

ANNUAL REPORT 2014

TOGETHER TO SECURE OUR SUSTAINABILITY.



AGROPUR
Dairy Cooperative

TOGETHER TO SECURE OUR SUSTAINABILITY

Agropur's 2013 Annual Report marked the Cooperative's 75th anniversary and underscored the passion and vision that have spurred our members and employees since 1938. In the same spirit, this 2014 Annual Report shows continuity, how the organization has remained relevant and current, and how it has transformed itself while remaining true to the values by which it has been guided throughout the years.

In today's dairy industry, new challenges are arising, the competition is evolving and customers are changing. As the landscape shifts, Agropur and its stakeholders need, more than ever, to act in unison.

Members and employees work together to ensure the Cooperative's sustainability.

During the past year, Agropur strengthened its industry-leading position in Canada and became a significant player in the North American dairy industry. Agropur remained committed to developing on the basis of cooperative principles, preserving its members' vision and keeping alive the legacy of the past. Agropur is confident that together, producers and employees can create winning conditions for the organization.

Clinton Lewis, Agropur Cooperative Member
Charles R. Lewis Farm
Moshers Corner, Nova Scotia





MESSAGE FROM SERGE RIENDEAU

TOGETHER TOWARDS NEW HORIZONS

Dear members and employees,

2014 was certainly a historic year for Agropur. Our Cooperative made a series of transformative moves as part of a strategy for solid, profitable growth aimed at securing the organization's future.

The global dairy industry is undergoing fast-paced consolidation. We have demonstrated that our Cooperative is able to play an active role as a consolidator by seizing the strategic opportunities that arise and positioning itself as a significant processor in our industry.

The year was also marked by a string of public events at which Agropur had a high profile. We had numerous opportunities to explain that our goals and concerns revolve around our members' interests and our

organization's sustainability, and will continue to do so. This is why we aim for nothing less than excellence.

Our Cooperative is the product of more than 140 mergers and acquisitions since 1938. It has grown from a regional organization into a North American leader that is positioning itself for the future. We are confidently pursuing growth and we are gratified that our efforts are bearing fruit.

AGROPUR CONTINUES TO GROW

During 2014, we laid strategic and structuring foundations for our organization's future. We completed the merger with Dairytown and made transformative acquisitions in both Canada and the U.S.

Our Cooperative became a Canadian leader, with processing operations stretching from coast to coast. Moreover, we became a major processor at the North American level, joining the ranks of the top five manufacturers of cheese and ingredients in the United States.

Today, we are proud to report that Agropur is among the 20 largest dairy processors in the world. We have achieved this stature for the right reasons: we want

to be large enough to effectively serve our customers, which are increasingly international, and to face world-wide competition.

While our transactions and investments in our facilities entailed major expenditures in 2014, Agropur's financial position remains healthy and will enable us to pursue our development.

“I WOULD LIKE TO THANK ALL OF OUR MEMBERS AND EMPLOYEES FOR THEIR WORK AND DEDICATION IN 2014.”

— S. Riendeau

CANADA-EUROPE TRADE AGREEMENT

In recent years, Agropur has made a series of significant moves in Canada to support its development and that of the industry. Three cooperatives have merged to help keep dairy processing assets in the hands of producers. Our Cooperative launched iögo, the only major Canadian yogurt brand. It made substantial capital expenditures to keep its plants at the cutting edge while carrying out acquisitions that have made it the largest dairy processor in Canada.

Agropur recently invested more than \$100 million to grow the fine cheese market. Consumers appreciate the quality of Agropur’s products in this niche. Canada’s fine cheese market has been developing for 35 years, in compliance with Canada’s cheese import obligations.

In September 2014, Canada signed the free trade agreement with Europe announced in October 2013. At this point, we are still waiting for details on the conditions that will apply to the additional 17,700 tonnes of European cheese imports. We believe that the import quotas should be allocated to the players that have developed the Canadian fine cheese market and will be adversely affected by the agreement. We hope that Agropur will receive its fair share of import quotas to avoid cannibalizing our domestic products. Agropur is making representations to this effect.

2014 INTERNATIONAL SUMMIT OF COOPERATIVES

The second International Summit of Cooperatives was held in Québec City in October 2014 and Agropur played an important role at the major gathering of cooperatives.

First, we participated in a panel discussion on the Canada-Europe free trade issue and put forward our point of view as a dairy industry

player that will be affected by the agreement signed on our behalf by our political leaders.

ALSO AT THE SUMMIT, WE ORGANIZED THE AGROPUR DAIRY FORUM. DISTINGUISHED SPEAKERS FROM MAJOR DAIRY COOPERATIVES FROM AROUND THE WORLD MADE IT A RESOUNDING SUCCESS.

The two-day forum was an opportunity for my colleagues and me to exchange ideas about our dairy cooperatives’ successes and challenges with cooperators from India, the Netherlands, France, Australia, the U.S. and of course Canada. Above all, I believe these meetings confirmed the value of our cooperative model and its ability to confront major international challenges.

