

# Better Dairy. Better World.

AGROPUR  
COOPERATIVE

ANNUAL REPORT  
→ 2018

1938



For 80 years.

We are dedicated to achieving better dairy and a better world.

Our goal has not changed since the day, 80 years ago, when a group of far-sighted farmers who wanted to take control of their own future founded Agropur: to make a difference for our community.

2018



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1

Derny and Araya on their way home with Brie L'Extra, drinkable iÖGO nanö and Natrel 2% milk in the basket.

# Introduction





# The Cooperative Model

In 1938, in the midst of the Great Depression, 87 Quebec farmers joined forces and formed a cooperative in which they invested all their savings and all their hopes. Agropur was born.

and the environment. To deliver that experience, the Cooperative's 8,800 employees strive with pride every day to make dairy products that meet the expectations of today's consumers and those of the future.



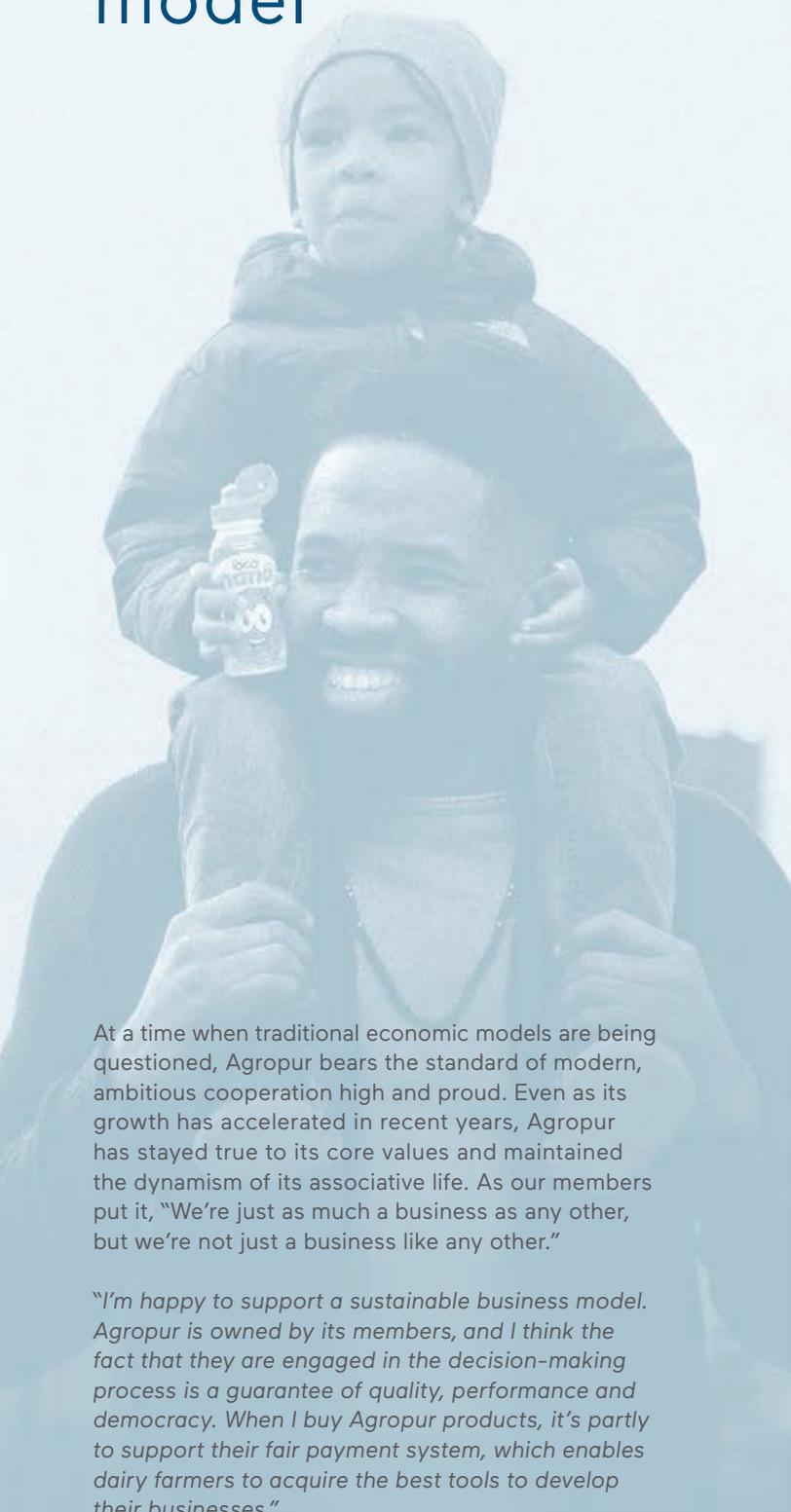
For 80 years, Agropur has been building a better world. The 3,161 member dairy farmers who are the Cooperative's owners are committed to offering consumers a unique experience, while caring about animal welfare

and the environment. To deliver that experience, the Cooperative's 8,800 employees strive with pride every day to make dairy products that meet the expectations of today's consumers and those of the future.



# Introduction

## The strength of the cooperative model



At a time when traditional economic models are being questioned, Agropur bears the standard of modern, ambitious cooperation high and proud. Even as its growth has accelerated in recent years, Agropur has stayed true to its core values and maintained the dynamism of its associative life. As our members put it, "We're just as much a business as any other, but we're not just a business like any other."

*"I'm happy to support a sustainable business model. Agropur is owned by its members, and I think the fact that they are engaged in the decision-making process is a guarantee of quality, performance and democracy. When I buy Agropur products, it's partly to support their fair payment system, which enables dairy farmers to acquire the best tools to develop their businesses."*

FONTABEL FARM

WEEDON, QC

# Better Dairy. Better World.

Agropur, one of North America's largest dairy processing cooperatives, is proud of its distinctive business model, one that lets it help share the wealth everywhere it operates.



That cooperative model, rooted in solidarity, democracy and the sharing of resources, has served as a powerful vehicle for dairy farmer empowerment for 80 years.

For customers and consumers alike, the Agropur experience extends well beyond the product: buying an Agropur product means contributing to the local economy and making a difference in the community.

Two years ago, Agropur proudly became the first major processor in Canada to commit to displaying the blue cow certification-of-origin logo for 100% Canadian milk, the seal of quality Canadian milk, on all the dairy products sold under its own brands. It remains the only national processor to do so. Created by Dairy Farmers of Canada, the logo certifies that all of the milk and/or dairy ingredients used in the product are sourced in Canada.

Agropur also distributes annual patronage dividends to its members and contributes to the vitality of rural communities. In keeping with its values of mutual assistance, it allocates significant amounts to its donations and sponsorships program. And, as a socially responsible business, Agropur takes environmental, social and economic initiatives focused on the welfare of animals and communities.

