Better Dairy. Better World.

DAIRY COOPERATIVE

AGROPUR
COOPERATIVE

ANNUAL REPORT
2018

1938

AGROPUR
Dairy Cooperative

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

DAIRY COOPERATIVE

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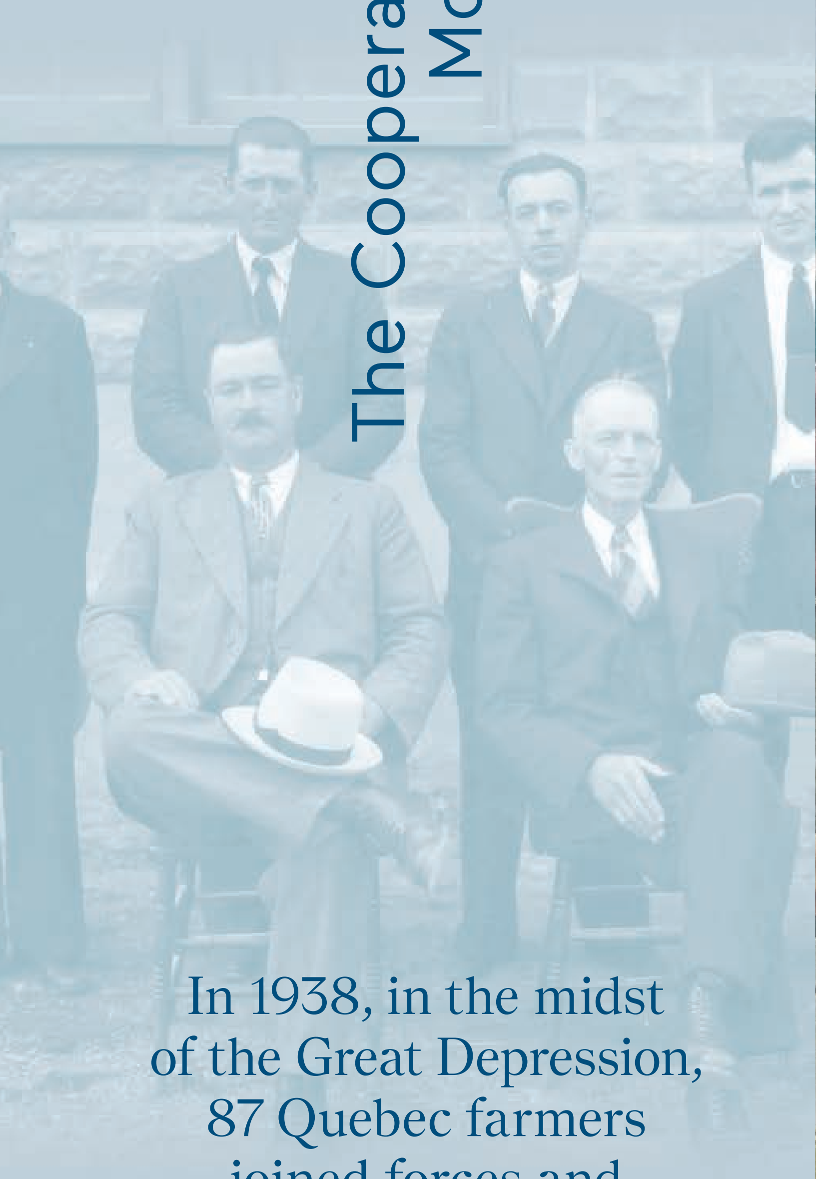
Derny and Araya on their way home with Brie L'Extra, drinkable iÖGO nanö and Natrel 2% milk in the basket.

Introduction

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.

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.

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.

2

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 PROTEINᵉ 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-Francs 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

11

Michael Aucoin

President,
Canada Operations

7

Nicolas Marie

Senior Vice-President and
General Manager, Ice Cream

9

Benoît Zolnaï

Senior Vice-President,
Operational Excellence and Quality

12

Doug Simon

President,
US Operations

8

Simon Olivier

Senior Vice-President,
Strategy and Innovation

10

Serge Fortier

Senior Vice-President,
Information Technology

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.

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[e] 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

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! Derny and Charles always pack biPro protein water to quench their thirst and restore their strength.

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.

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."


PEAK

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 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 OSMO 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.

Increasing agility exponentially

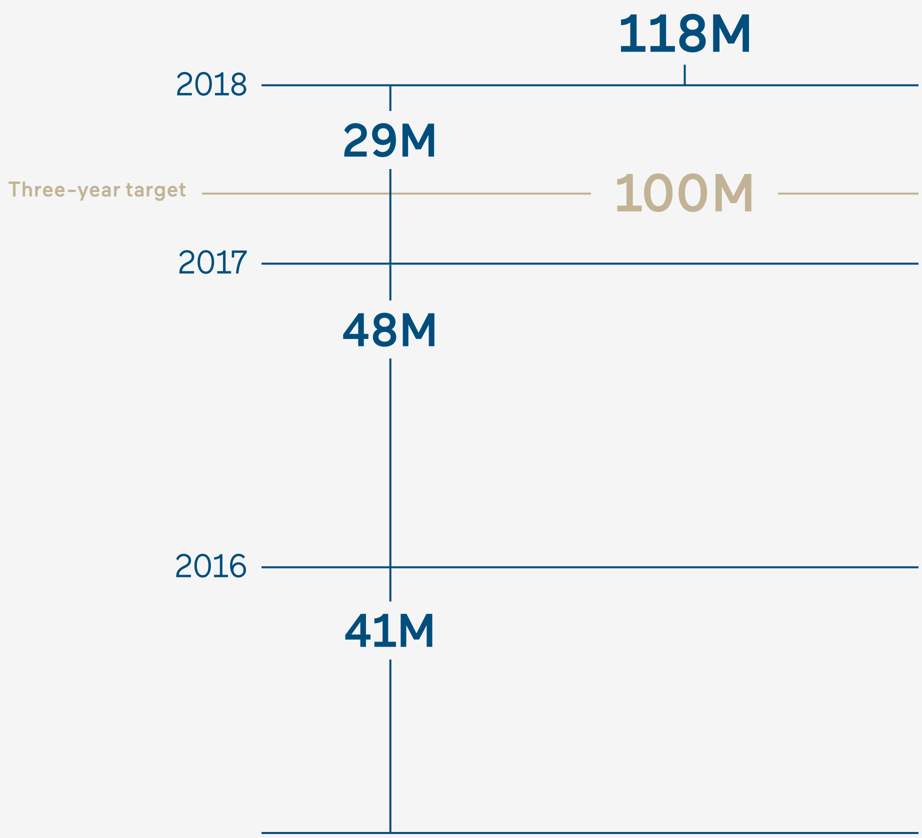
Plant automation has also improved the efficiency of many operations, such as the packaging and boxing operations at the plant in Saint-Hyacinthe, Quebec.

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



1

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


2018-09-13
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AGROPUR
75
4

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

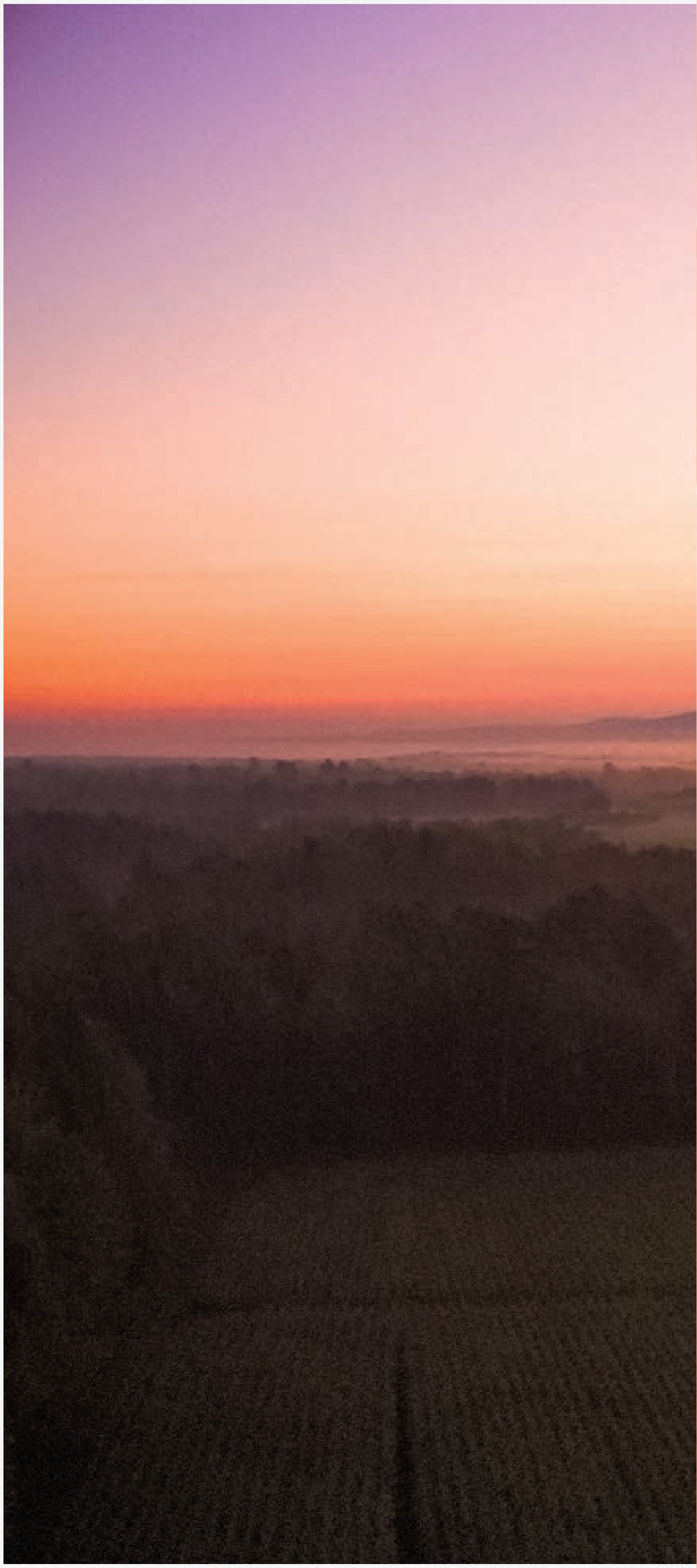
80 years

"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 an
Internationa



80 years of pride

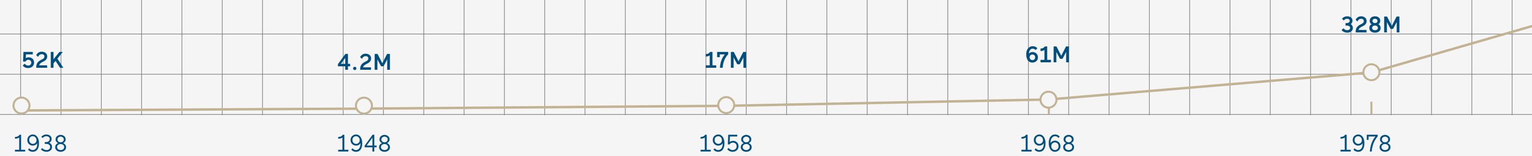
Over the decades, Agropur has clearly demonstrated the value and strength of its cooperative model. If Agropur is now one of the world's largest dairy processing cooperatives, it is because its founders understood that its long-term survival would depend on growth. Operating in a highly competitive marketplace, 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.*"

Strong growth

Since its founding in 1938, Agropur has completed more than 145 mergers and acquisitions.



Tripling the Lake Norden plant's capacity

Agropur has invested 255 million USD in the expansion of its plant in Lake Norden, South Dakota, in the heart of a fast-growing dairy region. The project that began in fall 2017 will make Lake Norden Agropur's largest plant and support faster development in the United States.