UPDATED GOVERNANCE

Following our reflection on our Board’s operation and our meetings of recent months, delegates voted for changes to Agropur’s governance, including the creation of new director-at-large positions to which candidates are presented and elected by universal suffrage. A member who wants to run for the Board can therefore do so even if there is already an elected director from his or her region.

When the changes came into effect on June 1, 2014, the number of directors-at-large was set at two and the number of directors presented regionally and elected by universal suffrage at ten. Under the Cooperative’s By-Laws, the proportions can be altered at the Board’s discretion. This major change in the way we operate will be phased in over a three-year period.

WE BELIEVE IT WILL ENCOURAGE MEMBERS TO BECOME MORE INVOLVED IN CHOOSING THEIR REPRESENTATIVES.

2014 will go down as a watershed year in Agropur’s history. Our merger and our acquisitions in both Canada and the United States were historic, strategic and transformative. Today, we have still more processing assets owned by our milk producer-members to support our development. We have many projects

in keeping with our capabilities and our ambitions. We have a rich associative life. We make some of the best products on the market and we are constantly working to win over more consumers.

WE SEE CHALLENGES LYING AHEAD BUT ALSO AN ARRAY OF OPPORTUNITIES. OUR COOPERATIVE IS NOW IN A BETTER POSITION THAN EVER TO SEIZE THOSE OPPORTUNITIES. ITS SOUND FINANCIAL HEALTH WILL ENABLE IT TO CONTINUE GROWING AND REMAIN VIABLE.

On behalf of the Board of Directors, I would like to thank our 3,445 members for their engagement in 2014. I thank the management team, our CEO Robert Coallier, and our employees for their commitment, involvement and contribution to the Cooperative's success.



SERGE RIENDEAU
President
Agropur Cooperative



MESSAGE FROM ROBERT COALLIER

TOGETHER TO WIN

Dear members and employees,

Even though our results are below expectations, I would like to express my satisfaction with our accomplishments of 2014. Not only did we step up the pace in our battle against strong competition, we also carried out strategic transactions that have made us a significant player in the North American market. We worked together to create winning conditions and secure the Cooperative's future.

In 2014, our revenues increased by 21.3% to \$4.7 billion. EBITDA, restated to reflect the accounting treatment of Davisco's inventory and certain one-time costs, rose 3.1% to \$270.6 million, and members' equity amounted to \$1.2 billion.

As our results show, the business environment was particularly competitive during the year just ended. Rapid consolidation continued in the global dairy industry and the Canadian market remained so competitive that our

profits were significantly affected. We therefore focused more than ever on strategic actions aimed at exploiting opportunities for profitable growth and securing a leading position in the North American market.

STRONG, STAND-OUT BRANDS

Agropur's success in 2014 derived from its continuing focus on strong brands that stand out in consumers' minds. In accordance with the Agropur 2015 strategic plan, the organization devoted considerable effort and significant sums to its brands in order to leverage their growth.

In 2014, we made additional efforts to set our brands apart from the competition. Our investments in our flagship brands OKA, Natrel and iögo continue to pay dividends: today, they enjoy a more solid position in the marketplace and within their market segments. Agropur has a clear objective for its brands: we want them to become the standard-setters in their category, the brands consumers come back to day after day.

INNOVATION: SHAPING THE FUTURE

In 2014, we continued our push to innovate by developing new products and reviewing our processes. A string of major initiatives, such as the ERP project and investments in our plants, built Agropur's ability to compete in the marketplace and become a world-class organization.

We are fortunate to be in an industry with exceptional potential for innovation. However, we know that much remains to be done in order to fully realize that potential.

AGROPUR BELIEVES THAT LEVERAGING ITS EMPLOYEES' EXPERTISE AND REVIEWING THE WAYS IT INNOVATES WILL EQUIP IT TO BECOME MORE RESPONSIVE TO CUSTOMERS AND CONSUMERS.

The organization plans to step up its efforts on this front in the coming months.

COST LEADERSHIP PROVIDES MANOEUVRING ROOM

The Agropur 2015 initiatives have laid the foundations for the Cooperative's drive to meet the competition and gain manoeuvring room. Our expanded production capacity and improved efficiencies give us levers for achieving greater profitability.

Over the past two years, Agropur has attached prime importance to leadership in cost management. Despite the fiercely competitive environment, Agropur has been able to strictly control costs and generate significant savings.

IN FISCAL 2014, NET SAVINGS TOTALLED \$60 MILLION ON AN ANNUALIZED BASIS, OR 80% OF THE TARGETED \$75 MILLION INCREASE IN EBITDA BY 2015.

Pooling key services and streamlining work processes also generated significant synergies, a necessity for achieving profitable growth in the context of intensified competition. More than ever, business realities demand tight cost controls and we are maintaining our efforts in this respect.

OUR HUMAN CAPITAL

Employees dedicated to Agropur's success are among our Cooperative's most valuable assets. Respect and personal engagement have always been core values for Agropur. Attracting, retaining and developing the best talent is vitally important to any organization that wants to perform and innovate. Our new talent management program promises to draw the best candidates.