During the past year, Agropur reaped the fruits of its efforts: 2018 was a banner year in terms of awards and distinctions. The leading American magazine *Forbes* ranked Agropur first in the agri-food industry on its list of Canada's best employers. The Cooperative picked up 10 medals, including five gold, at the World Championship Cheese Contest, in Wisconsin, winning for best Camembert, best mozzarella, best smoked provolone, best shredded cheese and best feta in the world in a field of 3,400 products from 26 countries. At Quebec's prestigious Mercuriades business awards, Agropur won in the Enterprise of the Year and Successful Business Strategy categories.

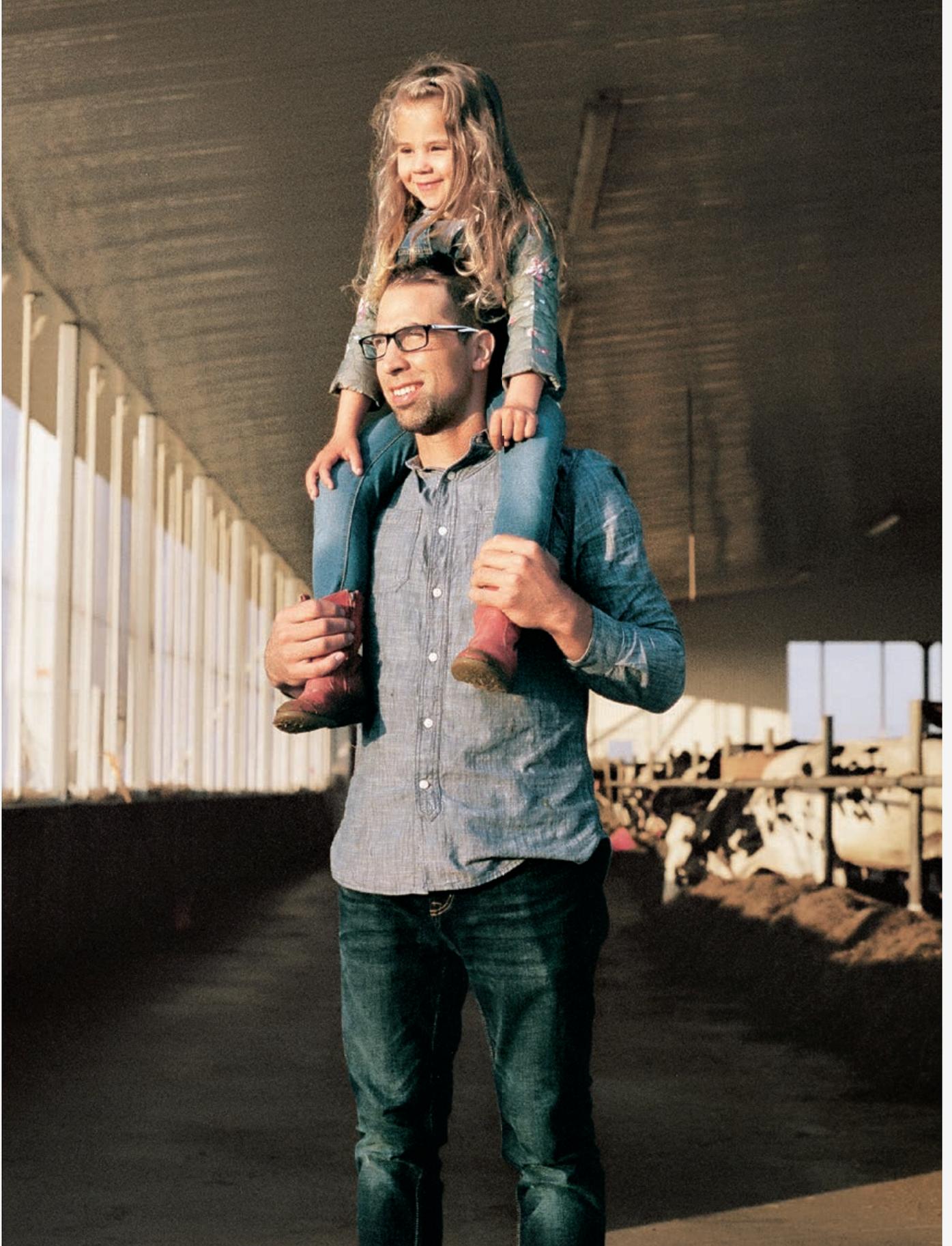


1

Maude starting her day at the crack of dawn.

2

In the freestall barn, Tailgate can move around as she pleases.





2



3

1

Maxime and daughter Ariane.

2

Maude cleaning the gestation area.

3

With the robotic milking machine, the cow decides when she wants to be milked.

4

Ferme Fontabel's new buildings on the right, with the old ones to the left.



4

As these honours demonstrate, our transformative actions are earning recognition from our peers.

This year more than ever, the importance of planning and investing for the long term was evident. We pressed ahead with our business strategy, which revolves around our five pillars: brand strategy, innovation, cost leadership, human capital, as well as national and international development.

We made very significant investments in infrastructure, notably at Lake Norden, South Dakota, laying the groundwork for our next organic growth phase.

As one of the top 20 largest dairy processors in the world and the one offering the most extensive line of dairy products in Canada, the Cooperative intends to remain a leading player that stands out by virtue of its values. At Agropur, we know that Better Dairy means a Better World.

# Message from the President René Moreau



Eighty years ago, our founders joined forces and created a powerful tool to take their destiny in hand. Today, our cooperative model and our rich associative life remain the cornerstones of our success. For 80 years, Agropur members have successfully combined solidarity and profitability, weaving them into the indissociable elements of our sustainability.

As a member of Agropur's Board, I have had the exceptional privilege of being part of this rich history for the past 21 years, including five as vice-president and the last two as president. During this time, I have been able to play an active role in Agropur's transformation.

I have had many opportunities to see the extent to which our Cooperative is at once a powerful instrument to promote our shared interests and a catalyst for progress. The 2018 financial year showed once again how vital our Cooperative's strength and resilience are to us all.

On the financial front, our earnings were negatively affected, as were those of the entire industry, by lower cheese and whey prices and particularly competitive markets in Canada. However, our investments of the past 10 years, and our unprecedented capital expenditures of the last year, have put us in an ideal position to take advantage of the market recovery when it occurs.

On the trade front, Canada, the US and Mexico signed on November 30, 2018, the Canada–United–States–Mexico Agreement (CUSMA), which will replace NAFTA. Under the agreement, the Canadian government has sacrificed a piece of our supply-management system for the third time in just a few years. After the Canada–EU trade agreement and the Trans-Pacific Partnership, the Canadian dairy industry has been used as a bargaining chip in yet another round of international trade negotiations. On all three occasions, Canada’s concessions were described as minor, but once all the treaties have come into effect, those concessions will add up to 10% of the Canadian market. That is milk that will not be processed at our plants.

