	US$1,210	
Sales	US$1,204	
Purchases	8,025	euros
Sales	1,638	GBP

MEASUREMENT RISK

Financial instruments recognized at fair value are classified according to the following hierarchy:

a) Level 1: Fair value based on quoted prices in active markets for identical assets.

b) Level 2: Fair value based on data observable either directly or indirectly, other than the quoted prices in Level 1.

c) Level 3: Fair value not based on observable market data.

	Level 1	**Level 2**	**Level 3**	**2012**	2011
Foreign exchange contracts	-	(10)	-	**(10)**	346

OTHER RISKS

Management does not consider the Cooperative to be subject to any other significant financial risk. However, there is the business risk associated with the Cooperative's day-to-day operations.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

19. COMMITMENTS AND CONTINGENCIES

a) Commitments relating mainly to operating leases are as follows: $5,475 for the following year, $11,031 from 2014 to 2017 and $1,351 thereafter.

b) The Cooperative is committed for an amount of $33,825 to purchase property, plant and equipment as part of a project for a plant expansion.

c) 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 are negligible.

20. 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 salary of the last employment years. The pension benefits can be adjusted according to a formula based on the return on plan assets and the consumer price index. Actuarial valuations of the plans are performed every year. The most recent valuations were performed in December 2011.

The net expense is as follows:

	2012 (53 weeks)	2011 (52 weeks)
Defined contribution plans		
Net expense	**11,828**	10,885
Defined benefit plans		
Current service cost	**4,351**	3,373
Interest cost on accrued benefit obligation	**5,170**	5,169
Projected return on plan assets	**(5,117)**	(4,999)
Net expense	**4,404**	3,543

The information on defined benefit plans is as follows:

	2012	2011
Plan assets		
Fair value – beginning of year	**87,842**	86,105
Projected return on plan assets	**5,117**	4,999
Employer contributions	**7,576**	6,854
Employee contributions	**927**	935
Benefits paid	**(3,715)**	(6,174)
Actuarial gains (losses)	**211**	(4,877)
Fair value – end of year	**97,958**	87,842

The above contributions approximate total cash payments. Equity securities represented 53% (2011 – 55%) of total plan assets, invested mainly in Canada.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	2012	2011
Accrued benefit obligation		
Balance – beginning of year	**105,649**	92,610
Current service cost	**4,351**	3,373
Interest cost	**5,170**	5,169
Employee contributions	**927**	935
Benefits paid	**(3,715)**	(6,174)
Actuarial losses	**15,785**	9,736
Balance – end of year	**128,167**	105,649

	2012	2011	2010
Pension plan obligation			
Funding status – plan assets net of obligation (deficit)	**(30,209)**	(17,807)	(6,505)
Impact of asset ceiling test	**-**	(39)	(563)
Pension plan obligation	**(30,209)**	(17,846)	(7,068)

For pension plans with an accrued benefit obligation that is in excess of assets, the accrued benefit obligation is $107,892 (2011 – $89,652) and the assets are $77,023 (2011 – $68,928).

Actuarial losses are accounted for in other comprehensive loss and are as follows:

	2012	2011
Actuarial losses for the year	**(15,574)**	(14,613)
Impact of asset ceiling test	**39**	524
Amount accounted for in other comprehensive loss	**(15,535)**	(14,089)
Balance – Beginning of year	**(14,089)**	-
Balance – End of year	**(29,624)**	(14,089)

	2012	2011	2010
Weighted average assumptions			
Accrued benefit obligation			
Discount rate	**4.00%**	4.75%	5.50%
Long-term inflation rate of salary expense	**4.00%**	4.00%	4.00%
Net benefit expense for the year			
Discount rate	**4.75%**	5.50%	
Expected return on plan assets	**6.50%**	6.50%	
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. Based on available information, these plans are accounted for as defined contribution plans. Contributions for the year amounted to $1,501.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

21. RELATED PARTIES

SUBSIDIARIES AND JOINT VENTURES

The main subsidiaries and joint ventures of the Cooperative are as follows:

		% owned	
	Country of incorporation	**2012**	2011
Agropur inc.	United States	**100%**	100%
Ultima Foods Inc.	Canada	**50%**	50%
La Lácteo	Argentina	**50%**	50%

The main activity of these subsidiaries and joint ventures is milk processing.

During the year, the Cooperative purchased $42,143 (2011 – $40,635) in raw materials and finished goods from its joint ventures.