By simplifying Human Capital management processes, Agropur has been able to provide its people with a more enriching experience in the workplace. New team-building initiatives will be launched in the coming months. Finally, Agropur's recent merger and acquisitions will necessitate the integration of nearly 2,000 new employees into the Cooperative's existing 6,000-strong workforce and we have certainly asked more of our employees, a key success factor for Agropur. We will therefore continue working to ensure our employees derive satisfaction from their work, individually and collectively, and supporting their development within the organization.

NATIONAL AND INTERNATIONAL STRATEGY: BUILDING THE AGROPUR OF TOMORROW

Agropur made substantial investments to drive its recent growth. Over the last two years, the Cooperative carried out ten transactions in Canada and the U.S., including six in 2014: Damafro, M. Larivée International (MLI), the merger with Dairytown Products Ltd., Northumberland Dairy, Sobeys, and Davigo Foods International in the U.S. We firmly believe that we must remain a significant player and be a consolidator in the global dairy industry if we are to solidify our market position and ensure Agropur's sustainability.

To finance our acquisitions and our plant investment plans, we have consolidated our credit facilities and increased the total amount to nearly \$2 billion. As of November 1, 2014, we were using a little over half of that amount. However, despite our higher debt levels, our financial position remains sound.

We are confident that the measures we are taking and the mergers and acquisitions we are carrying out will better position us to take advantage of our industry's development. We see this as a prudent and strategic approach to achieving profitable growth.

Following our recent transactions, we will be processing 5.4 billion litres of milk* per year in 40 plants* across North America thanks to the daily work of our employees, to whom I am truly grateful.

2014 was a year of great challenges and great achievements. While the market environment remains difficult and competition has increased, we believe we have taken the right steps for our future. But with our increased presence in the United States, we will have to deal with the impact of a greater price fluctuation on our financial results.

IN THE COMING YEARS, AGROPUR INTENDS TO CONTINUE ITS CONSOLIDATION EFFORTS IN CANADA, EXPAND ITS PRESENCE IN THE U.S. MARKET AND DEVELOP IN HIGH-POTENTIAL GLOBAL MARKETS.

Our growth will maintain our status as a significant player in the North American arena. Business risk will persist but we will manage change and adapt the organization

to the competitive business landscape. We will seek profitable strategic growth in North America while pursuing the exploration of new markets.

I sincerely thank the members of the Board of Directors and our President, Serge Riendeau, for their confidence and support. I also thank the members of the Management Committee for their key contributions and their dedication. Last but not least, I am grateful to all employees for their outstanding effort in this time of upheaval, for we must all work together to secure our sustainability.



ROBERT COALLIER
Chief Executive Officer
Agropur Cooperative

BOARD OF DIRECTORS

1
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▲ JEANNIE VAN DYK
Vice-President
Atlantic 2013



◀ RENÉ MOREAU
Vice-President
Nicolet — Bois-Francs
1998



▲ SERGE RIENDEAU
President
Estrie — Granby 1991*



▲ ROGER BEAULIEU
Est du Québec 2014



▲ LUC CHASSÉ
Érable — Seigneuries
2006*



▲ CÉLINE DELHAES
Laurentides —
Lanaudière 2011



▶ JEAN FILIATRAULT
Montérégie 1993



▲ GAÉTAN JODOIN
Salaberry — Richelieu
1996*



▲ DANIEL LAMY
Mauricie — Portneuf
2004*



▲ VALÈRE LIEUTENANT
Estrie — Granby 2012*



▲ **JIM WALKER**
Guest Member of the
Board of Directors 2014



▲ **RALPH BALLAM**
Guest Member of the
Board of Directors 2013



▲ **RÉAL BRUNET**
Guest Member of the
Board of Directors and of
the Audit Committee 2012



▲ **ROGER MASSICOTTE**
Third Member
of the Executive
Mauricie — Portneuf 2003*



▲ **MICHEL COUTURE**
First Member
of the Executive
Chaudière — Appalaches
2001



▲ **JEAN-PIERRE LACOMBE**
Second Member
of the Executive
Salaberry — Richelieu
2007*



▲ **DARIE GAGNÉ**
Chaudière — Appalaches
1997



▲ **ALAIN FORGET**
Laurentides —
Lanaudière 2014



▲ **VITAL VOULLIGNY**
Nicolet — Bois-Francs
2007

Legend:
Director
Administrative region and year elected to the Board

*Directors whose term expires in 2015,
but who could be re-elected.



▲ **ROBERT COALLIER**
Chief Executive Officer



◀ **LORRAINE BÉDARD**
Senior Vice-President,
Legal Affairs,
Member Relations and
Corporate Secretary



▲ **LOUIS LEFEBVRE**
President, Cheese and
Ingredients Division

MANAGEMENT COMMITTEE

1
2



▲ **PIERRE CORRIVEAU**
Senior Vice-President,
Human Capital



▲ **BENOIT GAGNON**
Executive Vice-President,
Corporate Development



▲ **SERGE FORTIER**
Senior Vice-President,
Information Technology



▲
JOCELYN LAUZIÈRE
Senior Vice-President and
Chief Financial Officer



◀
SERGE PAQUETTE
President, Division Natrel
and Fresh Products



▲
DOMINIQUE BENOIT
Senior Vice-President,
Institutional Affairs
and Communications



