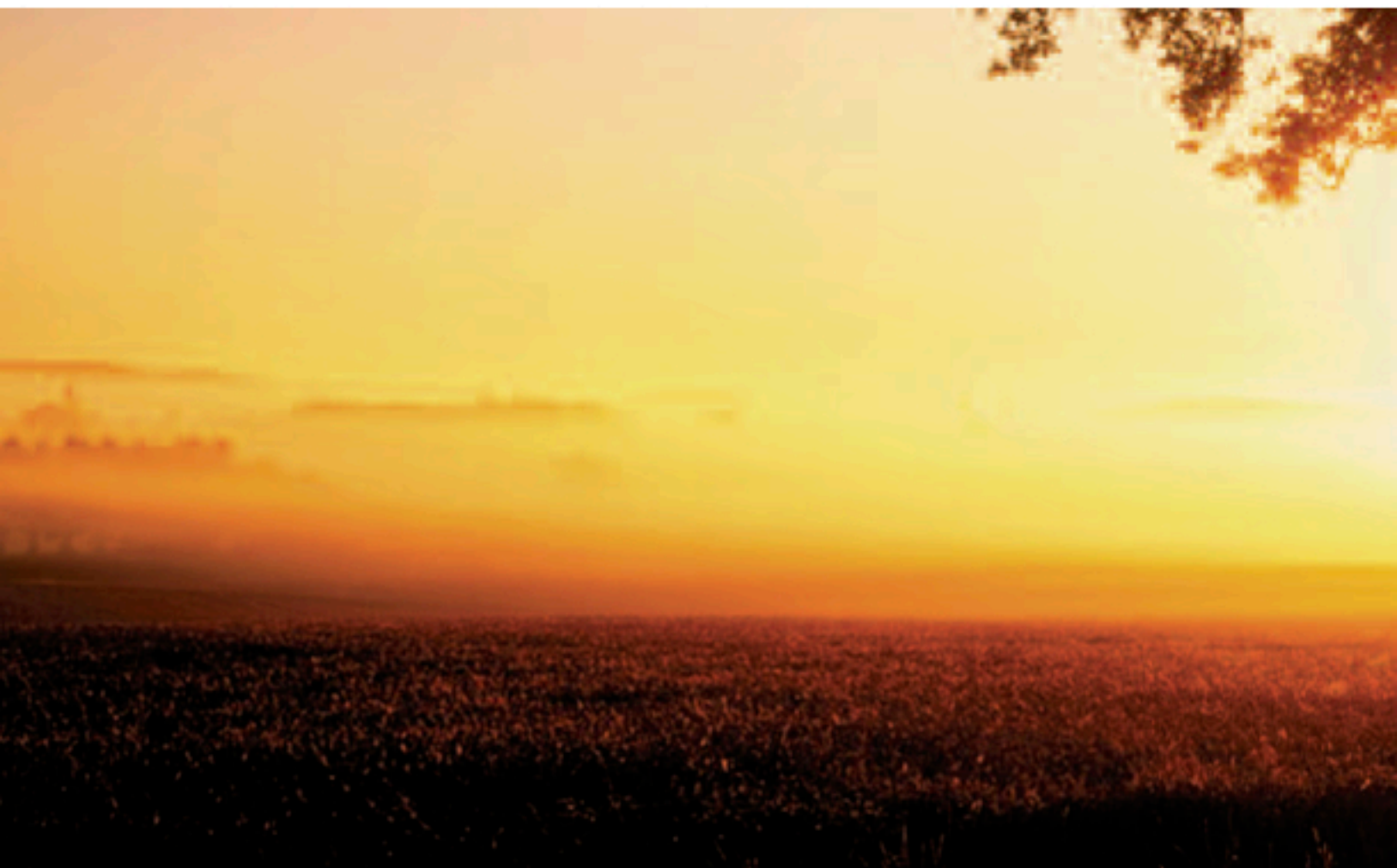


pure

2004 Annual Report
Agropur cooperative



A past that bodes well for the future...