KEY MANAGEMENT PERSONNEL COMPENSATION

Compensation of the members of the Board of Directors and key management personnel is broken down as follows:

	2012 (53 weeks)	2011 (52 weeks)
Salary and other benefits	**8,422**	8,971
Post-employment benefits	**967**	682
	9,389	9,653

22. TRANSITION TO IFRS

For the year ended November 3, 2012, the Cooperative's annual financial statements were prepared for the first time in accordance with IFRS as issued by the IASB. The financial statements for the year ended October 29, 2011 and the opening balance sheet as at October 31, 2010, were restated in accordance with IFRS 1, "First-Time Adoption of International Reporting Standards". The impact of restatements was recognized directly in the reserve.

IFRS 1 requires first-time adopters to apply all IFRS retrospectively. However, there are certain exemptions for which choices must be made.

ELECTIONS UPON FIRST-TIME ADOPTION OF IFRS

Business combinations
Management has elected to apply IFRS 3, "Business Combinations", prospectively to acquisitions made prior to the transition date, namely October 31, 2010. As a result, the net carrying amount of goodwill under the previous basis of accounting was carried forward to the balance sheet as at October 31, 2010.

Property, plant and equipment and intangible assets
The accounting principles for the recognition and measurement of property, plant and equipment and intangible assets under Canadian GAAP are similar to those prescribed under IFRS. In the Cooperative's opinion, the net carrying amount of property, plant and equipment and intangible assets determined under Canadian GAAP is equivalent to the net carrying amount of these assets if the Cooperative had always applied IFRS. Consequently, the Cooperative elected not to use fair value as deemed cost.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Employee benefits
With regard to defined benefit plans, IFRS 1 provides the option of recognizing all actuarial differences that existed at the transition date in the reserve of the opening balance. The Cooperative elected to avail itself of this option.

Cumulative translation differences
IFRS 1 permits cumulative translation differences resulting from the translation of monetary and non-monetary items from net foreign investments to be reset to zero as at the transition date. The Cooperative elected not to avail itself of this option.

RECONCILIATIONS WITH CANADIAN GAAP

The following tables present the reconciliations of members' equity, net earnings and comprehensive income under Canadian Generally Accepted Accounting Principles and IFRS:

	Members' equity	
	October 29 2011	October 31 2010
Members' equity under Canadian GAAP	863,432	777,553
Restatements under IFRS:		
Business acquisition-related costs (b)	(600)	-
Employee future benefits (c)	(41,866)	(28,428)
Amortization of goodwill (d)	13,296	-
Income taxes on restatements relative to subsidiaries (b and d)	(1,914)	-
Share of comprehensive loss of joint ventures (f)	(1,028)	(901)
Cooperative's income taxes relative to restatements (c and d)	10,172	7,633
Translation adjustement related to restatements	25	-
Members' equity restated under IFRS	841,517	755,857

	Net earnings	**Comprehensive income**
2011 under Canadian GAAP	43,351	30,118
Restatements under IFRS:		
Business acquisition-related costs (b)	(600)	(600)
Employee future benefits (c)	715	715
Amortization of goodwill (d)	13,296	13,296
Income taxes on restatements relative to subsidiaries (b and d)	(1,914)	(1,914)
Share of comprehensive loss of joint ventures (f)	536	(127)
Actuarial gain (loss) on accrued benefit obligation (c)	-	(14,153)
Cooperative's income taxes relative to restatements (c and d)	(1,063)	2,539
Translation adjustment related to restatements	-	25
2011 under IFRS	54,321	29,899

Cash flows
For cash flows, patronage dividends payable in cash were reclassified to operating activities. Share issuances and redemptions were grouped under financing and share capital activities. The change in accounting policy for joint ventures also had an impact, as described below.

CHANGES IN ACCOUNTING POLICIES REQUIRING RESTATEMENT

a) Interests in joint ventures

According to IAS 31, interests in joint ventures are accounted for using the equity method or the proportionate consolidation method.

According to CICA Handbook Section 3055, "Interests in Joint Ventures", interests in joint ventures were previously accounted for using proportionate consolidation.

In compliance with IAS 31, the Cooperative elected to apply the equity method and restate the 2011 financial statements, as well as the opening balance sheet as at October 31, 2010, which had no impact on net earnings, comprehensive income and members' equity, but did change all financial statement items. Under proportionate consolidation, each financial statement item included the joint ventures share. Under IFRS, using the equity method, the interest in joint ventures is accounted for in investments.

b) Costs associated with a business acquisition

According to IFRS 3, "Business Combinations", costs associated with the acquisition must be recognized in the statement of earnings. Acquisition costs include, among other things, legal, accounting and valuation fees.

According to CICA Handbook Section 1581, "Business Combinations", costs associated with the acquisition were previously recognized as business combination costs.

In compliance with IFRS 3, the Cooperative restated its 2011 financial statements, which reduced goodwill by $600, increased deferred income tax assets by $235 and reduced net earnings and comprehensive income by $365.

c) Employee future benefits, defined benefit plans

Measurement date

Under IAS 19, "Employee Benefits", accrued benefit assets and obligations are measured as at the balance sheet date.