▲
ROBERT GOUR
Senior Vice-President,
Change Management



▲
NICOLAS MARIE
Senior Vice-President,
Strategic Sourcing
and Development

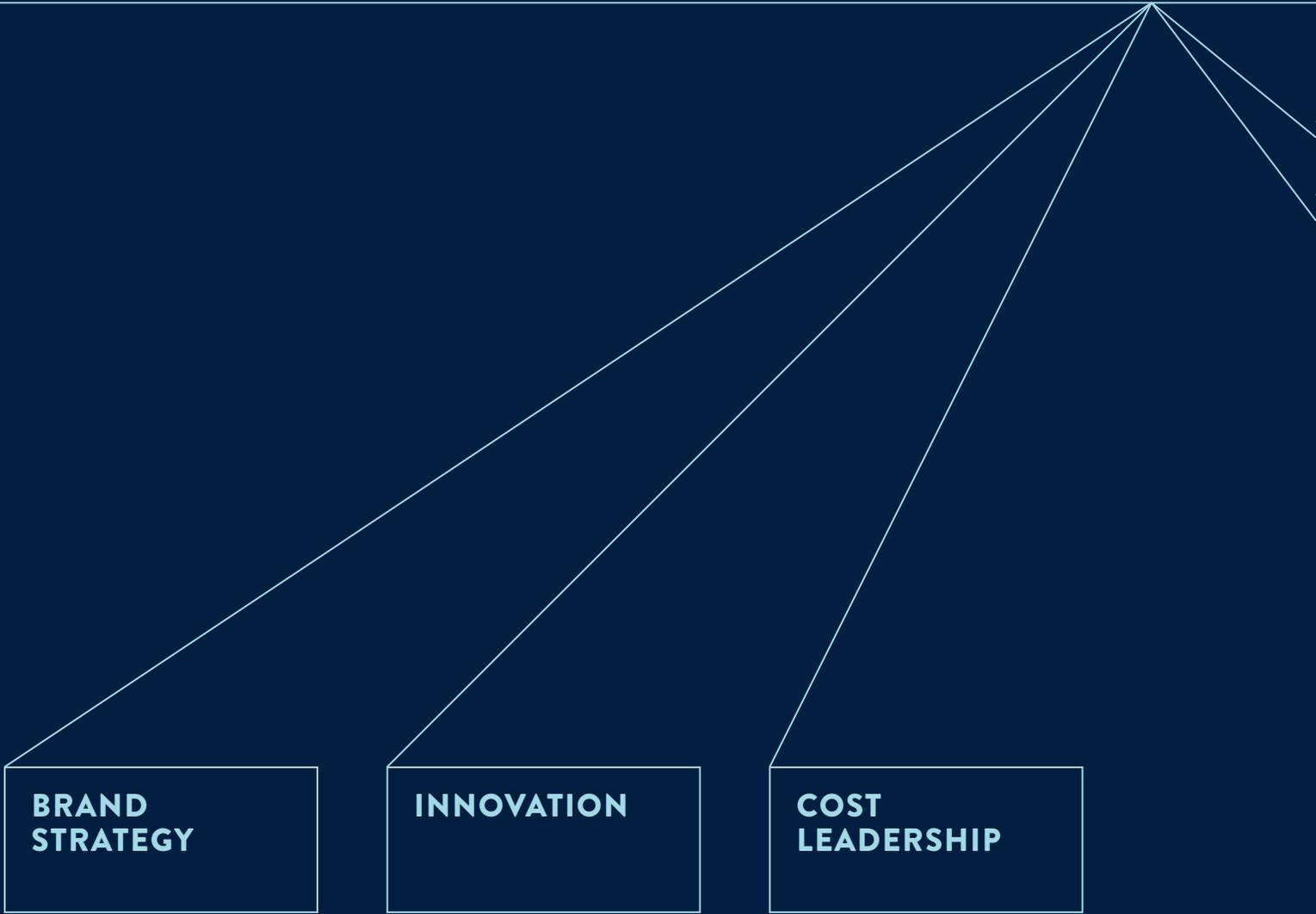


▲
BENOIT ZOLNAI
Senior Vice-President,
Operational Excellence
and Quality

INTRODUCTION TO OUR FIVE PILLARS

TOGETHER FOR SUCCESS

1
4



**BRAND
STRATEGY**

INNOVATION

**COST
LEADERSHIP**

“TO FACE OUR CONSIDERABLE CHALLENGES, A CLEAR AND WELL UNDERSTOOD VISION IS THE KEY TO SUCCESS. WE ARE STRIVING TO ANCHOR IT FIRMLY THROUGHOUT THE ENTIRE ORGANIZATION.” — R. Coallier

THE BUSINESS ENVIRONMENT WAS PARTICULARLY COMPETITIVE IN 2014.

Industry consolidation continued at a fast pace, market pressure on prices remained strong, and total Canadian dairy consumption declined. It was therefore very

important for Agropur to act strategically, seize growth opportunities and position itself as a leader.

In its strategic plan, the Cooperative defined five pillars that undergird its approaches and actions. They are aimed at equipping the organization to face the competition and deal with industry consolidation.

