

ENGAGED
GALVANIZED
CONNECTED
SOCIALLY
RESPONSIBLE



Every day, our member dairy farmers and employees dedicate themselves to the same goal: producing and processing milk of the highest quality.

BETTER

TASTE.

TABLE OF CONTENTS

Message from the President	22
Message from the CEO	26
Agropur in numbers	30
Financial review	32
Risks and uncertainties	38
Consolidated financial statements	42
Our brands	74

BETTER

FOR THE PLANET.



1

2



INTRODUCTION

- 1 Agropur employee Haoliang Ye works at the Don Mills, Ontario plant.
- 2 Marina and her daughters love to cook with Natrel lactose-free cream.

BETTER DAIRY.

The importance of Agropur's role has never been more evident than it was during the past year, when we were suddenly struck by a pandemic. As a supplier of foods consumers trust, Agropur did all in its power to provide healthy and nutritious products while maintaining a safe work environment for its employees.

A review of our operating model and management mechanisms enabled us to respond promptly and effectively to the challenges of the crisis. For their part, employees stepped up and demonstrated exceptional adaptability and motivation

BETTER WORLD.

month after month as they worked to feed the population. Agropur was also sustained by its members, who continued providing quality milk to consumers and customers who are proud to support local buying and food self-sufficiency.

In this time of upheaval, the Cooperative reached out to help the vulnerable with major donations of dairy products. To safeguard the legacy of future generations, the Cooperative increased its commitment to sustainable growth that is respectful of ecosystems, communities and animals.

In short, today more than ever, the Cooperative is in a position to uphold its promise: Better dairy. Better world. This renewed commitment is aligned with Agropur's positioning as the largest dairy processing cooperative in Canada and amongst the top 20 players in the global dairy industry*, demonstrating that corporate responsibility goes hand in hand with sustainability and success.

* Source: Rabobank, 2020

AN **ENGAGED** COOPERATIVE

The dairy industry plays a vital role by supplying healthy food products. During the pandemic, Agropur has shown leadership by working with all of its partners to quickly implement appropriate measures to safeguard employee health and safety, maintain the industry's viability, and sustain food security.

In February 2020, Agropur President Roger Massicotte met with Canadian Prime Minister Justin Trudeau and Minister of Agriculture and Agri-Food Marie-Claude Bibeau to discuss the impacts of international agreements on the dairy industry and the compensatory measures needed to enable the industry to continue its development.

The Cooperative seized every opportunity to highlight its distinctive business model. The unprecedented situation created by the COVID-19 crisis again underscored the importance of cooperatives to the development of communities across North America.

A digital year

In 2020, the Cooperative pushed its digital transition further to promote greater

participation by its members, enhance access and improve information-sharing. Consequently, when the pandemic struck, Agropur already had the tools to cultivate close connections with its members and used them to switch two activities that are central to the life of the Cooperative to digital format: the Summer meeting and the facilitators' meeting in the Fall.

Between meetings, communication was maintained through numerous digital messages to members. The extranet, the key link between Agropur and its members, was also upgraded and updated. In addition, major strides were taken towards electronic transmission of official documents such as notices of meetings and tax slips. The inclusion of Atlantic members in the digital transition process also continued.



Our members
make a difference
by supplying
high-quality
milk from
well-treated cows.

Vicky St-Hilaire of Ferme St-Hilaire is keeping alive the torch of a deep-rooted family tradition.

MEMBERS



Love of a job well done, producing better dairy.

- 1 **Three generations of the St-Hilaire family pitch in on the family farm. Lisette Boucher (front row centre, wearing pink) and Alain St-Hilaire (light blue) are parents, grandparents and proud Agropur members.**
- 2 **Vicky St-Hilaire is on the job at the crack of dawn.**
- 3 **Francis Gilbert (left) and Ali St-Hilaire also work on the St-Hilaire farm, which has made animal welfare its priority.**

Supporting members during the pandemic

Agropur redoubled its efforts to maintain its member support services despite the pandemic. The Cooperation team continued to help members preserve the supply of quality milk, a product deemed essential during the COVID-19 crisis.

In addition, a new training program designed to integrate and support foreign workers (FIATÉ) was deployed to assist the many Spanish-speaking employees who work on Agropur member farms. This proved an important opportunity to explain the best practices needed to ensure milk quality, demonstrate correct milking techniques and improve animal care during cattle handling. This collaborative initiative with Lactanet, launched in 2020, was successful in its first year, with 14 farms and some 30 workers taking part.

Celebrating excellence

The 31st Club of Excellence Gala, an event that showcases best practices in milk quality, was held in Quebec City. Ferme Pierlie in Saint-Adelphe-de-Champlain was crowned Grand Champion and 16 regional winners were also honoured. In June, Agropur introduced the new Club of Excellence Animal Welfare Award. The Grand Champion will be unveiled at the Annual General Meeting in February 2021. The award recognizes the concrete actions taken by members to provide their animals with exemplary care and comfort.

Toolkit for future directors

To assist prospective candidates for the Cooperative's Board of Directors, Agropur has produced an information and preparation toolkit. Among other things, it contains information about the steps in the electoral process and the key roles, responsibilities and skills of directors.

Improving governance

The Cooperative's recently created Governance Committee began its work to support the adoption of sound governance practices and effective processes. In its first year, the committee identified the skills and competencies needed for the Board's proper functioning, improved training and onboarding programs for directors, and undertook an evaluation of each committee.

Grooming the next generation

As part of its effort to make room for young people, Agropur filled the newly created Young Director position in February 2020. The goal is to create a springboard for young farmers to get involved in the Cooperative's highest governing body.

Our front-line employees are essential workers.

Neville Hemmings checking stocks at the warehouse

A GALVANIZED COOPERATIVE

The pandemic disrupted all workplaces. At the plants, at the office and across its supply chain, the Cooperative redefined and implemented new protocols based on the public health guidance in order to protect the health and safety of its employees.

Essential workers

Employees throughout our supply chain, who are all considered essential workers, have had to rearrange their workplaces to protect their safety, while maintaining the production and distribution of essential products for the population. The pandemic has shone a spotlight on the essential work of food industry employees.