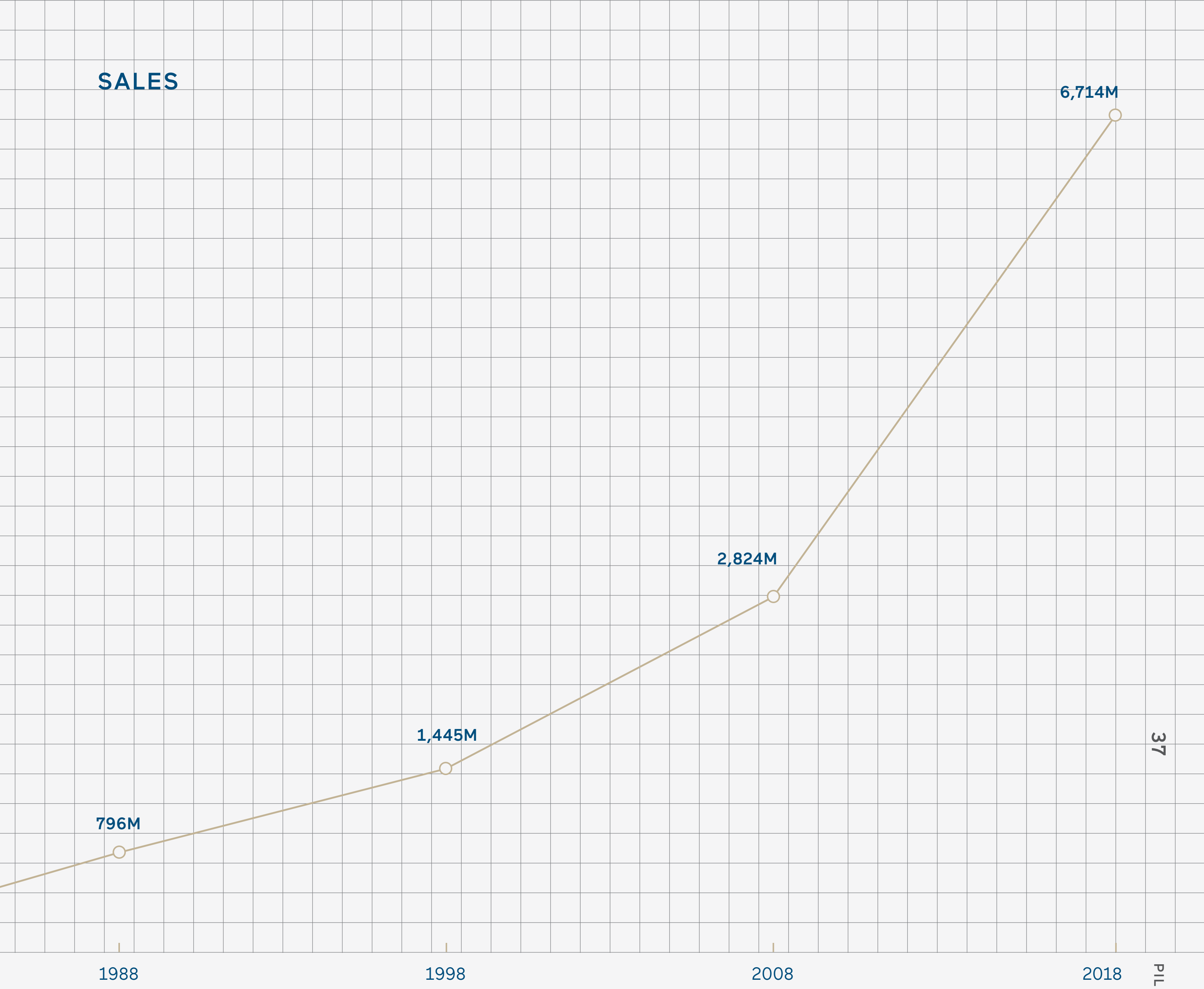
Currently, the plant makes mozzarella, provolone, Parmesan and cheddar cheeses. The expansion will triple its daily processing capacity to over 9 million pounds of milk, enabling it to produce nearly 1 million pounds of cheese and 540,000 pounds of whey powder per day. The project is expected to create more than 100 new jobs.

This investment consolidates Agropur's position as a key player in South Dakota. The expansion project proceeded on schedule in 2018 and commissioning is planned for the second quarter of 2019.

Meeting the demand for protein drinks

As the aseptic dairy beverage industry continues to grow, Agropur's Grand Rapids, Michigan plant pressed ahead with initiatives to provide the production capacity to meet its customers' needs. An investment of over 22 million USD will expand the overall capacity of the aseptic lines.

Adding new equipment and automating certain tasks will increase their capacity



by 144%, making it possible to increase contract manufacturing of high-protein dairy-based beverages, an increasingly popular category with consumers.

Capital expenditures in Canada

In Canada, despite the signing of international trade agreements that increase uncertainty and make long-term planning of investments in Agropur's Canadian infrastructure more complex, Agropur invested close to $153 million over the past year.

Ultima Foods

Agropur acquired all of the shares of Ultima Foods Inc. at the start of the fiscal year.

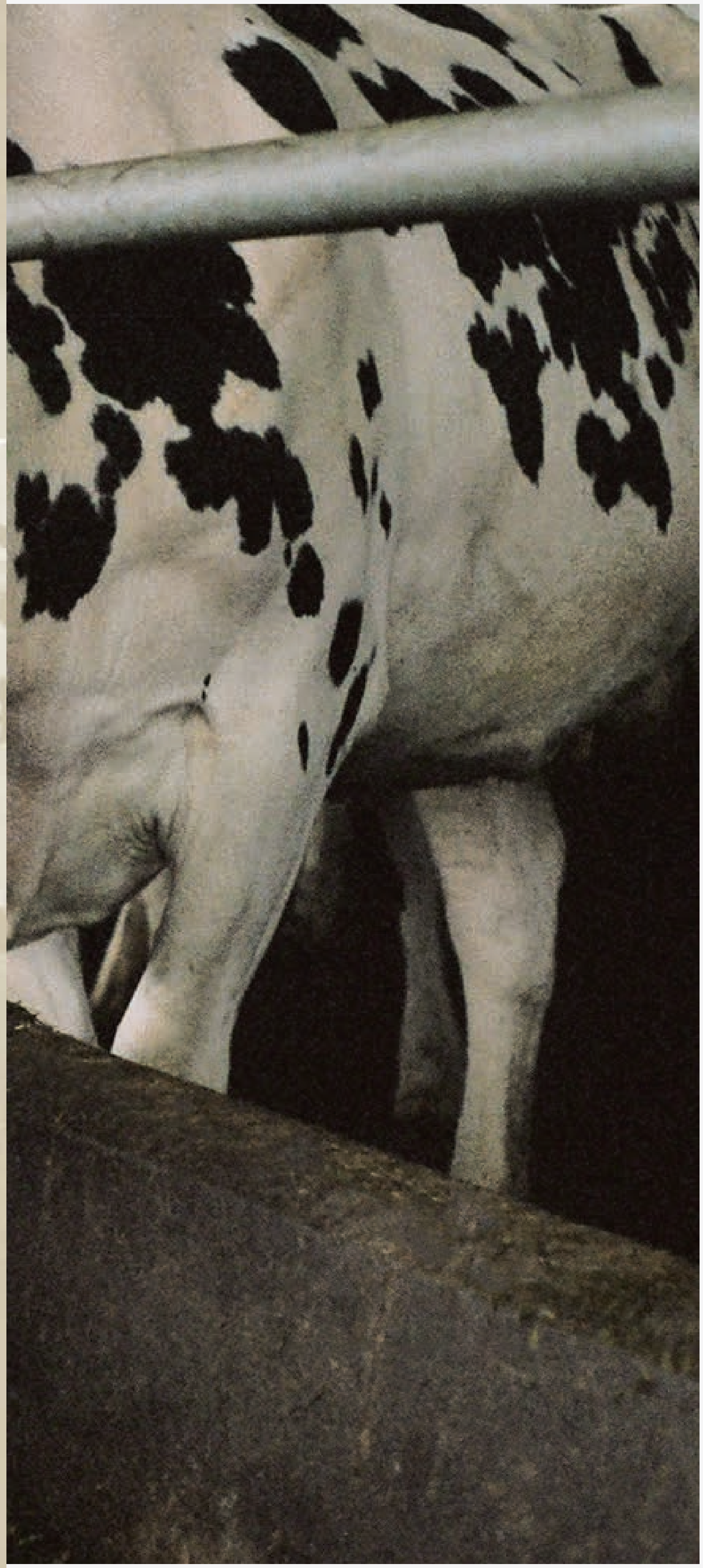
Like the acquisition of Scotsburn, the acquisition of Ultima Foods has helped increase Agropur's sales in Canada. With this acquisition, Agropur has become the dairy processor with the largest product line in Canada and the only major yogurt maker that is Canadian-owned.

Corporate Social Responsibility

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.

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.



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 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.

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.

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.

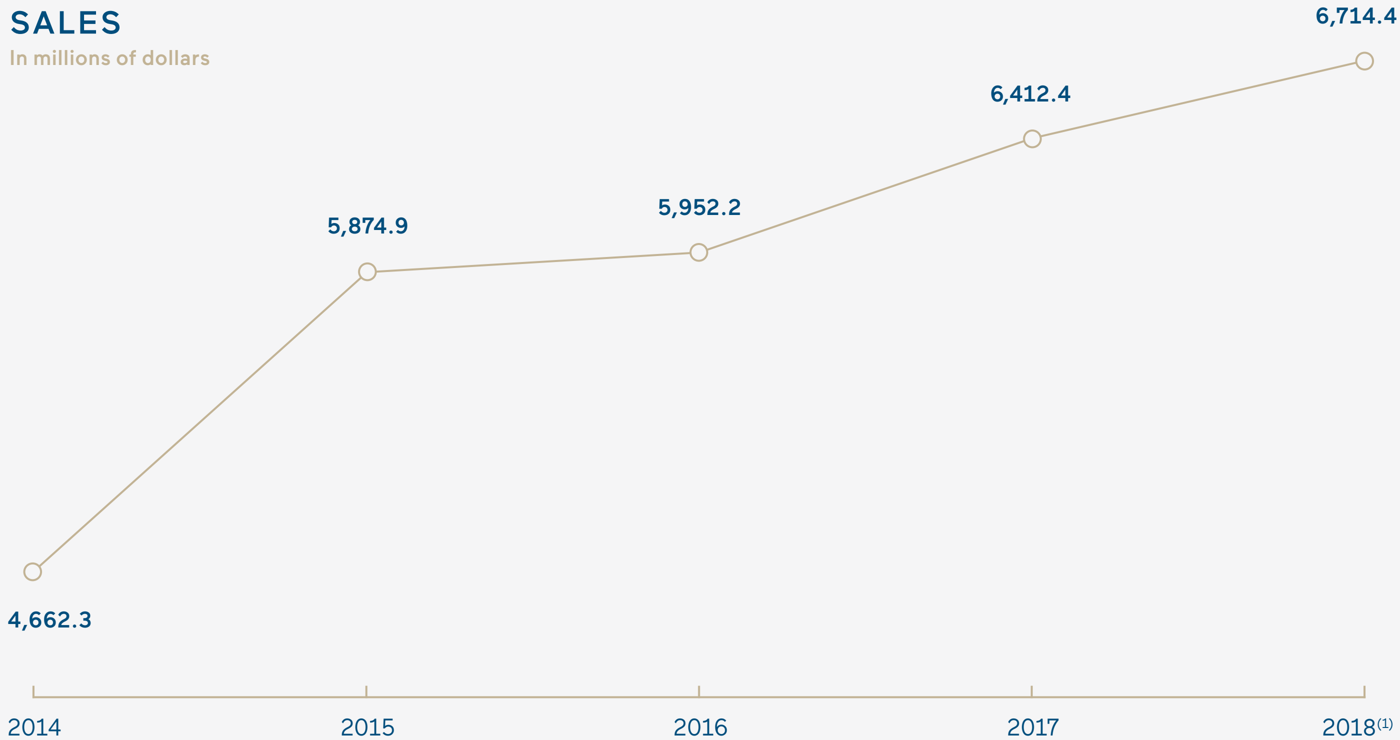
Last but not least, Agropur funds scholarships for outstanding students enrolled in agricultural and food sciences programs at North American colleges and universities.

Financial Review


OKA

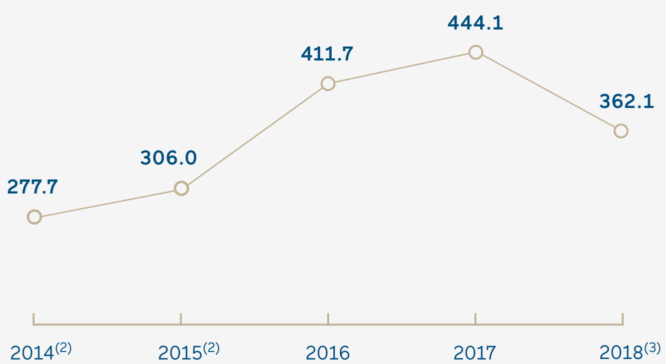
Agropur in numbers

SALES
In millions of dollars



[(1)] Fiscal year including 53 weeks.

EARNINGS FROM OPERATIONS[(1)]
In millions of dollars

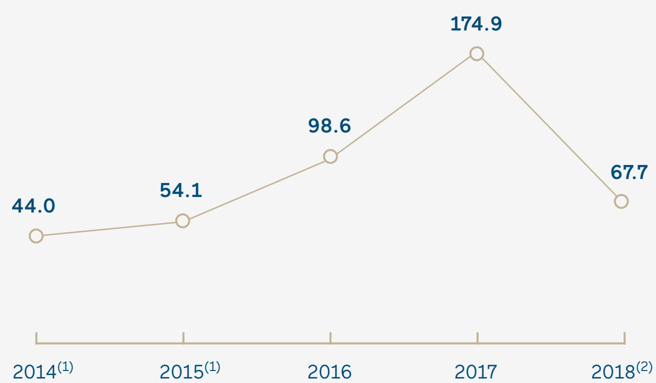


[(1)] Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures.

[(2)] Excluding the impact of Davisco's inventories accounting treatment.