Summary

04	Message from the Chairman
06	Message from the Chief Executive Officer
08	Review of Operations
16	Highlights
17	Financial Review
18	Auditors' Report
19	Financial Statements
30	Board of Directors
31	Management Committee

Enhancing the value of milk

A vocation for Agropur

Each waking day, Agropur cooperative responds to the call of some 4,200 dairy farmers who rely on this organization, which they jointly own, to enhance the fruit of their labour.

Over 1.7 billion litres of milk are processed annually in 19 plants, one in the United States and the others in four Canadian provinces. The resulting products grace the tables of thousands of Canadians from coast to coast. But before these products reach their tables, 3,000 employees and many contract agents assigned to milk collection and distribution combine their efforts and expertise to ensure that the final product meets all expectations.



OUR PRODUCTS GREET YOU AT THE CRACK OF DAWN.

Tradition and progress co-exist in perfect harmony at Agropur. Their interaction generates amazing results for this Cooperative, which was founded in 1938 and remains rooted in its original values. Its success is, above all, a human story. It is reflected in the quality of services offered and a highly diversified product line, which is in keeping with the latest trends and makes milk, this indispensable resource, ever more enjoyable.

Nature is our source

Closely involved in its members' activities, Agropur cooperative has made a vocation of enhancing the value of their product, milk. Derived straight from nature, milk comes to the Cooperative full of richness and freshness. Charged with generating a return on this asset, thousands of people invest their genius and talents in this major group project, which is reinvented on a daily basis to respond to needs, expectations and market signals. Their collective know-how is complemented by cutting-edge technology and sophisticated distribution networks, which act as a springboard to propel the Cooperative to new heights, while nurturing its fundamental values.



Investing in purity

Established on broad-based cooperative principles, Agropur, a major Canadian dairy processor, is building its future on a solid foundation. Its rich 66-year history serves as a platform for securing its strategies. Under the care of a devoted team, milk reveals the multiple facets of its personality. Delivering products that are always in keeping with the times is a priority for Agropur. Another priority is to ensure that its criteria of authenticity and health are satisfied. The challenge for the Cooperative is to make these products even more accessible and inviting, to promote their versatility, and to create excitement through innovation.

With a view to reinforcing its relations with consumers, Agropur meets this challenge through investments, leadership and carefully designed strategies. In its hands, this natural resource called milk can only increase in value. Investing in purity, in the natural benefits everyone.

