

IAM

ANNUAL REPORT 2011



PROUD TO BE CELEBRATING
THE INTERNATIONAL YEAR OF COOPERATIVES

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.)¹◀

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



▶LUC CHASSÉ¹

Des Seigneuries
2006



MICHEL COUTURE (E.C.)

De L'Érable
2001



▶ROBERT COALLIER¹◀

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



▶ROGER MASSICOTTE¹

Mauricie/Portneuf
2003



▶VITAL VOULLIGNY◀

Lac Saint-Pierre
2007



LORNA JEAN NEVEU

Laurentides/Lanaudière
1996

GAÉTAN JODOIN¹

Granby
1996



▶JEAN-PIERRE LACOMBE¹

Yamaska
2007



DARIE GAGNÉ

Chaudière
1997



CÉLINE DELHAES◀

Salaberry
2011



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

¹Directors 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.

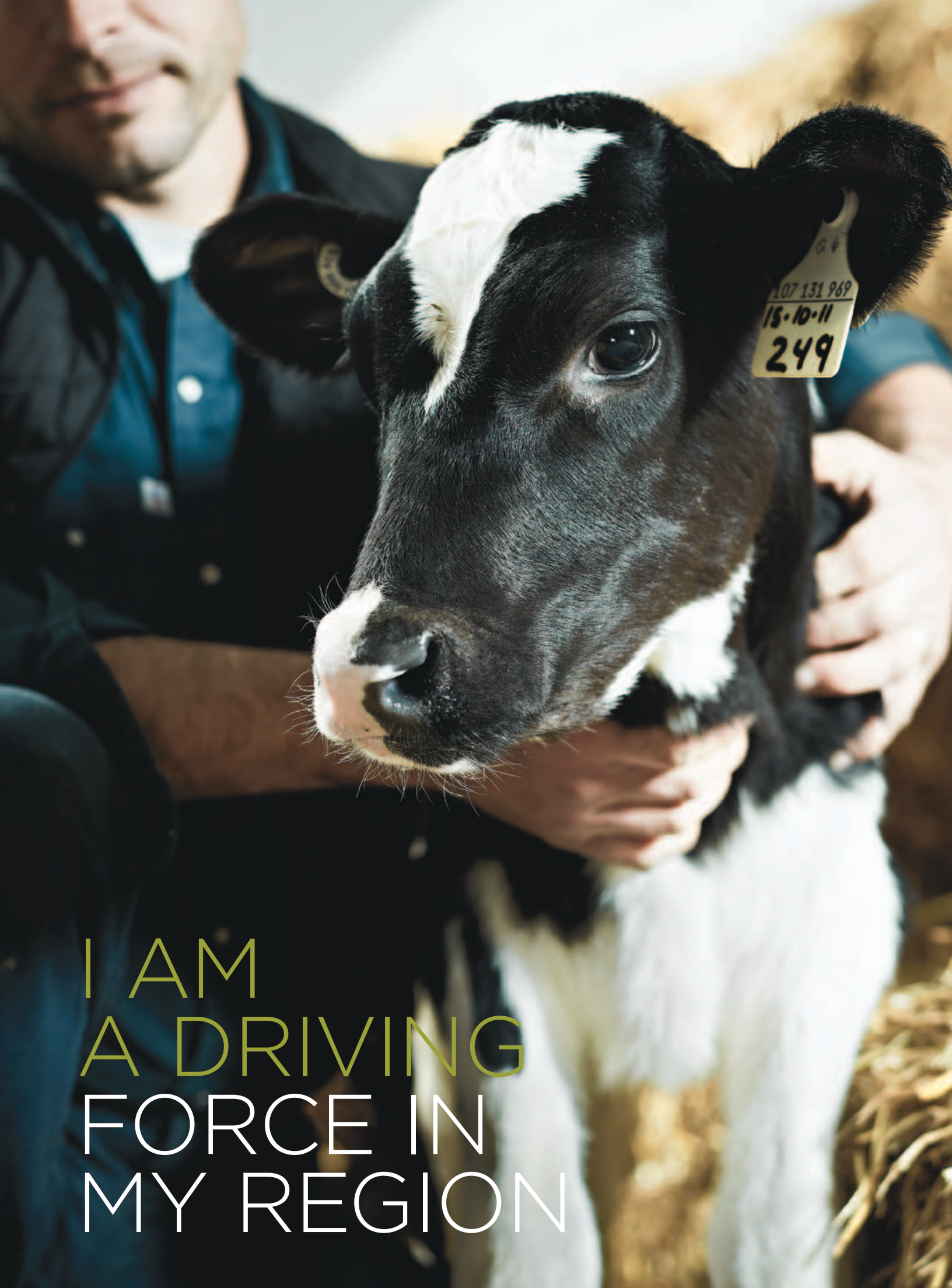
Agropur is steadfast in applying another important cooperative principle, namely **cooperation with other cooperatives**, in particular through its international commitment to **SOCODEVI (Société de coopération pour le développement international)**¹, an agency whose mission is to support the cooperative 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.

¹ 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	FEBRUARY ANNUAL GENERAL MEETING	MARCH MEMBERS' MEETINGS	APRIL MEMBERS' MEETINGS
MAY	JUNE SUMMER FACILITATORS' MEETING	JULY	AUGUST
SEPTEMBER FACILITATORS' MEETINGS	OCTOBER	NOVEMBER REGIONAL MEETINGS	DECEMBER 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-19th 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 SOCODEVI¹ 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)**² 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)**³, 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.

¹A network of cooperatives for international development

²University of Sherbrooke Research and Education Institute for Cooperatives and Mutuals

³Quebec 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





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[™]
CANADIAN RESERVE[™]

Allegro

OKA

FROMAGES FINS
ANCO
FINE CHEESE


AGROPUR
SIGNATURE


agropur
IMPORT
COLLECTION


la lacteo

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450 375-1991

FINE CHEESE DIVISION

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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

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