[(3)] Fiscal year including 53 weeks.

NET EARNINGS
In millions of dollars

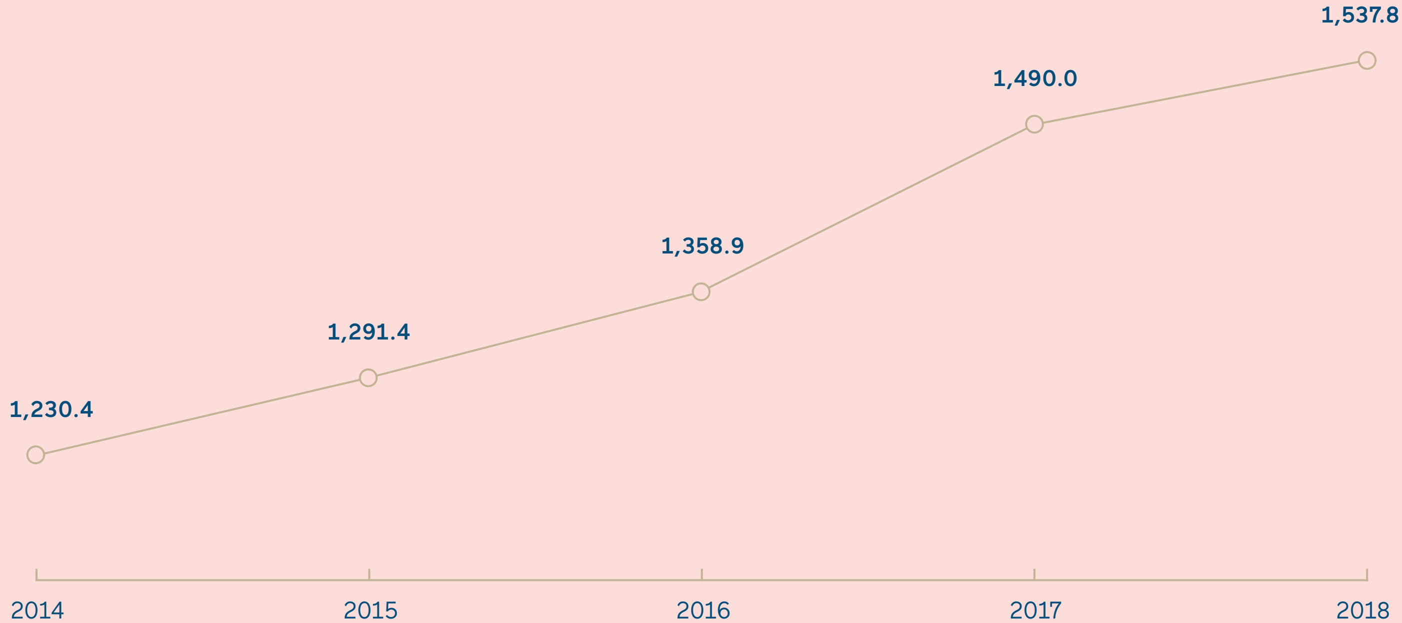


[(1)] Excluding the impact of Davisco's inventories accounting treatment, net of income taxes.

[(2)] Fiscal year including 53 weeks.

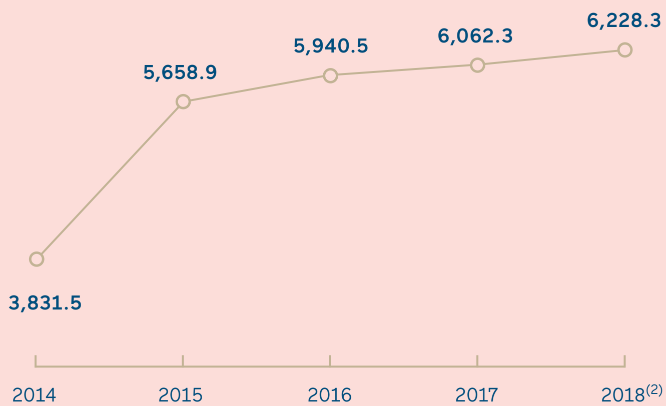
MEMBERS' EQUITY

In millions of dollars



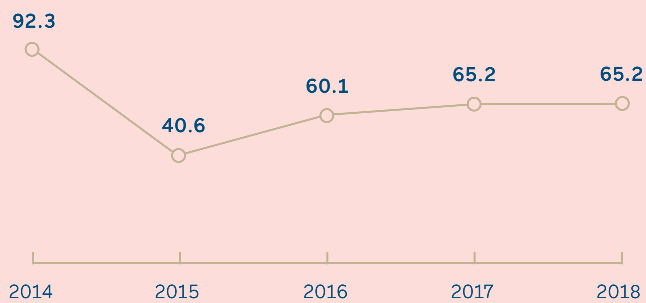
MILK PROCESSED(1)

In millions of litres



PATRONAGE DIVIDENDS

In millions of dollars



(1) Milk processed includes joint ventures.
(2) Fiscal year including 53 weeks.

Message from the Senior Vice-President and Chief Financial Officer Émile Cordeau

The Cooperative's sales continued to grow in 2018, rising to a record $6.7 billion. However, the year was characterized by challenging market conditions in the US. The state of the cheese market and of international whey markets had a $109-million negative impact compared with the previous year. Also during the year, more than half a billion dollars was spent on capacity expansion, efficiency improvement projects, and a business combination.

Sales increased by 4.7% year over year. Adjusted for calendar effects, as our 2018 fiscal year had 53 weeks, the increase was 2.7%. Earnings from operations amounted to $362.1 million, a decrease of $82.0 million or 18.5% due mainly to the unfavourable market environment in the US, which negatively impacted us by $109 million compared with 2017. Canadian markets also remained highly competitive, and despite significant market share gains our earnings fell short of expectations. Our cost-reduction program exceeded its target of $100 million over three years; our initiatives removed $28.9 million out of our cost structure in 2018, bringing the cumulative total savings to $117.9 million after three years. Earnings before patronage dividends and the Cooperative's income taxes totalled $128.2 million, a decrease of 48.5% or $120.9 million from the previous year. Excluding one-time gains and purchase price adjustments related to acquisitions and asset impairment, the decrease was $92.6 million or 51.3%.

More than 6.2 billion litres of milk were processed at our plants in 2018, a 2.7% increase from the previous year. The volume of milk processed at our Canadian plants increased, while in the US, volume was relatively stable.

Governance

The financial statements were prepared in accordance with International Financial Reporting Standards and reviewed by the Audit Committee. On the Committee's recommendation, the Board of Directors approved the 2018 financial statements.

REVIEW OF 2018 FINANCIAL STATEMENTS

Earnings

The Cooperative's sales continued to grow, increasing $302.0 million to pass the $6.7 billion mark in fiscal 2018. Adjusted for the effect of the 53rd week in 2018, the increase was $173.0 million.

Canadian sales increased 11.7% to $3.8 billion, mainly as a result of the acquisition of all outstanding shares of Ultima Foods in 2018 and the full-year contribution from the operations of Scotsburn acquired in January 2017. Sales were also up at most of our Canadian operations, including fresh dairy products and cheese. The increases were due primarily to customer acquisitions and market share gains.

US operations recorded $2.9 billion in sales, a 4.0% decrease. While cheese and whey product sales volumes increased, the value of sales declined because of a 4.3% decrease in the average cheese price and lower international prices for whey products. Our US operations accounted for 42.7% of consolidated sales in 2018, compared with 46.6% in 2017.

The first chart on page 44 shows the evolution of consolidated sales over the past five years. The increase from $4.7 billion in 2014 to $6.7 billion today amounts to a compound annual growth rate of 9.0% (excluding the 53rd week). The growth was due in part to the mergers and acquisitions carried out during the year, as well as expanded production capacity as a result of significant capital expenditures.

Earnings from operations amounted to $362.1 million, a year-over-year decrease of $82.0 million or 18.5%.

Earnings from Canadian operations were stable compared with the previous year. The addition of the activities of Ultima Foods and the full-year contribution from Scotsburn's activities were positive factors. As well, the savings generated by the various initiatives in our cost-reduction program reduced our operating costs in Canada by $22.8 million during the year. Cheese sales increased as a result of new contracts. However, the extremely competitive Canadian market remains a reality. As such, price erosion had an unfavourable effect and neutralized the gains listed above.

Earnings from US operations decreased 30.6% from 2017. While cheese and whey product sales volumes increased, the unfavourable impact of the cheese block price/cost of milk ratio and the significant decrease in world prices for whey products negatively impacted earnings. Positive factors included the savings generated by the various initiatives in our cost-reduction program and the decrease in the cost of milk compared with 2017 due to abundant milk supply.

One of the charts on page 44 shows the decrease in earnings from operations in 2018, explained above. Over the past five years, however, earnings from operations have increased by $84.4 million for a compound annual growth rate of 6.9%, driven primarily by business combinations and organic growth in the US. Overall, earnings rose from $277.7 million in 2014 to $362.1 million in 2018.

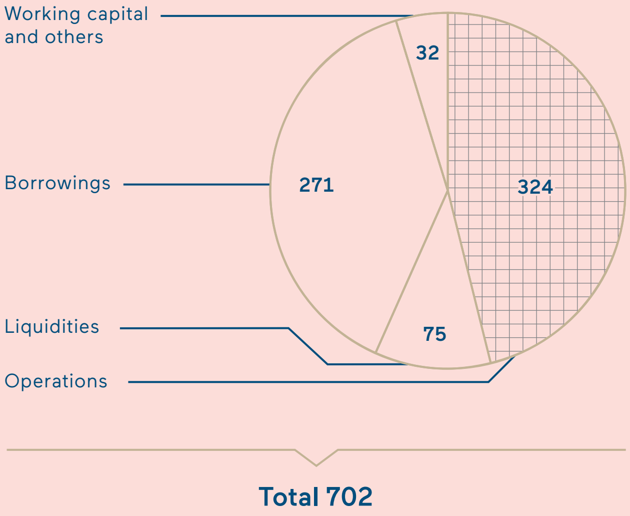
From earnings from operations, we subtract a $183.0-million depreciation and amortization expense, a $14.9-million increase essentially due to the addition of the assets of Ultima Foods. We then deduct costs related to restructuring, integration and other non-recurring costs, which were $39.1 million and fall into three major categories: restructuring costs, including the restructuring of our Canadian operations following the integration of Ultima Foods, which amounted to $11.4 million; start-up costs for major projects, which amounted to $21.1 million; and costs caused by events that gave rise to expenses outside the normal course of business, which totalled $6.5 million.

Financial expenses increased from the previous year, mainly as a result of higher interest rates and, to a lesser degree, increased indebtedness. A $47.7-million gain was recognized during the year in connection with the acquisition of all shares of Ultima Foods. As required by accounting standards, we remeasured the fair value of the interest held in the joint venture prior to the acquisition, giving rise to the gain. Following the announcement in September 2018 of a plant closure, the Cooperative performed an impairment test to determine whether there had been any loss of value and a $7.4-million asset impairment charge was recognized. Lastly, the subsidiaries' income tax expenses decreased by $41.8 million due to lower US earnings and the reduction in tax rates following the passage of the Tax Cuts and Jobs Act in the US, commonly referred to as the US tax reform. Earnings before patronage dividends therefore totalled $128.2 million, a decrease of 48.5% or $120.9 million from the previous year. Excluding one-time gains and purchase price adjustments related to acquisitions and asset impairment, the decrease was $92.6 million.

The Board of Directors approved patronage dividends of $65.2 million. As in the past, the patronage dividends were payable 25% in cash and 75% in investment shares. After deduction of patronage dividends, the Cooperative recorded $4.7 million in income tax recovery. Agropur therefore generated net earnings of $67.7 million, which were added to the reserve.

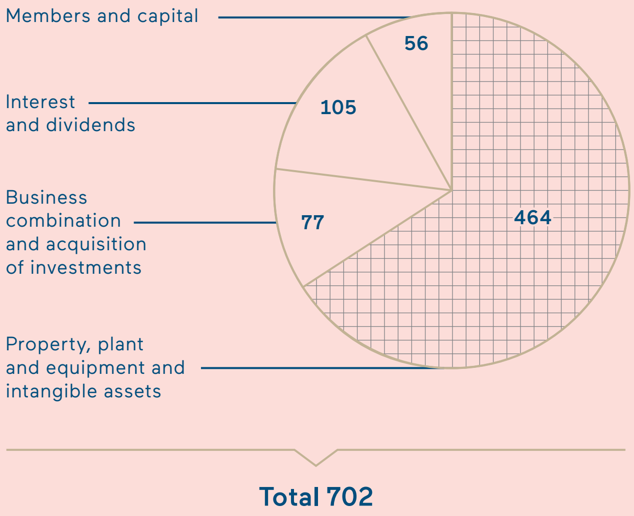
INFLOWS 2018

In millions of dollars



OUTFLOWS 2018

In millions of dollars



Comprehensive income totalled $97.7 million in fiscal 2018, including net earnings of $67.7 million and other items, consisting primarily of $14.8 million in unrealized gains, net of income taxes, on derivative financial instruments designated as cash flow hedges, and the $14.5 million positive impact of the depreciation of the Canadian dollar on the consolidation of the assets and liabilities of our US subsidiaries, net of translation of long-term debt into Canadian dollars. As at November 3, 2018, the exchange rate was C$1 for US$0.76, compared with US$0.78 as at October 28, 2017. The depreciation of the Canadian dollar and the unrealized gains on derivative financial instruments resulted in recognition of a cumulative net gain of $97.7 million on the balance sheet. These accounting translation variances will continue fluctuating in the future. The other elements of comprehensive income are items transferred to the reserve, which consist of actuarial gains on the defined benefit pension plans in the amount of $0.5 million, net of income taxes, in 2018.