At our industrial sites, a series of measures have been implemented to prevent the spread of COVID-19, such as wearing personal protective equipment, installation of separator panels and reorganization of work shifts to limit contact. In a fine example of collaboration and excellence, Agropur even manufactured its own hand sanitizer. The cafeterias and lounges were also rearranged. As a result, despite the disruptions, 76% of Agropur's Canadian sites

ended the year without a lost-time injury (LTI). In all, LTIs were down more than 48% from the previous year. Notably, the Lethbridge, Alberta plant logged 3,000 days without an LTI.

Working from home

At the request of public health, telework was quickly introduced for employees who are able to work from home. The results have been very positive. Telework, when appropriate, will be part of the way we work in the future.

Physical distancing requirements led to extensive reliance on virtual training. There are now more than 350 training videos on Agropur's online platform, in addition to the LeadR and MentoR professional development programs. LeadR cultivates our managers' leadership and team-building skills, while MentoR promotes contact



1



2



3

between experienced managers and members of the next generation. Specific training on how to cope with the COVID-19 context and telework was also offered to equip managers to lead their teams remotely and help employees adjust to working from home.

This situation in the workplace also illustrated the importance of regular and sustained internal communications, which was already the practice at Agropur prior to the spring of 2020 but was expanded during the pandemic. Respondents to an employee survey expressed satisfaction with the frequency and quality of messaging from management.

Novel recruitment campaigns

At a time when recruitment in the agri-food sector is challenging because of labour shortages, Agropur continued its efforts to attract new talent. The talent acquisition team needed a healthy dose of creativity to conduct effective recruitment campaigns during the pandemic. In one ingenious idea, the Saint-Hyacinthe plant organized two rounds of drive-up interviews.

Inclusive leadership

For years, Agropur has been working to make its workplaces inclusive. This year, another step forward was taken with the launch of the Inclusive Women's Leadership program, which aims to increase the representation of women on the Cooperative leadership teams, promote their advancement and support their professional development.

The pandemic has shone a spotlight on our employees' adaptability and creativity.

- 1 The Don Mills, Ontario plant is one of many Agropur facilities across North America.
- 2 Winslous Simon loves a challenge, which is what attracted him to pasteurization.
- 3 Lise Létourneau, organizer extraordinaire, analyzes our customers' needs and plans production at the plant.



Milk, cream or cheese: Agropur meets the needs of families and businesses.

Agropur is proud of its close relationships with the customers and consumers who place their trust in it year after year.

Trusting relationships

Agropur is a major supplier to retail, industrial and foodservice clients. Our customers include major restaurant chains, hospitals and leading distributors. Agropur is a preferred supplier of milk and cream across Canada, and is also a major cheese processor in North America, supplying all distribution channels with block, grated and sliced cheese. The commissioning of the Lake Norden plant in 2019 and the ramping up of its operations in 2020 enabled us to increase our market presence and meet the demand for cheese and whey products from domestic and international customers. During the pandemic, many of our

customers commented on the dedication of our staff and our proactive approach to delivering quality products.

An extra touch of Natrel

The Natrel brand made a splash with the launch of 10 new products. Natrel Plus, a high-protein dairy beverage, contains 18 grams of protein per serving, twice as much as regular milk. The response to its arrival on store shelves was strongly positive: Natrel Plus now dominates the dairy protein beverage segment in Quebec. Natrel also launched the first fine-filtered cream in Canada that contains only two ingredients: fine-filtered milk and cream, with no stabilizers.



A COOPERATIVE THAT
CONNECTS
WITH PEOPLE



1



2



3

- 1 Little Jaymie takes her job seriously.
- 2 Comfort food: pizza topped with the mozzarella that is Agropur's pride.
- 3 Kaycee enjoys a glass of chocolate milk.

The pleasures of life are enhanced by dairy products that are recognized as among the best in the world.

Awards for our cheeses

In addition to extending its track record of innovation, Agropur picked up numerous distinctions for its products in 2020. Thirteen of our cheeses won awards at the prestigious World Championship Cheese Contest in Wisconsin. The Agropur winners included our cheddars, provolone, feta and low-fat cheeses, which each took first prize in their category and were recognized as the best in the world. Meanwhile, at the 2019 Sélection Caseus contest, Champfleury and Agropur Grand Cheddar 5 years each took first prize in their category.

OKA ad wins award

The "It's OK if it's OKA – Good Morning" spot told consumers they don't have to feel guilty about enjoying OKA cheese any time of day. It was viewed more than 2.5 million times and was the winner of the Bronze medal among 100 entries in the Advertising Creation category at the 2020 Idéa competition. A parallel social

media campaign emphasized buying local: OKA, made in Quebec for more than 125 years, tastes best when accompanied by traditional local products. Agropur's posts on Instagram and Facebook in the summer of 2020 drew an enthusiastic response and logged more than 7.8 million impressions.

A watershed year for ice cream

Pandemic-related health restrictions prompted consumers to turn to the simple pleasures of life, triggering an historic surge in ice cream sales in early summer. Natrel mochis, the bite-sized treats now available across Canada, also won new fans.

Fruitful collaboration with Dairy Farmers

Finally, Agropur established new partnerships during the year. The Cooperative joined forces with the Dairy Farmers associations in various Canadian provinces to launch joint marketing initiatives for dairy products.



A SOCIALLY RESPONSIBLE COOPERATIVE

Corporate social responsibility is at the heart of our promise. We are committed to delivering quality products to our customers and consumers every day. We are also proud of our ambitious economic, social and environmental initiatives, which spring naturally from our community roots.

Targeted commitments

In an indication of the Cooperative's commitment to a long-term vision, the Environment Committee's mandate was expanded and it became the Sustainable Development Committee. Its purpose is to make the Cooperative a key player in sustainable development, with a focus on our priorities: packaging, environment, animal welfare, sustainable products, and involvement in our communities.

In the United States, Agropur has undertaken an evaluation of its performance according to environmental, social and governance (ESG) criteria, in conjunction with its stakeholders. After the process has been completed, an action plan adapted to the U.S. context will be developed.

New environmentally responsible packaging policy

The Cooperative has made considerable efforts to reduce its environmental footprint, and its new packaging policy has led to many improvements. Agropur has reduced the use of plastic, optimized the sizes of some of its containers and shifted towards post-consumer fibre. The project was funded in part by Quebec's food processing development fund (FDTA).