**HUMAN
CAPITAL**

**NATIONAL AND
INTERNATIONAL
DEVELOPMENT**

TOGETHER FOR DEVELOPMENT

1
6



IN A MARKETPLACE WHERE DAIRY PRODUCTS ARE BECOMING INCREASINGLY ANONYMOUS DUE TO GENERIC ADVERTISING, AGROPUR BELIEVES IT IS VITALLY IMPORTANT TO DISTINGUISH ITS BRANDS IN ORDER TO SHIELD THEM FROM THE IMPACT OF MAJOR CHANGES, SUCH AS THE CANADA-EUROPE TRADE AGREEMENT.

İÖĞO MARKET SHARE IN CANADA, CLOSE TO

12%



A \$45 million investment has therefore been made in the Oka cheese brand to develop its marketing plan and increase the plant's manufacturing capacity. Agropur is pursuing clearly defined volume increase targets with the goal of ensuring that customers demand that the product be on the shelves and ultimately, achieve the critical mass that will make the Oka brand the standard for fine cheese in Canada. The results thus far have been highly positive: a significant increase in Oka's sales volume since the beginning of January 2014.

Considerable effort has also been devoted to the Natrel brand. Agropur has rebranded Natrel to emphasize its salient features: Natrel, a fresh and natural product of superior quality. The new brand image has yielded clear and convincing results. Natrel is now differentiated from the competition, projects a contemporary image and is more readily distinguishable on the shelf. The application of creativity and innovation has breathed new life into Natrel:

its market share is up in all categories, in a market that shrank by 2% in 2014.

Finally, the İöğö brand, which celebrated its second birthday in August 2014, continued making headway in 2014, registering a market share of close to 12% in Canada. On the strength of this performance and its confidence in İöğö's strong potential, Ultima Foods, a joint venture of Agropur and Agrifoods, plans to continue investing in the brand. The team is now directing its efforts towards İöğö's next phase of growth, with an ambitious 20% market share target.



BEST BEFORE ▲ M.F. M.G.

3%
M.F.
M.G.

LACTOSE FREE

THIS PRODUCT IS NOT TO BE KEPT AT ROOM TEMPERATURE FOR LONGER THAN 24 HOURS

STAYS FRESHER LONGER, NATURALLY!

RESTE FRAIS PLUS LONGTEMPS, NATURELLEMENT!

Natrel

Natrel

FINE-FILTERED • FINEMENT FILTRÉ

HOMOGENIZED MILK

NEW NOUVEAU

SANS LACTOSE FREE

LAIT HOMOGÉNÉISÉ

is
INSPIRED
by nature
AND YOU CAN
TASTE IT
IN EVERYTHING WE DO

est
INSPIRÉ
de la nature
ET ÇA SE GOÛTE
DANS TOUT CE
QU'ON FAIT

3%
M.F.
M.G.

HOMOGENIZED MILK

LAIT HOMOGÉNÉISÉ

VITAMIN D ADDED

ADDITIONNÉ DE VITAMINE D

NEW FRESH-SEAL PACKAGING
NOUVEL EMBALLAGE FRAICHEUR

2L

INNOVATION AND COST LEADERSHIP

TOGETHER FOR PROSPERITY

INNOVATION

Significant amounts have been allocated to the ERP project as part of the Agropur 2015 strategy. ERP will upgrade Agropur's IT systems, improve their performance, and standardize, integrate and streamline operating procedures.

ERP is a major project that will implement a single IT platform for all of Agropur's management activities. It will yield substantial savings, add significant value to all operational processes and afford access to real-time information. The first phase will be completed in 2015.

Agropur invested over \$230 million in infrastructure and plants in 2014. \$120 million was spent over two years on expansion of the Luxembourg, Wisconsin plant to make it a world-class facility. The new plant has been in operation since May and is now ramping up to full capacity, which will triple its primary processing volume. Also in Wisconsin, Agropur invested \$9 million in Weyauwega and \$7.6 million in Little Chute to expand the plants and considerably increase their production capacity.

Agropur also invested in its Canadian facilities. More than \$100 million was spent on upgrades and capacity increases at the Lethbridge plant in Alberta and the Oka and Saint-Hyacinthe plants in Quebec, and the construction of a laboratory and the new head office in Longueuil, Quebec.

COST LEADERSHIP

In 2014, Agropur maintained a stringent cost control program aimed at generating substantial recurring savings across the organization. In fiscal 2014, that program yielded nearly \$46 million in cumulative net savings,

or \$60 million on an annualized basis. Agropur is therefore on track to achieving its target of improving earnings before interest, income taxes, depreciation, amortization and joint ventures (EBITDA) by \$75 million by the end of fiscal 2015. The savings will enable Agropur to absorb the substantial price reductions granted to customers.

As well, allocating new cross-cutting responsibilities for operational excellence and strategic procurement, reviewing procedures to simplify work processes and pooling services will produce additional savings and increase Agropur's agility on all fronts.

These efforts are necessary if we are to remain competitive and maintain our leadership in a challenging market. The cost leadership initiative, which is vitally important for profitable growth in the current market, will continue in fiscal 2015.



