

# IAM

---

ANNUAL REPORT 2011



---

PROUD TO BE CELEBRATING  
THE INTERNATIONAL YEAR OF COOPERATIVES



**SALES**  
(in millions of dollars)



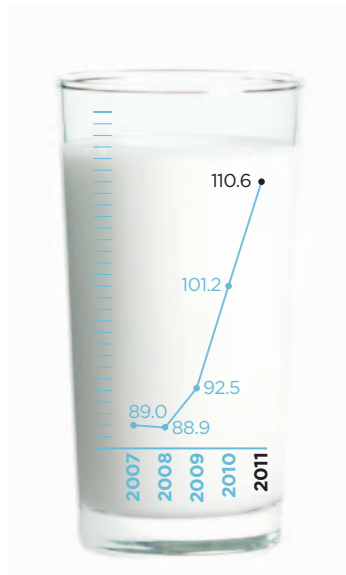
**MILK PROCESSED**  
(in millions of litres)



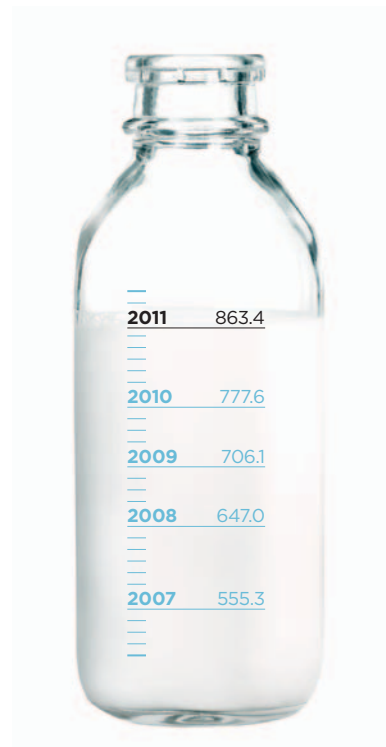
**EBITDA**  
(in millions of dollars)  
Earnings before patronage dividends, interests, taxes, depreciation and amortization and gain on disposal of assets



**EARNINGS BEFORE PATRONAGE DIVIDENDS**  
(in millions of dollars)



**PATRONAGE DIVIDENDS**  
(in millions of dollars)



**EQUITY**  
(in millions of dollars)

# AGROPUR, A MAJOR PLAYER IN THE BURGEONING COOPERATIVE MOVEMENT.

2012 WILL BE A SIGNIFICANT YEAR FOR COOPERATIVES FROM ALL OVER THE WORLD, AS THE UNITED NATIONS (UN) HAS DECLARED 2012 TO BE THE INTERNATIONAL YEAR OF COOPERATIVES. THIS INITIATIVE CONSTITUTES A RECOGNITION OF THE CONTRIBUTION THAT COOPERATIVES MAKE TO SUSTAINABLE DEVELOPMENT, THE ELIMINATION OF POVERTY, JOB CREATION, SOCIAL INTEGRATION, AND THE CREATION OF MEANS OF SUBSISTENCE IN DIVERSE ECONOMIC SECTORS IN BOTH RURAL AND URBAN AREAS.

---

Approximately 1 billion people on the planet have chosen this original and human-centred type of organization, to the benefit of numerous owner-members and their employees. In 2012, the cooperative movement will be mobilized around the world, thanks in large part to a major event that is intended for leaders, decision makers, and influential stakeholders involved in the cooperative sector, namely the International Summit of Cooperatives, which will be held in Quebec City from October 8 to 11, 2012, under the theme "The Amazing Power of Cooperatives."

Agropur is proud of its roots and its cooperative model, which has been promoting long-term development based on solidly anchored principles and values for 74 years. Over the years, the Cooperative has remained true to its dairy-based identity, and has enjoyed growing prosperity. Agropur is very proud to be an active participant in activities marking the International Year of Cooperatives.



---

## CHAIRMAN'S MESSAGE

The 2011 fiscal year is ending on a very high note, as has been the case in recent years. We continue to bank on expansion in order to ensure the long-term development of our organization, whether in Canada, the United States, or South America. Agropur remains a major economic player in the communities where it has established operations. Over and above any acquisitions that might materialize in the coming years, we plan internal investments in excess of half a billion dollars, mainly in new processing capacity, over the next three years alone.

Among this year's highlights, Agropur submitted a **brief to the Commission on Agriculture, Fisheries, Energy and Natural Resources** in September, in response to the tabling of the Quebec government's Green Paper for a Quebec Agri-Food Policy earlier in the summer. The brief was submitted with a view to seeking to contribute our reflections on certain topics that we considered to be important, such as the problem of support for the leaders in the food processing industry in Quebec, issues related to the dairy supply in Canada, and issues related to the administration of the joint plan of the milk marketing activities.

Renewal of the **Yoplait license** is also one of the files to which we devoted a great deal of attention during this past year. This renewal constitutes a major issue in terms of the Cooperative's future in the Canadian yogurt and fresh dessert market. The Board of Directors is convinced that the organization must continue its activities in this Canadian market, even if it means launching its own brand. In addition, the members of the Cooperative made it clear during the regional meetings that were held in November and December 2011 that they support this decision.

Another topic of interest for our Cooperative continues to be issues related to **milk supply**, which is an ongoing concern for Agropur. Regardless of the system in effect in each of the countries where we have plants, we must take the necessary measures to ensure that they are properly supplied in order to guarantee continuity with respect to our activities.

In the United States, we continue to monitor the debate surrounding the reform of the U.S. dairy policy in connection with the renewal of the Farm Bill. The proposals that are currently under study could significantly change the pillars of this policy as the United States becomes an increasingly important player in dairy product export markets.

The negotiations process at the World Trade Organization (WTO) did not move forward this year, and it appears obvious that the current round of negotiations is headed for failure. At the same time, we are keeping a watchful eye on the evolution of bilateral free trade agreements, such as the Asia-Pacific agreement and the agreement between Canada and Europe, which is expected to be concluded in 2013. We are closely monitoring the outcomes of these negotiations.

I would like to take this opportunity to pay a final tribute to R. Claude Ménard, who passed away on May 6, 2011. Mr. Ménard was a builder at Agropur from the time when he first joined us in 1981 to his retirement in 2003. After having occupied a number of positions over the years, he made the jump to Chief Executive Officer in 1989. Mr. Ménard, in particular because of his leadership, had a profound impact on the evolution of the Agropur Dairy Cooperative, and I thank him for that.

2012 kicks off with the **International Year of Cooperatives**, as declared by the United Nations (UN). To mark the occasion, we have developed a communication plan comprising a variety of components aimed primarily at enhancing the Cooperative's visibility in Canada. We also plan to participate in the 2012 International Summit of Cooperatives as a major sponsor. This will afford us the privilege of getting together with hundreds of leaders from major cooperatives around the world in October 2012.

This special year for cooperatives across the globe was our inspiration for the theme of this 2011 Annual Report, which is a reminder of how each person who participates in the activities of a cooperative is a crucial element in terms of its smooth operation, long-term survival and its growth and development.

THIS COLLECTIVE PROJECT IS TAKING SHAPE EVERY DAY AT AGROPUR, THANKS TO ITS MEMBERS AND EMPLOYEES AS THEY ALL PULL IN THE SAME DIRECTION TO FULFILL THE MISSION AND VISION OF THE COOPERATIVE. THIS SAME COLLECTIVE SPIRIT INSPIRED THE CONCEPT "I AM... I AM AGROPUR" THAT WAS DEVELOPED FOR THIS ANNUAL REPORT.

Turning to a different topic, after more than 30 years of good and faithful service, including eight years as Chief Executive Officer, Pierre Claprood informed us earlier this year of his wish to retire. His work played a determining role for our Cooperative, thanks to his commitment and his competencies, among other qualities. He moved our Cooperative forward, made it more profitable, and helped to position it strategically in order to ensure its long-term survival. We can all be proud of his outstanding contribution. Under his stewardship, our cooperative has grown from sales of \$1.9 billion to more than \$3.6 billion while maintaining excellent financial health. Also during his tenure, we truly became established in the United States and Argentina. I would like to express my thanks to Mr. Claprood, who leaves behind a business that is in position to continue its development. Pierre, you can retire on March 1, 2012, with the well-deserved sense of having accomplished great things.

In conclusion, on behalf of the Board of Directors, I would like to thank the members of Agropur for their ongoing commitment to their Cooperative, and congratulate our Chief Executive Officer, Pierre Claprood, the members of the Management Committee, and all of Agropur's employees for the excellent results that we achieved during the 2011 fiscal year.



SERGE RIENDEAU  
Chairman



---

## CHIEF EXECUTIVE OFFICER'S MESSAGE

The financial year that is coming to an end was primarily highlighted by another acquisition in the United States and numerous investments in our existing installations. This past fiscal year ended with sales in excess of \$3.6 billion, 25.9% of which was generated through our activities outside of Canada, along with earnings before patronage dividends and income taxes in the amount of \$164.8 million.

It is in December 2010 that we completed the acquisition of Main Street Ingredients, a company located in La Crosse, Wisconsin, that specializes in dairy ingredients. We now have a strong asset base in the United States, especially in the cheese and ingredients sectors, which will allow us to benefit from the growth in the American market or the export market. In addition, we plan to build on these assets through other acquisitions and through significant new internal investments to increase our processing capacity in order to solidify our market position.

Total sales from our cheese divisions increased in 2011, rising 17.0%, with 36.3% of sales coming from the United States. This increase is mainly due to the contribution of Main Street Ingredients and Hull (Iowa) plants, as well as the rising price of dairy products in 2011, particularly in the United States.

During the past year, we began to reap the benefits of our investments in the Cheese and Ingredients Division plants in Lethbridge, Alberta, where capacity was increased, and in Hull, Iowa, where whey processing equipment was installed and cheese production was launched. The Division has embarked on a major investment phase with a view to increasing its cheese production capacities, as well as modernizing some of its equipment. Agropur will continue to invest in the Lethbridge plant in 2012 in order to increase its production capacity by 50%, and will undertake a major project at its Luxemburg, Wisconsin, plant in order to triple its existing capacity. In addition, other projects on the same scale are under study for most of the cheese plants, in particular in Weyauwega, Wisconsin, and Hull, Iowa.

As for the Fine Cheese Division, sales increased by 3.4%, with a 0.5% increase in volume. Competition remains strong, which puts pressure on prices and underlines the importance of keeping up the pace of development of new products that respond to the needs of our customers.

We have made a number of investments in plants of the Fine Cheese Division with a view to making certain products available on a fixed-weight basis and in new packaging in order to better meet the needs of customers. In addition, other investments were made in order to implement the new agreement with Bel Cheese to produce and market the Boursin product line. This new production has been carried out at the Saint-Hyacinthe plant since January 2011.

With respect to milk consumption, Division Natrel has seen a slight Canadian sales decline of almost 1%, which is mainly attributable to the regular white milk category. Sales in U.S. dollars at Division Natrel USA increased by 4.3%.