Cash flows

Cash flows from operating activities, before the change in non-cash items, totalled $323.5 million. Funds generated by non-cash items totalled $31.0 million, as detailed in note 8 to the financial statements.

With respect to financing activities, dividends of $58.0 million were paid on first preferred shares, a $10.6-million increase from the previous year. Interest payments were $47.0 million. Debt increased by $271.4 million.

In 2018, $539.7 million was used for investing activities. Of that amount, $76.8 million was allocated to the business combination and the acquisition of investments. Investment in property, plant and equipment and intangible assets totalled $464.3 million, including ongoing spending on the expansion of our plant in Lake Norden, South Dakota, the largest capital investment in a plant in Agropur's history. The project will triple the plant's capacity and increase its productivity. Our investments also included a number of other projects to increase capacity, maintain our assets and improve operational efficiencies.

With respect to member activities, the cash portion of the patronage dividends declared in 2017 and paid in 2018 was $16.2 million. Redemption of shares and certificates of indebtedness amounted to $40.3 million.

Over the past five years, inflows have totalled $3.4 billion, of which $278 million, or 8.1%, was paid out to members as patronage dividends in cash and capital redemptions. Outflows related to mergers, acquisitions and disposal totalled nearly $1.7 billion. In addition, $1.3 billion was disbursed for investments in property, plant and equipment and intangible assets.

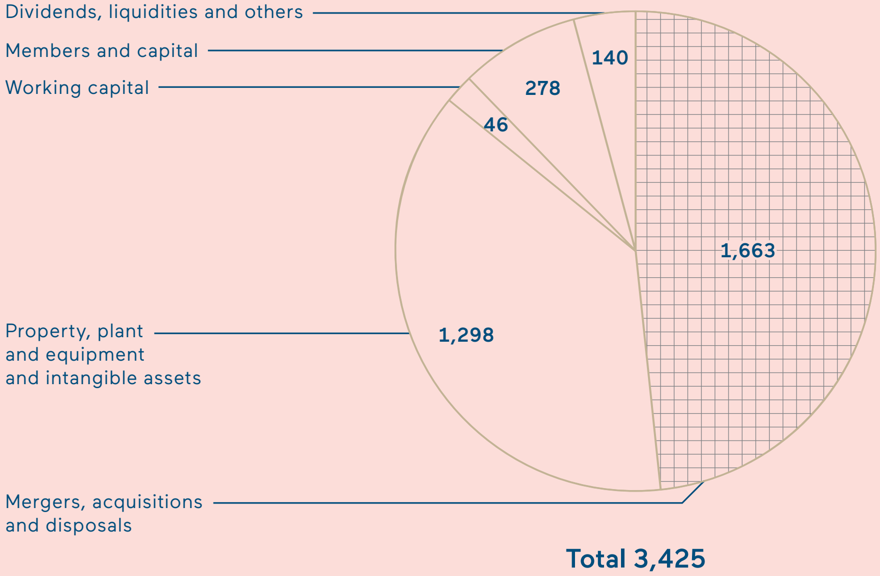
Balance sheet

As at November 3, 2018, the Cooperative's net assets were $2.3 billion. Assets totalled $4.6 billion, a $384.0-million increase resulting primarily from the acquisition of Ultima Foods, additions to property, plant and equipment and intangible assets, and the favourable impact of the depreciation of the Canadian dollar on the translation of the US subsidiaries' assets into Canadian dollars. Liabilities amounted to $2.3 billion, a $336.1-million year-over-year increase due mainly to additions to long-term debt, which were used to finance our investments in property, plant and equipment and intangible assets, and in a business combination.

Note 17 to the financial statements provides details of share capital. From the 2017 closing balance, we deduct $40.3 million paid for redemption of shares and certificates

USE OF FUNDS 2014 TO 2018

In millions of dollars



of indebtedness in 2018. As at November 3, 2018, total equity was nearly $2.3 billion. Excluding the first preferred shares, members' equity stood at more than $1.5 billion, up $47.8 million from 2017.

Outlook

The decrease in our earnings in 2018 reflects unfavourable international markets for whey products, low cheese prices in the US and persistent aggressive competition in the Canadian market. Under the circumstances, we are pressing ahead with our efforts on our cost-reduction program, integration of our acquisitions, and organic growth.

In this regard, the expansion of our plant in Lake Norden, South Dakota, is on schedule and commissioning is slated for the second quarter of 2019. The US$255-million (approximately C$330 million) investment approved last year will eventually triple the plant's processing capacity, enabling us to step up our development in the US, capture a share of the growth in US cheese consumption, and strengthen our position as a key player in the dairy processing industry.

The Cooperative has a sound financial position. Despite the decrease in 2018, Agropur's earnings from operations are up 30.4% over the past five years. Our milk processing capacity is increasing as a result of significant investments that have been completed or are in progress. We are therefore strongly positioned to continue our growth in the coming years.

Émile Cordeau
Senior Vice-President and
Chief Financial Officer

Risks and Uncertainties

Product-related risks

Given its processing activities, the Cooperative is exposed to the risk of contamination of its ingredients or products by internal or external agents. If this should occur, a product recall could prove to be costly and have a negative impact on our reputation and, by extension, on future sales.

Raw material risks

Price volatility and the availability of the raw materials used in the manufacture of goods, particularly milk, which represents the major cost component, and the necessary packaging materials, could have a negative impact on product costs. In a competitive market environment, the impact of a price increase in inputs will depend on the Cooperative's ability to convert this increase into a comparable increase in the selling prices of its products.

Customer-related risks

Increasing concentration in the food distribution industry in recent years has resulted in a more limited number of customers and an increase in the relative importance of some customers. Since the Cooperative serves this industry, such concentration could lead some distributors to exert pressure on prices, causing an adverse effect on operating earnings.

Consumption trend risks

Changing consumption trends could affect demand for our products and thus affect the earnings of the Cooperative. The repercussions of such changes will depend on our ability to meet consumers' needs, develop new products and innovate.

Competition risks

The Cooperative is exposed to risks associated with heightened competition in the dairy industry, the possible arrival of new competitors on the market, and changing consumer needs. Business combinations in the dairy industry in recent years have intensified international competition. In Canada, the dairy industry is dominated by three main players, including the Cooperative. In the United States, we face numerous regional and national competitors. Regional, national and international competitors seeking to strengthen their market position could force the Cooperative to grant additional discounts on its products in order to maintain its market share.

Market risks

Prices for milk and whey products on international markets and cheese prices in the United States are dependent on fluctuations in supply and demand, which in turn are influenced by global economic conditions.

Business environment risks

Demand for our products could be affected by an economic slowdown or market recession, which would consequently impact earnings.

Supplier risks

The concentration of suppliers means that for some goods and services, our supplies are restricted to a limited number of suppliers. Problems may also arise in the supply chain, particularly with logistics suppliers. Insufficient quantities, quality or timeliness could negatively impact our earnings.

Risks related to unplanned disruption of operations

Major events such as a fire, equipment failure, epidemic, natural disaster, etc. may occur and cause harm to employees or damage to property, which could lead to an unplanned disruption of the Cooperative's operations. The impact would depend on the Cooperative's ability to manage the crisis. The Cooperative has insurance coverage to reduce its exposure to some business interruption-related risks.

Acquisition risks

In a fast-consolidating global dairy industry, the Cooperative has grown through business combinations and intends to continue doing so in the future. The impact will depend on our ability to identify strategic acquisitions, determine their fair value, put in place the resources needed to integrate the acquired businesses, and achieve the expected synergies. The success of this strategy will also depend on our ability, as a cooperative, to access liquidity in the capital markets.

Interest rate risks

The Cooperative has assumed long-term debt as a result of the numerous business combinations it has carried out. It is therefore exposed to risk arising from fluctuations in interest rates on this financial instrument. The cash flow impact will be negative if interest rates rise and positive if interest rates fall. In keeping with its risk management strategy and in order to reduce its exposure to interest rate fluctuations on a portion of its term loan, the Cooperative trades floating-rate interest payments for fixed-rate payments at specified intervals.

Information system risks

The integration of computer applications into the Cooperative's operations makes the Cooperative more dependent on such applications. Computer service availability, completeness and confidentiality are the main risks associated with the use of such applications. A system malfunction could lead to poor decisions or affect production levels.

Cyberattack risks

To conduct its business, the Cooperative relies on properly functioning computer applications, including internal networks, integrated systems, cloud services and external data centres. In order to protect its data and systems, the Cooperative has implemented various security measures to guard against the rising risk of cyberattack. Those measures include continuously updated computer controls, staff training sessions, strict rules for the suppliers whose services we use, and a disaster recovery plan. Despite these safeguards, the Cooperative is not immune to the threat. A successful cyberattack could affect our operations and therefore have negative financial impacts.

Regulatory risks

The Cooperative is subject to multiple governmental and tax laws, regulations and policies. Amendments to, or tightening of, those laws and regulations could affect our operations or lead to additional costs for compliance with such new obligations, particularly with respect to the production, labelling and distribution of food products. Regulatory risks are growing due to the current context of growth through business combinations in different countries, provinces and states. We attach great importance to compliance with applicable laws and regulations in all jurisdictions where we do business, as breaches can lead to sanctions, penalties or fines.

Environmental risks

The Cooperative is subject to a number of environmental protection laws and regulations concerning, in particular, wastewater discharge, air pollution, the use of toxic chemicals, and the clean-up of contaminated sites. Any amendments to such laws and regulations could involve additional outlays for compliance.

Labour relations risks

Several groups of employees at our various worksites are unionized. Negotiating collective agreements can create conflicts resulting in work stoppages or slowdowns. We make the necessary efforts to maintain good relations with the unions.

Personnel risks

The Cooperative's success is dependent on its people's efforts and skills. Workforce availability and engagement, as well as occupational health and safety, present risks to our ability to achieve our growth objectives. Each of our plants has a health and safety plan. The Cooperative conducts an annual review of its succession management plan and ensures that contingency plans exist for all critical positions.

Risks associated with tariff rules

The Cooperative operates in the dairy industry, in which imports are subject to tariff rules. International trade rules may be modified by international treaties, which could have the effect of changing the competitive environment in the markets in which the Cooperative operates. The Cooperative's future profitability will depend on its ability to adapt to new rules by offering its customers products that are competitive in quality and price.

Risks related to employee future benefits

The Cooperative offers some groups of employees defined benefit plans. Changes in long-term interest rates, volatility of returns and regulations governing such plans could potentially require the Cooperative to make contributions which are significantly different from those currently paid. A review of the Cooperative's obligations under these plans was completed and most of them are now closed to new participants.