Jim Schuster,
Cheese Plant Manager
Mark Konrad,
Whey Plant Manager
Jenna VanBoxtel,
Whey Plant Operator
Luxemburg Plant, Wisconsin,
US Cheese Business Unit

HUMAN CAPITAL

TOGETHER TO DO MORE

An organization's performance, its success and its very life hinge on the commitment of its people. This premise is the basis of Agropur's Human Capital pillar. Agropur's ability to attract talented people, retain and develop them to their full potential is a powerful strategic lever in the current competitive environment.

Agropur pursued a multi-pronged approach to Human Capital in 2014. In keeping with the cross-cutting approach to responsibilities for operational excellence and strategic procurement, the organization strengthened its service-sharing structure. That will facilitate introduction of a new talent management program which will allow for a more accurate assessment of individual capabilities and make it possible to select the organization's best people for special attention.

The Cooperative also reviewed its incentive compensation programs to align them with its own objectives and ensure that they are competitive on the market.

Agropur's strong growth during the year will lead to the integration of hundreds of new employees following the recent transactions. During the coming months, new team-building and employee mobilization initiatives will also be launched: recognition programs, on-boarding, access to Agropur products, a communications/social media policy. Human Capital management processes have been streamlined in order to provide Agropur's people with a more enriching experience in the workplace.

DONATIONS AND SPONSORSHIPS

True to its values of mutual aid and solidarity, Agropur makes donations to promote the health and well-being of children and families, and to help groom the next

generation for the food processing sector. The money goes to both local communities and major organizations known for their work in these areas.

AGROPUR'S SPONSORSHIPS PROGRAM SUPPORTS ACTIVITIES WITH PRODUCTS AND CASH DONATIONS.

During the past year, the Cooperative made donations totalling nearly \$2 million, or slightly more than 1% of the earnings before patronage dividends and the Cooperative's income taxes, to causes chosen through a rigorous process.

The numerous events sponsored by Agropur in 2014 included the Summit of Cooperatives held in Québec City, Quebec in October, which was attended by leaders of cooperatives and mutualists from around the world. Agropur was also a major partner of the "Jeux du Québec" games in Longueuil, Quebec, where it was the exclusive supplier of dairy products to the athletes, coaches and volunteers.

AGROPUR GAVE
CLOSE TO
\$2M
TO DIFFERENT
CAUSES IN 2014.

AGROPUR
EMPLOYEES'
FUNDRAISING
CAMPAIGN

\$74,000

Agropur's major donations and sponsorships also include the Breakfast Clubs of Quebec and Canada, the "Moisson" food banks in most regions of Quebec and the Fondation OLO, to which Agropur increased its annual contribution. The Cooperative made donations to a number of U.S. universities, including colleges in South Dakota and Wisconsin. In Canada, it provided financial support to the University of Guelph in Ontario, McGill, Macdonald Campus in Quebec and hospitals in several provinces, including the IWK Health Centre Foundation in Halifax, Nova Scotia, the Janeway Children's Hospital Fund in St. John's, Newfoundland, and Hôpital pour enfants Sainte-Justine in Montreal, Quebec.

In September 2014, 120 employees participated in a 48-hour bicycle relay race at the Gilles-Villeneuve Circuit in Montreal, Quebec to raise money for the Make-A-Wish Foundation of Quebec. They collected a total of more than \$150,000. Agropur employees were part of the event for the sixth consecutive year.

FUNDRAISING CAMPAIGN

Agropur employees are encouraged to hold their own fundraising activities in the workplace. The various fundraising committees choose the causes and organizations for which they will collect money. In 2014, a number of initiatives were carried out during the employee fundraising campaign, which extended from April through September. Agropur matched every dollar raised. During the campaign period, Agropur

and employees at a dozen sites turned a total of more than \$74,000 over to organizations such as the Fondation de l'Hôpital Charles-Le Moyne, the Canadian Cancer Society/Relay for Life, the Children's Wish Foundation, VON Sakura House, the Bread Basket, the YMCA Meal Program and the Make-A-Wish Foundation of Quebec.

SUCCESSION PLANNING

With an eye to the future, Agropur does its utmost to support young talent in its industry. Its initiatives to encourage the next generation include a scholarship program that distributes thousands of dollars of bursaries to students from programs related to agriculture or food processing. In 2014, bursaries were again awarded to students who had distinguished themselves in various ways in the course of their studies.

At the same time, Agropur's young cooperative leaders program introduces young cooperators to associative life. It is a way for Agropur to prepare participants to perform their roles as member-owners, to become involved and perhaps to stand for election to the Board one day. Agropur recognizes its responsibility to facilitate the transition to the leadership of the future. During the year, dozens of youths had the opportunity to take Agropur's various young cooperative leaders programs, which have now been in existence for more than 30 years.

ENVIRONMENT

Agropur's environment committees, which include members of the Board of Directors and management, are responsible for legal compliance at its facilities. Environment Services manages an in-house system whose functions include monitoring regulations and performance improvement opportunities.