Sustained commitment to animal welfare

Agropur plays an influential role in animal welfare. In 2015, it adopted an Animal Welfare Statement that sets out the Cooperative's expectations regarding the treatment of dairy cattle and has since been putting this statement into action.



Supporting communities by donating dairy products.

An employee of the Second Harvest food rescue organization picks up milk donated by Agropur.



Environment



Responsible Packaging



Animal Welfare



Benefits of Milk



Community Involvement

CORPORATE SOCIAL RESPONSIBILITY

Agropur is an active associate member of the National Farm Animal Care Council and is participating in the review of the Code of Practice for the Care and Handling of Dairy Cattle. The Code serves as the foundation for Dairy Farmers of Canada's proAction initiative, the on-farm assurance program that is mandatory for dairy producers in Canada. Agropur is also a stakeholder in Novalait, an organisation created by Quebec dairy farmers and processors, invested in research programs and innovative projects for the industry.

In the U.S., Agropur requires its milk shippers to participate in the National Dairy Farmers Assuring Responsible Management program (FARM) and serves as a 2nd party auditor. The FARM program is an on-farm continuous improvement process centered on evaluating animal care and quality assurance.

Internationally, Agropur is involved in the International Dairy Federation's Standing Committee on Animal Health and Welfare.

This year, to promote the animal welfare actions taken by its members, the Cooperative launched the first edition of the Club of Excellence Animal Welfare Award. This Award recognizes dairy farmer members who have implemented initiatives to promote herd comfort and health. By sharing its members' concrete actions, the Cooperative celebrates their commitment to treating their animals with care and helps raise awareness of their efforts among peers and the public.

Offering ever healthier products

Dairy products are an excellent source of protein and essential nutrients. They are beneficial to health and part of a healthy diet for all age groups. In addition to manufacturing its products to the highest

standards, the Cooperative is constantly working to improve their nutritional properties. In 2020, Agropur innovated once again by introducing a new high-protein milk as well as dairy products containing 25% less sugar.

Strong community presence

While the pandemic has affected all segments of society, the impact has been particularly hard for the most disadvantaged. In Quebec, the Cooperative showed its support by donating the equivalent of more than a million litres of milk in dairy products, together with Les Producteurs de lait du Québec. Major donations of milk, butter and cheese were also made in Ontario, Nova Scotia and New Brunswick. Feed Ontario presented Agropur with the 2020 Paul Mistele Memorial Award for its contribution to reducing hunger in Ontario.

In line with its new approach to donations and sponsorships, Agropur supported the Olo Foundation, the Moisson foodbank network and several college and university foundations in North America. In the United States, donations were made to South Dakota State University, Iowa State University, and the Lake Area Technical Institute Foundation.

True to its roots, Agropur continued to participate in the cooperative movement's flagship organizations, such as the Conseil québécois de la coopération et de la mutualité, Co-operatives and Mutuels Canada, the Institut de recherche et d'éducation pour les coopératives et les mutuelles de l'Université de Sherbrooke, and SOCODEVI. Cheesemaking equipment donated by the Cooperative to SOCODEVI was given a second life in developing countries.

Finally, to support the next generation, Agropur granted scholarships to interns, 4-H club members and students enrolled in agricultural and food science programs.



- 1 Animal welfare.** In 2020, Agropur created a new prize, the Club of Excellence Animal Welfare Award. Photo shows Agropur member Véronique Lévesque, the owner of Ferme Morine.
- 2 Responsible packaging.** Agropur has reduced the use of plastic, optimized the sizes of some of its containers and shifted towards post-consumer fibre.
- 3 Benefits of milk.** Dairy products are beneficial to health and part of a healthy diet for people of all ages.



MESSAGE FROM THE PRESIDENT



Roger Massicotte
President

Agropur experienced a series of exceptional events in 2020. First, there was the collapse of the U.S. market in the first quarter; then, the coming into force of the Canada-U.S.-Mexico Agreement (CUSMA) earlier than expected; and finally, of course, the COVID-19 pandemic. Despite these circumstances, the Cooperative demonstrated a remarkable ability to adapt. In fact, earnings improved significantly over the previous year, and even while rising to the immediate challenges, Agropur continued positioning itself for the future.

Major strategic issues

The main objective we had set for 2020 was to improve the Cooperative's operational performance by simplifying its business model. We wanted to reduce our debt burden in order to improve our positioning and be able to make strategic investments in our high-growth segments. Two divestments announced after the end of fiscal 2020 – the sale of the Grand Rapids, Michigan plant and the sale of our yogurt business in Canada – are in line with our goal of strengthening our balance sheet and positioning the Cooperative for future growth.

In both the U.S. and Canada, our people fixed their attention on operations, worked to minimize the impacts of COVID-19 on employees and customers alike, and improved the operational performance of our activities.

Business environment

In addition to these internal issues, Agropur had to deal with the new rules of the game in the North American market. Under the CUSMA, Canada ceded new import quotas to foreign manufacturers and compromised its food sovereignty. Together, the three trade agreements – CUSMA, the Canada-EU agreement and the Trans-Pacific Partnership (TPP) – represent concessions totalling 8% of the Canadian market, or the output of 1,200 dairy farms.

With the CUSMA, the industry had to eliminate Class 7 and Canada agreed to cap exports of milk protein concentrates and skim milk powder at levels lower than our current exports. The ceiling applies not only to exports to the United States and Mexico, but worldwide. These conditions are forcing us and the entire industry to restructure much of our dairy ingredients manufacturing operations.

“The Cooperative demonstrated a remarkable ability to adapt.”

The industry will need government support to pursue strategic solutions for continued growth. While pressing ahead with modernization, the Cooperative will have to make massive investments to adjust to the new rules, despite a very limited horizon for its exports.

On these and other issues, we have vigorously advocated for the measures needed to facilitate our adaptation to the new landscape. We also spoke out on the issue of food self-sufficiency and our efforts succeeded in moving the agri-food sector up on the list of government priorities. Finally, our representations regarding tax deferred cooperative shares yielded results and we were very pleased when the federal government announced at the end of November that the program will be maintained for five additional years, to the benefit of our members.

Governance and cooperative life

More than 80 years ago, Agropur’s founders chose the cooperative model. The organization has held to that structure to this day. It promotes collaboration and fairness. Above all, it gives us control over our own future. Indeed, Agropur’s cooperative status has become one of its

core assets. Increasingly, consumers are turning to products and suppliers that have meaning for them. Agropur’s cooperative spirit and deep roots in many communities are valuable assets for the future.