Division Natrel opened its new warehouse in Delta, BC, in 2011, thanks to an investment of \$6.9 million. This warehouse was custom-built to meet Agropur's current and future needs in terms of warehousing and distribution in Western Canada, and has an area that is almost triple that of the former location. The new warehouse in Delta will be a real distribution hub for many of the Cooperative's products, including Island Farms, Natrel, Yoplait, and fine cheeses.

The Natrel brand underwent a repositioning over the past year, and its image has been updated. The Marketing team is also working on developing new products. In fact, in addition to the two product launches that were carried out in 2011 for Natrel Lactose Free cream and Natrel Dark Chocolate and Milk Chocolate milks, the Division introduces a new category at the beginning of 2012 with the launch of Baboo, a dairy product aimed at toddlers. This new product, which carries the Natrel name, is targeted at growing kids aged 12 to 24 months. In addition, the

Division has started to introduce the Natrel brand on its products in the United States, most notably on Dyna Moo, a new shelf-stable single-serving milk beverage that was launched during the year.

Agropur Division Natrel is preparing to unveil a major investment project to replace certain IT applications. The billing and delivery system, which was developed internally in the early 1990s and has been updated regularly since then, has seen its day.

With respect to corporate services, Agropur announced a major project of building a new central analysis laboratory on the same site as the other workplaces located in Saint-Hubert (Quebec). This project was launched because of the increasing demand for this service, which rose from approximately 50,000 to 500,000 analyses per year over a period of almost 30 years. The laboratory, which was built in Granby in 1982 and which has not undergone any expansion or significant modification since then, has become inadequate. This \$9.5 million construction project should be completed in the fall of 2012.

As regards to the Ultima Foods joint venture, the question of renewing the Yoplait license still commands our attention. As already mentioned, we intend to remain active in this business sector. Two options present themselves: renew the license, or launch our own brand. Faced with the increasingly obvious alternative of not renewing the license, we have developed the brand launch scenario in some detail. We will thus be ready at the opportune moment.

As for our joint venture in Argentina, La Lácteo, the results continue to be lower than expected, but we still believe in the business potential of South America, which is one of the most competitive milk production areas in the world, and an ideal platform for exporting dairy products to international markets. At the current time, our joint venture's operations lack the critical

mass and flexibility required to deliver the desired profitability and to take full advantage of the business opportunities in the domestic and international markets. In order to overcome this problem, we are working on a plant development project that would be carried out in collaboration with our partner Adecoagro, at a cost of \$100 million for the first phase.

Overall, **quality** was a focus of attention in 2011. Many of our teams expended significant efforts to ensure that all of our workplaces are in compliance with the GFSI (Global Food Safety Initiative), an accreditation that is endorsed by the world's major food distributors. More than our results or our business strategy, it is the consumer who is at the centre of our concerns. Our daily mission continues to be the delivery of a healthy, high-quality product, because we all know that there is no market leadership without quality leadership. Quality is the bread and butter of the agri-food industry and Agropur has always kept this consideration front and centre. We are committed to maintaining high levels of performance in this area.

In 2009, Agropur conducted a survey to measure the **level of engagement** of its employees. The results of this survey showed that we are at the North American average, which we believe can certainly be improved. In an effort to accomplish this, more than 150 employees actively participated in committees within the organization to find solutions that would better stimulate engagement in our workplaces. This work led to the adoption of some 78 ideas that were implemented or are in the process of being implemented. In order to determine whether these actions have been sufficient, we will be conducting a new survey among all Agropur employees in the spring of 2012. This will give us an up-to-date diagnosis of the level of engagement among our employees, which will allow us to adjust our approach accordingly.



All of the emphasis that was placed on **occupational health and safety (OHS)** in recent years, including the Zero Accidents objective, allows us to affirm that the Cooperative now has an OHS culture that pervades all of its workplaces. With the well-being of its employees at heart, Agropur wants to see all of them returning home safe and sound after their shifts each day so that they can enjoy their personal lives to the fullest.

In 2011, we recorded the lowest number of accidents involving lost time in the last 10 years. Overall, the total number of accidents declined for the third consecutive year. These results demonstrate that the Zero Accidents objective is achievable. If other large organizations have succeeded, we can too. We only need to look at everything that has been accomplished in this area in the last 10 years to see that we are on the right track.

The **environment** continues to be a matter of concern for the organization. On top of Agropur's environmental policy and the environmental committees that have been in place since 2005 for the purpose of ensuring compliance with increasingly stringent regulatory requirements, the Cooperative has launched a number of initiatives, particularly in the areas of recycling, reduction of packaging, air quality, and energy conservation. In addition to these investments, our employees are increasingly active and involved in environmental projects at the local level. There are also a number of committees that develop structured annual plans that incorporate creative projects. If everyone contributes to protecting the environment, future generations can only benefit from it.

In conclusion, our overall results are positive, and we are maintaining a financial capacity that favours the growth of our organization. In light of this, we expect to continue our expansion strategy over the coming years. If we are to ensure the long-term development of the Cooperative, we must also continue to grow

at our own pace to attain the critical mass that will allow us to continue to be a relevant player in a global dairy industry in full consolidation mode. In addition to allowing us access to more resources, both human and financial, expansion brings us new ideas and experiences arising from new acquisitions and from the organization's entry into new markets. As a bonus, we are also better prepared to cope with issues related to the exchange rate, the price of milk, etc. In addition, Agropur will be better positioned to take advantage of business opportunities arising out of the growth of the international dairy industry.

For me, this was my last full year at the helm of this organization, to which I have dedicated many years of my professional life. I have derived immense pleasure and pride from seeing Agropur grow and become a leader in its sphere of activities over the last 30 years, and most of all, from seeing this Cooperative make its way beyond the borders of Quebec first, and later the Canadian border.

I would like to close by sincerely thanking our Chairman, Serge Riendeau, for his advice and support over the years, and all of the members of the Board of Directors and the Management Committee, along with all of the members of Agropur, for their trust and support, and our employees for the passion and expertise that they demonstrate on a continuous basis. Thanks to all of your efforts, the Cooperative remains in excellent position and continues to grow.

**Long live Agropur!**



**PIERRE CLAPROOD**  
Chief Executive Officer

SERGE RIENDEAU (E.C.)<sup>1</sup>◀

Chairman  
Estrie  
1991



RENÉ MOREAU (E.C.)◀

Bois-Francs  
1998



BOARD OF  
DIRECTORS

▶JEAN FILIATRAULT (E.C.)

Acton  
1993



▶DANIEL LAMY

Berthier/Maskinongé  
2004



▶RENÉ GRIMARD (E.C.)

Vice-Chairman  
Des Appalaches  
1995



▶DANIEL GAGNON

Est du Québec  
2008



MICHEL COUTURE (E.C.)

De L'Érable  
2001



▶LUC CHASSÉ<sup>1</sup>

Des Seigneuries  
2006



▶ROGER MASSICOTTE<sup>1</sup>

Mauricie/Portneuf  
2003



LORNA JEAN NEVEU

Laurentides/Lanaudière  
1996



ROBERT COALLIER◀

Guest Member of the  
Board of Directors and  
of the Audit Committee  
2009



GAÉTAN JODOIN<sup>1</sup>

Granby  
1996

▶VITAL VOULIGNY◀

Lac Saint-Pierre  
2007



▶JEAN-PIERRE LACOMBE<sup>1</sup>

Yamaska  
2007



DARIE GAGNÉ

Chaudière  
1997



CÉLINE DELHAES◀

Salaberry  
2011



Legend  
Director/  
Administrative region/  
Year elected to the Board  
(E.C.) Executive Committee members

<sup>1</sup>Directors whose term expires in 2012,  
but who can be re-elected.

PIERRE CLAPROOD ◀

Chief Executive Officer



MANAGEMENT  
COMMITTEE

▶ LORRAINE BÉDARD

Corporate Secretary  
and Vice-President  
Member Relations



▶ BENOIT GAGNON

Executive Vice-President  
Global Development



▶ JOCELYN LAUZIÈRE

Chief Financial Officer



SERGE PAQUETTE ▼

President  
Division Natrel



JEAN BRODEUR ◀

Vice-President  
Communications and  
Public Relations

▶ ROBERT GOUR

President  
Fine Cheese Division



▶ LOUIS LEFEBVRE

President  
Cheese and Ingredients  
Division



SCOTT MCDONALD ◀

Corporate Vice-President  
Human Resources



▶ MICHEL ST-LOUIS

Vice-President  
Legal Affairs





I AM  
MORE  
THAN A  
PRODUCER



---

## COOPERATIVE IDENTITY

**A COOPERATIVE IS AN AUTONOMOUS ASSOCIATION OF PERSONS UNITED VOLUNTARILY TO MEET THEIR COMMON ECONOMIC, SOCIAL, AND CULTURAL NEEDS AND ASPIRATIONS THROUGH A JOINTLY OWNED AND DEMOCRATICALLY CONTROLLED ENTERPRISE.**

An organization can be identified as a cooperative when the member-user is the focal point of its activities. Therefore, the members own the cooperative and hold its capital, and they exercise democratic control over the organization through voting rights based on membership rather than held capital (i.e.: one member, one vote). The final but no less significant element is related to the fact that the members share the surplus in accordance with their activities within the cooperative, and the link between the member and the cooperative is based on the member's use of the cooperative or the member's need that is met by the existence of the cooperative. A cooperative is created to respond to the economic, cultural, or social needs expressed by its members-users. This is why millions of people on the planet have chosen this unique type of organization, which focuses on human activity.

This distinguishing feature of cooperatives manifests itself in a variety of ways, such as the **principles and values** as stated and revised by the International Cooperative Alliance (ICA) in 1995. Cooperatives around the world are united by these principles and values.

### Cooperative principles:

- Voluntary and open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training and information
- Cooperation among cooperatives
- Concern for community

### Cooperative values:

- Democracy
- Solidarity
- Equity
- Equality
- Individual and collective self-responsibility

At Agropur, as in many other cooperatives, the cooperative principles and values are implemented on a daily basis, and are expressed in a variety of ways. Agropur's members, employees, and external partners are able to work in an environment where these cooperative principles and values prevail.

More specifically, since 2000, the **manner in which new members join** Agropur has been determined by the desire that the members expressed with respect to this topic during the 2002 and 2007 Strategic Reflection sessions. In addition, Agropur members exercise **democratic power** on the basis of one member, one vote according to the existing structure, which has been in place since

1949. This structure and Agropur's associative life have been and continue to be factors in its success. This model has proven itself, and is often cited as an example by other cooperatives.

**Agropur's members participate in the capitalization** of the Cooperative. Thanks to an original formula that has been in place for many years, the organization can more easily generate annual patronage dividends that are distributed to the members in the form of cash and Class A investment shares, based on the annual milk deliveries of the members. Once again, Agropur sets itself apart with a formula that rewards the work of its members and ensures their long-term involvement.