A number of projects designed to reduce the use of drinking water and energy are in progress. During the year, the Ville Saint-Laurent plant completed a major water reduction project that will decrease water consumption by 121 million litres per year. The Truro plant reduced greenhouse gas emissions by more than 25% by converting its heavy oil boiler to propane and reusing evaporated water in the various phases of the process. In Victoria, a project to reuse water in a loop reduced water consumption by 10 million litres per year and improvements to the boilers will reduce

total natural gas consumption by approximately 15%. The Granby plant permanently reduced its annual water consumption by more than 60 million litres through, among other things, a comprehensive review of washing time.

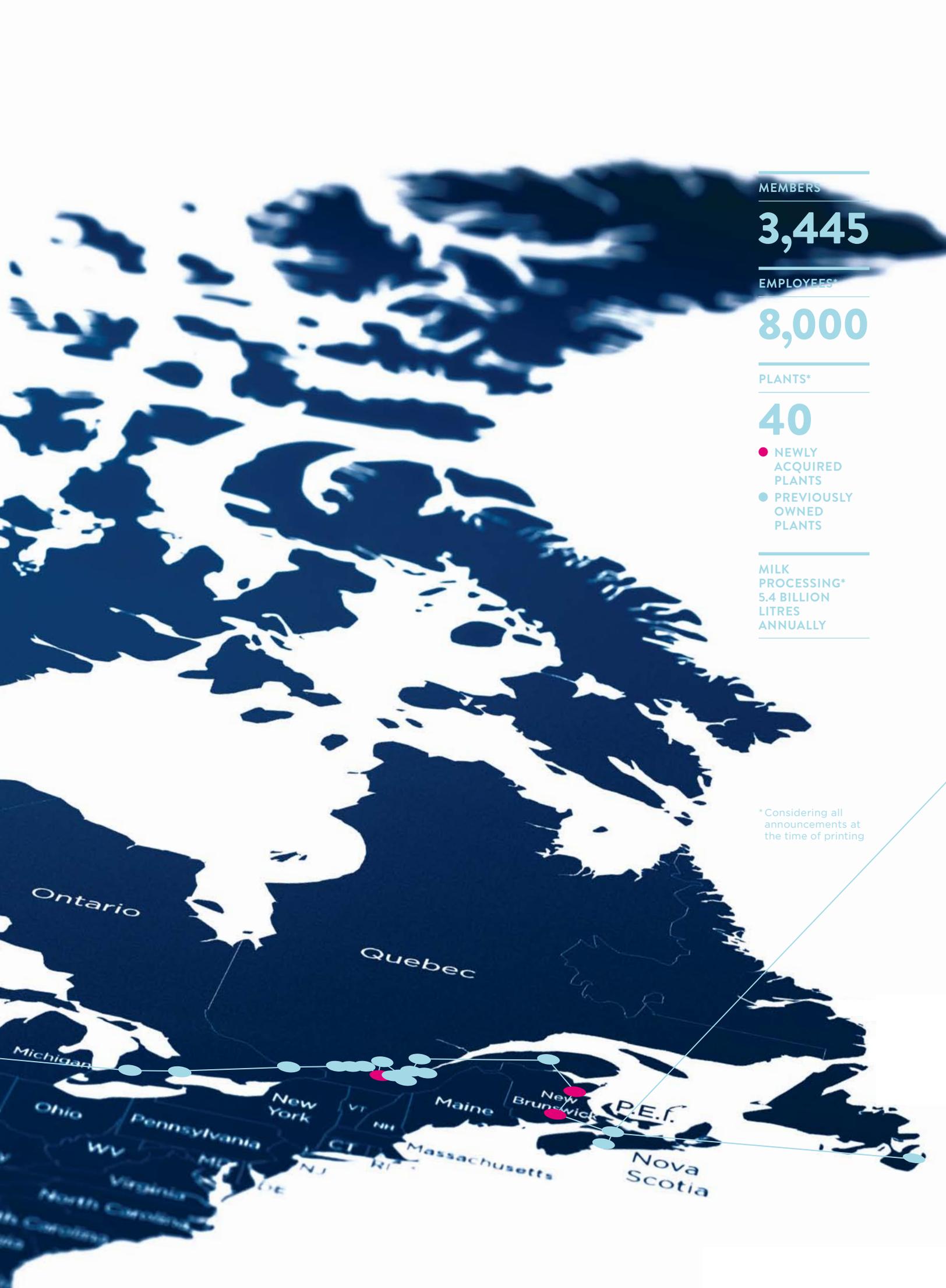
In connection with the expansion of the Oka cheese plant, the capacity of the wastewater treatment plant will be increased and its equipment will be modernized.

Finally, construction of the new head office is progressing well. The new building attached to the Fine Cheese Business Unit's current administrative offices will be LEED (Leadership in Energy and Environmental Design) certified. Special attention has been paid to preserving the surrounding woodlands and reducing the use of natural resources at source. Agropur plans to encourage green practices by reducing waste and installing secure bicycle racks and electric car recharging stations.

