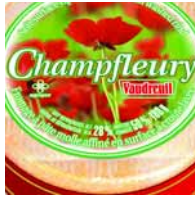


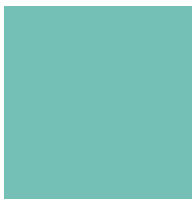
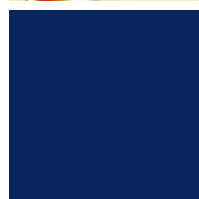
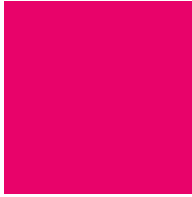
2006 Annual Report
Agropur cooperative

Just for you!



agropur





Agropur

For nearly 70 years, Agropur cooperative has worked daily to offer consumers pure, healthy products that can be distinguished by their good taste, authenticity and superior quality. Strengthened by the support of its 3,939 members and 4,000 employees, the Cooperative annually processes nearly 1.9 billion litres of milk in its 20 plants spread throughout Canada and one plant in the United States. With sales of \$2.3 billion, Agropur occupies a prime position among the leaders of the Canadian dairy industry. Connected to its milieu, Agropur is constantly in tune with the needs and expectations of its consumers, customers, employees and members, as well as the markets.

Agropur. Products just for you.

Agropur.

Products just for you.



Message from the Chairman

“Agropur cooperative is an organization in tune with its members.”

Since 1938, Agropur has been in tune with its consumers, customers and employees, as well as the market place, and has always strived to respond to the needs and requirements of each.

As a cooperative, Agropur is also in tune with its members. In 2002, the latter went through a major reflection process, which paved the way for the adoption, in 2003, of a proposal outlining the organization's main strategic orientations. Discussions regarding membership subsequently helped bring out members' reluctance regarding this issue and some requested that reflection on this topic continue over the medium term. Since then, the Canadian and global economic and dairy environments have undergone considerable change. In order to identify the Cooperative's development milestones and find answers to the questions left hanging in 2003, a reflexion exercise will be initiated among our members starting March 2007.

On-farm milk quality has always been and continues to be an important issue for Agropur. As a result, the Cooperative and its members share a common goal: delivering top-quality milk from the farm to the table. Agropur can be proud of the initiative taken eight years ago and the excellent results achieved by its members in terms of milk quality.

In addition, discussions were held with the Fédération des producteurs de lait du Québec (Quebec Federation of Milk Producers) to have the program developed and adapted to the farm by the Cooperative, using the *HACCP Prerequisites Program* of our Quality Assurance Department, and applied by the Federation for the benefit of all Quebec milk producers.

In a climate where Canadian agriculture and agrifoods are facing numerous challenges, it is reassuring to see that our Cooperative is holding its own. However, certain clouds looming on the horizon may cast a shadow over our dairy situation, such as World Trade Organization (WTO) trade negotiations, which left their mark on the year 2006.

It should be noted that in December 2005, the 149 member countries went one step further by adopting the principles necessary to establish the final terms and conditions of an agreement. These principles are mainly as follows: export subsidies would be completely eliminated by 2013; domestic subsidies that have trade-distorting effects would be reduced on the basis that countries that subsidize the most would have to further reduce their support; lastly, the highest tariffs would be reduced the most significantly, but special conditions would have to apply for sensitive products.

Armed with this agreement in principle, the countries continued negotiations to establish the final terms and conditions of the agreement in order to determine how, at what rate, and how much. Since they were unable to agree on these terms and conditions, the negotiations were suspended in late July 2005. Even though, officially, all the countries want the negotiations to resume as quickly as possible, in actual fact, the suspension of the negotiations could endure. However, nothing can be taken for granted; we must continue to monitor this issue and prepare to adjust to the possible impacts that such an agreement could have on the Canadian dairy industry.

The milk ingredient issue also poses a problem, particularly for the country's milk producers. The decision taken by the federal court in January 2006 permits imports of milk protein concentrates above import quotas, making one more dent in the Canadian dairy system. Not only can manufacturers import butter oil and sugar mixes without limits or restrictions, but they can now import milk proteins at prices lower than those on the domestic market.