The members of Agropur manage the affairs of the Cooperative through a Board of Directors, in compliance with guidelines that they establish, without outside interference. This collective self-responsibility is based on the commitment of individuals to the common good. Through this **autonomy and independence**, the members and the Board of Directors exercise democratic power for the benefit of the members. In addition, numerous **education, training, and information** activities are organized for members in order to facilitate their participation in the decisions and the strategic direction of the Cooperative.

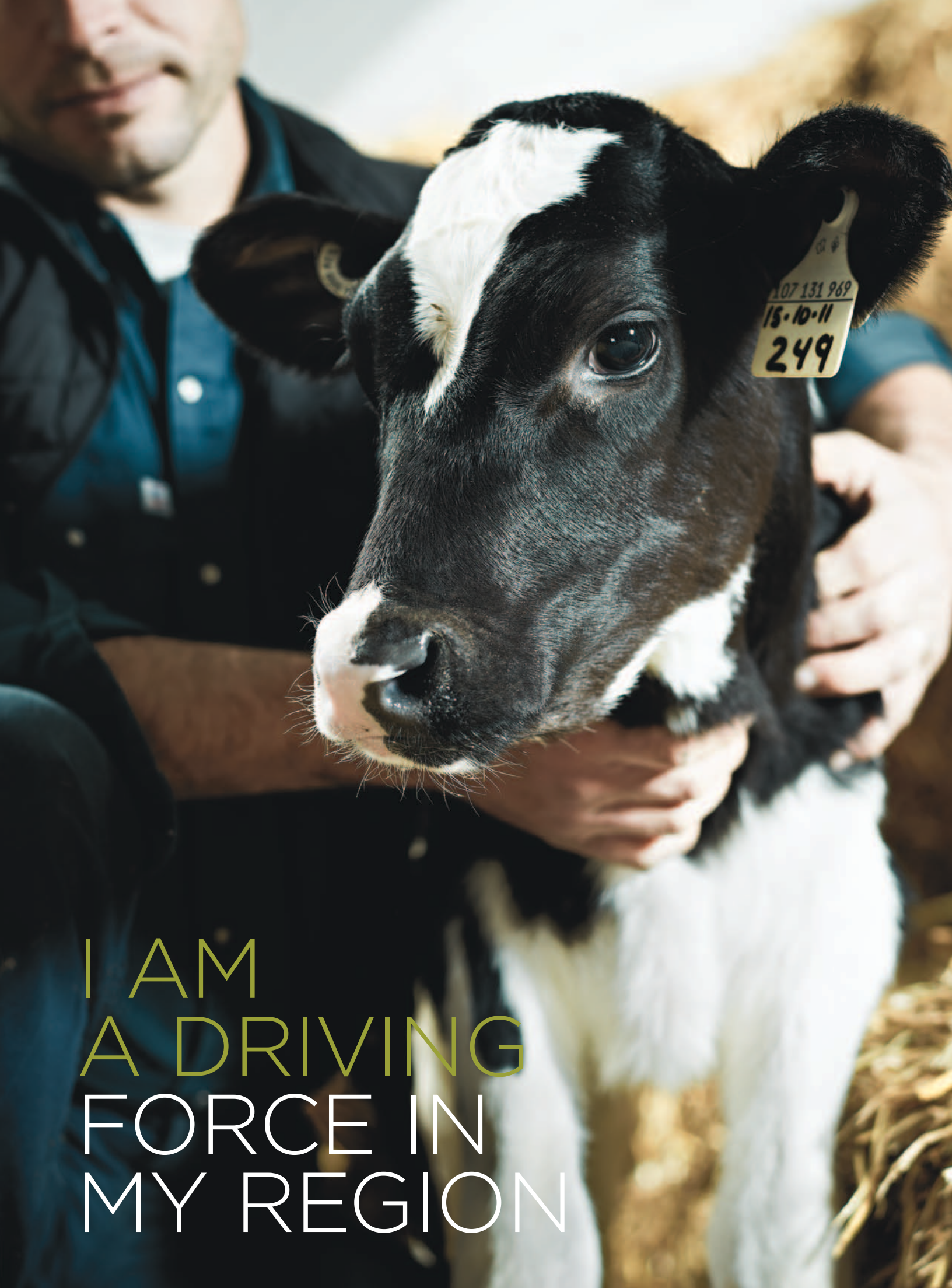
Agropur is steadfast in applying another important cooperative principle, namely **cooperation with other cooperatives**, in particular through its international commitment to **SOCODEVI (Société de coopération pour le développement international)**<sup>1</sup>, an agency whose mission is to support the cooperative movement in many sectors of the economy, and especially agri-food. Agropur has been a SOCODEVI partner since the creation of the organization 26 years ago, and this has given Agropur an opportunity to put its cooperative and industrial experience to work in a number of developing countries.

In addition to being **concerned for the communities** in which it operates, which is the final cooperative principle, Agropur supports many causes through its donation and sponsorship program, including the Fondation OLO, the Club des petits déjeuners du Québec, and the Breakfast Clubs of Canada, to name just a few.

The members of Agropur hold the capital of the Cooperative in the form of various classes of investment shares. In 2011, this capital accounted for 42.0% of assets. When the financial results allow, as they have for many years now, the members receive a patronage dividend based on their volume of sales within the Cooperative. This patronage dividend is directly related to the milk delivered and produced by the member farm. **Therefore, the link between an Agropur member and the Cooperative is based on milk production on the member's farm.**

Every cooperative establishes its identity on the basis of cooperative principles and values, and on the basis of its history, the challenges that it has faced, and the approaches that it takes to resolve various issues. Since 1938, Agropur's cooperative identity has manifested itself in many ways, and most notably in the form of its strong ties with its members based on its vocation as a dairy producer.

<sup>1</sup> A network of cooperatives for international development



I AM  
A DRIVING  
FORCE IN  
MY REGION





# I AM MORE THAN AN ADVISOR

---

## ASSOCIATIVE LIFE

Agropur did not become the cooperative that it is today by chance. Its development is based on solid foundations rooted in its history and its cooperative DNA. One component of this is associative life, which has carried forward year after year since 1938 for the benefit of members and their respective farms. Associative life at Agropur constitutes the framework within which its democratic structure expresses itself throughout the year. This structure is based on the principle of one member, one vote, and has been in place since 1949.

The Solidarity Committee, which includes all of Agropur's directors, is responsible for the smooth functioning of the associative life. This approach helps to establish a clear demarcation between the time that must be devoted to issues related to associative life during its meetings, and the time that must be devoted to the administration and development of the Cooperative during meetings of the Board of Directors. This original formula is unique to Agropur. In addition to enhancing the relationship between members and their representatives, it also helps to distinguish between the roles and responsibilities of the directors and those of the management teams.

---

### SUCCESSION INTERNSHIPS

The dynamic nature of associative life continues to be a great strength for the Cooperative. Over and above its regular activities, which allow it to reach all of the members five times a year,

internship programs at the provincial and interprovincial levels also provide opportunities to increase the number of contacts with members of the Cooperative and their families.

One concrete example of Agropur's focus on succession is the establishment of the **Provincial Internship Program**, and since 2010, the **Interprovincial Internship Program**. The latter was organized in collaboration with Gay Lea, Ontario's dairy cooperative. Each year, 15 young people from all of Agropur's administrative regions are selected during the regional meetings and given the opportunity to participate in the rewarding activities that make up the Provincial Internship Program. These development activities were set up by the Board of Directors in order to provide the next generation with an opportunity to become better acquainted with Agropur and cooperation. Taking care to bring the next generation into the associative life prepares them to assume their role in the organization, while at the same time symbolizing their sense of engagement and their desire to see the efforts of their predecessors continued. Since 2008, more than 60 young people have participated in these programs.

The first edition of the Interprovincial Internship Program welcomed 10 young people from Agropur who had already taken part at the provincial level. This program provides an opportunity to further deepen their knowledge of the cooperative model and the business environment of Agropur. All of these young people belong to the network of young facilitators, through which they are integrated into the various activities of associative life at Agropur.

## COMMUNICATIONS

The main component that contributes to the smooth functioning of the associative life at Agropur is the Member Relations Department, which includes seven Cooperative Advisors. They constitute a direct link between the members and their Cooperative. Their role is to help members to improve the quality of the milk produced, and to answer any questions they may have with respect to their file, their milk payment, or their Cooperative. This Department is also responsible for organizing all the activities related to associative life for the members of the Cooperative.

Members also receive information about Agropur on a regular basis, including the *Intercom* newsletter, the *Intercom Express*, the Annual Report, and the quarterly financial reports. The Cooperative also makes a variety of training activities or internships available to its members, which allows them to improve their technical knowledge of specific topics or to learn more about the Cooperative and the role that they can play in it.

Finally, the Board of Directors consults the members on a regular basis through Strategic Reflection exercises or through a formal consultation process pertaining to the major orientations to be adopted by the organization.

## A FULL CALENDAR

The associative life calendar begins with the regional meetings in November and December, to which the members in each of the Cooperative's 15 administrative regions are invited. During these meetings, members can obtain information about significant events in the life of the organization during the fiscal year. As stipulated in the by-laws, they also elect delegates (one delegate for every 10 members) who will represent them at the Annual General Meeting in February. They can also make recommendations to the Solidarity Committee for individuals who will serve as facilitators.

The facilitators are appointed by the Solidarity Committee in the ratio of one facilitator for every five members. Together, the facilitators and delegates account for just over 20% of all members.

THEY CONSTITUTE AN EXCELLENT LINK AND COMMUNICATION CHANNEL BETWEEN THE BODY OF MEMBERS AND THE BOARD OF DIRECTORS, ENSURING FLEXIBILITY AND DEMOCRACY THROUGHOUT THE COMMUNICATION PROCESS.

They are all invited to the Annual General Meeting, to the Summer Facilitators' Meeting, and to the September Facilitators' Meetings, which are held throughout Quebec for the purpose of information and exchange.

Finally, all members are also invited to take part in the members' meetings in March and April in order to better understand the activities undertaken by their Cooperative. All of these events represent opportunities for the members to learn more about the dairy industry, cooperation, and Agropur and the environment in which it operates.

JANUARY	<b>FEBRUARY</b> ANNUAL GENERAL MEETING	MARCH MEMBERS' MEETINGS	APRIL MEMBERS' MEETINGS
MAY	JUNE SUMMER FACILITATORS' MEETING	JULY	AUGUST
<b>SEPTEMBER</b> FACILITATORS' MEETINGS	OCTOBER	<b>NOVEMBER</b> REGIONAL MEETINGS	<b>DECEMBER</b> REGIONAL MEETINGS

This ongoing dialogue between the members and management, in combination with all the information that is conveyed to the members, allows the members and the Cooperative to **grow without growing apart**, despite Agropur's expansion and the most serious difficulty that it faces, even going back to its earliest days, of gathering all of its members together in one place. After being informed and consulted in this way, the members are in a better position to understand, influence, direct, and support the broad strategies that the organization must adopt to succeed in the various markets in which it has a presence and pursue its growth. Associative life also allows the executives and managers to take the pulse of the membership and understand the concerns and views of the members.