NATIONAL AND INTERNATIONAL DEVELOPMENT

TOGETHER TOWARDS NEW TERRITORIES





MEMBERS

3,445

EMPLOYEES*

8,000

PLANTS*

40

- NEWLY ACQUIRED PLANTS
- PREVIOUSLY OWNED PLANTS

MILK PROCESSING*
5.4 BILLION LITRES ANNUALLY

* Considering all announcements at the time of printing





WINNIPEG, MANITOBA
Division Natrel
and Fresh Products



EDMONTON, ALBERTA
Division Natrel
and Fresh Products



EDMONTON, ALBERTA
Division Natrel
and Fresh Products



**BURNABY,
BRITISH COLUMBIA**
Division Natrel
and Fresh Products



LE SUEUR, MINNESOTA
US Cheese
Business Unit



NICOLLET, MINNESOTA
US Cheese
Business Unit

2
4



JEROME, IDAHO
US Cheese
Business Unit



**LAKE NORDEN,
SOUTH DAKOTA**
US Cheese
Business Unit

NATIONAL AND INTERNATIONAL DEVELOPMENT

Agropur believes it needs to participate in the consolidation of the global dairy industry to ensure its sustainability. In 2014, therefore, the Cooperative focused on growth that is not only substantial but, most importantly, strategic.

DURING THE YEAR, AGROPUR CARRIED OUT SIX TRANSACTIONS THAT DIVERSIFIED ITS PRODUCT PORTFOLIO, INCREASED ITS MILK PROCESSING CAPACITY AND ENLARGED ITS GEOGRAPHIC FOOTPRINT.

At the beginning of the year, Agropur acquired M. Larivée International, a trading house specializing in dairy products and food ingredients. The deal enabled Agropur to rebuild a specialized team dedicated to exports and to promote its whey ingredients and powder products on international markets.

In December 2013, Agropur acquired the assets of Damafro, a family business that makes traditional fine cheeses, Camembert, Brie and goat cheese. The acquisition is a good fit with Agropur's markets and line of superior-quality products in a fast-growing segment and improves its positioning in the fine cheese niche.

It is imperative that Agropur be a leader in its home market if it is to expand internationally. The Cooperative therefore successfully pursued mergers and acquisitions to increase its presence in various regions of Canada. In March 2014, Agropur announced a merger with Dairytown Products Ltd., a New Brunswick producer of butter, skim milk powder and milk powder mixes. The move made the pooling of the two organizations' members' dairy assets possible.

Then, in July, the organization announced the acquisition of the Sobeys grocery chain's dairy processing operations, including four plants in Manitoba, Alberta and British Columbia. The deal, which will close in early 2015, safeguards a series of long-term supply agreements. The dairy assets acquired from Sobeys represent \$400 million in annual sales, 160 million litres of milk processing, and 280 employees.

Agropur then announced that it will expand its presence in New Brunswick by acquiring the dairy and distribution assets of Northumberland Dairy Cooperative. The transactions involving Dairytown Products and Northumberland Dairy extend Agropur's geographic reach and are in line with its mission of keeping dairy processing assets in the hands of producers. The vast majority of dairy farmers in New Brunswick now belong to the Agropur family. The Northumberland Dairy transaction, which closed in November, includes Northumberland's Miramichi, New Brunswick plant which processes 27 million litres of milk per year, distribution centres and brands.

THE SERIES OF TRANSACTIONS AGROPUR CARRIED OUT IN CANADA IN 2014 POSITIONS THE COOPERATIVE TO SERVE ITS CUSTOMERS FROM COAST TO COAST.

Agropur's last transaction of 2014, the largest in its history, was the acquisition of the assets of Davisco Foods International Inc., which closed on August 8. It increased Agropur's sales by US\$1 billion per year, the volume of milk it processes by 1.7 billion litres, and its output by more than 170 million kg of cheese and 80 million kg of ingredients. The acquisition adds an international network to Agropur's assets, four new plants in Minnesota, South Dakota and Idaho, and 900 additional employees.



SAINT-DAMASE, QUEBEC
Fine Cheese
Business Unit



**MIRAMICHI,
NEW BRUNSWICK**
Division Natrel
and Fresh Products



**SUSSEX,
NEW BRUNSWICK**
Canada Cheese
Business Unit



Clinton Lewis, Agropur Cooperative Member, and
Liam O'Sullivan, Warehouse Supervisor, Delta, B.C.
Charles R. Lewis Farm
Moshers Corner, Nova Scotia

TOGETHER IN LOOKING AHEAD AND BEYOND

By becoming a truly national player in Canada and one of the top five manufacturers of cheese and ingredients in the U.S., Agropur has joined the ranks of the 20 largest dairy processors in the world.

In 2014, the Cooperative's strategic merger, its acquisitions and its investments in its facilities strengthened its position in the North American marketplace, increased its revenues and gave it new impetus as it faces growing competition.

In 2015, Agropur will be in a position to pursue the three year \$75 million EBITDA increase target set out in its strategic plan and to capitalize on the transactions of the past two years by integrating and optimizing its business processes.

At the same time, the Cooperative will redouble its efforts to contend with increased competition and pricing pressures in order to improve its results. As business risk will remain significant, Agropur will have to continue managing change and adapting to the new, highly competitive business environment.

Today, Agropur is on a firmer footing than ever before. Its favorable results and sound financial health will support its growth going forward. It has a clearly defined strategy and its members and employees will work together to ensure the sustainability of the organization.

TOGETHER TO PURSUE OUR GOAL

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