In addition to the market access, the CUSMA limits some of our dairy exports to other countries of the world, a dangerous precedent. Moreover, Canada agreed to eliminate Class 7, which is needed to ensure Canadian dairy processors a supply of milk ingredients at competitive prices, as well as to manage our structural surpluses of skim milk powder.

Against this background, it is all the more surprising that the government has granted a US multinational a licence to import into Canada, duty-free, a dairy product of which an equivalent is already available on the Canadian market, pending the completion of its plant in Ontario. This preferential treatment gives the multinational a significant advantage over the processors that are already established in Canada, even though Agropur is making much more substantial investments—\$153 million this year alone. And yet the federal government keeps repeating that it believes in supply management and will defend it. It must be said that there is a disconnect between words and deeds at the federal government. The inconsistency is creating considerable uncertainty and increasing the complexity of planning investments in our Canadian infrastructure. While financial compensation is necessary, what Canada’s dairy industry needs is more consistent

dairy policies and strategies that will, among other things, help the entire value chain adjust sustainably to the new market realities created by the recent series of concessions. There is an urgent need for representatives of the entire dairy industry to sit down with government officials at the same table and redefine Canada’s dairy policies and strategies along those lines. Agropur intends to be a key player in any such discussions.

In light of the current situation, some of our decisions of recent years appear all the wiser. In 2016, we decided to offer Canadian products made with 100% Canadian milk. Agropur became the first major dairy processor to use the Dairy Farmers of Canada certification-of-origin logo on its product packaging. We did so to meet the needs of consumers, who want to be able to identify and buy local products.

In addition to where their food comes from, consumers want to know how it was produced, and particularly how the animals are treated. Therefore, we strongly encourage not only our members but all our milk suppliers to follow best practices with regard to animal welfare. In practical terms, we provide our members with training and support to help them meet the highest standards of care in the treatment of their herds. Our “Better Dairy. Better World.” signature states our reality, from one end of the supply chain to the other. Programs such as proAction® promote best practices on the farm and, most importantly, they help position Canadian milk in the eyes of consumers as milk of the highest standard that is among the best in the world. Given the current environment, supporting proAction® and animal welfare has never been more vital.

We are always privileged to be part of Agropur but never more so than in a challenging business environment such as the one we are facing now. We are the owners of a world-class Cooperative. It serves as a kind of insurance policy and stabilizes our incomes by absorbing most of the cyclical fluctuation in world markets.

We have amply demonstrated the value and robustness of our cooperative model. We are where we are today because those who came before us understood long ago that to secure our future and control our destiny, we had to grow.

I am counting on my colleagues and the next generation to continue our work. After all these years of active involvement in the Cooperative, I have decided to pass the torch and retire. As I take my leave of the Board and the president’s office, I would like to thank my fellow directors, past and present, and to pay tribute to the skills and dedication of our senior managers. In particular, I am very grateful to Robert Coallier, and I thank the 8,800 Agropur employees who pursue both the cooperative values and operational excellence.

I am confident that we have established winning strategies for our Cooperative’s future development. We must continue to grow and develop by investing in our facilities and systems, in product innovation, in cutting costs and promoting our brands.

In these uncertain times, being a member of Agropur is a tremendous privilege of which we can be proud and must preserve for future generations.

**René Moreau**  
President



# Message from the CEO Robert Coallier

Two related developments dominated the dairy industry landscape in 2018: a significant decrease in world whey prices and a drop in the cheese block price in the United States. Everywhere in the world, this phase in the industry's economic cycle has led to narrower margins and lower operating income for processors. Agropur was no exception.

Nevertheless, we continued our progress, expanded our footprint in the US market for ingredients and industrial products, grew our share

of the Canadian consumer market and increased our operating efficiency. Our sales increased 4.7% year over year in fiscal 2018, or 5.5% at constant exchange rates.

Our Canadian sales were up 11.7%, reflecting in part the inclusion of Ultima Foods and our growth in the cheese and fresh products segments. In the United States, our sales, expressed in US dollars, were down by only 2.4%, despite the decrease in cheese block prices and especially whey prices.

## Our earnings picture can be summed up in three points:

1. The decrease in our EBITDA was essentially due to lower cheese and whey prices, which had a \$109-million negative impact on the EBITDA of our US operations.
2. On the other hand, in Canada, EBITDA was stable year over year even though the aggressive competition continued exerting pressure on dairy prices. The addition of Ultima Foods and the full-year contribution from Scotsburn's activities were positive factors, as were the growth in our market share and the shift in our sales towards a higher value-added product mix.
3. On both sides of the border, our cost-reduction program has been very successful. Three years ago, we set a \$100-million target for annual cost savings by the end of 2018. We are at \$117.9 million, of which \$28.9 million was realized in 2018. We're now targeting an additional \$50 million in annual savings as of 2019.

We remain confident that the moves we have made in recent years will accelerate our growth going forward.

## Projects in progress

There are other developments specific to Agropur that should help boost our sales and our earnings in 2019. Our market share continues to grow on both sides of the border. Our progress is being driven by innovative and effective marketing and, most importantly, the intrinsic quality of our products. This year, as in years past, the excellence of our products won wide recognition. At the World Championship Cheese Contest, our L'Extra Camembert was named the world's Best Camembert and four of our made-in-USA cheeses took top honours. In Quebec, we won a Caseus award for our OKA L'Artisan.

During the year, we signed or renewed major contracts with a number of customers. Our vast national network enabled us to land these contracts and increase our market share from coast to coast, which should make a positive contribution to our results in 2019.

In the US, we are pressing ahead with the expansion of our cheese plant in Lake Norden, South Dakota, which will triple its capacity. It is the largest capital investment project in Agropur's history. The plant will be commissioned in phases in the second quarter of 2019.

Between 2014 and 2018, we invested \$1.3 billion in our facilities, 56% of it in Canada. After 80 years of existence,

innovation is more important than ever to Agropur's sustainability. We scored major successes on this front in 2018. Canadian consumers ranked iÖGO PROTEIN<sup>e</sup> the Product of the Year and OKA L'Artisan portion packs the Best New Product.

We launched Inno Accel, North America's first dairy business accelerator. An offshoot of the Inno Agropur program, Inno Accel matches Agropur's knowledge and know-how with the dynamism of high-potential start-ups.

The first cohort of five start-ups from Canada and the US has graduated from Inno Accel. These young businesses are reinventing dairy with us in a brand-new co-working space at our head office.

I cannot leave unmentioned the fact that Agropur won two Mercure awards in 2018, for Successful Business Strategy and Enterprise of the Year in the large business category. The coveted Quebec business awards are recognition of the invaluable and unstinting work of everyone at Agropur.

I thank the members of the Board and particularly our president, René Moreau. And I thank all Agropur members: their support and solidarity are the basis of the Cooperative's success and sustainability.

In conclusion, I would like to salute the entire management team and all Agropur employees for their outstanding work. Day after day, they translate our strategy into reality and into successes on the ground.