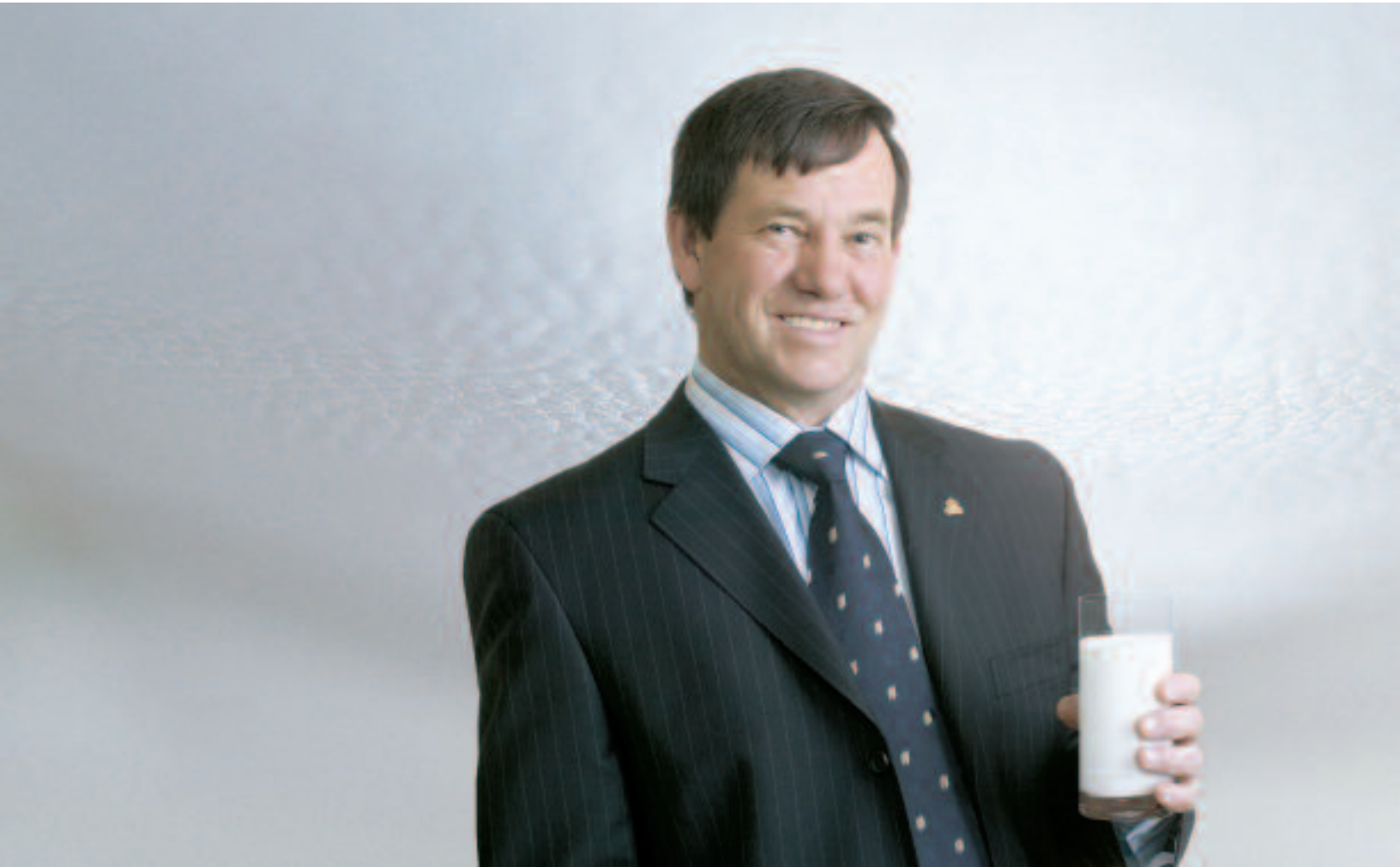
DISTANCE IS NO OBSTACLE FOR OUR AGENTS WHO BRING FRESHNESS, AUTHENTICITY AND ADDED VALUE.



Message from the Chairman

Renewal in a context of continuity, thanks to a strong succession. Consolidation of our financial stability through an unwavering quest for efficiency. It is against this backdrop that fiscal 2004 unfolded. Without being a landmark year, 2004 was still one of significant progress. At the end of this fiscal year, the Cooperative is in a better position than ever to deal with the challenges of the future, to seize business opportunities and to reap the benefits of its values.

The unveiling of a revamped logo at a general meeting held for the first time in Quebec City, the relocation of the head office to Longueuil, and the changes to certain key positions held by senior officers are among the highlights of the fiscal year.



This year also brought to light the capabilities of our back-up management resources. The position of Chief Executive Officer, left vacant by a departure, was filled from within. This appointment had a ripple effect on Natrel in particular, whose management team welcomed a new President and a new Vice-President of Sales, positions that were also filled from within. Despite a vastly renewed leadership, the extensive experience and many years of service of the holders of these positions allowed for a smooth transition and transfer of knowledge, without losing sight of the objectives shared by all.

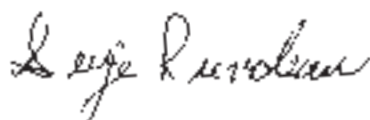
Cooperatives are known for their ability to rebound in difficult times. Agropur's cooperative status proved useful once again during the conflict stemming from the renewal of two collective agreements. Some 230 members who participated in the daily life of the plants concerned showed solidarity in their desire to maintain the plants' core operations.