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

December 14, 2018

To the members of Agropur cooperative

We have audited the accompanying consolidated financial statements of Agropur cooperative, which comprise the consolidated balance sheet as at November 3, 2018, and the consolidated statements of earnings, of comprehensive income, of cash flows and of changes in equity for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Agropur cooperative as at November 3, 2018 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec

[1] CPA auditor, CA, public accountancy permit no. A119427

CONSOLIDATED EARNINGS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**November 3 2018 (53 weeks)**	October 28 2017 (52 weeks)
Sales	**6,714,365**	6,412,409
Operating expenses excluding depreciation and amortization	**6,352,218**	5,968,279
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs	**362,147**	444,130
Depreciation and amortization (notes 10 and 11)	**183,025**	168,080
Restructuring costs, integration and other non-recurring costs (note 4)	**39,066**	11,035
Operating earnings	**140,056**	265,015
Net financial expenses	**44,614**	35,661
Loss (gain) on disposal of assets	**198**	(212)
Impairment of assets (notes 10 et 11)	**7,382**	538
Purchase price adjustment	**-**	(55,156)
Accounting gains as a result of business combinations (note 3)	**(47,660)**	(13,971)
Income taxes of subsidiaries (note 5)	**7,286**	49,042
Earnings before patronage dividends and the Cooperative's income taxes	**128,236**	249,113
Patronage dividends (note 6)	**65,219**	65,236
Cooperative's income taxes (note 5)	**(4,669)**	8,972
Net earnings	**67,686**	174,905

CONSOLIDATED COMPREHENSIVE INCOME

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**November 3 2018 (53 weeks)**	October 28 2017 (52 weeks)
Net earnings	**67,686**	174,905
Other comprehensive income		
Components that may be reclassified to net earnings:		
Net change in fair value of derivative instruments designated as cash flow hedges, net of income tax expense of $5,547 (2017 income tax recovery – $426)	**14,764**	(417)
Change in foreign currency translation adjustment of foreign operations	**33,087**	(76,659)
Change in foreign currency translation adjustment of long-term debts designated as hedge of a net investment in foreign operations	**(18,552)**	42,109
Reversal of the share of other comprehensive income of joint ventures	**218**	-
	29,517	(34,967)
Components that will not be reclassified to net earnings:		
Actuarial gains on the accrued benefit obligation, net of income tax expense of $196 (2017 income tax expense – $5,229) (note 21)	**537**	14,417
Total other comprehensive income	**30,054**	(20,550)
Total comprehensive income	**97,740**	154,355

CONSOLIDATED CASH FLOWS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**November 3 2018 (53 weeks)**	October 28 2017 (52 weeks)
CASH FLOWS FROM		
Operating activities		
Earnings before patronage dividends and the Cooperative's income taxes	**128,236**	249,113
Net financial expenses	**44,614**	35,661
Items not involving use of funds		
Depreciation and amortization	**183,025**	168,080
Accounting gains as a result of business combinations (note 3)	**(47,660)**	(13,971)
Deferred income taxes of subsidiaries	**7,752**	46,142
Impairment of assets (notes 10 and 11)	**7,382**	538
Loss (gain) on disposal of assets	**198**	(212)
	323,547	485,351
Patronage dividends paid	**(16,178)**	(14,946)
Change in non-cash items (note 8)	**30,959**	6,664
	338,328	477,069
Financing and share capital activities		
Interest paid	**(47,039)**	(36,960)
Long-term debt, net of issuance expenses (note 15)	**271,407**	(102,586)
Dividends on first preferred shares	**(57,967)**	(47,380)
Issuance and redemption of members' shares and certificates of indebtedness	**(40,036)**	(40,245)
	126,365	(227,171)
Investing activities		
Business combinations (note 3)	**(68,059)**	(54,815)
Acquisition of investments	**(8,767)**	-
Property, plant and equipment and intangible assets (notes 10 and 11)	**(464,321)**	(174,285)
Subordinated loan to a joint venture (note 7)	**-**	(3,000)
Proceeds from disposal of assets	**1,403**	16,542
	(539,744)	(215,558)
Effect of exchange rate fluctuations on cash position	**(306)**	664
Net change in cash position over the year	**(75,357)**	35,004
Cash position – Beginning of year (note 8)	**84,531**	49,527
Cash position – End of year (note 8)	**9,174**	84,531

Additional information:		
Member and share capital activities		
Patronage dividends paid	**(16,178)**	(14,946)
Issuance of shares and certificates of indebtedness	**250**	218
Redemption of shares and certificates of indebtedness	**(40,286)**	(40,463)
	(56,214)	(55,191)

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	**November 3 2018**	October 28 2017
ASSETS		
Current assets		
Cash	**35,709**	89,614
Accounts receivable	**358,207**	449,142
Inventories (note 9)	**777,234**	806,732
Income taxes	**2,537**	2,226
Prepaid expenses	**25,543**	25,386
	1,199,230	1,373,100
Investments and loan (note 7)	**9,014**	17,280
Property, plant and equipment (note 10)	**1,845,385**	1,433,223
Intangible assets (note 11)	**407,941**	337,146
Goodwill (note 11)	**1,056,712**	1,005,158
Other assets (note 12)	**83,575**	50,251
	4,601,857	4,216,158
LIABILITIES		
Current liabilities		
Bank overdrafts and lines of credit (note 13)	**26,535**	5,083
Accounts payable and accrued liabilities (note 14)	**717,155**	791,215
Income taxes	**4,636**	379
Current portion of long-term debt (note 15)	**44,540**	43,836
	792,866	840,513
Long-term debt (note 15)	**1,395,779**	1,022,906
Deferred income taxes (note 5)	**76,337**	65,230
Employee future benefits obligation (note 21)	**25,054**	23,427
Other long-term liabilities (note 16)	**4,035**	4,127
	2,294,071	1,956,203
EQUITY		
Members' capital (note 17)	**804,739**	795,706
First preferred shares (note 17)	**770,000**	770,000
Reserve	**638,789**	629,508
Accumulated other comprehensive income (note 18)	**94,258**	64,741
	2,307,786	2,259,955
	4,601,857	4,216,158

Approved by the Board of Directors, on December 14, 2018.

René Moreau, Director

Roger Massicotte, Director

CONSOLIDATED CHANGES IN EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS)	Class M and member shares	Classes A and B shares	Contributed surplus	**Total shares (note 17)**	Certificates of indebtedness	**Total members' capital**	First preferred shares (note 17)	**Total share capital (note 17)**	Reserve	Comprehensive income ("AOCI")[4]	**Total**
As at October 30, 2016	**4,199**	**695,510**	**51,180**	**750,889**	**19,948**	**770,837**	**770,000**	**1,540,837**	**488,367**	**99,708**	**2,128,912**
Net earnings	-	-	-	**-**	-	**-**	-	**-**	174,905	-	**174,905**
Other comprehensive income (loss)	-	-	-	**-**	-	**-**	-	**-**	14,417	(34,967)	**(20,550)**
Issuance of shares as payment for patronage dividends	-	49,058	-	**49,058**	-	**49,058**	-	**49,058**	-	-	**49,058**
Issuance of shares for cash	109	109	-	**218**	-	**218**	-	**218**	-	-	**218**
Dividends on first preferred shares including income[1]	-	-	-	**-**	-	**-**	-	**-**	(48,181)	-	**(48,181)**
Redemption of shares and certificates of indebtedness	(51)	(38,435)	-	**(38,486)**	(1,977)	**(40,463)**	-	**(40,463)**	-	-	**(40,463)**
Issuance of shares and certificates of indebtedness in a business combination[2]	695	-	-	**695**	15,361	**16,056**	-	**16,056**	-	-	**16,056**
As at October 28, 2017	**4,952**	**706,242**	**51,180**	**762,374**	**33,332**	**795,706**	**770,000**	**1,565,706**	**629,508**	**64,741**	**2,259,955**
As at October 29, 2017	**4,952**	**706,242**	**51,180**	**762,374**	**33,332**	**795,706**	**770,000**	**1,565,706**	**629,508**	**64,741**	**2,259,955**
Net earnings	-	-	-	**-**	-	**-**	-	**-**	67,686	-	**67,686**
Other comprehensive income (loss)	-	-	-	**-**	-	**-**	-	**-**	537	29,517	**30,054**
Issuance of shares as payment for patronage dividends	-	49,069	-	**49,069**	-	**49,069**	-	**49,069**	-	-	**49,069**
Issuance of shares for cash	105	145	-	**250**	-	**250**	-	**250**	-	-	**250**
Dividends on first preferred shares including income[3]	-	-	-	**-**	-	**-**	-	**-**	(58,942)	-	**(58,942)**
Redemption of shares and certificates of indebtedness	(98)	(37,539)	-	**(37,637)**	(2,649)	**(40,286)**	-	**(40,286)**	-	-	**(40,286)**
As at November 3, 2018	**4,959**	**717,917**	**51,180**	**774,056**	**30,683**	**804,739**	**770,000**	**1,574,739**	**638,789**	**94,258**	**2,307,786**

[1] Dividends on first preferred shares net of current income tax expense of $11,845 and deferred income tax recovery of $11,044.

[2] Par value of the shares and certificates of indebtedness issued to former shareholders of Scotsburn Co-operative Services Ltd. (note 3).

[3] Dividends on first preferred shares net of current income tax expense of $14,492 and deferred income tax recovery of $13,517.

[4] Accumulated other comprehensive income (note 18).

1. GENERAL INFORMATION

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

The Cooperative and its subsidiaries carry on the business of processing and selling dairy products. Facilities are located in Canada and the United States. The head office is located in Saint-Hubert, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These consolidated financial statements of the Cooperative have been prepared in accordance with International Financial Reporting Standards ("IFRS") in effect as at November 3, 2018, as issued by the International Accounting Standards Board ("IASB").

CONSOLIDATION PRINCIPLES

These consolidated financial statements include the accounts of the Cooperative and its subsidiaries.

ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions, in particular with respect to the fair value measurement of net assets combined and the consideration transferred as part of business combinations, the election of depreciation and amortization methods, the estimation of useful life of depreciable or amortizable assets, the impairment tests of assets, and the valuation of standard costs for finished goods and of employee future benefits.

CASH POSITION

Cash position consists of cash, bank overdrafts and lines of credit.

INVENTORIES

Finished goods and goods in process are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of cost and net realizable value, cost being determined under the first-in, first-out method.

Borrowing costs attributable to mature inventories are included in the cost of the finished goods inventory.

INVESTMENTS

Investments are tested for impairment by the Cooperative if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of an investment's value in use using discounted future cash flows and its fair value less costs to sell.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses, net of applicable government grants.

Depreciation of property, plant and equipment is calculated over their estimated useful lives, mainly using the following methods and rates:

• Buildings	Straight-line	40 years
• Equipment	Diminishing balance	10% and 15%
• Rolling stock	Diminishing balance	30%

Property, plant and equipment are tested for impairment by the Cooperative if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of the value in use using discounted future cash flows and the fair value less costs to sell. For impairment testing purposes, property, plant and equipment are grouped at the lowest level for which there are identifiable cash flows.

Property, plant and equipment under construction are not amortized.

INTANGIBLE ASSETS

Intangible assets mainly consist of customer relationships, trademarks and software. These assets are accounted for under the cost method less accumulated depreciation and impairment losses.

Intangible assets with indefinite useful lives are not amortized; they are subject to an annual impairment test. Intangible assets with definite useful lives are amortized, mainly using the following methods and rates:

• Customer relationships	Straight-line	4 to 12 years
• Software	Straight-line	5 to 15 years
• Other rights	Straight-line	5 to 40 years

Intangible assets with definite useful lives are tested for impairment if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of the value in use using discounted future cash flows and the fair value less costs to sell. For impairment testing purposes, intangible assets are grouped at the lowest level for which there are identifiable cash flows.

Intangible assets under construction are not amortized.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are part of the cost of that asset. The Cooperative ceases to capitalize borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed. Other borrowing costs are recognized as an expense in the period in which they are incurred.

GOODWILL

Goodwill is initially recognized as the excess of the fair value of the consideration transferred over the fair value of the identified assets and liabilities.

Goodwill is not amortized. Goodwill is tested annually for impairment by reporting business units in order to determine if there is an impairment loss. An impairment test is also performed when there is an indication that the carrying amount may not be recovered. Reporting business units are determined according to the smallest identifiable group of assets that generates cash inflows. To evaluate if there is a goodwill impairment loss, the Cooperative compares the recoverable amount of the reporting business units to their carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount exceeds the recoverable amount, an impairment loss is recorded.

For every reporting business unit, the recoverable amount was measured using cash flow projections before income taxes from business plans approved by management. Budgeted gross margins calculated by management are based on previous results and forecasts of market development. This calculation is based on key assumptions made by management. A change in a key assumption could cause an important impact on the recoverable amount.

OTHER ASSETS

Deferred charges for procurement contracts related to customers are amortized on a straight-line basis over the term of the contract or based on the volume specified in the contract.

BUSINESS COMBINATIONS

The Cooperative uses the acquisition method to account for business combinations. Under this method, the Cooperative determines the fair value of the assets combined, the liabilities assumed, and the consideration transferred. The excess of the fair value of the consideration transferred over the fair value of the assets combined and the liabilities assumed is recorded in goodwill. If the excess is negative, it is recorded in earnings. Business combination costs are recognized in earnings during the year in which they are incurred.

REVENUE RECOGNITION

Revenues are recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer. Revenues are recognized net of annual amortization of procurement contracts.

EMPLOYEE FUTURE BENEFITS

The Cooperative accounts for its obligations arising from employee benefit plans and related costs, net of the plan's assets. The discount rate used to measure the accrued benefit obligation is determined according to the return of high quality corporate bonds on the market as at the valuation date. The cost of pension and other retirement benefits earned by employees is calculated according to the projected benefit method, prorated on years of service, based on management's best estimate assumptions about the salary projections and the retirement ages of employees. The fair value of assets is determined using market value. Actuarial gains (losses) are recorded in other comprehensive income. The cost of past services resulting from changes to the plans is recognized in earnings when the plan amendment occurs or on the date when the related costs are recognized.

INCOME TAXES

Income tax expenses include current income tax and deferred income tax expenses. Current income tax expenses are calculated using enacted or substantively enacted income tax rates as at the balance sheet date. Deferred income taxes are measured from the difference between tax bases and carrying amounts of assets and liabilities. However, deferred tax is not recognized on the initial recognition of goodwill and the initial recognition of assets and liabilities when the related transaction is not a business combination and does not affect accounting nor tax earnings. Deferred income tax assets and liabilities are measured using the tax rates that are expected to be in effect in the years when these temporary differences are expected to reverse. Income tax assets are recognized when it is more likely than not that the asset will be realized.

TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions
Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing as at the balance sheet date, while transactions denominated in foreign currencies are translated at the average monthly exchange rates during the year. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical exchange rates. The resulting foreign currency translation gains or losses, net of hedging operations, are included in earnings.

Foreign operations
All assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing as at the balance sheet date. Unrealized foreign currency gains and losses resulting from this translation are included as a component of accumulated other comprehensive income in equity. Foreign currency gains or losses are reduced by hedging operations using a bank loan in US dollars. Revenues and expenses are translated at the average exchange rate for the month.

FINANCIAL INSTRUMENTS

Recognition or derecognition of financial assets and liabilities
The Cooperative initially recognizes the financial assets and liabilities at the trade date at which the Cooperative becomes a party to the contractual provisions of the instrument. The Cooperative derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when the contractual rights to the cash flows are transferred to a third party, especially in the case of a factoring program. The financial liabilities are derecognized when the Cooperative's contractual obligations are discharged, cancelled or expired.

The following financial assets and liabilities are accounted for at their initial transaction value, which approximates their fair value as at the balance sheet date, considering their nature and their short-term maturity, and variable interest rate for long-term debt.

Subsequently, the Cooperative accounts for these financial instruments under the prescribed method of the category in which the financial instrument was classified at initial recognition:

	Assets and liabilities held for trading	Loans and receivables	Other liabilities
Financial instruments	• Exchange contracts • Commodity futures contracts • Interest rate swaps	• Cash • Accounts receivable • Subordinated loan	• Bank overdrafts and lines of credit • Accounts payable and accrued liabilities • Long-term debt
Subsequent accounting	Fair value[1]	Amortized cost using the effective interest method	Amortized cost using the effective interest method

[1] Gains and losses arising from changes in fair value are included in net earnings, unless the financial instrument is designated as a hedging instrument.

In the event of a material impairment of any of the financial assets, such impairment loss is recorded in earnings.

HEDGING OPERATIONS

Cash flow hedge
The Cooperative documents the risk management strategy used to apply hedge accounting. At the signing of the hedging contract, management documents the hedged item as an asset, a liability, or an anticipated transaction, details of the hedging instruments used and the method of assessing effectiveness. Realized gains and losses on hedges are consequently deferred until realization of the hedged item in order to match the designations to earnings.

The portion of the gain or loss on the hedging instrument that is considered to be an effective hedge is recorded in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recorded in earnings. Upon cessation of hedge accounting, the cumulative gain or loss that has been recorded in other comprehensive income is reclassified in earnings.

Hedge of net investment
Currency exchange differences resulting from the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recorded in other comprehensive income and are presented in equity as long as the hedge is effective. If the hedge is ineffective, these currency exchange differences are recorded in earnings. At the disposal of a hedged foreign investment, the accumulated exchange differences recorded in equity shall be reclassified in earnings and shall be recognized as a gain or loss arising from the disposal.

NEW ACCOUNTING STANDARD ADOPTED DURING THE YEAR

Statement of cash flows
On January 29, 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", to improve information provided to users of financial statements about financing activities.

The application of this amended standard in the first quarter of 2018 had no significant impact on the consolidated financial statements. A reconciliation of long-term debt is presented in note 15.

FUTURE ACCOUNTING POLICIES

The IASB issued new standards that are not yet effective for the year ended November 3, 2018.

Financial instruments
On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". At the same time, the IASB modified IFRS 7, "Financial Instruments: Disclosures" to include disclosure items in the financial statements as part of the initial IFRS 9 adoption.

The Cooperative will adopt this new standard as at the first quarter of its 2019 fiscal year.

The Cooperative has completed its assessment of the impact of these changes on its 2019 consolidated financial statements, and believes that the impact of the adoption of this standard will not be significant. Among others:

- The Cooperative did not identified any changes to the classification and measurement of the existing financial instruments upon applying IFRS 9, other than a change in the classification, without impact of the valuation, of a portion of the accounts receivable under agreements to sell its rights to a financial institution valued at $61.5 million as at November 3, 2018. These accounts receivable classified as "loans and receivables" will be classified as "at faire value through earnings" as a result of the transition to IFRS 9.
- In accordance with transition provisions on hedge accounting provided in IFRS 9,the Cooperative will continue to apply the hedge accounting requirements of IAS 39 instead of adopting the guidance of IFRS 9.

Revenue from contracts with customers
On May 28, 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", a new standard on revenue recognition, superseding IAS 18, "Revenue" and IAS 11, "Construction Contracts and Related Interpretations".

The standard defines the requirements for revenue recognition. It introduces more prescriptive guidelines than those included in previous standards, and will result in additional notes disclosures.

The Cooperative will adopt this new standard as at the first quarter of its 2019 fiscal year, and believes that this standard will have no significant impact on its 2019 consolidated financial statements.

Leases
On January 13, 2016, the IASB issued IFRS 16, "Leases", which replaces IAS 17, "Leases". The new standard introduces a single on-balance sheet recognition and measurement model for lessees and will eliminate the distinction between operating and finance leases.

This new standard is effective for the years beginning on or after January 1, 2019.

The Cooperative will adopt this new standard as at the first quarter of its 2020 fiscal year and has not completed its assessment of the impact of these changes on its consolidated financial statements.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments", which clarifies the accounting for uncertainty in income taxes prescribed by IAS 12 "Income Taxes".

This new standard is effective for the years beginning on or after January 1, 2019.

The Cooperative will adopt this new standard as at the first quarter of its 2020 fiscal year and has not completed its assessment of the impact of these changes on its consolidated financial statements.

Income taxes

On December 12, 2017, the IASB issued "Annual Improvements to IFRS Standards 2015-2017 Cycle", amending, among others, IAS 12 "Income Taxes" to clarify the income tax consequences of dividends on financial instruments classified as equity.

These amendments are effective for fiscal years beginning on or after January 1, 2019, and early application is permitted.

The Cooperative will adopt this new standard as at the first quarter of its 2020 fiscal year, and believes that this standard will have no significant impact on its 2020 consolidated financial statements.

3. BUSINESS COMBINATIONS

On October 29, 2017, the Cooperative acquired all shares of Ultima Foods joint venture. Ultima Foods, which was owned equally by Agropur cooperative and Agrifoods International Cooperative Ltd., became the exclusive property of the Cooperative. Ultima Foods operates in the field of manufacturing and commercialization of yogurts and fresh dairy desserts, and runs two plants in Canada, one located in Quebec, and one in British Columbia.

The 50% interest already held at the time of the transaction was deemed to be disposed at a fair value of $47,878, which gave rise to a gain of $47,660 net of a reversal of $218 from other comprehensive income. This gain was recorded in earnings as an accounting gain as a result of a business combination.

The consideration transferred totalled $95,756.

The fair value of net assets combined is detailed as follows:

	2018
Current assets	50,891
Property, plant and equipment	134,245
Intangible assets	59,691
Goodwill	38,449
Other assets	943
Bank overdraft	(3,059)
Accounts payable and accrued liabilities	(52,142)
Deferred income taxes	(15,033)
Subordinated loan	(34,244)
Long-term debt	(81,907)
Employee future benefits obligation	(2,078)
Fair value of net assets combined	**95,756**

The current assets include accounts receivable with a fair value of $38,321, including accounts receivable under contracts which represent a gross amount of $31,053. At the acquisition date, the best estimate of the contractual cash flows for which collection is not expected is $45.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

The fair value of the consideration transferred is detailed as follows:

	Acquisition of the year
Cash	47,878
Fair value of the initial 50% interest in the shares of the joint venture	47,878
Fair value of the consideration	**95,756**

Cash flows from combination:

	2018
Bank overdraft assumed	**3,059**
Cash consideration	**47,878**
Redemption of subordinated loan from Agrifoods International Ltd.	**17,122**
Cash flows from business combination	**68,059**

BUSINESS COMBINATIONS IN 2017

On January 31, 2017, the Cooperative acquired frozen dairy product assets from Scotsburn Co-operative Services Limited ("Scotsburn"), a dairy cooperative established in Nova Scotia.

The consideration transferred for this acquisition totalled $73,651.

As a result of this acquisition, the Cooperative now owns 100% of the shares of Reliant Transport Ltd. ("Reliant"), previously a joint venture.

Fair values that have been allocated to the combined assets and liabilities of Scotsburn and Reliant are based on a combination of independent valuations and internal estimates. Fair values of the consolidated net assets total $87,622 and, since they are higher than the price paid, this results in negative goodwill amounts. These differences, which amount to $13,971, were recorded in earnings as accounting gains as a result of business combinations. These gains are attributable to the synergies, so the Cooperative will be able to further optimize the use of the combined assets.

The fair value of net assets combined is detailed as follows:

	2017
Cash	2,655
Current assets	39,142
Investments	12,977
Property, plant and equipment	40,985
Intangible assets	14,741
Accounts payable and accrued liabilities	(17,502)
Deferred income taxes	(4,750)
Employee future benefits obligation	(626)
Fair value of net assets combined	**87,622**

Current assets include accounts receivable with a fair value of $10,365, including accounts receivable under contracts which represent a gross amount of $7,544. At the acquisition date, the best estimate of the contractual cash flows for which collection is not expected is $175.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

The fair value of the consideration transferred is detailed as follows:

	Acquisition of the year
Cash	57,470
Shares and certificates of indebtedness	16,056
Investment	125
Fair value of the consideration transferred	**73,651**

The business acquisition costs recognized in earnings during the year 2017 amounted to $653.

Cash flows from combinations:

	2017
Cash acquired	**(2,655)**
Cash consideration	**57,470**
Cash flows from business combinations	**54,815**

4. EARNINGS

The following items are included in the consolidated earnings:

	2018 (53 weeks)	2017 (52 weeks)
Raw materials and other inputs	**4,178,457**	4,146,061
Salaries and employee benefits	**745,574**	682,212
Interest on long-term debt	**44,674**	32,554

The following items are included in the restructuring costs, integration and other non-recurring costs :

	2018 (53 weeks)	2017 (52 weeks)
Restructuring and severance costs	**11,446**	3,860
Integration and start-up costs	**21,119**	2,844
Other non-recurring costs	**6,501**	4,331
	39,066	11,035

5. INCOME TAXES

The income tax expense is detailed as follows:

	2018 (53 weeks)	2017 (52 weeks)
Current income taxes	**(466)**	2,900
Deferred income taxes	**3,083**	55,114
	2,617	58,014
Comprised of:		
The Cooperative's income taxes	**(4,669)**	8,972
Income taxes of subsidiaries	**7,286**	49,042
	2,617	58,014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Reconciliation of income taxes:

	2018 (53 weeks)	2017 (52 weeks)
Income taxes, calculated at Canadian statutory rates of 26.63% (2017 – 26.65%)	**18,718**	62,068
Differences attributable to the following:		
Difference in tax rates of foreign subsidiaries	**(1,240)**	(1,080)
Accounting gain as a result of a business combination	**(12,690)**	(3,689)
Impact of change in deferred tax rates	**(1,130)**	-
Changes in tax rates and provincial allocation	**(43)**	45
Others	**(998)**	670
Income taxes	**2,617**	58,014

The income tax consequences of temporary differences that result in deferred tax assets and liabilities are as follows:

	October 29 2016	**Earnings**	**Comprehensive income and Others**	**Business combinations**	**October 28 2017**
Deferred tax assets					
Goodwill	(30,114)	-	30,114	-	**-**
Tax losses carry forward	111,554	-	(111,554)	-	**-**
Property, plant and equipment	(68,444)	-	68,444	-	**-**
Intangible assets and other assets	14,334	-	(14,334)	-	**-**
Accounts payable, accrued liabilities and others	9,844	-	(9,844)	-	**-**
	37,174	**-**	**(37,174)**	**-**	**-**
Deferred tax liabilities					
Goodwill	2,652	(23,133)	(28,409)	663	**(48,227)**
Tax losses carry forward	1,219	(22,082)	118,712	-	**97,849**
Employee future benefits obligation	9,812	33	(5,229)	166	**4,782**
Property, plant and equipment	(22,907)	(6,726)	(65,472)	(1,665)	**(96,770)**
Intangible assets and other assets	(48,816)	(1,361)	13,768	(3,914)	**(40,323)**
Outside basis difference on investment in subsidiaries	(1,219)	(469)	-	-	**(1,688)**
Accounts payable, accrued liabilities and others	10,611	(1,376)	9,912	-	**19,147**
	(48,648)	**(55,114)**	**43,282**	**(4,750)**	**(65,230)**
Total deferred tax assets (liabilities)	**(11,474)**	**(55,114)**	**6,108**	**(4,750)**	**(65,230)**

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	October 28 2017	Earnings	Comprehensive income and Others	Business combinations	November 3 2018
Deferred tax assets					
Goodwill	-	-	-	-	**-**
Tax losses carry forward	-	-	-	-	**-**
Property, plant and equipment	-	-	-	-	**-**
Intangible assets and other assets	-	-	-	-	**-**
Accounts payable, accrued liabilities and others	-	-	-	-	**-**
	-	**-**	**-**	**-**	**-**
Deferred tax liabilities					
Goodwill	(48,227)	(2,318)	(205)	-	**(50,750)**
Tax losses carry forward	97,849	(45,225)	13,515	18,609	**84,748**
Employee future benefits obligation	4,782	184	(196)	555	**5,325**
Property, plant and equipment	(96,770)	50,898	(43)	(21,538)	**(67,453)**
Intangible assets and other assets	(40,323)	(746)	24	(14,568)	**(55,613)**
Outside basis difference on investment in subsidiaries	(1,688)	1,341	-	-	**(347)**
Accounts payable, accrued liabilities and others	19,147	(7,217)	(6,086)	1,909	**7,753**
	(65,230)	**(3,083)**	**7,009**	**(15,033)**	**(76,337)**
Total deferred tax assets (liabilities)	**(65,230)**	**(3,083)**	**7,009**	**(15,033)**	**(76,337)**

On December 22, 2017, the US tax authorities enacted the "Tax Cuts and Jobs Act", which has been commonly referred to as the US tax reform. Effective January 1, 2018, the US statutory federal income tax rate was reduced from 35% to 21%. The impact of this change in tax rate resulted in a reduction in the deferred tax liabilities and in the income tax expense of subsidiaries of $1,130.