**Robert Coallier**  
CEO

# Board of Directors

1

**Alain Forget**

Laurentides–Lanaudière 2014

2

**Michel Boisvert**

Montérégie 2017

3

**Jeannie van Dyk**

Vice-President  
Atlantic 2013

4

**René Moreau**

President  
Nicolet–Bois-Francis 1998

5

**Roger Massicotte**

Vice-President  
Mauricie–Portneuf 2003

6

**Jean-Pierre Lacombe**

First Member of the Executive  
Salaberry–Richelieu 2007

7

**Valère Lieutenant**

Third Member of the Executive  
Estrie–Granby 2012

8

**Michel Couture**

Second Member of the Executive  
Chaudière–Appalaches 2001

9

**Céline Delhaes**

Presented and elected  
by universal suffrage 2011

10

**Claude Cressier**

Érable–Seigneuries 2015

11

**Suzanne Blanchet**

Guest member  
of the Board 2015

12

**Ralph Ballam**

Guest member  
of the Board 2013

13

**Jim Walker**

Guest member  
of the Board 2014

14

**Stéphanie Benoit**

Presented and elected  
by universal suffrage 2015

15

**Roger Beaulieu**

Eastern Quebec 2014



1/2



3/4/5



6/7/8



9/10



11/12/13



14/15

# Senior Management Committee

1

**Pierre Corriveau**

Senior Vice-President,  
Human Capital

3

**Lorraine Bédard**

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

5

**Robert Coallier**

Chief Executive Officer

2

**Marie-France Veilleux**

Vice-President,  
Cooperation and Governance

4

**Émile Cordeau**

Senior Vice-President  
and Chief Financial Officer

6

**Dominique Benoit**

Senior Vice-President,  
Institutional Affairs  
and Communications



1



2



3



4/5



6

7

### Nicolas Marie

Senior Vice-President and  
General Manager, Ice Cream

8

### Simon Olivier

Senior Vice-President,  
Strategy and Innovation

9

### Benoît Zolnai

Senior Vice-President,  
Operational Excellence and Quality

10

### Serge Fortier

Senior Vice-President,  
Information Technology

11

### Michael Aucoin

President,  
Canada Operations

12

### Doug Simon

President,  
US Operations

13

### Christine Forget

Vice-President,  
Global Strategic Sourcing



7 / 8



9



10



11 / 12



13



# Brand Strategy



Our brands continued to grow, picking up market share during the year. In Canada, we performed well and our strong brands were boosted by our close relationship

with consumers. In the US, we continued developing the Agropur brand and completed the integration of Davisco's operations, which we acquired in 2014.





Natrel

Québon

OKA

island FARMs

iÖGO

Sealtest

Farmers

Dairytown  
"In the heart of the dairy country!"

Lucerne  
DEPUIS 1904

SCOTSBURN

Central Dairies

Allegro



AGROPUR  
Grand Cheddar



nanö



OLYMPIC

LEXTRA

biPro

CAP

Crino

BZT

# Strong brands that appeal to consumers

After the success of its first campaign revolving around the theme of pride in 2017, Agropur conducted a second campaign featuring a new ad highlighting the advantages of buying Canadian products, which ran from coast to coast in 2018. The campaign increased Agropur brand awareness and consumer buying intentions.

## Market leader Natrel innovates

Natrel held its status as the Canadian leader in the fine-filtered, lactose-free and organic categories.

Natrel continued differentiating itself by expanding its product line in 2018. The addition of new offerings such as whipped cottage cheese, lactose-free cheese and lactose-free ice cream strengthened its leading position.

Also in the lactose-free segment, Natrel's lactose-free chocolate milk earned a NACDA Convenience Innovation Award in the "Better for You Beverage" category.

## 125 years of OKA history

Legendary OKA cheese, the eldest member of the Agropur family, celebrated its 125th birthday this year. The celebrations were accompanied by a Canada-wide media campaign.

Created in 1893 by Brother Alphonse Juin, OKA is an iconic Canadian cheese steeped in history. To this day, it is still made according to the original recipe. We took the opportunity to conduct a bold campaign, and we were active on social media, posting anecdotes and authentic photos from OKA's past. The campaign shared the love story between OKA cheese and its devotees, and showed that OKA is much more than a cheese: it is a storehouse of memories!

The anniversary was also marked by the launch of OKA L'Artisan cheese portion packs, which won the 2018 Best New Product Award in its category. As well, OKA distinguished itself at the prestigious Sélection Caseus awards for fine cheese in 2018, where OKA L'Artisan won first prize in its category.

Not surprisingly, OKA cheese remains one of Canadian consumers' favourite cheeses.

In the spring of 2018, cheesebar.ca, a new Web platform featuring Agropur's entire selection of fine cheeses, as well as recipes, tips and detailed descriptions, went live. With its new cheese site, Agropur is taking the lead in developing a fine cheese culture.

1

Stephen's son with iÖGO nanö in hand, all set for daycare!



1

## OKA, one of Canadian consumers' favourite cheeses.



2

### iÖGO, the preferred brand of millennials

iÖGO, which celebrated its sixth birthday during the year, has become the favourite brand of millennials in its segment. iÖGO PROTEIN<sup>®</sup> was the fastest-growing Greek yogurt in Canada and was voted 2018 Product of the Year in the "Dairy" category.

As part of its constant drive for innovation, iÖGO introduced a string of new products in 2018: iÖGO nanö's

smoothies, yogurt with no added refined sugar and cheese portion packs all delighted young consumers.

### Olympic registers rapid growth

The Olympic brand continued to stand out as the national leader in the organic yogurt segment. Olympic also has the fastest-growing Greek yogurt in Western Canada. Its brand promise centres on healthy, superior-quality, 100% natural yogurt.

### BiPro expands

In the United States, biPro continued its development with moves such as the introduction of the first caffeinated protein water.

BiPro formed a partnership with the United States Bobsled and Skeleton Team (USABS), becoming the official protein sponsor of the National Team. Mixed martial artist Rory MacDonald also endorsed the brand and became a promoter of the biPro line's benefits.



3

The biPro brand, already well known in the US, is now available in Canada, where it is supported by athletes Mikaël Kingsbury and Benoît Huot, its Canadian ambassadors. The brand's popularity is increasing on Amazon, a new platform for Agropur.

### Agropur strengthens its presence in the US

While Agropur's brands already have a firmly established reputation in Canada, its marketing teams are raising the

Cooperative's profile with American customers. To this end, the Agropur logo has been added to the packaging of all ingredients sold internationally.

Following the Cooperative's recent acquisitions, the research and development teams have been consolidated and are spearheading the development of new products.

1

Wine and cheese with friends on the deck, always a treat when the cheese is Agropur Grand Cheddar.

2

The legendary OKA cheese celebrated its 125th birthday this year.

3

Skateboarders burn up a lot of energy! Deryn and Charles always pack biPro protein water to quench their thirst and restore their strength.