This extensive associative life is one of the key elements of Agropur's development, continuity, and longevity. It has forged a powerful bond of trust between the members, their directors, and the organization as a whole, with all of them dedicated to the success and good governance of Agropur and the fulfillment of its mission and its vision.

I AM A LINK  
IN THE  
COOPERATIVE  
CHAIN





# I AM MORE THAN A DELEGATE

---

## COOPERATIVES AND SOCIETY

Ever since cooperatives were created in the mid-19<sup>th</sup> century, they have provided a means for innumerable individuals to solve a variety of social and economic problems within their communities. Equally active in developing countries and in wealthier ones, the cooperative movement promotes the inclusion of individuals and equity among citizens, among other things, which helps to strengthen the social fabric in many communities.

Large segments of the population of many countries draw their income from cooperatives, which include 1 billion members in more than 90 countries worldwide. Large or small, cooperatives are an integral part of the global economy, and count some very large organizations among their number. In fact, the consolidated sales figure for the 300 largest cooperatives in the world is US\$1.6 trillion. They operate on every continent and in almost every sector of the economy. It is not surprising that the UN has declared 2012 to be the International Year of Cooperatives.

With their unique structure and system of organization, cooperatives make a significant contribution to economic and social development by employing more than 100 million individuals worldwide, which is 20% more than all multinationals combined. For example, cooperatives in Canada, Norway, New Zealand, and the United States account for a very high proportion of milk distribution and processing, if not almost all of it, depending on the location.

This economic force spreads out across all communities where cooperatives have been established. In addition, thanks to cooperation with other cooperatives, which is one of the cooperative principles, this force not only generates local impact, but also national and even international impact.

Agropur's recent expansion into the U.S. Upper Midwest now gives it the opportunity to enter into privileged relationships with new **cooperative partners in the United States**. As such, the supply of milk to its U.S. plants depends in large part on other dairy cooperatives, such as Dairy Farmers of America or Land O'Lakes. In addition to its contribution to the dairy industry, Agropur has expanded its development, not only in Canada, but also in the United States and Argentina in recent years.

---

## CONCERN FOR COMMUNITIES

---

The best example of Agropur's commitment at the international level continues to be its partnership with SOCODEVI<sup>1</sup> since 1985. 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 by putting the emphasis on cooperation.

AGROPUR IS RECOGNIZED AS AN ORGANIZATION THAT IS GENEROUS TO THE COMMUNITIES IN WHICH IT OPERATES. IN PARTICULAR, IT OFFERS SOME SCHOLARSHIPS DESIGNED TO ASSIST IN WORKFORCE SUCCESSION, AND IT SUPPORTS MANY OTHER REGIONAL ACTIVITIES IN ALMOST EVERY COMMUNITY WHERE IT HAS ESTABLISHED THROUGH ITS DONATION AND SPONSORSHIP PROGRAM.

Agropur also organizes its Employee Fundraising Campaign every year. The goal of this campaign is to raise funds for organizations that are chosen locally. For many years now, Agropur has matched the amounts raised by employees in connection with this campaign.

In addition to providing an outlet for the generosity of its employees, this campaign allows them to provide a positive presence in the communities where they work. Organizations that benefited from the generosity of Agropur employees in 2011 included Leucan Montérégie, the Canadian Cancer Society, the American Cancer Society/Midwest Division, the Fondation de l'Hôpital Charles-LeMoine, the American Diabetes Association, Make-A-Wish Quebec, and the MS Society of Canada, among others.

---

## INVOLVEMENT IN THE COOPERATIVE MOVEMENT

---

Training is an important aspect of cooperation. In addition to the training activities that it provides for its members, Agropur has been actively contributing to the development of the **Institut de Recherche et d'Éducation pour les Coopératives et pour les mutuelles de l'Université de Sherbrooke (IRECUS)**<sup>2</sup> since its inception. This organization promotes the propagation of the cooperative movement by enhancing its image and increasing solidarity in order to strengthen the feeling of belonging.

Through commercial and strategic agreements, Agropur is committed to disseminating and promoting the cooperative formula within the network. To this end, Agropur has joined forces with the **Conseil québécois de la Coopération et de la Mutualité (CQCM)**<sup>3</sup>, whose mission is to participate in the social and economic development of Quebec. The CQCM contributes to the full development of the Quebec cooperative and mutualist movement.

Cooperatives promote autonomy and self-responsibility among individuals, thereby contributing to improving their living conditions and their communities. By putting capital and labour in the service of human development rather than just the maximization of profits, cooperatives provide an original alternative to other business models. By taking up a common cause with other cooperatives in Quebec, Canada, the United States, and around the world in terms of carrying out joint activities and actively participating in various social, educational, and research initiatives, Agropur is confident that it is making a concrete contribution to a new type of society.

<sup>1</sup>A network of cooperatives for international development

<sup>2</sup>University of Sherbrooke Research and Education Institute for Cooperatives and Mutuals

<sup>3</sup>Quebec Cooperatives and Mutual Board

# I AM THE VOICE OF A COMMUNITY



# I AM MORE THAN AN EMPLOYEE

---

## LONGEVITY

Inspired by some Quebec farms that have been handed down from generation to generation for a very long time, Agropur's members hope that their Cooperative will prove to be as durable and resilient as their own farms. A study conducted in 2008 by the Ministère du Développement économique, de l'Innovation et de l'Exportation du Québec (Ministry of Economic Development, Innovation and Export Trade) tends to support their view. The study revealed that the **survival rate of cooperatives is markedly higher than all Quebec businesses combined after three, five, and even 10 years of existence.**

---

### THE COOPERATIVE AS A SUSTAINABLE ECONOMIC MODEL

The difficult economic conditions that existed after the 1929 stock market crash, the precarious state of the dairy industry, and support from certain leading institutions at that time all contributed to the emergence of the cooperative movement in the Granby, Quebec, region in the late 1930s, and to the founding

of Agropur by a handful of agricultural producers in 1938. Today, cooperatives can be found in all sectors of the economy, but in greater concentrations in the staple industries, whose mandate is to meet the basic needs of the population, such as agriculture, food industry, forestry, health care, and homecare.

Even now, the economy falls victim to upheavals that give rise to difficult conditions in various parts of the world on a regular basis, which demonstrates the fragility of market regulating mechanisms and the limits of state intervention. In a study that was published in 2009 pertaining to the response of cooperatives within the context of a global economic crisis, the International Labour Organization, which is a UN agency, put forward a number of avenues for reflection. Among other things, it revealed that, despite the recession that followed the 2008 crisis, the cooperative movement as a whole displayed remarkable resiliency, and even fared better than the overall group of businesses. This shows that people continue to have faith in the cooperative formula when they seek to take their fate in hand and improve their lot.





During the 2008 recession, cooperatives did not rely on government bailout plans, and overall remained in good financial condition. The very fact that they stayed in business showed that cooperatives were able to meet the needs of their members, despite the unfavourable economic context. This performance, in turn, caught the attention of new users who were looking for stability, which is precisely something that cooperatives are able to provide. As a result, credit unions experienced an increase in membership numbers and capitalization.

## AGROPUR IS A COLLECTIVELY OWNED ORGANIZATION THAT HAS BEEN PASSED ON FROM GENERATION TO GENERATION FOR 74 YEARS.

In fact, a fourth generation of members will soon be at the controls, thanks to the prudence and responsibility demonstrated by the previous managers, who have left them a cooperative that is in solid financial health with sound management practices. Like the farms that its managers came from, Agropur also boasts a long-term business vision that guarantees stability for its members, its employees, their families, and the surrounding communities.

Agropur's employees are well aware of the need for the longevity of cooperatives. This is the concept that provides them with an important sense of security. The very fact that the organization that employs them is focused on the long term rather than on very short-term profits, as it is the case for other types of businesses, makes a big difference in their day-to-day lives. In fact, in addition to being employed in a staple sector, namely agri-food, the employees participate on a daily basis in the collective project of growing an organization for the benefit of many members, employees, and communities, not to mention consumers, who enjoy access to a healthy, pure, and high-quality product.

In a spirit of transparency and openness, Agropur wishes to collect information that will give it a better understanding of how its employees perceive their work in a cooperative. Therefore, working in collaboration with IRECUS, the Cooperative conducted surveys in many of its workplaces during 2011. Based on the information that was collected, and, in conjunction with the International Year of Cooperatives (2012), Agropur plans to launch activities and tools aimed at enhancing communication with its employees with respect to the cooperative business model by creating a direct link with their interests.

Agropur is one of the 20 largest world-class organizations in its sector, and continues to grow at a healthy pace. This situation not only makes it possible to provide its employees with stability and job security, but also with a variety of career options. The Cooperative encourages internal staff movement, allowing its employees to consider an enriching career within a single organization. In addition, Agropur is able to provide training programs adapted to the needs of its human resources, along with a succession program. In fact, it has developed a complete program that facilitates the transfer of knowledge at all levels and in all sectors of the organization.

Above all, employees of the Cooperative enjoy a work environment anchored in authentic values that resonate with everyone. The Cooperative provides a work environment characterized by **respect, honesty, integrity, teamwork, and cooperation.**

---

## ENVIRONMENTAL SUSTAINABILITY

---

At Agropur, the concept of longevity also applies to preservation of the environment. For many years, the Cooperative has been working toward adopting management practices that take into account environmental impacts. As a corporate citizen, Agropur considers it essential to take into consideration the impact of its activities on the environment, and therefore, on future generations, and to raise awareness among its members and employees with respect to this impact.

Three committees were set up in 2005 at the request of the Board of Directors with a view to optimizing environmental initiatives within the Cooperative: the Environment Committee, the Environment Steering Committee, and the Environment Coordination Committee. These committees initiate the actions undertaken at all Agropur workplaces to comply with the regulatory requirements established by government agencies, which change quickly and are becoming ever stricter.

In addition to creating these committees, during this same period in the early 2000s, Agropur adopted an Environmental Policy that states its commitment to carrying out its activities based on business practices that take into account the need to protect the environment and natural resources, and to apply sound management principles. Agropur's commitment was initially demonstrated by the establishment of an environmental management system, which was then complemented by many other upgrading activities using tools such as external environmental audits and a Guide to Sound Environmental Practices. This Guide has been made available to all of the Cooperative's plants in order to help improve their performance.

Agropur is a thriving organization that has been renewing itself from generation to generation for close to 75 years, ensuring the economic development of its members, its employees, and their respective communities. In order to succeed in this, in addition to the contributions of its members, the organization must rely on the commitment of its employees. Agropur would not be a leader in the Canadian dairy industry and an increasingly significant player in the United States without the expertise and passion demonstrated by its employees. An organization cannot grow and prosper without sound management, along with the contribution of its employees, their competencies, their experience, their dedication, and their loyalty.