In accordance with Canadian standards, the Cooperative had previously set the measurement date for three months before the balance sheet date.

In accordance with IAS 19, the Cooperative adopted the balance sheet date as the measurement date and restated the 2011 financial statements, as well as the opening balance sheet date as at October 31, 2010.

Actuarial gains and losses

Under IAS 19, actuarial gains and losses are to be recorded either in other comprehensive loss and accumulated in equity, or directly in earnings, or deferred and amortized in earnings using the corridor method, being the greater of 10% of the asset or obligation, depending on the average remaining years of service of employees.

In accordance with Canadian standards, the Cooperative previously amortized actuarial gains and losses using the corridor method, which corresponds to the method described in IAS 19.

In accordance with IAS 19, the Cooperative elected to record actuarial gains and losses in comprehensive income and accumulate them in the reserve. The 2011 financial statements and opening balance sheet as at October 31, 2010 were restated to reflect this change in accounting policy.

Past services

Under IAS 19, past service costs resulting from the implementation or an amendment to a plan are charged directly to earnings.

In accordance with Canadian standards, the Cooperative previously amortized past service costs in earnings as at the eligibility date over a term corresponding to the remaining years of service.

These changes in accounting policy related to future employee benefits had an impact on the opening balance sheet as at October 31, 2010. They increased pension plan obligation by $28,428, and reduced deferred income tax liabilities by $7,633. For the 2011 fiscal year, the changes increased pension plan obligation by $41,866, reduced deferred income tax liabilities by $11,046, increased net earnings by $526, and reduced comprehensive income by $10,025. The impact of these changes on investments is presented above in section f) Joint ventures shares of comprehensive income.

d) Amortization of goodwill

In accordance with IAS 38, "Intangible Assets", goodwill is not amortized, but tested for impairment annually. In compliance with IAS 38, the Cooperative restated its 2011 financial statements, which increased goodwill by $13,296, modified deferred income tax by $3,023 and increased net earnings and comprehensive income by $10,273.

Under Canadian GAAP, goodwill was previously amortized, as required for cooperatives.

e) Deferred income taxes

According to IAS 12, "Income Taxes", deferred income tax assets and liabilities are classified as long-term items. The Cooperative reclassified short-term deferred income taxes to long-term deferred income taxes.

Under Canadian GAAP, deferred income tax assets and liabilities were previously classified as short-term or long-term depending on the nature of the temporary difference.

f) Joint ventures share of comprehensive income

The application of IAS 19, "Employee Benefits", to joint ventures decreased the investments by $901 as at October 31, 2010.

The application of IAS 38, "Intangible Assets", and IAS 19, "Employee Benefits", to joint ventures decreased the investments by $1,028, increased the share of joint ventures' net earnings by $536 and reduced the share of joint ventures' comprehensive income by $127 in the 2011 fiscal year.

Agropur cooperative

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

Cheese and Ingredients Division

510 Principale Street
Granby, QC J2G 7G2
450 375-1991

Fine Cheese Business Unit

4700 Armand-Frappier Street
Saint-Hubert, QC J3Z 1G5
450 443-4838

Division Natrel

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

Ultima Foods Inc.*

2177 Fernand-Lafontaine Blvd.
Longueuil, QC J4G 2V2
450 651-3737

La Lácteo*

Camino Cap. de los Remedios, km 5.5
5020 Ferreyra, Cordoba
Argentina
0351 4976010

Appearing in photos:

On page 11: Annie Dubeau, R&D Technologist at the Research and Development Centre in Saint-Hubert (Quebec). Agropur employee since 1999.

On page 13: Claude Charbonneau, Laboratory Operations Coordinator at the R&D Centre in Saint-Hubert (Quebec). Agropur employee since 2006.

On page 14: Luc Petit, Packing Machine Operator at the fine cheese plant in Saint-Hyacinthe (Quebec). Agropur employee since 1999.

On page 17: Mark O'Brien, Forklift Operator at the Distribution Centre in Saint-Hubert (Quebec). Agropur employee since 1998.

On page 18: Members of the OHS Committees from Lethbridge (Alberta) and Maplewood (Minnesota) during the annual OHS meeting. From left to right: Brandon Chow, Michel Houenagnon, Jessica Gappa, Jenny Gubash and Les Barat.

On page 21: From left to right: Nathalie Conchon, Risk Analysis and Internal Audit Manager, and Marie-Hélène Gauthier, Internal Audit Project Manager. Agropur employees since 2011 and 2012, respectively.

* Joint venture

Graphic design: lg2boutique
Graphic production: lg2fabrique
Photographer: Luc Robitaille
Printed in Canada

agropur