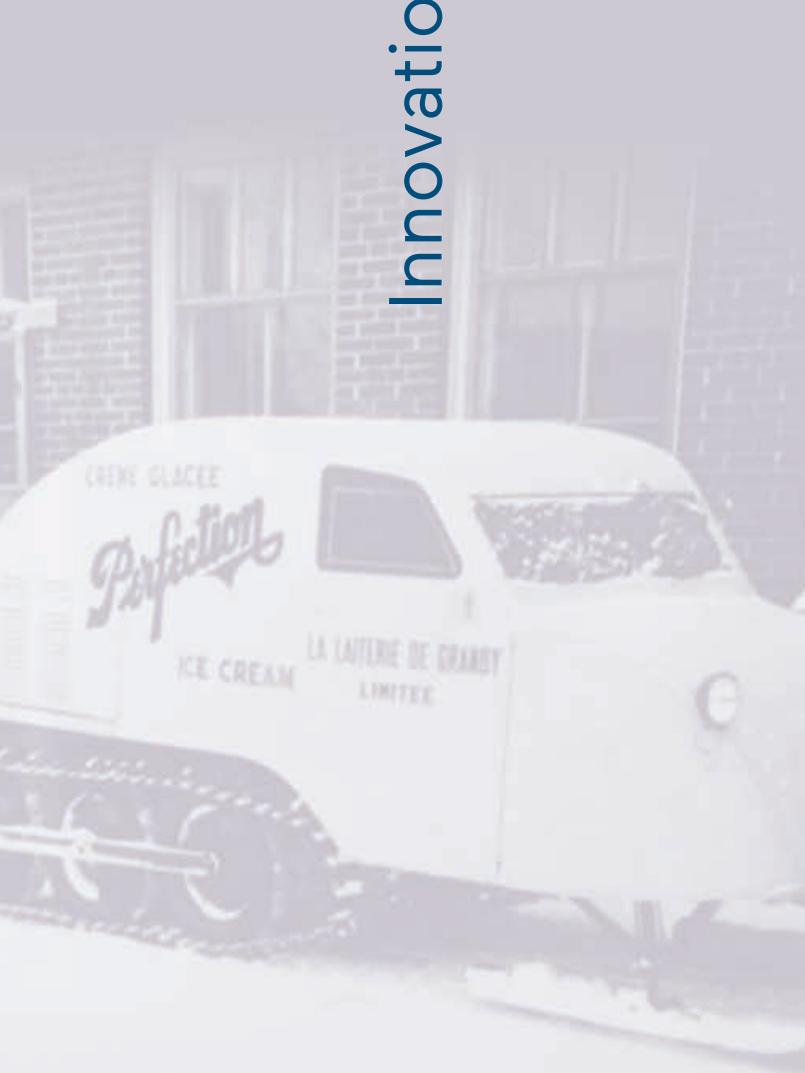


# Innovation





# Innovation



Innovation is key to Agropur's future. The Cooperative has therefore created Inno Agropur, an innovation process designed to reinvent dairy products.

internal and external platform dedicated to reinventing dairy in order to offer consumers new experiences. Through Inno Agropur we have created a unique ecosystem.



Innovation is a core element of Agropur's business strategy. In an increasingly competitive market, innovation is a necessity for the Cooperative to survive and thrive. In 2016, we launched Inno Agropur, an

internal and external platform dedicated to reinventing dairy in order to offer consumers new experiences. Through Inno Agropur we have created a unique ecosystem.





# Innovation

Ideas that  
are changing  
the world



Inno Agropur is the integrated platform that drives innovation at Agropur. Its components include mechanisms for generating ideas internally (Inno Fabrik) and externally (Inno Challenge), as well as Inno Expo, where selected prototyped concepts compete and the latest trends are showcased, and Inno Boutique, a development process that speeds up market testing of new products. The latest addition, Inno Accel, is an accelerator for the promising start-ups with which Agropur is reinventing dairy. Inno Capital, a co-investment fund, rounds out the platform.

*"Agropur has succeeded in enhancing the quality of its offering and reinventing itself. I like the idea of using crowdsourcing to find original solutions that will make it possible to reimagine the dairy products we consume and renew the dairy industry."*



# Today, Inno Agropur is the largest open innovation initiative in the North American dairy industry. Our goal is to solidify our status as an industry leader by exceeding the expectations of our customers and consumers.

## Inno Challenge

Inno Challenge was created in 2016 as a springboard for innovation. It was born of a desire to reinvent dairy through open collaboration. Innovative thinkers from around the world are challenged to submit new dairy-related products, packaging and consumption opportunities. The [innoagropur.com](http://innoagropur.com) platform launched in fall 2018 serves as a meeting place where creative thinkers and start-ups can team up with Agropur.

In the winter of 2018, a large number of start-ups entered the second edition of Inno Challenge and 11 promising young businesses from Canada, the US and Europe were selected to pitch their innovations at Agropur's head office in a "Dragons' Den" format, in the spring. They showcased their products and offered tastings to a jury composed of Agropur executives and partners. Five outside-the-box concepts passed the test and the selected teams moved on to Inno Accel, the first dairy business accelerator in North America.

## Inno Accel

Inno Accel is a four-month program that offers start-ups customized guidance and support. The members of the first cohort were announced in October 2018. Each company has been assigned two mentors—a successful entrepreneur and a member of Agropur senior management—along with some twenty coaches who support them in an environment that simulates the business world and the agri-food industry. The first cohort also gets a hand from OSO Foundation, FoodBytes! by RaboBank and the Quartier de l'innovation, pillars of the entrepreneurial ecosystem.

In addition, the selected participants have enjoyed extensive access to the Cooperative's research and development team and pilot plant. A co-working space has been created to promote collaboration and creativity. In these ways, Inno Accel matches Agropur's resources with high-potential start-ups in order to quickly bring the most exciting innovations to market.

## Inno Capital

Inno Capital, a logical extension of Inno Agropur, stepped up its activities in 2018. The \$40-million joint investment platform is funded by Agropur and the Caisse de dépôt et placement du Québec on a 50/50 basis. Its objective is to invest in innovative North American companies that offer dairy products or dairy-related technologies.

## SCALE AI

Alongside our innovation process, we became a founding member of the AI-Powered Supply Chains Supercluster, SCALE AI. The Montreal-based innovation supercluster initiative, announced in February 2018, is dedicated to building a new global supply chain platform and bolstering Canada's leadership in artificial intelligence.

1

Entrepreneur Stefano Amelio of Sweetaly points out the merits of his artisanal desserts based on traditional Italian recipes at the Inno Accel launch.



# Cost Leadership



Agropur has developed a comprehensive strategy to reduce its costs, maximize synergies, and dramatically increase its agility. To carry out this strategy, we have taken the necessary steps to optimize our management processes,

deploy a common IT platform and improve our plant operations. These changes equip us to respond to new realities in the marketplace and provide our customers and consumers with the service they deserve.