I AM A  
PASSIONATE  
ARTISAN



**TREMBLAY** GAGNON **ROY** DAVIS  
**BOUCHARD** GAUTHIER **MORIN**  
LAVOIE **FORTIN** CARON **GROVE**  
SMITH **BISSONNETTE** PELLETIER  
**THIBAUT** SILVERMAN **LEBLANC**  
PAQUETTE **JOHNSON** SIMARD  
**BOUCHER** HARWOOD **BEAULIEU**  
KANE **CLOUTIER** POIRIER **POULIN**  
FOURNIER **LAPOINTE** LECLERC  
**RIVEST** SIMPSON **PETERSON**  
ST-PIERRE **NADEAU** ST-MARTIN  
**LESSARD** DRISCOLL **TURCOTTE**  
LEROUX **KAESLIN** BERNIER  
**RICHARD** HUNTER **DESJARDINS**  
LABERGE **COUTURE** LAFRANCE  
**STUDHALTER** BROCHU **NAULT**  
BOURGEOIS **BROCKMAN** MILLER  
DAOUST **MORGAN** CASTONGUAY  
**ROBINSON** BESSETTE **LEFEBVRE**  
DOYON **TAYLOR** PELLERIN **ROTH**  
ROCHETTE **CORCORAN** PLANSKY  
**LAURIN** MALENFANT **BOURQUE**  
TATUM **HALL** DAGENAIS **LEBLOND**  
BUREAU **CYR** GOYETTE **MASSON**  
FITZPATRICK **GILBERT** MCDONALD

# I AM AGROPUR



3

27

64

5,708

3,349

3,054,500

COUNTRIES

PLANTS

WORKPLACES

EMPLOYEES

MEMBERS

LITRES OF MILK PROCESSED

,000







---

## FINANCIAL REVIEW

Growth was still the order of the day for the year ended October 29, 2011, with sales of over \$3.6 billion, earnings from operations of \$264.5 million, and earnings before patronage dividends and taxes of \$164.8 million, a 9% increase over last year. These higher earnings enable us to maintain an enviable level of patronage dividends, reaching new heights of \$110.6 million, representing an 8.15% premium on the value of milk production of Agropur members.

Investments in 2011 amounted to \$149.5 million including the December 2010 acquisition of Main Street Ingredients in Wisconsin, which expands our range of milk ingredients. Capital requirements could be even greater over the next three years to support projected growth. In fact, aside from business acquisition opportunities that may arise, we expect additional investment requirements in order to increase our production capacities, particularly in terms of cheese-making in the U.S. Thus, last fall, a major project was approved to modernize and increase the manufacturing capacity of our cheese plant in Luxemburg, Wisconsin. Other amounts, that could be equally significant, are likely to be invested in the region to take advantage of business opportunities in the vast U.S. market. Cheese-making operations in the U.S. have already exceeded the volume of corresponding Canadian operations and the above-mentioned investments will emphasize this trend.

In Canada, we completed during summer 2011 our project to modernize and increase the cheese processing capacity in Lethbridge, Alberta. The project, worth close to \$25 million, benefited from a \$2.4 million subsidy from the Alberta government and sufficient milk volumes was made available to Agropur to double plant production in a first phase and will even triple it in a second phase to come.

### Governance

The Audit Committee reviewed the financial statements in this Annual Report, as well as two interim reports. The Committee consists of five members of the Board of Directors and a Guest Member. A few Agropur senior executives, as well as representatives of our external auditors, attend Committee meetings. They, along with the Internal Audit Department, periodically present their findings at these meetings.

In addition, senior executives attest for the quality of the information disclosed in the financial statements, in compliance with a process inspired by Bill 198.

---

### REVIEW OF THE 2011 FINANCIAL STATEMENTS

---

The following comments serve as a review of the financial statements appearing on page 37 of this Annual Report.

#### Accounting policies and IFRS

In 2011, no new accounting policies affected the Cooperative's financial statements, which will not be the case next year given that the Board of Directors approved the adoption of International Financial Reporting Standards (IFRS) as of fiscal 2012, preferring them over the new Canadian standards for private enterprises. IFRS was the logical choice, which will facilitate exchanges with our business partners, be they bankers, customers, suppliers, or other parties.

Therefore, 2011 is the last year for financial statements to be prepared in accordance with Canadian generally accepted accounting principles. Beginning October 30, 2011, transactions have been recognized under IFRS. As at the quarter ending January 28, 2012, interim disclosures will be presented according to these standards.

During the transition to IFRS, Agropur intends to meet the needs of the primary users of its financial statements, the members of the Cooperative. Thus, we aim to present information that is easy to read and understand, while adopting accounting practices that comply with transaction reporting standards and are in keeping with the spirit of IFRS. This is not an easy task, since these standards have their fair share of details, complexities and technical terms.

These new accounting standards will have an impact on the volume and presentation of information, among other things, with the introduction of a new statement of changes in equity and new disclosures in the notes to financial statements. Changes in IFRS are already planned for the 2013 and 2014 fiscal years, and were factored into the accounting choices we needed to make for 2012.

There will also be an impact on the presentation of joint ventures. The recognition method for joint ventures Ultima Foods and La Lácteo will be modified. Instead of adding 50% (based on the percentage held) item by item to the financial statements, Agropur's share of the joint ventures' equity will be presented as an investment on the balance sheet. In addition, its share of earnings will be presented on a separate line in the statement of earnings. Although these are relatively material changes, they will have no impact on members' capital, on the Cooperative's equity or on earnings before patronage dividends.

The main impact on the balance sheet will be the immediate and direct recognition in comprehensive income of actuarial gains and losses in employee pension plans, leading to higher volatility of the equity. As at October 29, 2011, the equity would have been reduced by an actuarial loss of approximately \$28 million after taxes, primarily due to the drop in interest rates.

In terms of earnings, the main impact on the Cooperative's earnings is the non-amortization of goodwill, representing the difference between the price paid for the acquisition of a company and the value of all identifiable assets acquired. In 2011, goodwill amortization was \$14.1 million.

Regardless of the financial performance accounting measurement used, bank accounts balances will obviously be the same. For an equivalent economic performance presented under IFRS, earnings before patronage dividends will be higher, without raising cash inflows, meaning that the Cooperative will be no richer. In 2012, figures from 2011 will be restated to account for the changes brought about by IFRS, which will make figures comparable from one year to the next and serve to measure changes in performance on a common baseline.

The transition to IFRS will have been a long process with awareness-building and knowledge acquisition dating back to at least 2008 in all of the Cooperative's business units.

### Earnings

With \$305.4 million in growth, 2011 sales reached \$3.65 billion, representing an increase of 9.1%. Of the total, 25.9% of sales came from outside Canada. On the basis of processed milk, which eliminates the effect of differences in the cost of milk between Canada and other countries in which the Cooperative operates, this percentage increases to 39.3% and should continue to grow. The \$305.4 million increase in sales comes from all business units and from several sources, including the contribution of Main Street Ingredients and the increase in the prices of milk and whey products.

A closer look at Canadian cheese operations reveals that the volume of cheese sales to further processors and food service customers was fairly stable, as was the volume of milk processed. Sales of fine cheeses rose 3.4% driven, among other things, by the popularity of Boursin cheese, which has been manufactured in our Saint-Hyacinthe plant in Quebec since January 2011.

At the U.S. cheese operations, with close to 1 billion litres of milk processed, cheese volumes sold rose 10.7% in 2011, despite a milk supply scarcity period. Increased volumes are partially due to our plant located in Iowa, which accounted for 12 months this year, compared to 11 months in 2010 and which is now running at nearly full capacity. However, given the scarcity of milk, premiums paid to producers and suppliers were hiked, which in itself had an impact on our profit margins.

For whey products, world prices remained firm in fiscal 2011—a situation that has remained unchanged since the end of 2009 and which particularly benefits our Canadian facilities. In the U.S., the pricing formula for milk used in cheese manufacturing takes into account the price of whey products, which offsets the favourable impact of the higher price of these products. During fiscal 2011, whey-drying operations in Iowa started up, which had a positive impact on U.S. earnings.

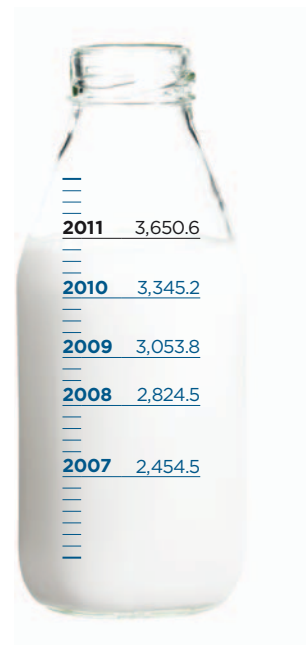
Division Natrel's Canadian operations experienced a slight decrease in volume of 0.9%, primarily in the regular white milk category. Business growth is still a challenge with increased pressure on prices, which is due to limited market growth. Profitability can only be maintained through constant and vigilant monitoring of operating costs and optimal use of assets.

Division Natrel's U.S. operations also saw their sales volume decrease by 2.9% in 2011. Unfortunately, economic difficulties in the U.S. and their effect on the consumption of value-added dairy products meant that overall sales did not reach the expected level. Thus, gains from premium milk products were offset by the decrease in specialty milks, primarily due to the non-renewal of government contracts. The strategy nevertheless remains the same, which is to seek new contracts and introduce new products in order to meet the initial objectives. To this end, investments of over \$7.4 million were authorized to take advantage of growth in certain segments of the U.S. market.

Yogurt sales by Ultima Foods continued to climb, but at a slower rate than in 2010. Growth is due primarily to the solid performance of the Yoptimal active health yogurt and sales of Yop drinkable yogurt, which even though the product was launched 25 years ago, increased 12.2% in 2011. Overall, sales volumes grew across the Canadian territory, except for Western Canada, which remained relatively stable. The 2011 earnings of this joint venture were affected by costs related to the renewal of the Yoplait license and the development of alternative business options and plans that would enable it to pursue its yogurt manufacturing and distribution operations should the Yoplait license not be renewed.

For La Lácteo, the other joint venture, the firmness of world prices of milk powders was felt on the Argentinean market. The rise in world prices has put strong upward pressure on prices paid to producers, while increased selling prices on the domestic market were not sufficient to offset higher costs. For these reasons, among others, a project of over \$100 million is under review jointly with our partner Adecoagro to diversify production and take advantage of the global demand for dairy products.

As the following chart demonstrates, consolidated sales in the last five years rose from \$2.5 billion in 2007 to more than \$3.6 billion in 2011, an aggregate increase of \$1.1 billion or 10.4% on average, on an annual basis. Of this growth, \$891.2 million, or 81.0%, came from facilities outside of Canada.



**SALES**  
(in millions of dollars)

Earnings from operations, defined as earnings before interest, taxes, depreciation and amortization (EBITDA), reached \$264.5 million in 2011, an increase of 4.8%. Our U.S. operations contributed \$6.9 million to the \$12.0 million increase, over last year.