In another innovation, we elected our first Young Director to help secure our organization’s future. The pandemic forced us to postpone the strategic consultation with members we had planned for 2020 but we will conduct it in 2021 in order to chart our path to our future destination.

Throughout Agropur’s history, each period has brought its share of challenges. We have responded collectively and risen to every challenge with courage and creativity. The COVID-19 crisis has provided a striking demonstration of our ability to make the best of unforeseen difficulties.

I am confident that Agropur will emerge stronger from adversity once again. I thank all the people who make up Agropur’s ecosystem: our members, employees, suppliers and management. They have adapted to the circumstances of the past year with aplomb. I am proud of what we have accomplished together.



- | | | | |
|---|---|---|---|
| 1 Roger Massicotte
President
Mauricie-Portneuf, 2003 | 4 Michel Couture
Chaudière-Appalaches, 2001 | 8 Roger Beaulieu
Eastern Quebec, 2014 | 12 Martial Lemire
Nicolet - Bois-Francs, 2019 |
| 2 Alain Forget
Vice-President
Laurentides-Lanaudière, 2014 | 5 Jean-Pierre Lacombe
Salaberry-Richelieu, 2007 | 9 Stéphanie Benoit
Presented and elected by
universal suffrage, 2015 | 13 Alex Berthiaume
Young Director, presented and
elected by universal suffrage |
| 3 Jeannie van Dyk
Vice-President
Atlantic, 2013 | 6 Céline Delhaes
Presented and elected by
universal suffrage, 2011 | 10 Claude Cressier
Érable-Seigneuries, 2015 | 14 Pierre Lessard
Guest member of the Board |
| | 7 Valère Lieutenant
Estrie-Granby, 2012 | 11 Michel Boisvert
Montérégie, 2017 | 15 Estelle Métayer
Guest member of the Board |



Émile Cordeau
Chief Executive Officer

When I took the helm at Agropur a little over a year ago, I was given a clear mandate: to bring the Cooperative's profitability up to potential and strengthen its balance sheet. My priority has therefore been to implement a transformation plan to set Agropur on this path.

The renewed management team moved quickly to streamline our decision-making and management structures, and we refocused on our growth segments.

The new approach is already producing tangible results. Despite the turbulent environment during this year dominated by a pandemic and unprecedented market volatility, Agropur posted record earnings from operations of \$459.2 million, a 25.6% improvement over the previous year. Earnings before income taxes and patronage dividends were \$69.6 million. And we made debt repayments of \$305.9 million. While much remains to be done, we can look to the future with optimism. The positive results were due in no small part to some of the initiatives we launched during the year. Here are some highlights.

Improving profitability

Start-up of the Lake Norden plant began in the spring of 2019 and production was steadily ramped up in 2020. The increased pace of production contributed significantly to the improvement in

EARNINGS FROM OPERATIONS

(In millions of dollars)

459.2 ▲ 25.6%

earnings from operations, despite price volatility on U.S. markets and the impact of the pandemic. All other plants continued to perform well.

In Canada, we embarked on a number of changes. The decision-making process has been streamlined for greater agility and some expenses have been rationalized. We have also taken a much more strategic approach in order to better position ourselves in a market that has been disrupted by the pandemic and international agreements. These initiatives contributed to a significant increase in profitability. Our earnings are improving in both Canada and the U.S., but we still have work to do to achieve our goals.

“Our earnings are improving.”

Strengthening the balance sheet

Debt reduction is another priority. Between 2012 and 2019, Agropur invested \$3.6 billion in property, plant and equipment, and acquisitions. Those investments quickly pushed up revenue but earnings did not keep pace. During the same period, the Cooperative also paid out \$500 million to its members. Meanwhile, operations provided \$1.9 billion in cash flow. Therefore, we added \$2.2 billion to our debt during those years and it has become a burden we need to lighten. On this front, our work is far from done, but with the efforts made in 2020 the Cooperative is on the right track.

Defining Agropur’s future

In addition to the progress on our short-term goals, we continued planning for the future. The series of mergers and acquisitions not only increased Agropur’s size and sales volume, but also the complexity of its business model.

A thorough review of operations was therefore undertaken in order to target priority segments for the Cooperative. The sale of certain assets after the end of the fiscal year followed from this process.

To ensure profitable growth in strategic segments, Agropur will distinguish itself

through its responsiveness to customers’ needs, its lean business model and its focus on its most promising lines of business.

Corporate social responsibility

The Cooperative undertook these major changes in 2020 without sacrificing its commitment to social responsibility. Throughout the pandemic, Agropur has helped families in need by donating more than one million litres of milk to food banks and other organizations to support our communities. At the initiative of a group of female employees, the Cooperative launched the Inclusive Women’s Leadership program. It also laid the foundations for its future sustainable development strategy.

Agropur’s success rests first and foremost on the dedication of its competent, motivated people. The Cooperative can count on talented employees and dynamic members who enrich its associative life. In the surreal situation created by the pandemic, I am deeply grateful to Agropur’s employees for their outstanding work. We still have much to do but our efforts of the past year are bearing fruit and we are determined to stay the course.