# Reducing costs

Ever aware of the importance of efficiency, Agropur has continued its efforts to reduce costs. In 2016, we set a three-year, \$100 million cost-reduction target. After three years, we have not only achieved this objective but exceeded it by a wide margin. In total, the organization has reduced its costs by more than \$200 million since 2013. We have no plans, however, to relax our efforts. Starting in the next fiscal year, we plan to cut an additional \$50 million from our cost structure annually.

To manage its entire supply chain in Canada more effectively, Agropur created a new position, Vice-President, Supply Chain, in summer 2018. The person appointed to this position is responsible for the logistics, distribution, customer service, and operations planning departments. Capturing synergies and best business practices will enable these departments to make Agropur a business partner of choice for its customers.

## Optimizing management processes

In 2013, Agropur began implementing an Enterprise Resource Planning (ERP) system to manage the vast majority of its operational processes on a single IT platform. The rollout of phase 2, which covered processes from order-taking to depositing payments at some Fresh Products operations, has been completed and deployment at many Agropur sites in Canada is under way. Among other things, implementation of the platform will give Agropur harmonized processes and a single database, supporting improved information sharing and better cost management.

1

Agropur 75 ash-ripened cheese, aged at least 110 days, in the ripening room.

## Increasing agility exponentially

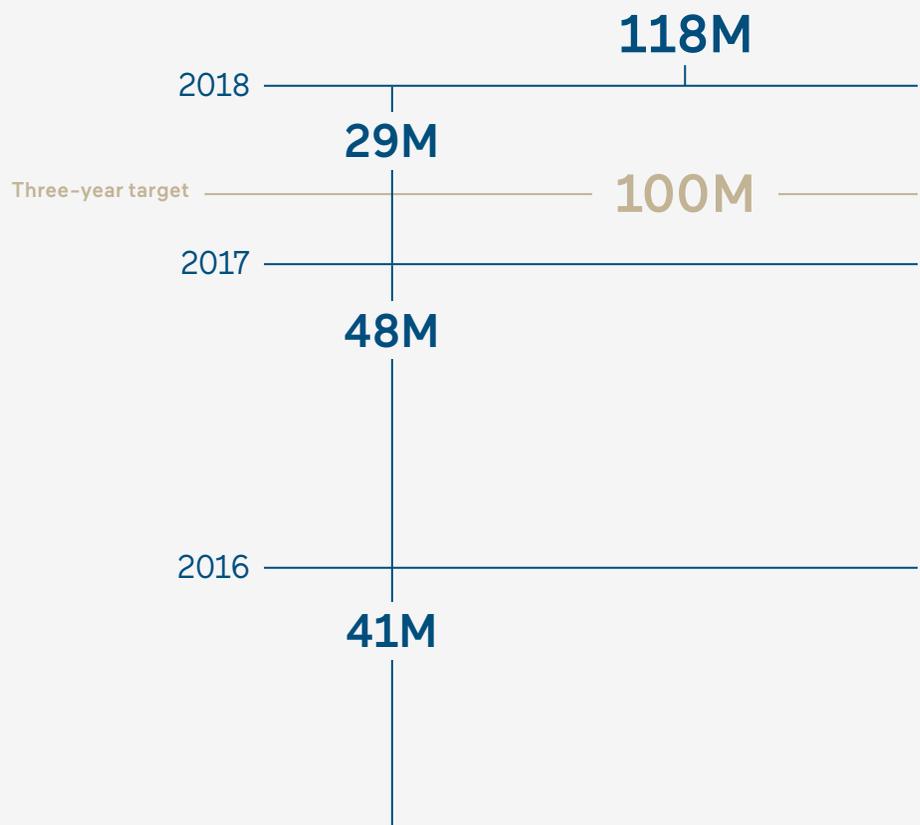
Plant automation has also improved the efficiency of many operations, such as the packaging and boxing operations at the plant in Saint-Hyacinthe, Quebec.

In fall 2018, Agropur decided to review all of its in-plant practices with the introduction of the Agropur Operating System, which will gradually replace the Evolution program as the organization's operational-excellence system.

From 2014 to 2018, the Evolution program enabled Agropur to increase its productivity, reduce its costs and improve its quality indicators. The dynamic approach that the new Agropur Operating System demands will let us go even further, enabling employees to take ownership of the workplace and enriching their tasks. This integrated system for managing operations will help provide employees with knowledge and tools to facilitate decision-making and problem-solving in real time, and will also promote the empowerment of every employee in the plant.

## THREE-YEAR COST-REDUCTION TARGET

In millions of dollars







# Human Capital



Agropur's 8,800 employees play a primary role in pursuing the organization's objectives. Our employees are united and committed to

achieving a common goal: manufacturing top-quality dairy products and building the Cooperative.



# Our employees

Our human capital management practices are tailored to a bustling labour market and reflect the changes wrought by the arrival of new generations of employees who demand specific recruitment, training and job enrichment measures.

## In September 2018, Agropur launched a far-reaching recruitment campaign in Canada and the United States.

### Skills development and grooming the next generation

The VisionR program helps high-potential employees achieve their professional development objectives by giving them access to a leadership program and the support of a mentor. Since it was implemented at Agropur, VisionR has made it possible to entrust participants with more responsibility and has increased retention of our best talent.

The LeadR team management training program, which is being introduced in Canada and the US, helps managers develop their organizational, problem-solving, communication and team leadership skills.

Agropur also places a strong emphasis on succession management. Our Future Leaders program prepares recent graduates for careers with Agropur in the United States, and we have a robust internship program that brings talented young people into Agropur workplaces.

### Recruiting the best talent

The increasingly competitive market and the labour shortage are forcing us to use innovative methods to attract the best candidates. In September 2018, we launched a far-reaching recruitment campaign in Canada and the United States based on a new employer brand and revolving around our employees, who serve as Agropur's ambassadors. The campaign highlights the benefits

of working at Agropur, as defined and proudly articulated by the employees themselves. It will continue in 2019, internally and externally.

### Enriching employees' jobs and working environment

Over the past year, Agropur has automated tasks that are repetitive and pose higher risks of injury. This approach helps enrich employees' work.

In addition, the plant environment has been improved and standardized, while Agropur's new LEED silver-certified head office building provides an outstandingly healthy and stimulating work environment. With its 80 formal and informal meeting places, it enables employees to translate the Cooperative's five values—boldness, communication, integrity, excellence and collaboration—into reality on a daily basis.

### Making employees' daily lives easier

Over the past year, Agropur continued implementing a new state-of-the-art IT system (Workday and Kronos) that brings human capital management tools together on one platform and introduces a new approach to managing human capital/payroll.

A major milestone in the revamp of our approach to human capital/payroll management was also reached in spring 2018 with the creation of the

Employee Service Centre, a single point of contact for employees who need help with requests or questions about human capital or payroll.