Since 2007, EBITDA rose by \$71.1 million, from \$193.4 to \$264.5 million, an average annual increase of 8.1%.



**EBITDA**  
(in millions of dollars)

From the EBITDA of \$264.5 million in 2011, we deducted depreciation and amortization expenses of \$95.2 million, compared to \$95.6 million in 2010. Financial expenses stood at \$1.9 million compared to \$2.5 million in 2010. Income taxes of subsidiaries and joint ventures decreased by \$1.2 million due to lower earnings by joint ventures.

Agropur posted earnings before patronage dividends and Cooperative's income taxes of \$164.8 million (up 9.0%), compared to \$151.3 million in 2010.

The Board of Directors approved patronage dividends of \$110.6 million, up 9.2% from last year, which correspond to 8.15% of the value of members' milk deliveries, and equivalent to an average of \$6.46/hl. These patronage dividends are payable in a proportion of 25% cash and 75% 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 dividend, until the minimum investment is reached.

Finally, after deductions of patronage dividends, an expenditure of \$10.9 million was recorded for the purposes of the Cooperative's income taxes. Net earnings added to the reserve in 2011 is therefore \$43.4 million.

Fiscal 2012 should resemble 2011, characterized by increased earnings and major investments. However, economic difficulties in European countries and their repercussions on global markets as well as the ones observed in the United States could affect us, but the impact is difficult to measure. In addition, with the growth of our foreign activities, the effects of the volatility of dairy product prices on earnings are difficult to forecast.

#### Cash flows

Cash flows from operating activities, before the change in non-cash items, totalled \$250.7 million, up \$15.9 million over 2010. Non-cash items, which are presented in note 7 to the financial statements, generated \$2.9 million. The increased inventories of powder (price and volume) as well as those needed to support the manufacturing and sales of Boursin cheese account for a large part of the \$11.0 million increase in inventories. The increase in accounts payable of \$15.9 million is largely due to milk payable.

The preceding sources of funds, added to the \$16 million from the sale of commercial paper, enabled us to have cash outflows of \$204 million, repay \$3 million in debt and increase liquidities by \$63 million.

An amount of \$79.4 million was used to acquire Main Street Ingredients, as explained in note 3 to the financial statements. Goodwill of \$37.7 million was recognized for this acquisition, reflecting the profitability of the company and the high quality of its labour and know-how. Amounts almost as important were invested in fixed assets totalizing \$70.1 million. Approximately 85% of the investments were in Canada, including the above-mentioned Lethbridge project.

Payments to members came to \$54.8 million, or 20.3% of cash outflows for the year, with \$27.6 million going toward the December 2011 payment of the cash portion of the patronage dividends and \$27.2 million being used for capital redemptions carried out during the fiscal year.

As you can see, our level of profitability is bringing in funds when combined with our credit facilities of \$501 million, that support our current investment rate as well as our future projects.

**INFLOWS**  
(in millions of dollars)

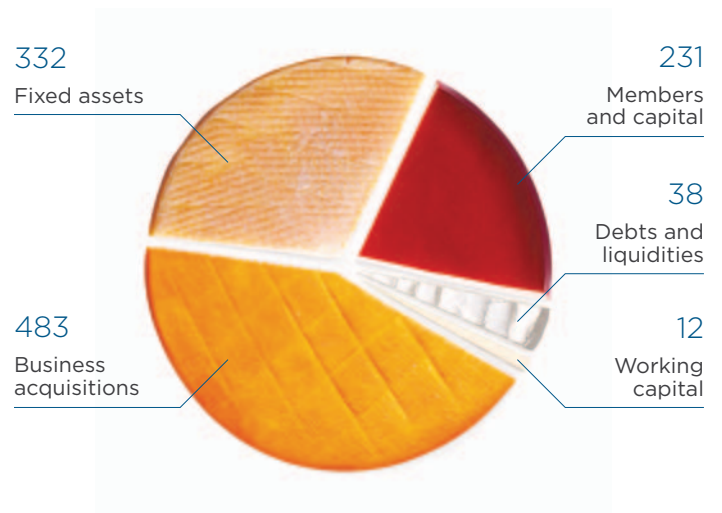


**OUTFLOWS**  
(in millions of dollars)



Cash inflows over the past five years total \$1.096 billion, with \$231 million or 21.1% being turned over to members as patronage dividends and capital redemptions. Outflows related to eight business acquisitions total \$483 million. Another \$332 million was added for investment in fixed assets.

**USE OF FUNDS (\$1.096 BILLION) - 2007 TO 2011**  
(in millions of dollars)



**Balance sheet**

As at October 29, 2011, the Cooperative's assets totalled more than \$1.3 billion, up \$100.7 million from the end of fiscal 2010, mainly due to the acquisition of Main Street Ingredients in December 2010.

For the commercial paper converted to term notes in January 2009, a book value of \$30.0 million remained to be cashed in as at October 29, 2011. From October 2010 to October 2011, there were capital inflows of \$16.3 million, as a result of capital repayments and sales of securities. Fiscal 2011 earnings were not

affected by commercial paper, since their estimated value at the end of October 2010 has generally reflected their fair value up to this day. Since October 29, 2011, the Cooperative has sold all remaining securities held for an amount equivalent to that recognized on the balance as at October 29, 2011.

The balance sheet presents a low level of interest-bearing debt, with a total long-term debt of \$15.6 million recorded on the books of the subsidiaries and joint ventures. In July 2011, Agropur negotiated a new revolving credit agreement of up to \$400 million. The agreement is for an initial term of four years and may, under certain conditions, be renewed annually. This new credit facility was not used as at October 29, 2011. This new credit availability puts us in a favourable position for funding the Cooperative's growth projects.

Note 15 to the financial statements details members' share capital. On October 29, 2011, members' share capital reached \$563.6 million, strengthened by the \$55.8 million rise in Class A share capital coming from the issue of patronage dividends, net of redemptions made during the fiscal year.

#### **Comprehensive income**

Comprehensive income was \$30.1 million for fiscal 2011, which is detailed as follows: \$13.2 million were deducted from net earnings of \$43.4 million, mainly to take into account the effect of exchange rate fluctuations on the consolidation of the assets and liabilities of our U.S. subsidiaries and our Argentinean joint venture. On October 29, 2011, one Canadian dollar was worth US\$1.01, compared to US\$0.98 on October 30, 2010, and US\$0.92 on October 31, 2009. The strengthening of the Canadian dollar in recent years has resulted in a cumulative translation loss of \$36.8 million from foreign subsidiaries. However, these results will continue to fluctuate on paper with the evolution of the Canadian dollar, particularly in relation to the U.S. dollar.

#### **Looking ahead**

The Cooperative is pursuing its development to better meet the needs of its customers and ensure its continuity. It is with this state of mind that the Cooperative intends to pursue its expansion outside Canada by making significant investments to increase its manufacturing capacity over the coming years, without neglecting current operations and while remaining on the lookout for any acquisition opportunities that may arise. Significant operating surplus, combined with adequate capitalization and new unused credit facilities, enable us to foresee future business opportunities with confidence.

In 2012, results should continue to progress. However, the pressure and volatility of milk and whey product prices, as well as exchange rates are all factors that are difficult to predict and control.

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



**JOCELYN LAUZIÈRE**  
Chief Financial Officer

---

# CONSOLIDATED FINANCIAL STATEMENTS

---

## INDEPENDENT AUDITOR'S REPORT

---

December 16, 2011

**To the members of Agropur Cooperative,**

We have audited the accompanying consolidated financial statements of Agropur Cooperative ("the Cooperative"), which comprise the consolidated balance sheet and the statement of accumulated other comprehensive loss as at October 29, 2011, and the consolidated statements of earnings and reserve, cash flows and comprehensive income for the year then ended, 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 Canadian generally accepted accounting principles, 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 audit. We conducted our audit 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 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 October 29, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP<sup>1</sup>*

Montreal, Canada

<sup>1</sup> Chartered accountant auditor permit No. 19042

"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

---

**CONSOLIDATED STATEMENT OF EARNINGS AND RESERVE**

---

(IN THOUSANDS OF DOLLARS)	2011	2010
<b>Sales</b>	<b>3,650,609</b>	3,345,177
Operating expenses	<b>3,386,119</b>	3,092,713
<b>Earnings from operations before the following items</b>	<b>264,490</b>	252,464
Depreciation and amortization (note 4)	<b>95,231</b>	95,581
Net financial expenses (notes 4 and 6)	<b>1,908</b>	2,488
Gain on disposal of assets	<b>(229)</b>	(818)
Income taxes of subsidiaries and joint ventures	<b>2,753</b>	3,929
<b>Earnings before patronage dividends and the Cooperative's income taxes</b>	<b>164,827</b>	151,284
Patronage dividends (note 5)	<b>110,551</b>	101,245
Cooperative's income taxes	<b>10,925</b>	10,339
<b>Net earnings</b>	<b>43,351</b>	39,700
Reserve - Beginning of year	<b>293,211</b>	253,511
<b>Reserve - End of year</b>	<b>336,562</b>	293,211



## CONSOLIDATED STATEMENT OF CASH FLOWS

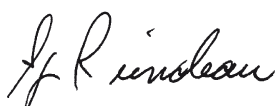
(IN THOUSANDS OF DOLLARS)	2011	2010
<b>CASH FLOWS FROM</b>		
<b>Operating activities</b>		
Earnings before patronage dividends and the Cooperative's income taxes	164,827	151,284
Cooperative's current income taxes	(9,979)	(8,348)
Items not involving use of funds		
Depreciation and amortization	95,231	95,581
Future income taxes of subsidiaries and joint ventures	745	(3,666)
Others	(130)	(11)
	250,694	234,840
Change in non-cash items (note 7)	2,879	(19,362)
	253,573	215,478
<b>Financing activities</b>		
Issuance of long-term debt	2,758	–
Repayment of long-term debt and issuance expenses	(6,098)	(2,434)
	(3,340)	(2,434)
<b>Investing activities</b>		
Business acquisitions (note 3)	(79,386)	(80,953)
Purchase of fixed assets	(70,118)	(79,875)
Commercial paper principal repayments (note 6)	16,340	850
Proceeds on disposal of assets	340	4,626
	(132,824)	(155,352)
<b>Activities with members and on share capital</b>		
Patronage dividends payable in cash (note 5)	(27,615)	(25,297)
Issuance of shares (note 15)	43	28
Redemption of shares (note 15)	(27,218)	(25,503)
	(54,790)	(50,772)
<b>Effect of exchange rate fluctuations on cash position</b>	729	(689)
<b>Net change in cash position during the year</b>	63,348	6,231
<b>Cash position - Beginning of year</b>	(14,051)	(20,282)
<b>Cash position - End of year</b>	49,297	(14,051)