Agropur supports the demands of producers who want to find a permanent solution to this problem. However, to remain competitive on the market, the Cooperative must be on an equal footing with its competitors. Upon the initiative of the federal minister of Agriculture and Agri-foods, discussions on this topic were held between producers and processors to find permanent solutions. At the time of going to press, the minister was to announce a new regulation regarding certain dairy product standards within the coming months.

Lastly, the current level of international dairy product prices, compared with domestic prices, obliges us to stay on our guard. Canada is now at risk. In fact, given the value of the Canadian dollar, a slight drop in international butter and powder prices could lead certain players – processors, brokers or retailers – to import foreign dairy products for resale on the domestic market, thereby displacing our own products. For example, last June, despite tariff quotas of 299%, several thousand kilograms of butter from the United States were sold in Canada.

Agropur supports the Canadian dairy system. The latter has benefited and continues to benefit the chain of stakeholders in the industry. However, with even lower exports forecast for 2013, a relatively small domestic market and, above all, minimal global growth, the enterprise is now being forced to look outside the country to ensure its future growth. As its founders said in 1938, “The Cooperative has no borders”. It is this same spirit that continues to drive Agropur's desire to expand.

Since 2001, Agropur has allocated \$350 million in patronage dividends to its members, which demonstrates the kind of economic impact a healthy cooperative can have on communities. Obviously, the results for 2006 would not have been possible without the effort and involvement of our employees, especially the management team and the Board of Directors, to whom I would like to extend my sincere thanks. I would also like to acknowledge those who represent Agropur in various organizations and committees with which the enterprise is involved.



Serge Riendeau
Chairman



Message from the Chief Executive Officer

“The ever-improving results posted for 2006 allow Agropur to continue to forge ahead.”

All the divisions turned in a positive performance, boosting the organization’s sales to \$2.3 billion. In 2006, earnings surpassed the \$100 million mark for the very first time, reaching a new peak of \$110 million.

Despite a fluid milk price war among retailers, Natrel nevertheless managed to increase its sales. This growth stems primarily from the acquisition of the Island Farms dairy in British Columbia in January 2005. Sales price increases were offset by a rise in operating costs. For their part, the cheese divisions also saw their sales improve, due mainly to a general increase in volume from their plants and higher sales to their primary customers. For its part, our Ultima Foods joint venture recorded a sales increase this year, mirroring the sharp rise in the consumption of fresh dairy products in Canada over the past few years.

In order to support growth and maintain the pace, Agropur announced a \$40 million investment last August for the construction of a storage and distribution centre for its two cheese divisions, administrative offices, and a state-of-the-art research and development centre.

In 2006, Agropur demonstrated its ability to innovate by introducing on the market new probiotic-enriched products, such as Natrel Pro milk and Yoptimal immuni+ yogourt. The development of these types of products obviously requires considerable effort on the part of multidisciplinary teams, good inter-divisional cooperation, modern research facilities and an international-calibre research staff. In this regard, the new research and development centre will help our organization maintain its position at the forefront of the Canadian dairy industry, assume a leadership role in Canadian R & D, and increase its efforts in order to keep pace with the rest of the world, particularly Europe.

Ultima Foods, for its part, is completing the expansion work required at its Granby, Quebec plant in order to meet demand. This represents an investment of about \$40 million over three years. The company also plans to inject more than \$18.5 million (excluding the purchase of land) over two years for a project to relocate its head office and national distribution centre. Larger premises became necessary as a result of the steady sales growth experienced by our joint venture during the past few years.

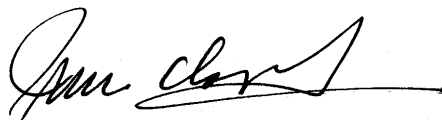
Occupational health and safety is a priority in all of the organization's workplaces and is not just a financial concern. Too often, our employees are put at risk and we must do our utmost to protect them. To this end, an objective of zero lost-time accidents has been established. Senior management members, managers and employees are working daily to make this objective a reality by the year 2009.