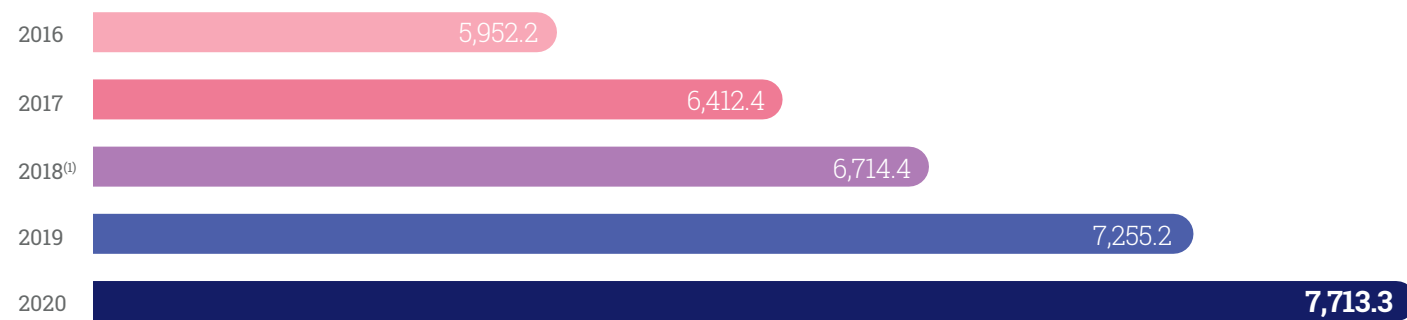


- 1 **Émile Cordeau**
Chief Executive Officer
- 2 **Stéphane Tremblay**
Senior Vice-President and Chief Financial Officer
- 3 **Diane Bertrand**
Vice-President,
Legal Affairs & Cooperation
- 4 **Doug Simon**
President,
US Operations
- 5 **Carlos Buss**
Chief Transformation and Information Officer
- 6 **Dominique Benoit**
Senior Vice-President,
Institutional Affairs and Communications
- 7 **Pierre Corriveau**
Senior Vice-President,
Human Capital
- 8 **Marco De Palma**
General Manager,
Fresh Products, Yogurt & Ice Cream,
Canada Operations
- 9 **Éric Boulé**
Vice-President,
Operations,
Canada Operations
- 10 **Stéphane Le Gal**
Vice-President,
Sales,
Canada Operations

IN NUMBERS

SALES

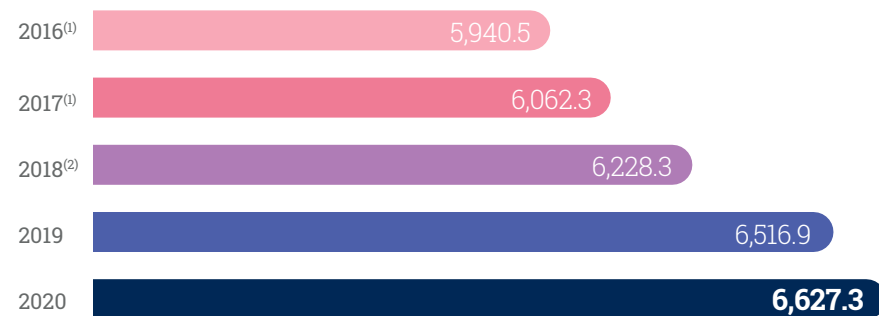
(In millions of dollars)



⁽¹⁾ Fiscal year including 53 weeks

MILK PROCESSED

(In millions of litres)

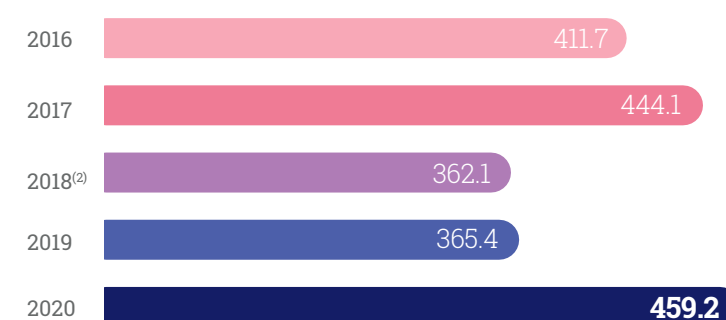


⁽¹⁾ Milk processed includes joint venture

⁽²⁾ Fiscal year including 53 weeks

EARNINGS FROM OPERATIONS⁽¹⁾

(In millions of dollars)

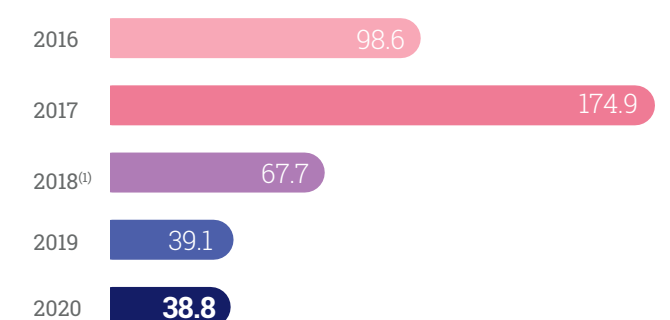


⁽¹⁾ Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs

⁽²⁾ Fiscal year including 53 weeks

NET EARNINGS

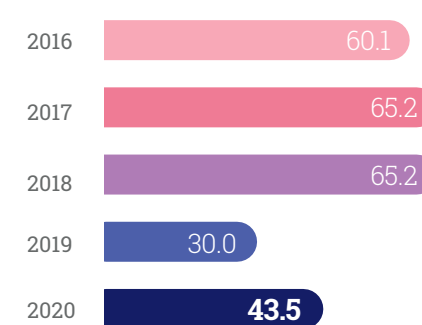
(In millions of dollars)



⁽¹⁾ Fiscal year including 53 weeks

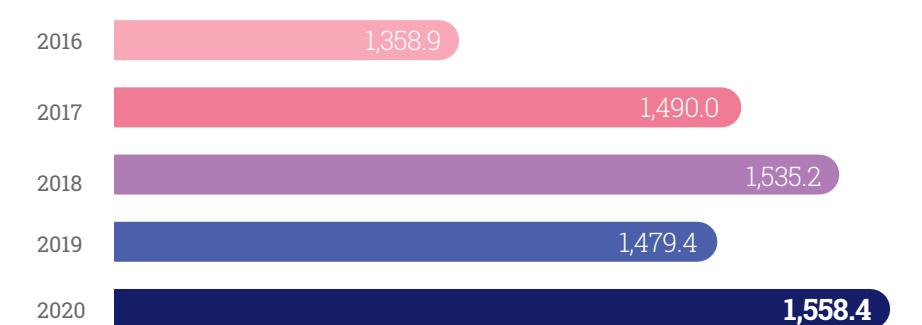
DECLARED PATRONAGE DIVIDENDS

(In millions of dollars)



MEMBERS' EQUITY

(In millions of dollars)



“We will continue transforming Agropur to unlock its full potential and ensure its sustainability.”



Stéphane Tremblay
Senior Vice-President and
Chief Financial Officer

Our activities during the 2020 financial year were conducted against the backdrop of the COVID-19 pandemic. While the Cooperative’s operations were deemed an essential public service, Agropur was still affected by government restrictions designed to control the pandemic. Fiscal 2020 also saw unprecedented volatility in U.S. cheese prices; our earnings were negatively impacted by two sharp price drops in the first half of the year. However, results were favourable in the second half of the year, with rising cheese prices and improved profitability of Canadian operations.