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

## CONSOLIDATED BALANCE SHEET

(IN THOUSANDS OF DOLLARS)	October 29 2011	October 30 2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and temporary investment	51,392	8,338
Accounts receivable	227,288	216,803
Inventories (note 8)	260,440	236,237
Income taxes	1,475	477
Prepaid expenses	7,904	8,789
Future income taxes (note 9)	7,074	4,356
	555,573	475,000
<b>Investments in commercial paper</b> (note 6)	30,028	46,368
<b>Fixed assets</b> (note 10)	531,261	514,890
<b>Other assets</b> (note 11)	218,438	195,767
<b>Future income taxes</b> (note 9)	6,277	8,832
	1,341,577	1,240,857
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdrafts and bank loans (note 12)	2,095	22,389
Accounts payable and accrued liabilities (note 13)	420,525	399,338
Income taxes	3,704	3,715
Current portion of long-term debt (note 14)	9,432	1,550
	435,756	426,992
<b>Long-term debt</b> (note 14)	6,142	3,602
<b>Future income taxes</b> (note 9)	36,247	32,710
	478,145	463,304
<b>EQUITY</b>		
<b>Share capital</b> (note 15)	563,600	507,839
<b>Reserve</b>	336,562	293,211
<b>Accumulated other comprehensive loss</b>	(36,730)	(23,497)
	863,432	777,553
	1,341,577	1,240,857

Approved by the Board of Directors,



Serge Riendeau, Director



René Grimard, Director

---

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

---

(IN THOUSANDS OF DOLLARS)	2011	2010
<b>Net earnings for the year</b>	<b>43,351</b>	39,700
<b>Other items</b>		
Net change in fair value of derivative financial instruments designated as cash flow hedges, net of income taxes	16	(77)
Variance on currency translation adjustments in self-sustaining foreign operations, net of hedging activities and income taxes	(13,249)	(18,651)
	<b>(13,233)</b>	(18,728)
<b>Comprehensive income for the year</b>	<b>30,118</b>	20,972

---

**STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF INCOME TAXES**

---

(IN THOUSANDS OF DOLLARS)	October 29 2011	October 30 2010
Gains on financial instruments designated as cash flow hedges	107	91
Currency translation adjustments in self-sustaining foreign operations, net of hedging activities	(36,837)	(23,588)
<b>Accumulated other comprehensive loss</b>	<b>(36,730)</b>	(23,497)

---

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

## 1. STATUTES OF INCORPORATION

---

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

---

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

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

### 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.

### FIXED ASSETS

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

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

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

### OTHER ASSETS

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

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

### EMPLOYEE FUTURE BENEFITS

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

### INCOME TAXES

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

### TRANSLATION OF FOREIGN CURRENCIES

#### Foreign currency transactions

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

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

### Foreign operations

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

### Hedging

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

### FINANCIAL INSTRUMENTS

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

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

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

### FUTURE ACCOUNTING POLICIES

#### International Financial Reporting Standards

In September 2010, the Board of Directors of the Cooperative approved the adoption of International Financial Reporting Standards for the year beginning October 30, 2011.

The Cooperative continues its transition plan and respects the schedule. The finalization of the impact evaluation is under development.

### 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 \$72,895,000 (US\$72,403,000).

The acquisition cost allocation is detailed as follows:

---

(IN THOUSANDS OF DOLLARS)

---

Current assets	27,130
Fixed assets	24,608
Other assets	9,258
Goodwill	37,669
Liability assumed	(6,663)
Net asset acquired	92,002
Long-term debt and cash position	(19,107)
Acquisition cost	72,895
Cash position	6,491
Cash flows from acquisition	79,386

---

The goodwill accounted for is deductible for income tax purposes for an amount of \$50,019,000.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

### 4. EARNINGS

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

(IN THOUSANDS OF DOLLARS)	2011	2010
Depreciation of fixed assets	71,422	69,699
Amortization of other assets	23,809	25,882
Interest on long-term debt	1,054	757

### 5. PATRONAGE DIVIDENDS

The patronage dividends to members are paid \$27,615,000 (2010 - \$25,297,000) in cash and \$82,936,000 (2010 - \$75,948,000) through the issuance of investment shares.

### 6. INVESTMENTS IN COMMERCIAL PAPER

As at the balance sheet date, the Cooperative held investments in asset-backed commercial paper ("ABCP") whose fair value for accounting purposes was estimated at \$30,028,000 (2010 - \$46,368,000). This fair value takes into account a writedown of \$17,590,000 (2010 - \$25,000,000).

These long-term investments result from the conversion of short-term ABCP as at January 21, 2009, which were locked in due to the liquidity crisis that has affected the market since August 2007. The ABCP held is mainly composed of Classes A-1 and A-2 notes.

During the year, due to principal repayments and sales of notes, the Cooperative cashed \$16,340,000 in capital, which was applied against investments in commercial paper. The Cooperative also cashed \$478,000 in interest earned, which was applied against financial expenses.

In the absence of an efficient market for these investments, the fair value was established using an economic model for discounted future cash flows, requiring assumptions about the returns, maturity dates and discount rates, among other things. Using these assumptions could result in the fair value being significantly different upon settlement. A 1% change in discount rates would have an impact of \$1,600,000 on the estimated fair value.

After year-end, the Cooperative sold all of its asset-backed commercial paper ("ABCP") for the same amount as that accounted for in the balance sheet as at October 29, 2011.

### 7. CASH FLOWS

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

(IN THOUSANDS OF DOLLARS)	2011	2010
Accounts receivable	(139)	(28,372)
Inventories	(10,997)	(11,749)
Income taxes	(1,013)	380
Prepaid expenses	978	(1,354)
Accounts payable and accrued liabilities	15,888	24,196
Other assets - Employee future benefits	(2,774)	(4,412)
Other assets - Procurement agreements and others	936	1,949
	2,879	(19,362)

Net interest paid amounts to \$2,613,000 (2010 - \$3,141,000). Income taxes paid amount to \$12,416,000 (2010 - \$14,070,000).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

### 8. INVENTORIES

(IN THOUSANDS OF DOLLARS)	2011	2010
Finished goods	195,916	190,009
Raw materials, goods in process and supplies	64,524	46,228
	<b>260,440</b>	<b>236,237</b>

The cost of goods sold of \$3,042,649,000 (2010 - \$2,765,336,000) is mainly composed of the amount of inventories accounted for in expense.

### 9. FUTURE INCOME TAXES

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

(IN THOUSANDS OF DOLLARS)	2011	2010
<b>Current future income tax assets</b>		
Accrued expenses, provisions and other reserves that are tax deductible only at the time of disbursement	7,074	4,356
<b>Long-term future income tax assets</b>		
Goodwill and loss carryforwards	6,277	8,832
<b>Long-term future income tax liabilities</b>		
Fixed and other assets	36,247	32,710

### 10. FIXED ASSETS

(IN THOUSANDS OF DOLLARS)	Cost	Accumulated depreciation	2011 Net	2010 Net
Land	29,125	—	29,125	28,356
Buildings	278,903	93,020	185,883	163,593
Equipment	734,263	446,116	288,147	295,475
Office furniture	8,914	6,258	2,656	2,047
Computer equipment	56,612	44,413	12,199	11,052
Rolling stock	50,328	37,077	13,251	14,367
	1,158,145	626,884	531,261	514,890

As at October 29, 2011, the net value of fixed assets includes an amount of \$3,322,000 for equipment under capital leases.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

### 11. OTHER ASSETS

(IN THOUSANDS OF DOLLARS)	2011	2010
Goodwill	135,505	114,579
Employee future benefits (note 19)	24,918	22,144
Procurement agreements and others	58,015	59,044
	<b>218,438</b>	195,767

### 12. BANK LOANS

The Cooperative and its joint ventures have lines of credit to a maximum of \$101,318,000, which bear interest at variable rates and generally not exceeding the prime rate. Bank loans are not secured by any of the Cooperative's assets. The Cooperative's lines of credit are generally renewable annually.

### 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(IN THOUSANDS OF DOLLARS)	2011	2010
Members	131,803	128,380
Third parties	288,722	270,958
	<b>420,525</b>	399,338

### 14. LONG-TERM DEBT

(IN THOUSANDS OF DOLLARS)	2011	2010
Obligations under capital leases <sup>1</sup>	3,077	4,544
Other loans of subsidiaries and joint ventures <sup>2</sup>	12,497	608
	<b>15,574</b>	5,152
Current portion	9,432	1,550
	<b>6,142</b>	3,602

<sup>1</sup>Obligations under capital leases bear interest at rates ranging from 8.45% to 8.76% and mature at various dates until May 2015.

<sup>2</sup>These loans bear interest at rates ranging from 1.86% to 6.32%.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

During the year, the Cooperative concluded a new revolving term loan of \$400,000,000, unused as at October 29, 2011, reimbursable in July 2015 if no other extension demand is expressed to the lenders and accepted by them. The interest rate may vary between prime and prime plus 1.25%. The unused portion of this loan is subject to standby fees.

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

(IN THOUSANDS OF DOLLARS)

2012	9,432
2013	2,724
2014	273
2015	329
2016	–
2017 and thereafter	2,816

### 15. SHARE CAPITAL

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

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, upon resolution of the Board of Directors.

In consideration of patronage dividends, Class A investment shares are issued. Failing to reach a minimum threshold of capital per hectolitre of produced milk, deductions are carried out on the payment in cash 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. Upon resolution of the Board of Directors, the Class A investment shares could give right to a non-cumulative dividend of no more than \$1 per share. The Class A investment shares can be transferred to auxiliary members and are, under certain conditions, also eligible under the Registered Retirement Savings Plan, the Cooperative Investment Plan and the tax deferral.

Share capital is variable and unlimited as to the number of shares in each category. Member shares as well as investment shares are redeemable under certain conditions at their par value upon resolution of the Board of Directors, considering short and long-term needs for treasury. Shares issued and fully paid were as follows:

(IN THOUSANDS OF DOLLARS)	Members	Class M	Class A	Total
<b>Balance as at October 31, 2009</b>	<b>356</b>	<b>755</b>	<b>456,255</b>	<b>457,366</b>
Issuance as payment for patronage dividends	–	–	75,948	75,948
Issuance in cash	–	–	28	28
Redemption in cash	(8)	(20)	(25,475)	(25,503)
<b>Balance as at October 30, 2010</b>	<b>348</b>	<b>735</b>	<b>506,756</b>	<b>507,839</b>
Issuance as payment for patronage dividends	–	–	82,936	82,936
Issuance in cash	–	9	34	43
Redemption in cash	(13)	(35)	(27,170)	(27,218)
<b>Balance as at October 29, 2011</b>	<b>335</b>	<b>709</b>	<b>562,556</b>	<b>563,600</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

### 16. FINANCIAL INSTRUMENTS

#### FAIR VALUE

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

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

#### LIQUIDITY RISK

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

#### CREDIT RISK

Accounts receivable mainly relate to those generated in the normal course of business. Although some major accounts are coming from a certain volume concentration in the food industry, the diversification of the customer market segment (retailers, wholesalers, manufacturers, food service) and the extent of the Cooperative's geographical activities reduce the credit risk (note 20). Moreover, credit risk is reduced by the terms of payment in connection with the relatively fast cycle of product consumption.