The pressures on the Canadian dairy system are constantly mounting, and point to more difficult years ahead for our organization. World Trade Organization (WTO) negotiations, low-cost dairy ingredient imports, increasing domestic prices, sharp appreciation of the Canadian dollar, technological development, concentration of distribution, and consolidation of dairy processing are among the many reasons that are forcing our organization to adopt a clear, common vision and a well thought-out orientations.

Fortunately, our Cooperative is in excellent financial health. Agropur must pursue its development both on the domestic market, where real opportunities still exist – specifically regarding innovation and certain markets such as yogourt and other value-added products – and on international markets, where we can position ourselves to take advantage of the growth of the international dairy industry.

Certain projects are currently under analysis or negotiation and may be completed during 2007. Thus, Agropur could set up operations in the United States, South America or elsewhere in the world, thereby making our desire to pursue our development beyond our borders and position ourselves on the international dairy scene a reality.

With a healthy financial situation and competitive results, Agropur is in a good position to meet the challenges that lie ahead. As a result of the work of the members of the Board of Directors and the Management Committee, our members, our employees, our suppliers, as well as our associated agents and contractors, each of whom I would like to sincerely thank, Agropur has experienced a very productive year. We have at our disposal all the tools we need to forge ahead and conquer new markets.



Pierre Claprod
Chief Executive Officer

In tune with consumers

Agropur strives daily to reinvent milk in order to reveal the various facets of its personality.

Our challenge? To renew ourselves by going off the beaten path, while simultaneously preserving the authenticity and purity of our products. Our objective? To offer top-quality products that meet the growing needs of consumers who are concerned about their diet and increasingly demanding about the products they consume.

Innovative and in tune with the needs of its customers, Agropur continually invests in the research and development of new products that can improve consumers' health. To remain a leader in the Canadian dairy industry, the Cooperative plans to build high-tech research and development facilities. Equipped with modern laboratories to accelerate and enhance R & D in the organization, this new research and development centre will include a pilot plant featuring the equipment necessary to recreate a production environment comparable to that of conventional dairy plants. Dedicated entirely to research and development, this centre will constitute a first in the Canadian agrifood industry.

Over the past few years, lactose-free, calcium-enriched, omega 3 and probiotic milk products have been introduced on the market. With the arrival of new products responding to the needs of consumers, the cheese market was not to be outdone. To continue to grow, Agropur must be at the forefront of needs and trends. As new ideas are hatched, innovative products are constantly being launched.

After leading the way with the introduction of several value-added products, such as milk with extra calcium, Natrel Nutrition 24 and Natrel Omega-3 milk, Agropur innovated once again this year by launching Natrel Pro, the first milk in the country to be enriched with two active probiotic cultures that promote intestinal health and strengthen the body's natural defences.



In the same vein, Ultima Foods created Yoptimal immuni+, the only yogurt to offer a unique combination of two complementary active probiotic cultures made from natural fruit and green tea extracts containing polyphenols, powerful antioxidants effective in the maintenance of overall good health.

With a product line that is expanding yearly, Agropur today occupies a prime place in the refrigerators of consumers, who have good reason to put their trust in the Cooperative.



Our delicious cheeses also remain very popular, proving veritable winners year after year as evidenced by the numerous distinctions earned in 2006.

Britannia cheddar captured the spotlight at the *World Championship Cheese Contest*, in Wisconsin, U.S.A., by ranking first at this prestigious event in the “aged cheddar” category. Over the past ten years, this is the seventh time that Agropur's cheddars have reached the podium of this international contest – including three times as the world's best aged cheddar, thereby making Agropur the most decorated participant.

Marketed in England under the Canadian Reserve label, Agropur's aged cheddar also distinguished itself at the *Nantwich International Cheese Show* (England), where it earned second prize.



At the *American Cheese Society* competition, held in Oregon, U.S.A., first prizes were awarded to plain Délicrème, Ricotta Prestigio and 3-year-old Britannia, while the foursome comprising 3-year-old Britannia, Providence Oka, Brie L'Extra Double Crème and plain Délicrème brought

home four first prizes at the *Royal Agricultural Winter Fair* in Toronto, Canada. Lastly, plain Délicrème walked away with first prize at the *British Empire Show* in Belleville, Canada.