### Health and safety

At each of our sites, we have a joint occupational health and safety committee, which serves to target and prioritize the improvement opportunities that are most important in the eyes of the people who do the work.

### New governance structure

Agropur also introduced category leadership (ice cream, cheese, fine cheese, fresh products and yogurt) at Canada Operations. The new management structure leverages each team's know-how more effectively and maintains alignment with corporate objectives.

1

Luc Chartrand on the job at the Oka plant.

2

Alexandra Demers at Head Office, perusing a document.

3

At Head Office: Michelle Demers and Tommy Lavigne discuss the merits of Natrel naturally lactose-free medium white cheddar and Natrel lactose-free 2% milk.



1



2



3



# National and International Development





80 years

“The Cooperative knows no borders,” said the founders of Agropur. Their modern, ambitious dream lives on today, thanks to the members and employees who continue working to realize it.

has picked up the pace of its investments, but Agropur has been a leader in this regard with capital expenditures totalling \$733 million in Canada and \$565 million in the United States.



Complex market conditions, changing consumer habits and the shifting social and demographic landscape have prompted Agropur to accelerate its development. Over the past five years, the entire industry

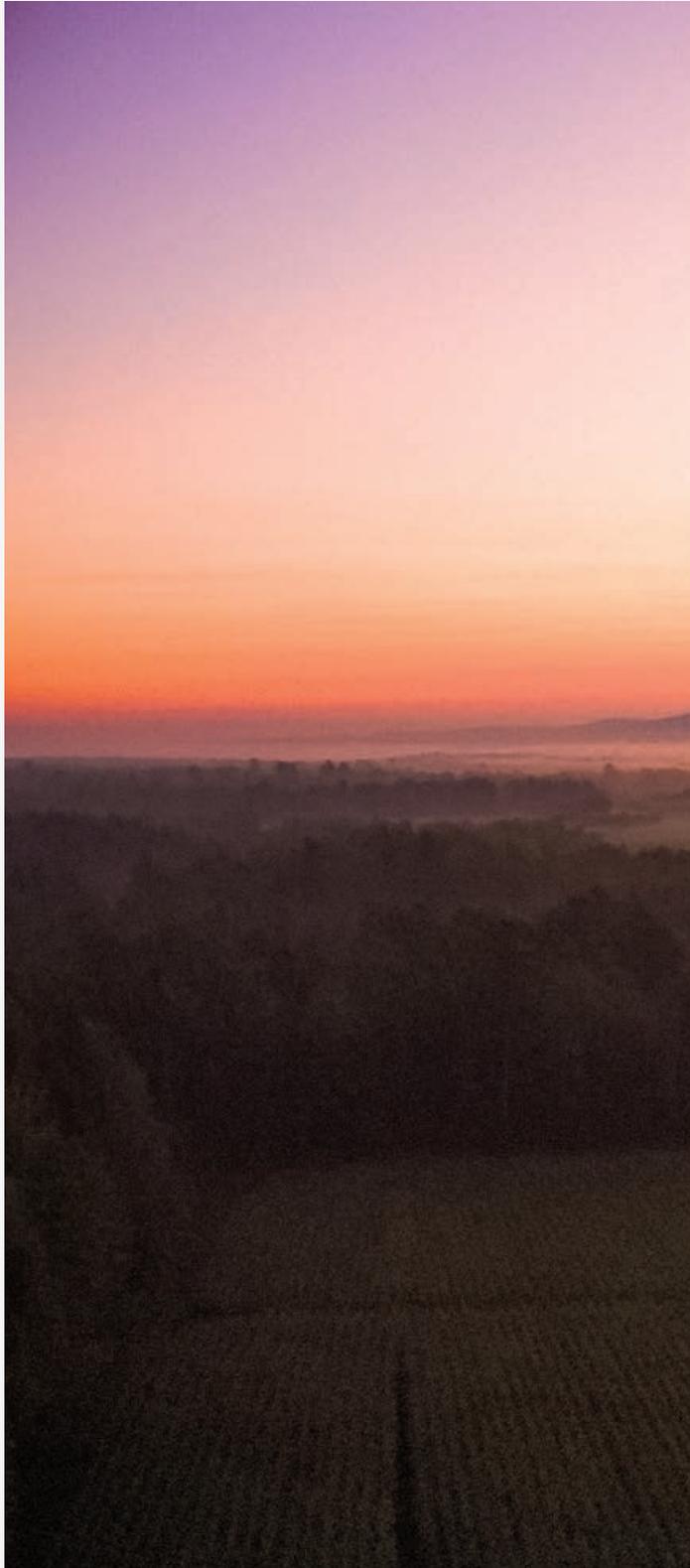
has picked up the pace of its investments, but Agropur has been a leader in this regard with capital expenditures totalling \$733 million in Canada and \$565 million in the United States.





# National and International

## 80 years of pride



Over the decades, Agropur has clearly demonstrated the value and strength of its cooperative model. If Agropur is now one of the world's largest dairy processing cooperatives, it is because its founders understood that its long-term survival would depend on growth. Operating in a highly competitive marketplace, Agropur stands out with products that make a quality promise valued by consumers and customers alike.

For 80 years, Agropur has been diversifying its offerings by expanding its wide range of products and its lineup of yogurt, ice cream, cheese and milk brands while maintaining the highest quality standards.

*"I choose Agropur because as a cooperative, it is helping to build a fairer, more equitable world. The more of us there are who share these values, the more we can help build a better world."*