#### INTEREST RATE RISK

The financial assets and liabilities do not bear interest, except for cash, temporary investment, bank overdrafts and bank loans and long-term debt. The interest rate risk is low considering the indebtedness level of the Cooperative.

#### 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 variance on currency translation on net investment in self-sustaining foreign operations.

During the year ended October 29, 2011, if the U.S. dollar had appreciated on average by \$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 been an increase of \$4,135,000.

The Cooperative also carries 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. Foreign currency unrealized gains and losses are recorded initially in comprehensive income and reversed in earnings at the expiry of the contracts. At the presentation date of the financial information, the foreign exchange contracts, spread over periods not exceeding one year, are as follows:

Purchases	US\$9,209,000
Sales	US\$2,203,000
Purchases	5,286,000 euros
Sales	3,542,000 GBP

### 17. INVESTMENTS IN JOINT VENTURES

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

(IN THOUSANDS OF DOLLARS)	2011	2010
Assets	<b>79,537</b>	74,047
Liabilities	<b>34,331</b>	30,449
Sales	<b>174,197</b>	171,617
Cash flows from operating activities	<b>14,869</b>	16,387
Cash flows used in investing activities	<b>(7,997)</b>	(6,981)

Sales of \$174,197,000 generated by the joint ventures are mainly from the production and distribution of yogurt under the Yoplait license, according to an agreement ending in September 2013. The franchisor informed us of its intention not to renew the Yoplait license on its expiry in September 2013. The joint venture's management has evaluated several options which will permit dairy production and distribution activities to continue if the Yoplait license is not renewed, and has established an alternative business plan. The non-renewal at the term of the agreement could affect the sales and profitability of this business unit.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

### 18. COMMITMENTS AND CONTINGENCIES

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

(IN THOUSANDS OF DOLLARS)

Total commitments (including 7,767 for next year) **22,873**

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

### 19. EMPLOYEE FUTURE BENEFITS

Employee future benefits relate mainly to pension plans. The obligations of the defined benefit plans are based on the employee's length of service and the salary in the last years of service. The pension benefits can be adjusted according to a formula based on the return on plan assets and the consumer price index. The actuarial valuations of the plans are performed at least every three years. The most recent valuations were performed mainly in January 2011.

Net expense is as follows:

(IN THOUSANDS OF DOLLARS)	2011	2010
<b>Defined contribution plans</b>		
<b>Net expense</b>	<b>11,187</b>	9,862
<b>Defined benefit plans</b>		
Current service cost	<b>3,589</b>	2,609
Interest cost on accrued benefit obligation	<b>5,258</b>	5,036
Actual return on plan assets	<b>(6,230)</b>	(4,958)
Difference between actual return and expected return	<b>1,268</b>	485
Actuarial losses on accrued benefit obligation	<b>14,814</b>	11,866
Difference between actual actuarial losses and the amount recognized for the year	<b>(13,267)</b>	(10,706)
Amortization of transitional balance	<b>(827)</b>	(912)
<b>Net expense</b>	<b>4,605</b>	3,420

The information on defined benefit plans is as follows:

(IN THOUSANDS OF DOLLARS)	2011	2010
<b>Plan assets</b>		
Fair value - beginning of year	<b>82,316</b>	73,874
Actual return on plan assets	<b>6,230</b>	4,958
Employer contributions	<b>7,689</b>	6,755
Employee contributions	<b>1,039</b>	1,025
Benefits paid	<b>(5,191)</b>	(4,296)
<b>Fair value - end of year</b>	<b>92,083</b>	82,316

The above contributions approximate the total cash payments. Equity securities included 56% (2010 - 56%) of total plan assets, invested mainly in Canada.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

(IN THOUSANDS OF DOLLARS)	2011	2010
<b>Accrued benefit obligation</b>		
Balance – beginning of year	91,252	75,012
Current service cost	3,589	2,609
Interest cost	5,258	5,036
Employee contributions	1,039	1,025
Benefits paid	(5,191)	(4,296)
Actuarial losses	14,814	11,866
<b>Balance – end of year</b>	<b>110,761</b>	<b>91,252</b>

(IN THOUSANDS OF DOLLARS)	2011	2010
<b>Employee future benefit assets</b>		
Funding status – plan assets net of obligation (deficit)	(18,678)	(8,936)
Less: Transitional assets at the beginning, unrecorded and to be amortized	(144)	(971)
Plus: Actuarial losses, unrecorded and to be amortized	39,323	27,324
Plus: Employer contributions after valuation date	4,417	4,727
<b>Employee future benefit assets</b>	<b>24,918</b>	<b>22,144</b>

For pension plans with an accrued benefit obligation that is higher than the assets, the accrued benefit obligation is \$89,046,000 (2010 – \$73,694,000) and the assets are \$69,001,000 (2010 – \$62,960,000).

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

	2011	2010
<b>Weighted-average assumptions</b>		
<b>Accrued benefit obligation</b>		
Discount rate	4.75%	5.75%
Long-term inflation rate of salary expense	4.00%	4.00%
<b>Net benefit expense</b>		
Discount rate	5.75%	6.75%
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. These plans are accounted for as defined contribution plans. Contributions for the year amount to \$1,198,000.

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 29, 2011

### 20. SEGMENT DISCLOSURES

---

The Cooperative carries on the business of processing and selling dairy products. The Cooperative's management has determined that the Cooperative carries on business in only one operating sector, dairy products. Products are distributed to a large number of customers, including some industrial customers and major food chains. During the year, \$2,705,737,000 (74.1%) of sales were made in Canada and \$903,777,000 (24.8%) were made in the United States. As at the balance sheet date, \$394,438,000 (54.4%) of fixed assets and goodwill are located in Canada and \$325,321,000 (44.9%) in the United States.

Two customers represent respectively more than 10% of the sales figure, for a sales volume amounting to \$1,048,052,000.

### 21. COMPARATIVE FIGURES

---

Certain comparative figures have been reclassified in order to conform with the current year's presentation.

## INNOVATION AND NEW PRODUCTS

Agropur has the good fortune of being able to rely on employees who demonstrate excellence and passion, and who continue to be committed to the common project of the growth of the organization. As a result, the Cooperative benefits from their expertise and their know-how day in and day out. This high level of commitment manifests itself in innovation and excellence, which allows Agropur to launch new products on the market and to win numerous prizes every year for the quality of its products.

Thanks to the contribution of the many teams that were involved, Agropur was able to introduce the following new cheeses onto the market in 2011: the washed-rind Rondoux, Rivière Rouge, and Seigneurie du Lac des Deux-Montagnes cheeses under the Agropur Signature brand; the Vaudreuil Double Cream and Gourmet Double Cream bries; and the Champfleury, OKA, and Brie L'Extra spreadable fine cheese creams that were launched in September of 2011. In addition, Havarti, OKA L'Artisan, OKA with Mushrooms, and St-Paulin cheeses are now available in fixed-weight formats and in new packaging.

Division Natrel introduced Natrel Lactose Free cream in Quebec and Ontario, and a major rebranding was undertaken last winter for the Natrel brand. This new positioning required some major changes and projects, including the introduction of new packaging in September and the creation of an all-new website, natrel.ca, along with a major advertising campaign aimed at ensuring that consumers were properly informed.

In late 2011, Division Natrel also introduced its two new Natrel chocolate milks, namely dark chocolate and milk chocolate, onto the Quebec and Ontario markets. Both of these products are made with real chocolate for an authentic taste and a rich, creamy texture. In the summer of 2011, the Division expanded its Island Farms ice cream line with two new flavours, Tiger Tiger and Root Beer Float, available in a 1.65 litre format. The Natrel name has also started to appear on American products, and the Agropur logo will begin to appear on product packaging in the United States very soon.

Olympic Dairy, a subsidiary of our joint venture Ultima Foods, launched its Krema yogurt Canada wide. This is a Greek-style Balkan yogurt (thick) that boasts a rich, creamy texture, which inspired the name Krema, which is Greek for "cream." This yogurt, with a fat content of between 9% and 11%, is made using only 100% natural ingredients, is certified gluten-free, and contains no gelatine.



---

## PRIZES AND DISTINCTIONS

In terms of prizes won, Agropur continued its tradition in 2011, posting excellent performances in Canada, the United States and abroad by winning numerous prizes at such prestigious cheese competitions as the Royal Agricultural Winter Fair and the British Empire Cheese Show in Ontario, the International Cheese Awards and the World Cheese Awards in the United Kingdom, and the American Cheese Society and the United States Championship Cheese Contest in the United States. The Cooperative received industry recognition for the quality of its products by winning first prize for the following products:

- Agropur Grand Cheddar
- Camembert L'Extra
- Champfleury
- Chevrita
- Délicrème Garlic and Fine Herbs
- Doucerel
- OKA L'Artisan
- Rondoux Double Cream and Triple Cream

Ultima Foods also stood out at the 2011 Packaging Association Gala, where it won a number of awards for its packaging, including the prestigious PAC Leadership Award (Leader Among Leaders) that recognizes innovation, design, brand development, and the technical processes used in package design. In addition, Canadian consumers voted yogurt Asana as the best new product in its category in 2011 at the Best New Product Awards competition organized by BrandSpark International, an independent research firm based in Toronto.



---

SOME OF OUR  
RENOUNDED BRANDS

*Natrel*

**Québon**

**island  
FARMS**

*Sealtest*

  
AGROPUR  
*Grand Cheddar*<sup>™</sup>  
CANADIAN RESERVE<sup>™</sup>

*Allegro*

**OKA**

FROMAGES FINS  
**ANCO**  
FINE CHEESE

  
AGROPUR  
SIGNATURE

  
agropur  
IMPORT  
COLLECTION

  
la lacteo



#### 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 DIVISION

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:

**Cover:** François Lavallée,  
Agropur member, Ferme Framala Inc.,  
Berthier/Maskinongé Region

**Pages 11 and 13:** Ghislain Grenier,  
Agropur member, Ferme Roghy Inc.,  
Estrie Region

**Page 14:** Marie-Claude Tessier,  
Agropur Cooperative Advisor at  
Ferme Roghy Inc.

**Page 17:** Bruno Turmel,  
Agropur member, Ferme Delestrerie Inc.,  
Des Appalaches Region, accompanied by  
Marie-Claude Tessier, Agropur Cooperative  
Advisor

**Page 18:** Laurent Mignot,  
Agropur member and delegate,  
Ferme Mignot & Fils Inc., Acton Region

**Page 20:** At the regional meeting  
in Acton Vale in November 2011

**Pages 23 and 25:** Jean Marineau,  
Oka plant employee

**Page 27:** François Lavallée,  
Agropur member, Berthier/Maskinongé  
Region, accompanied by his two sons  
Matthieu and Érick, and his grandson Trystan

\* Joint venture

Graphic design: Ig2boutique  
Graphic production: Ig2fabrique  
Photographer: Luc Robitaille  
Printed in Canada