In tune with customers

While consumers are the focal point of Agropur's mission, its relationship with its customers remains a priority since it is they who build special relations with consumers.

It is important for the organization to establish closer ties with its customers and offer them impeccable service. Warehouse stores, retail markets, manufacturers, hotels, restaurants, institutions are all important to Agropur and must be handled with the utmost respect.

To this end, Agropur cooperative will invest nearly \$40 million in the construction of a refrigerated complex combining the distribution centres of its two cheese divisions, as well as an administrative centre for the Fine Cheese Division and a research and development centre. This major investment will make the Montreal suburb of Longueuil the organization's main business centre and will eventually transform this site into Agropur's cheese distribution hub in Canada.



For Agropur, it is about much more than just selling cheese. Aware that consumers are well-informed shoppers, the Fine Cheese Division ensures that the personnel in the grocery stores we serve know the ABCs of our products. Training sessions on the special attributes of each cheese are therefore offered to grocery store chains, helping them stand apart through more personalized service.



Natrel's sales team can now rely on a new work tool: a portable computer notepad aimed at maintaining and enhancing our leadership position in the eyes of customers through the rapidity and accuracy of information. Category management, planograms and customer promotions are among the aspects that have been reviewed and improved. Ultimately, sales time is focused entirely on customers – where it should be.



The slogan *Driven by customer needs*, adopted by the Cheese and Functional Products Division, represents a veritable organizational culture change that encourages all areas of the Division to align their efforts with those of Customer Service by improving, among other things, the speed at which they react and respond to customer requests. This approach clearly reflects the Division's desire to establish closer ties with the retail market, particularly, the food service sector. All the Division's employees keep "customer focus" in mind as they do their utmost to establish closer ties with customers and distinguish themselves through quality service.

While they do not enjoy the reputation of major labels, functional products represent a large share of the sales of the Division, which makes sure to improve them for the benefit of its target audience, processors.

In order to support a level of growth reaching nearly 10% over the past few years, as well as distinguish itself from the competition, Ultima Foods must constantly innovate. During the previous two years, in response to constant consumer demand for added-value products, Ultima brought seven new products to market.

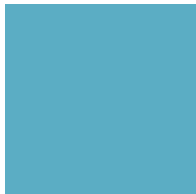


In tune with employees

Agropur gives great importance to its employees' wellbeing and, in turn, to occupational health and safety.

The financial impact of a plant production shutdown is always significant, but the organization never loses sight of the human aspect of a work accident. For the Cooperative, it is unacceptable that any of our employees be exposed to danger, which is why we encourage them to adopt safe behaviour. We readily invest in the latest equipment for our workplaces, in order to protect the health and safety of our employees.

Over the past year, several collective agreements of five years or more were signed, thereby ensuring, in most workplaces, a labour peace beneficial to both the organization and its employees.



Communication also plays a vital role in the organization. The creation of the position of Vice-President, Communications and Public Relations clearly reflects senior management's desire to make communications a priority, both internally and externally. In addition to an internal newsletter published six times a year, several activities, such as the annual meeting of senior management employees, the presentation of divisional/strategic plans, the occupational health and safety meeting, and the employee service recognition program, provide other opportunities to build closer ties with our employees. Also, in order to keep in touch with our workplaces, the Chief Executive Officer and the Presidents of our three divisions conduct an annual tour. In addition to visiting our facilities, they take the time to meet and talk with our employees. This approach promotes better communication and understanding, as well as bringing employees and senior management closer together. The annual presentation of our strategic plans is also an ideal opportunity for our Divisional Presidents to maintain contact with our employees.

By virtue of our various acquisitions, Agropur has achieved national stature and, in turn, inherited the features associated with this type of organization, such as regional, linguistic and cultural differences. Far from being harmful, these changes have, instead, increased the organization's desire to ensure good communications with its employees. Agropur has, therefore, maintained a human dimension and kept in tune with its employees. Many employees have the opportunity to make a career within the Cooperative and move up the ranks, thanks to our successful manpower planning process.