Despite the turbulent environment, our financial results improved significantly. Sales increased by \$458.0 million or 6.3% to \$7.7 billion in 2020. Earnings from operations, or EBITDA, reached a record \$459.2 million, a year-over-year increase of \$93.7 million or 25.6%. Agropur closed fiscal 2020 with net earnings of \$38.8 million. It should be noted that in 2019, an extraordinary gain on disposal of the St. Paul facility, United States, was recorded. Net earnings increased by \$46.6 million in 2020, on a comparable basis. As a result of this financial performance, combined with reduced capital expenditures, the Cooperative was able to reduce its debt levels and strengthen its balance sheet. Profitability improved significantly during the year but we need to continue our efforts on this front. Higher profitability will allow us to continue improving our balance sheet and afford us flexibility to reinvest in growth.

Our plants processed a total of 6.6 billion litres of milk in 2020, an increase of 110.4 million or 1.7% over 2019. 80% of the milk processed by Agropur in 2020 was used to make cheese, ingredients and butter, 18% to make fresh dairy products and 2% for yogurt and frozen products.

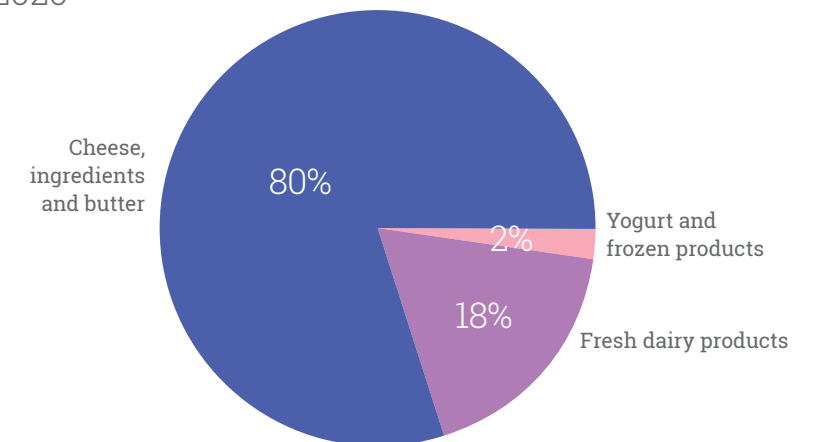
SALES

(In millions of dollars)

7,713 ▲ 6.3%

The volume of milk processed at our Canadian plants decreased by 1.9% to 2.6 billion litres. In the U.S., volume rose 4.2% to 4.0 billion litres due to increased capacity at the Lake Norden plant, which was commissioned in 2019.

MILK PROCESSED BY AGROPUR IN 2020



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 2020 financial statements.

REVIEW OF 2020 FINANCIAL STATEMENTS

Financial results

Consolidated sales amounted to a record \$7.7 billion in 2020, an increase of \$458.0 million or 6.3% compared with 2019. U.S. operations accounted for the entirety of the increase.

U.S. sales totalled \$3.7 billion in 2020, a year-over-year increase of \$469.0 million or 14.4%. The 2019 numbers included the sales of the St. Paul plant, which was sold in October 2019. On a comparable basis, U.S. sales increased by 20.5% in 2020, due primarily to higher average cheese prices. The following chart shows the cheese price trend in the U.S. and the unprecedented volatility seen in 2020.

The average U.S. cheese price in fiscal 2020 was US\$2.02/lb, 19.5% higher than in 2019.

U.S. sales volume also increased due to higher volume from the Lake Norden plant in 2020. COVID-related restrictions in the U.S. had a negative impact on sales, cutting into sales to customers in the HRI segment (hotels, restaurants and institutions). Finally, the appreciation of the U.S. dollar against the Canadian dollar contributed to the increase in U.S. sales when translated into Canadian currency.

Canadian operations' sales were stable compared with 2019 at \$4.0 billion. Canadian sales were also impacted by restrictive measures. HRI sales were down significantly but the decrease was offset by increased retail sales.

The chart on page 30 shows consolidated sales for the past five years. They amounted to \$7.7 billion in 2020 compared with \$6.0 billion in 2016, a 29.6% increase and an average compound annual growth rate of 6.7%. The growth was mainly due to mergers and acquisitions, as well as numerous capital projects aimed at increasing production capacity.

The Cooperative's earnings from operations (EBITDA) amounted to \$459.2 million, for an EBITDA margin on sales of 6.0%. This result represents a year-over-year increase of \$93.7 million or 25.6%.

U.S. operations posted a 14.4% increase in earnings from operations compared with 2019. Excluding the results of the St. Paul plant in 2019 and the effect of the adoption of IFRS 16 (the new accounting standard for the recognition of leases which increase EBITDA) in 2020, EBITDA increased by 17.9%. Factors that contributed to the increase in U.S. earnings included improved margins on whey products and the contribution of the new Lake Norden plant. These favourable factors were partially offset by lower sales volumes to HRI customers and lower butter prices. It should be noted that our cheese production in the United States generates

surplus butterfat, which we resell on the market. The selling price is determined by an index that began to decline in late 2019 and the decline continued throughout 2020.

The following graph shows the drop in butter prices in fiscal year 2020.

In Canada, despite stable sales, earnings from operations increased by 50.5% year over year. Excluding the effect of the adoption of IFRS 16, adjusted earnings from operations increased by 45.3%, due in part to improved profitability of products sold. Also, expenses were reduced in all sectors of the organization. The pandemic resulted in increased costs related to health measures, which were partially offset by savings in areas such as travel.

The chart on page 31 shows the evolution of earnings from operations for the past five years. Earnings from operations rose from \$411.7 million in 2016 to \$459.2 million in 2020, an increase of \$47.5 million and an average compound annual rate of 2.8%.

Net earnings were down \$0.3 million or 0.7% to \$38.8 million in 2020. In addition to earnings from operations, net earnings reflect the following items.

The depreciation and amortization expense increased \$27.1 million to \$243.9 million, essentially because of depreciation of the Lake Norden plant, which was commissioned in 2019.