The Cooperative has non capital loss carryforwards of $100,535 as well as other deductible temporary differences in capital nature of $115,775 for which no deferred income tax asset is recognized. The non-capital losses have no expiry day.

No deferred income tax liabilities is recognized on unremitted earnings of $224,087 as at November 3, 2018 (2017 - $185,226) related to the investments in subsidiaries. Such unremitted earnings are reinvested in the subsidiaries and will not be repatriated in a foreseeable future.

6. PATRONAGE DIVIDENDS

Patronage dividends are paid out to members as follows: $16,150 (2017 – $16,178) in cash and $49,069 (2017 – $49,058) through the issuance of investment shares.

7. INVESTMENTS AND LOAN

	2018	2017
Subordinated loan to a joint venture, bearing interest at a rate of 7.00%	**-**	17,122
Others	**9,014**	158
	9,014	17,280

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

8. CASH FLOWS

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

	2018 (53 weeks)	2017 (52 weeks)
Accounts receivable	**130,903**	(17,813)
Inventories	**46,771**	(67,483)
Income taxes	**(9,327)**	(19,866)
Prepaid expenses	**1,105**	(4,604)
Accounts payable and accrued liabilities	**(128,504)**	130,676
Other assets	**(9,989)**	(14,246)
	30,959	6,664

Income taxes paid are detailed as follows:

	2018 (53 weeks)	2017 (52 weeks)
Income taxes paid	**8,686**	23,342

The cash position is detailed as follows:

	2018	2017
Cash	**35,709**	89,614
Bank overdrafts and lines of credit	**(26,535)**	(5,083)
	9,174	84,531

9. INVENTORIES

	2018	2017
Finished goods	**598,249**	649,091
Raw materials, goods in process and supplies	**178,985**	157,641
	777,234	806,732

The cost of goods sold amounting to $5,838,863 (2017 – $5,488,917) is mainly composed of the amount of inventories accounted for in expenses, including an impairment loss of $42,795.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment	Rolling stock	Total
As at October 29, 2016				
Cost	800,877	1,523,483	88,670	**2,413,030**
Accumulated depreciation and impairment	(138,358)	(786,421)	(65,160)	**(989,939)**
Net carrying amount	**662,519**	**737,062**	**23,510**	**1,423,091**
Year 2017				
Additions[1]	31,211	95,711	8,681	**135,603**
Transfers	-	29	(29)	**-**
Business combinations	17,547	22,723	715	**40,985**
Disposals	(2,311)	(478)	(269)	**(3,058)**
Depreciation and amortization	(19,068)	(109,727)	(7,410)	**(136,205)**
Impairment	-	(532)	(6)	**(538)**
Translation adjustment	(11,927)	(14,671)	(57)	**(26,655)**
Balance as at October 28, 2017	**677,971**	**730,117**	**25,135**	**1,433,223**
Cost	832,602	1,604,545	96,336	**2,533,483**
Accumulated depreciation and impairment	(154,631)	(874,428)	(71,201)	**(1,100,260)**
Net carrying amount	**677,971**	**730,117**	**25,135**	**1,433,223**
Year 2018				
Additions[1]	86,339	324,977	6,852	**418,168**
Transfers	(20)	(62)	82	**-**
Business combinations	34,664	99,487	94	**134,245**
Disposals	(317)	(562)	(798)	**(1,677)**
Depreciation and amortization	(20,267)	(119,821)	(7,821)	**(147,909)**
Impairment	(2,628)	(4,390)	-	**(7,018)**
Translation adjustment	6,331	9,998	24	**16,353**
Balance as at November 3, 2018	**782,073**	**1,039,744**	**23,568**	**1,845,385**
Cost	960,386	2,039,108	97,360	**3,096,854**
Accumulated depreciation and impairment	(178,313)	(999,364)	(73,792)	**(1,251,469)**
Net carrying amount	**782,073**	**1,039,744**	**23,568**	**1,845,385**

[1] Additions of property, plant and equipment include an amount of $4,488 (2017 – $45) of capitalized interest, at an annual rate ranging from 2.80% to 4.36%.

Buildings and equipment include major works in progress of which an amount of $254,309 (2017 – $7,279) is unamortized.

Following plant closures, the Cooperative recorded an impairment of its property, plant and equipment of $7,018 (2017 – $538).

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

11. INTANGIBLE ASSETS AND GOODWILL

	Customer relationships	Trademarks, software and other rights	Total intangible assets	Goodwill
As at October 29, 2016				
Cost	140,223	311,461	**451,684**	**1,065,463**
Accumulated depreciation and impairment	(63,867)	(68,767)	**(132,634)**	**(31,372)**
Net carrying amount	**76,356**	**242,694**	**319,050**	**1,034,091**
Year 2017				
Additions[1]	-	38,682	**38,682**	**-**
Business combinations	8,207	6,534	**14,741**	**-**
Depreciation and amortization	(13,270)	(19,087)	**(32,357)**	**-**
Translation adjustment	(2,516)	(454)	**(2,970)**	**(28,933)**
Balance as at October 28, 2017	**68,777**	**268,369**	**337,146**	**1,005,158**
Cost	142,472	343,626	**486,098**	**1,035,335**
Accumulated depreciation and impairment	(73,695)	(75,257)	**(148,952)**	**(30,177)**
Net carrying amount	**68,777**	**268,369**	**337,146**	**1,005,158**
Year 2018				
Additions[1]	-	46,153	**46,153**	**-**
Business combinations	2,141	57,550	**59,691**	**38,449**
Depreciation and amortization	(12,887)	(22,874)	**(35,761)**	**-**
Impairment	-	(364)	**(364)**	**-**
Translation adjustment	810	266	**1,076**	**13,105**
Balance as at November 3, 2018	**58,841**	**349,100**	**407,941**	**1,056,712**
Cost	146,907	447,832	**594,739**	**1,087,430**
Accumulated depreciation and impairment	(88,066)	(98,732)	**(186,798)**	**(30,718)**
Net carrying amount	**58,841**	**349,100**	**407,941**	**1,056,712**

[1] Additions of intangible assets include an amount of $915 (2017 – $547) of capitalized interest at an annual rate ranging from 2.80% to 4.36%.

Software includes a major work in progress of which an amount of $20,181 (2017 – $40,944) is unamortized.

Following plant closures, the Cooperative recorded an impairment of its intangible assets of $364 (2017 – $0).

The carrying amount of goodwill is allocated to the reporting business units as follows:

	2018	2017
Business sector – Canada Operations	**318,185**	279,649
Business sector – United States Operations	**687,261**	675,147
Business sector – Natrel United States	**51,266**	50,362
	1,056,712	1,005,158

The impairment tests performed as at July 28, 2018 and July 29, 2017 did not result in the recognition of any impairment loss.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

12. OTHER ASSETS

	2018	2017
Procurement agreements and others	**65,133**	35,304
Income tax credits receivable	**18,442**	14,947
	83,575	50,251

13. BANK OVERDRAFTS AND LINES OF CREDIT

Bank overdrafts and lines of credit are detailed as follows:

	2018	2017
Bank overdrafts	**2,112**	-
Lines of credit	**24,423**	5,083
	26,535	5,083

The Cooperative and its subsidiaries have lines of credit of a maximum of $59,884, bearing interest at variable rates generally not exceeding the prime rate plus 1.50%. No assets of the Cooperative are pledged. In general, the Cooperative's lines of credit are renewable annually.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Members	**92,313**	140,182
Third parties	**624,842**	648,593
Joint ventures	**-**	2,440
	717,155	791,215

The decrease of the accounts payable to members as at November 3, 2018 compared to the previous year is mainly attributable to the milk payment calendar.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

15. LONG-TERM DEBT

	2018	2017
Term loan (2018 – US$652,686 and 2017 – US$696,786)[1]	**849,104**	889,602
Revolving term loan[2]	**505,733**	176,772
Revolving term loan (2018 – US$65,000 and 2017 – US$0)[2]	**85,182**	-
Obligation under finance lease[3]	**300**	368
	1,440,319	1,066,742
Current portion	**44,540**	43,836
	1,395,779	1,022,906

[1] US dollar term loan bearing interest at an average variable rate of 4.36% and refundable at 5% per year on average until maturity in August 2022. The term loan is not secured by any of the Cooperative's assets and the Cooperative must meet certain financial ratios which are respected as at November 3, 2018.

As at November 3, 2018, the term loan was designated as hedge of a net investment in a foreign operation.

[2] Revolving term loan of $850,000, of which $590,915 is used as at November 3, 2018, bearing interest at a rate of 3.99% and repayable in August 2022 if no request for an extension is submitted to the lenders and accepted by them. Should the remaining amount of the revolving term loan be used, the interest rate would not generally exceed the prime rate plus 1.50% or the US base rate plus 1.50%. The unused portion of this loan is subject to standby fees. The revolving term loan is not secured by any of the Cooperative's assets.

As at November 3, 2018, an amount of US$65,000 (2017 – US$0) of the revolving loan was designated as hedge of a net investment in a foreign operation.

[3] Obligation under finance lease, bearing interest at a rate of 3.85% and maturing in May 2022.

Principal repayments of the long-term debt to be made over the next years are as follows:

2019	46,314
2020	46,319
2021	46,325
2022	1,307,602

Reconciliation of long-term debt for the year:

	2018
Long-term debt as at October 28, 2017	**1,066,742**
Long-term debt repayments[1]	(56,658)
Variation of the revolving term loan	328,572
Long-term debt issuance expenses	(507)
Total cash flow from long-term debt financing activities	**271,407**
Long-term debt acquired in a business combination	81,907
Amortization of long-term debt issuance expenses	1,706
Translation adjustment	18,557
Total non-cash long-term debt activity	**102,170**
Long-term debt as at November 3, 2018[2]	**1,440,319**

[1] Long-term debt repayments other than the revolving term loan.

[2] Net of capitalized issuance expenses of $6,241 (2017 – $7,740).

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

16. OTHER LONG-TERM LIABILITIES

	2018	2017
Deferred income tax credits	**4,035**	4,127

17. SHARE CAPITAL (in dollars)

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

Voting rights are restricted to one vote per member. Each member subscribes to one member share, for a par value of $100. Furthermore, each member subscribes to 10 Class M investment shares, whether Series 1 for a par value of $20 each or Series 2 for a par value of $1,000, according to the membership application date. Other Class M investment shares series could be issued later, further to a resolution by the Board of Directors.

Class A investment shares are issued in consideration of patronage dividends. Should a minimum threshold of capital per hectolitre of produced milk fail to be reached, deductions shall be made from the cash payment of patronage dividends, from the redemption of capital, and from milk deliveries, where necessary. The minimum threshold of capital per member varies from $5 to $10 per hectolitre, according to the application date and can be modified by the Board of Directors on the same basis. The Class A investment shares can be transferred to auxiliary members and are also eligible, under certain conditions, for the Registered Retirement Savings Plan, the Cooperative Investment Plan, and tax deferral.

In the Cooperative's recent combinations with Farmers Co-operative Dairy Limited, Dairytown Products Ltd. and Scotsburn Co-operative Services Limited, certificates of indebtedness were issued to former members of Farmers Co-operative Dairy Limited, Dairytown Products Ltd. and Scotsburn Co-operative Services Limited. Certificates of indebtedness, presented as an item of members' equity, can be transferred to auxiliary members and are not eligible for the Registered Retirement Savings Plan, the Cooperative Investment Plan, and tax deferral.

Share capital is variable and unlimited as to the number of shares in each class, except for Classes B, C and D investment shares, which are limited to 10 shares each. Member shares, Class A investment shares, as well as certificates of indebtedness are redeemable under certain conditions at their par value further to a resolution by the Board of Directors, depending on short and long-term treasury needs.