At Agropur, the philosophy is simple: the healthy growth of the organization can only take place with the support of competent human resources. The Cooperative's development depends on our ability to develop the many talents within our ranks.



In tune with markets

With the globalization of markets, it is no longer possible for an organization like Agropur to conduct market analyses without taking into account what is happening elsewhere.

Today, it is essential to have a clear vision and an overall perspective of the world dairy market. Over the past ten years, the industry has undergone many transformations and has seen its activities converge. Consolidation continues and we, at Agropur, are actively responding to these global changes.

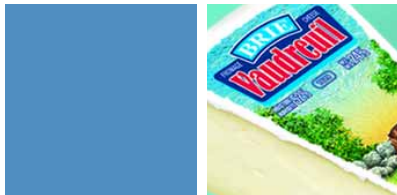
At Natrel, in order to accelerate the pace of developing, creating and launching new products, the Marketing Department has been restructured to incorporate divisional research and development activities.

At our Don Mills facility, following the implementation of a computerized inventory management system providing a link between the plant and the refrigerated warehouse, our operation can now fully assume its role as the distribution hub for all of southern Ontario.

Changes to the positions of President and Vice-President, Marketing have breathed new life into our Fine Cheese Division, which continues to strive on the popularity of our existing brands, while developing and adapting our product line to market needs. The Division strives to continue to lead the way by increasing fine cheese sales in both Eastern and Western Canada.

At Ultima Foods, efforts invested outside of Quebec have paid off, with a noticeable increase in sales and market shares. The popularity of Yoplait Source in the diet product segment continues to grow, generating additional sales, while Yop drinkable yogurt also helped maintain sales growth by posting volume increases. Other products such as Creamy, Tubes and Minigo continued to perform well.

Proud of our Quebec roots and the important role we play in the Canadian economy, Agropur is determined to forge ahead. Firmly focused on the future, the organization intends to pursue its growth and development, while staying abreast of any potentially profitable business opportunities.





Board of Directors



RENÉ GRIMARD^{1,2}
Vice-Chairman
Des Appalaches 1995



SERGE RIENDEAU¹
Chairman
Estrie 1991



ROGER DAOUST¹
Salaberry 1993



FRANÇOIS PELLETIER
Yamaska 2002



ROGER BEAULIEU
Est du Québec 2000



DANIEL LAMY²
Berthier / Maskinongé 2004



LORNA JEAN NEVEU
Laurentides / Lanaudière 1996



DENIS VALLÉE²
Lac Saint-Pierre 1991



ROGER MASSICOTTE
Mauricie / Portneuf 2003



LUC CHASSÉ
Des Seigneuries 2006



MICHEL COUTURE^{1,2}
De L'Érable 2001



RENÉ MOREAU^{1,2}
Bois-Francs 1998



GAÉTAN JODOIN
Granby 1996



DARIE GAGNÉ
Chaudière 1997



JEAN FILIATRAULT
Acton 1993

Legend: Director/Administrative region/Year elected to the Board

¹ Executive Committee members ² Directors whose term expires in 2007; however, they can be re-elected.

Management Committee

From left to right



ROBERT GOUR
President
Fine Cheese Division

PIERRE CLAPROOD
Chief Executive Officer

LOUIS LEFEBVRE
President
Cheese and Functional
Products Division

BENOIT GAGNON
Chief Financial Officer

SERGE PAQUETTE
President
Division Natrel



MICHEL LECLAIR
Vice-President
Quality Assurance

DENIS LACHANCE
Vice-President
Legal Affairs and
Corporate Secretary

JACQUES R. ROLLAND
Vice-President
Research and Development

JEAN BRODEUR
Vice-President
Communications
and Public Relations

SCOTT McDONALD
Vice-President
Human Resources

DOMINIQUE BENOIT
Vice-President
Institutional Business and
Member Relations

Agropur cooperative

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* Joint venture