Restructuring costs, integration and other non-recurring costs decreased by \$6.1 million to \$35.7 million in 2020. They consist in large part of restructuring costs for our Canadian operations.

Financial expenses were \$79.3 million in 2020. It should be noted these costs include a financial expense of \$4.4 million attributable to the new accounting standard for leases (IFRS 16). A \$9.3 million gain on disposal was recorded in 2020, mainly

BUTTER MARKET PRICE USA US\$/lb



related to disposal of a portion of an investment in an associated company. In 2019, a \$64.1 million gain was recorded, mainly in connection with the disposal of our St. Paul plant. In addition, the carrying amount of certain assets was reduced by \$2.0 million in 2020. In 2019, we recognized a \$16.1 million asset impairment in connection with the announced closure of our plant in Lachute, Quebec and a review of our brand portfolio. Lastly, the income taxes of subsidiaries was \$36.4 million for the fiscal year.

Therefore, the Cooperative's earnings before patronage dividends and income taxes totalled \$69.6 million in 2020 compared with \$47.2 million in 2019.

After reviewing the earnings, the Board of Directors declared patronage dividends of \$43.5 million, issued entirely in Class A investment shares in order to help reduce the Cooperative's indebtedness.

After deduction of patronage dividends, the Cooperative recorded \$12.7 million in income tax recovery. Agropur therefore generated net earnings of \$38.8 million.

USA CHEESE PRICE (1) US\$/lb



(1) Cheddar cheese 40 pounds block price USA

Comprehensive income totalled \$36.0 million in fiscal 2020, broken down as follows: net earnings of \$38.8 million plus the items recorded under accumulated other comprehensive income, including a \$10.6 million unrealized net loss on financial instruments and recognition of a \$10.3 million net gain to account for the effect of depreciation of the Canadian dollar on consolidation of the assets and liabilities of our US subsidiaries and on translation of long-term debt into Canadian dollars. These accounting gains and losses will continue to fluctuate with interest rate variances and the fluctuations of the Canadian dollar against the U.S. dollar. Lastly, the other components of comprehensive income (loss) are the items transferred to the reserve, consisting of net actuarial losses on the defined benefit pension plans in the amount of \$2.5 million.

Cash flows

Cash flows from operating activities totalled \$418.1 million in 2020, an increase that reflects the marked improvement in results. Changes in non-cash items contributed \$77.0 million; the increase was mainly attributable to an increase in accounts payable, including milk payable, partially offset by an increase in accounts receivable (essentially due to the increase in the price of cheese in the U.S.).

With respect to financing activities, \$305.9 million was used for debt repayments. In view of the high debt level, we suspended dividend payments to holders of first preferred shares. Interest payments were \$72.9 million. Following the adoption of the new IFRS 16 accounting standard in 2020, we are now required to report lease payments that meet the criteria in the new accounting rule as financing activities. Lease payments in the amount of \$14.9 million were made under long-term leases, which were previously reported under operating activities.

Additions to property, plant and equipment and intangible assets were \$136.0 million in 2020 compared with \$291.4 million in 2019. To strengthen our balance sheet, we kept capital expenditures to a minimum in 2020, after making significant investments in 2018 and 2019, including at the Lake Norden plant in the U.S. Expenditures in 2020 included multiple plant projects. The breakdown of capital expenditures was 62% in Canada and 38% in the U.S. The Cooperative received \$13.4 million in consideration of the disposal of a portion of its interest in an associated company. Finally, proceeds from disposal of assets of \$5.0 million include amounts received for two milk transportation routes and unused lands and buildings.

The table below shows the aforementioned inflows and outflows of funds during the year.

INFLOWS 2020

(In millions of dollars)

Operations	418
Working capital	77
Proceeds from disposal	18
TOTAL	513

OUTFLOWS 2020

(In millions of dollars)

Interest (including effect of exchange rate on cash position)	76
Lease payments	15
Property, plant and equipment and intangible assets	136
TOTAL	227
Cash flows generated	286
Repayments of long-term debts	(306)
Change in cash position	(20)

Over the past five years, inflows have totalled nearly \$2.3 billion. The following chart shows the use of the inflows during the period. Since 2016, \$1.2 billion has been invested in property, plant and equipment and intangible assets and \$140 million has been spent on mergers and acquisitions. \$179 million has been paid out to members as patronage dividends in cash and capital redemptions. Payments in the amount of \$242 million were made to repay long-term debt, net of the issuance of preferred shares. Finally, \$495 million was used for interest payments and dividends on first preferred shares.

Balance sheet

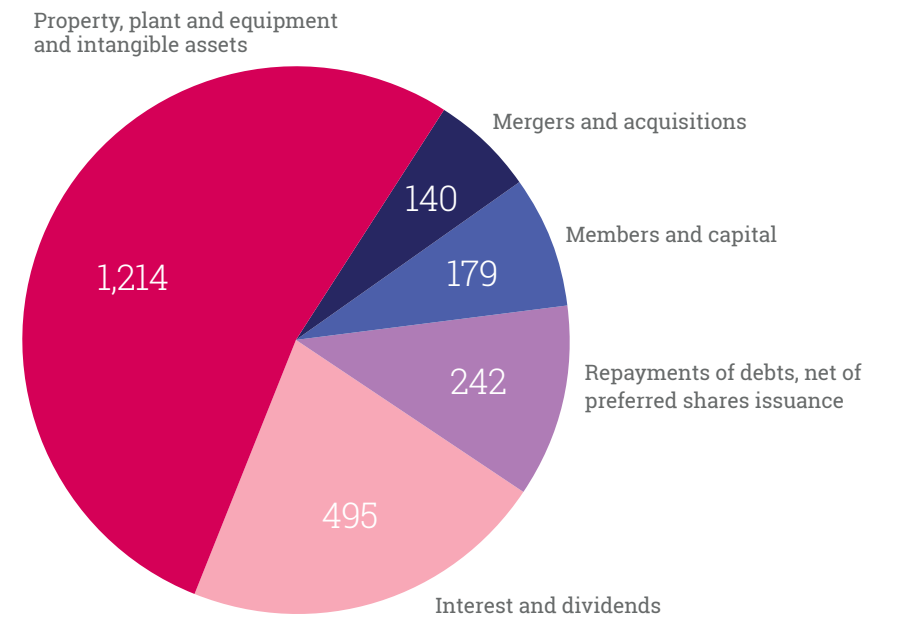
Assets totalled \$4.7 billion, a \$115.7 million increase from 2019 stemming mainly from accounts receivable due to higher cheese prices. The increase in assets was reduced by depreciation of property, plant and equipment and intangible assets. Finally, recognition of a right-of-use asset in accordance with IFRS 16 also contributed to the increase in assets. An almost equal counterpart entry was recorded under liabilities.