On December 17, 2014, the Cooperative issued 4,700,000 first preferred shares, Series 1, for a par value of $100 each, for a cash consideration of $470,000,000. These shares are entitled to an annual cumulative minimum dividend of 5.9% of the par value and payable semi-annually when declared by the Board of Directors. They do not have a maturity date and can be redeemed, in whole or in part, further to a resolution by the Board of Directors, under certain conditions, with effect since April 1, 2017.

On December 16, 2015, the Cooperative issued 3,000,000 first preferred shares, Series 2, for a par value of $100 each, for a cash consideration of $300,000,000. These shares are entitled to an annual cumulative minimum dividend of 6.55% of the par value and payable semi-annually when declared by the Board of Directors. They do not have a maturity date and can be redeemed, in whole or in part, further to a resolution by the Board of Directors, under certain conditions, with effect from April 1, 2019.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

18. ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES

	2018	2017
Gains (losses) on financial instruments designated as cash flow hedges	**14,520**	(244)
Foreign currency translation adjustment of foreign operations	**342,111**	309,024
Foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	**(262,373)**	(243,821)
Share of accumulated other comprehensive loss of joint ventures	**-**	(218)
	94,258	64,741

19. FINANCIAL INSTRUMENTS

The following analysis explains the financial risks associated with financial instruments as at November 3, 2018:

FAIR VALUE

The fair value of a financial instrument corresponds to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amount of short-term financial instruments is assumed to approximate their fair value due to their short-term maturity. These financial instruments generally include cash, accounts receivable, bank overdrafts and lines of credit, and accounts payable and accrued liabilities.

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

LIQUIDITY RISK

Liquidity risk is the risk that the Cooperative will encounter difficulty in meeting its financial obligations on time. Centralization of treasury and financing management allows the Cooperative to reduce liquidity risk. The Cooperative is also on the lookout for new sources of funding to maximize its capital structure. In particular, the Cooperative has entered into agreements to sell its rights to certain accounts receivable up to CA$160,000 and US$100,000. The Cooperative also reduces this risk by maintaining detailed financial forecasts and strategic long-term plans. If there is a surplus of liquidity, it is applied to the repayment of the debt. As at November 3, 2018, accounts receivable valued at the equivalent of CA$166,800 had been sold to a financial institution under these agreements and the Cooperative continues to act as a collection agent.

CREDIT RISK

Accounts receivable mainly relate to trade receivables generated in the normal course of business. Although some major accounts are derived from a certain volume concentration in the food industry, the diversification of customer market segments (retailers, wholesalers, manufacturers, food services), and the extent of the Cooperative's geographical activities reduce credit risk. Moreover, credit risk is reduced by the terms of payment in connection with the relatively fast cycle of product consumption. At year-end, 5% of accounts receivable exceeded normal terms of payment by more than 30 days.

INTEREST RATE RISK

Financial assets and financial liabilities do not bear interest, except for cash, bank overdrafts, lines of credit, and long-term debt.

The Cooperative is exposed to cash flow risk associated with interest payments due to interest rate fluctuations on financial instruments bearing interest at variable rates. With respect to long-term debt, an increase in the benchmark rate and preferential rates could have a negative effect on cash flows; the impact would be positive with respect to its cash balances. In the case of a decrease in interest rates, the impact would be the opposite. The use of long-term debt is primarily related to business combinations.

To guard against the impact of interest rate fluctuations on a portion of the term loan, the Cooperative entered into interest rate swaps on July 10, 2017, for a term of 10 years. The notional amount of the swaps corresponds to US$275,000, and under these interest rate swaps, the Cooperative has agreed to exchange variable interest payments against fixed rate payments at specified intervals. In accordance with its risk management strategy, the Cooperative has designated these swaps as cash flow hedge of interest rate risk on the term loan.

As at November 3, 2018, the cash flow hedge of interest rate risk was assessed to be effective. An unrealized gain of $16,244 (net of income taxes of $5,902) was recorded in other comprehensive income.

Sensitivity analysis for interest rate risk
The term loan is subject to market interest rate fluctuation risk. If the average interest rate had been higher by 1%, and assuming all other variables remained constant, earnings before patronage dividends and the Cooperative's income taxes would have decreased by $12,596.

FOREIGN EXCHANGE RISK

The Cooperative carries on activities outside of Canada, mainly in the United States, via subsidiaries. Consequently, the Cooperative is exposed to risks due to exchange rate fluctuations affecting its net investment in foreign subsidiaries.

As at November 3, 2018, if the US dollar had increased by $0.01 compared to the Canadian dollar, and assuming all other variables remained constant, the impact of this increase on earnings before income taxes would have been marginal, and the impact on comprehensive income would have resulted in an increase of $5,006.

The Cooperative also carries on certain purchasing and selling activities in foreign currencies. The Cooperative hedges against foreign exchange risks for projected future transactions by means of currency forward contracts, mainly in US dollars and euros. Unrealized foreign exchange gains and losses are recorded initially in comprehensive income and reversed in earnings at the expiry of the contracts. As at the reporting date, the foreign exchange contracts, spread out over periods not exceeding one year, are as follows:

Purchases of US$19,128 against CA$
Sales of US$2,266 against CA$
Purchases of 8,005 euros against CA$
Sales of 425 euros against CA$

US MARKET RISK

Milk prices as well as whey product and cheese prices in the United States depend on fluctuations in market supply and demand, influenced, among other things, by global economic conditions.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

MEASUREMENT RISK

Financial instruments recognized at fair value are classified according to the following hierarchy:

a) Level 1: Fair value based on quoted prices in active markets for identical assets.

b) Level 2: Fair value based on data observable either directly or indirectly, other than the quoted prices in Level 1.

c) Level 3: Fair value not based on observable market data.

	Level 1	**Level 2**	**Level 3**	**2018**	2017
Interest rate swaps	-	22,146	-	**22,146**	836
Foreign exchange contracts	-	194	-	**194**	65
Commodity futures contracts	(2,035)	-	-	**(2,035)**	(1,294)

The commodity futures contracts, mainly cheese futures contracts, designated as fair value hedges are of a nominal value of $39,858, and their maturities do not exceed 14 months.

20. COMMITMENTS AND CONTINGENCIES

a) Commitments relating to operating leases are as follows: $21,759 for the following year, $49,431 for 2020 to 2023, and $30,222 thereafter.

b) The Cooperative is committed for an amount of $89,033 to purchase property, plant and equipment and intangible assets as part of major projects.

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

21. EMPLOYEE FUTURE BENEFITS

Employee future benefits relate mainly to pension plans. The obligations of the defined benefit plans are based on the employee's length of service and salary of the last employment years. The pension benefits can be adjusted according to a formula based on the return on plan assets and the consumer price index. Actuarial valuations of the plans are performed every three years. The most recent valuations were performed in December 2017.

The Cooperative also offers to certain employees other long-term benefits that provide for the payment of life insurance and health insurance premiums for retirees. The Cooperative also has a deferred compensation plan covering a few employees. Other long-term benefits are not capitalized and are presented under other plans.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

The net expense is as follows:

	2018 (53 weeks)	2017 (52 weeks)
Defined contribution plans		
Net expense	**26,296**	23,049
Defined benefit plans		
Current service cost	**5,486**	6,625
Administrative costs	**726**	700
Past service cost	**(1,629)**	573
Interest cost on accrued benefit obligation	**10,364**	9,267
Interest on asset ceiling impact	**315**	17
Projected return on plan assets	**(9,968)**	(8,101)
Net expense	**5,294**	9,081

The information on defined benefit plans is as follows:

	2018	2017
Plan assets		
Fair value – Beginning of year	**265,955**	248,245
Business combination	**14,792**	-
Administrative costs	**(726)**	(700)
Projected return on plan assets	**9,968**	8,101
Employer contributions	**4,010**	9,047
Employee contributions	**1,524**	1,647
Benefits paid	**(14,429)**	(12,675)
Actuarial gains (losses)	**(10,255)**	12,290
Fair value – End of year	**270,839**	265,955

Equity securities represented 36% (2017 – 54%), obligations represented 25% (2017 – 34%) and buy-in annuities represented 20% (2017 – 2%) of total plan assets invested mainly in Canada. The fair value is based on inputs other than quoted prices.

	2018	2017
Accrued benefit obligation		
Balance – Beginning of year	**272,994**	283,120
Business combination	**16,890**	-
Current service cost	**5,486**	6,625
Interest cost	**10,364**	9,267
Past service cost	**(1,629)**	573
Employee contributions	**1,524**	1,647
Benefits paid	**(14,429)**	(12,675)
Actuarial losses (gains)	**(13,262)**	(15,563)
Balance – End of year	**277,938**	272,994

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	2018	2017
Pension plan obligation		
Funding status – Plan assets net of obligation (deficit)	**(7,099)**	(7,039)
Impact of asset ceiling test	**(11,449)**	(8,749)
Pension plan obligation	**(18,548)**	(15,788)
Other plans	**(6,506)**	(7,639)
Employee future benefits obligation	**(25,054)**	(23,427)

For pension plans with an accrued benefit obligation that is in excess of the asset, the accrued benefit obligation is $137,299 (2017 – $129,936) and the asset is $118,128 (2017 – $112,149).

Actuarial gains (losses) are accounted for in other comprehensive income and are as follows:

	2018	2017
Actuarial gains for the year	**3,118**	27,853
Impact of asset ceiling test	**(2,385)**	(8,207)
Amount accounted for in other comprehensive income	**733**	19,646
Balance – Beginning of year	**(9,894)**	(29,540)
Balance – End of year	**(9,161)**	(9,894)

	2018	2017
Weighted average assumptions		
Accrued benefit obligation		
Discount rate (closing rate)	**3.90%**	3.60%
Long-term inflation rate of salary expense	**4.00%**	4.00%
Net benefit expense for the year		
Discount rate (opening rate)	**3.60%**	3.25%
Long-term inflation rate of salary expense	**4.00%**	4.00%

The Cooperative participates in multi-employer defined benefit plans for certain unionized employee groups. Based on available information, these plans are accounted for as defined contribution plans. Contributions for the year amounted to $5,783.

The Cooperative expects to make contributions of $6,932 to defined benefit plans in the next financial year.

SENSITIVITY ANALYSIS

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the rate of future compensation increase. The following table summarizes the effect of a change in these actuarial assumptions on the value of the defined benefit obligation as at November 3, 2018.

	Change in assumption	**Increase in obligation**
Decrease in discount rate	0.25%	10,585
Increase in long-term inflation rate of salary expense	0.25%	900

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

22. RELATED PARTIES

SUBSIDIARIES AND JOINT VENTURES

The main subsidiaries and joint ventures of the Cooperative are as follows:

		% owned	
	Country of incorporation	**2018**	2017
Agropur inc.	United States	**100%**	100%
Agropur Export Group Inc.	Canada	**100%**	100%
Ultima Foods Inc.	Canada	**100%**	50%

The main activities of these subsidiaries and joint ventures are milk processing and exportation of dairy products and food ingredients.

KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel of Agropur cooperative are the members of the Board of Directors (15 seats) as well as the Senior Management Committee (12 positions). Key management personnel compensation is established by the Board of Directors, which is supported by a Human Resources Committee. This committee is composed of four members of the Board of Directors, namely the President, the Vice-President, the First and the Second Member of the Executive as well as the Guest member. In addition, the Chief Executive Officer and the Senior Vice-President, Human Capital attend the meetings. As well, an external firm offering compensation consulting services, assists the committee in its work. The Human Resources Committee met four times during the year ended November 3, 2018. The purpose of the committee is to establish competitive total compensation to attract, motivate and retain employees the Cooperative needs to achieve its goals. To establish compensation for the Board of Directors, a benchmarking exercise is conducted periodically with consumer goods companies with sales of more than $1 billion. The remuneration of the Board of Directors is also periodically reviewed as to the amounts and method of compensation to reflect the responsibilities and risks associated with the Cooperative's role as a director.

	2018 (53 weeks)	2017 (52 weeks)
Board of Directors		
Salaries	**1,117**	1,098
Attendance fees	**865**	724
	1,982	1,822
Senior Management Committee		
Salaries	**6,939**	6,573
Short-term and long-term incentive compensation	**1,414**	9,909
Post-employment benefits	**1,434**	1,602
Other benefits	**182**	130
	9,969	18,214
Other benefits related to departures	**922**	6,001
	12,873	26,037

Management compensation consists of base compensation, certain benefits and variable incentive compensation depending on the financial performance of the Cooperative.

Variable incentive compensation has two components. The first part, which is short-term, is based on certain criteria relating to the performance of the current year compared to the previous year as well as financial targets. A second part, which is long-term, is based on the value growth of the Cooperative over five-year cycles.

Agropur Cooperative

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Graphic design: Sid Lee
Graphic production: M&H
Production: Sid Lee Studio
Photographer: Gaëlle Leroyer
Writing: Exergue Communications and Larouche Consultant
Translation: Analogos
Printed in Canada

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