# Corporate Social Responsibility

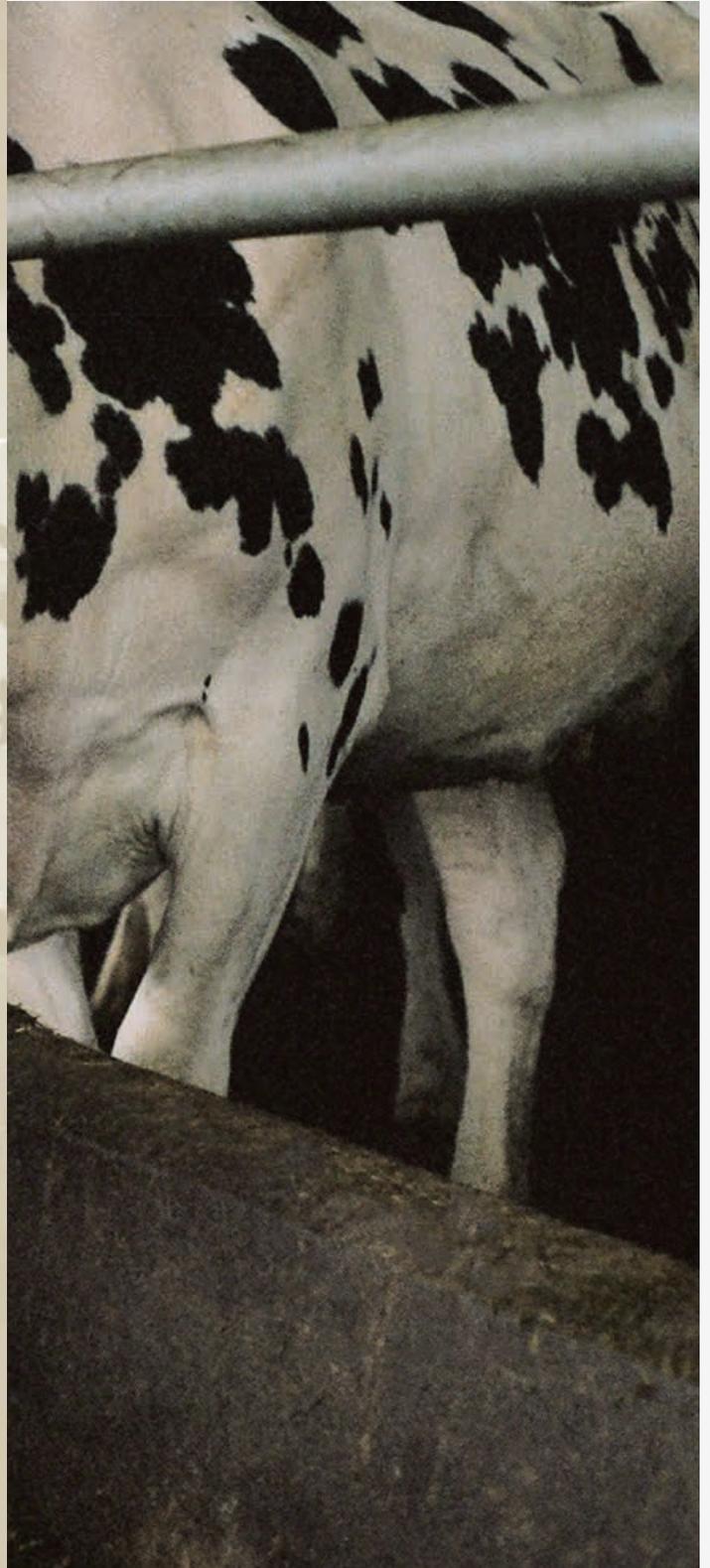




## Animal Welfare and Environment

Agropur is committed to offering high-quality dairy products made in an environmentally responsible manner using top-grade milk from well-treated animals at all times.

concerned about the production and manufacturing process, the product's impact, and the experience associated with it. They want businesses to be held to account.



At Agropur, we always strive to manufacture dairy products in a way that is consistent with the values of our customers and consumers. Consumers are more demanding when it comes to accountability: they are especially

concerned about the production and manufacturing process, the product's impact, and the experience associated with it. They want businesses to be held to account.



# Corporate Soc Responsibility

## A responsible cooperative



Respect for animals has always been a fundamental value of the dairy farmers who are our members. Agropur and its members know that a prosperous, viable dairy industry depends on the care and attention every animal receives. That is why the Cooperative has produced a Statement on Animal Welfare and promotes it to its members.

As regards the environment, Agropur applies best practices and is taking a series of initiatives, including steps to reduce its greenhouse gas emissions, manage its water consumption and ensure that its waste materials are reused.

This year, Agropur published a full Corporate Social Responsibility Report that describes everything it does to achieve its vision: "Better Dairy. Better World."

*"Animal welfare and product quality go hand in hand. I am convinced that it's a cause-and-effect relationship: a well-treated cow gives high-quality milk."*



1

Agropur's approach to corporate social responsibility encompasses five areas, based on best practices and agri-food industry trends.

### Products

Our promise to our customers and consumers is that we will offer quality products that meet the highest food safety and compliance standards.

In 2017, we launched a comprehensive supplier-quality program to ensure the traceability and conformity of the packaging, ingredients, dairy components and products that we buy from our 565 suppliers and thus extend our own commitment to excellence to the companies with which we do business. In 2018, we further optimized supplier quality management through improved access to information, enhanced traceability (including packaging and ingredients) and effective performance monitoring.

To maintain the highest production standards directly on the farm, the Agropur Club of Excellence recognizes the members who provide the

In 2018, Agropur published its first full social corporate responsibility report, which bears witness to our social, economic and environmental commitments. It describes Agropur's main initiatives to help build a better world.

best-quality milk. This year, the Jolipré Holstein Inc. dairy farm in Saint-Moïse, Quebec, received the top award for the second year in a row.

### Members

Our Cooperative's democratic life is sustained by its 3,161 members. In 2018, more than 95 meetings, courses and training sessions nourished our associative life. Those gatherings provide members with an opportunity to exchange ideas and discuss Agropur's priorities with the management team.

The Cooperative is also an important support network for its members. A team of Cooperative Advisors assists members at every stage of the milk production process, from milking to storage. Since 2018, the Cooperative Advisors have acquired extensive expertise in animal welfare, and they are now ready to help members achieve their goals and meet the proAction® program's requirements. The 11th edition of the Young Cooperative Leaders Program introduced 17 young people to the Cooperative's democratic life.

1

Derny quenches his thirst with biPro protein water.

2

Urban joggers admire the early-morning light.



2

## Human Capital

Agropur’s team of 8,800 employees in Canada and the US work day by day to grow the business. Our organizational structure and human resource management practices must support our ambitions. We have therefore embarked on a major effort to improve our practices, become more agile and capture internal synergies.

On the health and safety front, implementation of a prevention program based on safe behaviours continued. Each plant has developed action plans and tools to promote a zero tolerance approach to industrial accidents.

In the vast majority of jurisdictions where we operate, our workers’ compensation premiums are lower than the industry average, an indication of our forward stance on health and safety.

## Environment

We are making wide-ranging efforts to reduce the environmental impact of our activities and we are transparent

about our initiatives. During the year, we continued tracking our greenhouse gas emissions, from processing plant to transport truck. Our carbon inventory, prepared by a third party, showed a 1.3% reduction in our emissions per litre of milk between 2016 and 2017.

We are also making efforts with respect to water consumption, optimization of packaging, waste management and our buildings’ energy consumption.

## Community

By virtue of its cooperative nature, Agropur has close ties to the communities in which it operates. Through our member farmers and our plants, our activities strengthen the social and economic fabric of communities across North America. In fiscal 2018, more than \$65.2 million was distributed in patronage dividends, supporting the communities where our members live.

We also support organizations that work for the common good. In 2018, we provided more than \$1.5 million in donations and sponsorships.

Agropur provides financial assistance to the Breakfast Club, the Canadian Red Cross, the Quebec Make-A-Wish Foundation, Fondation OLO, Institut Pacifique, the Moisson network of food banks, and many hospital, college and university foundations in North America. Agropur was also part of Academos’ Coalition for Student Retention.

Last but not least, Agropur funds scholarships for outstanding students enrolled in agricultural and food sciences programs at North American colleges and universities.

# Agropur Cooperative

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