Total liabilities amounted to \$2.4 billion, a \$36.7 million increase from November 2, 2019 due mainly to an increase in accounts payable, particularly milk payable, partially offset by the reduction in long-term debt.

As of October 31, 2020, total equity was \$2.3 billion. Excluding the first preferred shares, members' equity stood at \$1.6 billion, a \$79.0 million increase. It should be noted that given the debt level in 2020, no dividend payments on first preferred shares were made during the year. Under our agreements with the holders of these shares, we are allowed to defer dividend payments. Without the deferral, the amount paid would have been \$62.8 million and member's equity would have been reduced by the same amount.

USE OF FUNDS 2016 TO 2020

(In millions of dollars)



Outlook

This year's financial performance enabled us to generate positive cash flow, allowing us to reduce our debt and putting us in a stronger position to face market fluctuations in what remains a highly volatile environment. We need to improve profitability and reduce debt in order to generate the income needed to reinvest in our strategic activities and offer our members an acceptable return, while keeping debt to a healthy level. The two transactions we announced in December (Grand Rapids facility, United States and our yogurt activities in Canada) are in line with this debt-reduction objective. The measures implemented during the year to improve the Cooperative's profitability are yielding results. The profitability achieved (6.0% EBITDA margin on sales) is only one step forward because it is still insufficient. In the coming years, we will continue transforming Agropur to unlock its full potential and ensure its sustainability.

Risks related to the COVID-19 pandemic

In the context of the COVID-19 pandemic, the Cooperative's activities have been considered an essential public service. The Cooperative's facilities have therefore remained in operation.

However, there are pandemic-related risks such as the possibility of an outbreak at one of our facilities, forcing a temporary shutdown; employee absenteeism due to the virus; and problems obtaining supplies of the inputs used in the manufacture of our finished products.

At the beginning of the pandemic, the Cooperative set up a crisis unit to put in place measures to prevent an outbreak at its facilities. This unit refined a business continuity plan in the event of a pandemic and took a number of specific measures, including implementation of strict health and safety protocols for employees, a teleworking policy, and intensified monitoring of the evolving situation and of the decisions made by the various authorities. The Cooperative also increased communication with its employees and its various partners.

Despite all these measures, the Cooperative is not immune to the aforementioned risks, which could result in financial losses and damage to its reputation.

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 cyberattack could affect our operations and therefore have negative financial impacts.

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.

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 of the necessary packaging materials could have a negative impact on product costs.

In the context of a competitive market environment and a pandemic, 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.

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.

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 and the possible arrival of new competitors in the market. 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, national and international competitors. The 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. This high volatility can have significant impacts on our results.

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 innovating and offering its customers products that are competitive in quality and price.

Regulatory risks

The Cooperative is subject to multiple governmental and tax laws, regulations

RISKS AND UNCERTAINTIES

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. 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.

Business environment risks

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

Debt risks

The Cooperative's level of indebtedness limits its flexibility in managing cash, as large amounts must be set aside for principal and interest payments. The debt agreements also contain restrictive covenants that could limit the amounts that can be allocated to capital expenditures, patronage dividends and dividends on first preferred shares. The Cooperative's level of indebtedness could also limit its ability to invest in growth opportunities. However, the Cooperative has financial controls in place to ensure that it meets its financial commitments.

Interest rate risks

As a result of the investments made in recent years, long-term debts have been contracted. The Cooperative is therefore exposed to risk arising from fluctuations

in interest rates on these financial instruments. 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 a term loan, the Cooperative swaps 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.

Risks related to sensitive information and data protection

In the normal course of business, we gather sensitive information about our customers, employees, members, partners and suppliers. The Cooperative applies a computer security policy designed to protect confidential information. Agropur also has security measures, including computer controls, to prevent unauthorized access to personal information. Despite these controls, we are not immune to the dissemination of sensitive information by employees or people with ill intent. A system malfunction or unauthorized access could lead to loss of customers, tarnish our reputation in the market or result in legal action, investigations by regulatory authorities, and/or penalties.

Ethical risks

To maintain lasting relationships of trust with all stakeholders, Agropur expects ethical behaviour that is above reproach of all employees. Agropur has adopted an Ethics and Trust Code that applies to all employees. Agropur has also an ethics line that employees can use to report a concern or a sensitive situation in the workplace, on a confidential basis.

The Cooperative is also concerned about animal welfare. Agropur and its members consider that dairy cattle must be properly raised, kept and cared for at every stage of their lives in order to keep them healthy, comfortable and safe. To properly support its members, Agropur has an animal welfare advisor on staff.

Despite these efforts, ethical breaches may occur and could not only compromise Agropur's reputation but also lead to extraordinary charges arising from 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 workplaces 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.

In a tight labour market, the Cooperative is under pressure to attract and retain the best talent. Agropur fully and actively supports the professional development and wellness of its employees by offering competitive working conditions and through various programs that promote continuing training. We ensure that we are competitive with the market.

Risks related to employee future benefits

The Cooperative offers some groups of employees defined benefit pension 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.

OUR BRANDS, A STANDARD OF EXCELLENCE

Natrel[®]

OKA

Québon[®]

L'EXTRA

Farmers[®]

AGROPUR
Grand Cheddar[™]

Sealtest^{*}

FROMAGES FINS
ANCO[™]
FINE CHEESE


Lucerne[®]
SINCE 1904



Central Dairies[®]

**island
FARMS**

biPro[®]



Head office

4600 Armand-Frappier Street, Saint-Hubert QC J3Z 1G5 Canada
Tel.: 450-878-2333
Toll free: 1-844-878-2333

US Operations

3500 East Destination Drive, Appleton WI 54915 USA
Tel.: 920-944-0990

agropur.com

Concept: Liette Couture Arts graphiques
Photographers: Michael Abril and Robin Cerutti
Writing: Exergue Communications
Translation: Analogos

Printed in Canada