In the Canadian dairy industry, business is now conducted nationwide as regards the decision-making process for both production and processing. With our dual role as farmers and processors, we must be aware of what we are and of the force that we represent, in order to establish stronger relations with other players in the Canadian dairy industry. Agropur's development over the years, which has boosted the number of plants we operate to 19, has increased our representation and visibility on this stage.

For Agropur, the situation is as follows: our Cooperative is more able than ever to consolidate its growth through acquisitions. It is also in a better position to play a key role within the dairy industry. It is therefore up to us to create the opening that will allow us to forge ties and partnerships in this new national context.

Whether in the industry as a whole or within the Cooperative, good human relations in an atmosphere of mutual respect are definitely the best way to create this opening. It is by establishing a climate for dialogue that our future projects, big and small, will be able to blossom.

A rich soil for cultivating pure values – this is the avenue to pursue for the prosperity of our business.



Serge Riendeau
Chairman

Message from the Chief Executive Officer

Fiscal 2004 ended with an improved financial position despite lower earnings when compared with 2003, due primarily to a decrease in export sales and a labour conflict. With an improved balance sheet, a decreased debt and an enhanced equity, Agropur is on a solid footing for future development.

The renewal of the collective agreements that were at the source of the conflict helped us make some progress in this regard. These important gains stand the Cooperative in better stead to face the challenges of the future and to maintain its competitiveness. Both the organization and the employees are benefiting accordingly.



Innovation and know-how continue to inject new life into the Cooperative to ensure that it maintains its leadership position. In this regard, the Canadian Grand Prix New Product Awards is an excellent barometer of our ability to innovate. The Cooperative stood out for a third straight year at this prestigious competition, which proclaimed Natre Omega-3 the *Dairy Product of the Year*, following on the heels of Natre Nutrition 24 and Oka Providence, winners of the two previous contests.

During the year, some changes were made to strategic management positions. One of these changes involved Pierre Gignac, a major contributor to the development of Yoplait in Canada, who, before he retired, completed the acquisition of Olympic Dairy Products in British Columbia. This acquisition provides an entry point into the growing sector of organic products.

While three players, including Agropur, control about 70% of the Canadian dairy market, the consolidation of this market shows the possible impact of any future changes on the landscape. This is why it is important for the employees to rally behind the Cooperative's objectives. In this regard, their commitment, sense of duty and integrity are highly valuable assets.

Moreover, the situation requires that our officers and managers be more strategic and visionary than ever. While Agropur is present in the United States through the Deutsch Käse Haus cheese plant, the horizon for the future development and consolidation of our position extends to our neighbours to the South and to the Canadian provinces in which we are less active.

As a result of the growing operational needs of Ultima Foods, head office was relocated from Granby to Longueuil (photo below) at the end of the fiscal year. Given also that the Industrial Division is managed from Granby, this city remains a hub for Agropur's activities in Canada. In addition to bringing us closer to our business centre, the move to Longueuil allowed us to merge our corporate services under one roof. Also, establishing its head office on the south shore of Montreal, the confluence of major highways, gives the Cooperative easier access to a wide variety of customers and suppliers.



The highlights of this fiscal year reflect more than ever the Cooperative's desire to forge ahead. While our action plans are based on synergy of resources, strong human values are just as indispensable to us as high technology for the achievement of our objectives. While guaranteeing growth and success, innovation and stringency keep us at the forefront of the industry and consolidate our leadership position on the markets.

As I close my first term as Chief Executive Officer, I would like to thank the members of the Board of Directors for the trust they have shown in me. I would also like to thank our members, employees, agents and business partners who have all played a part in the achievement of these excellent results.

Pierre Claprood
Chief Executive Officer

Values and developments

Review of Operations

Cooperative principles, which benefit from the pooling of resources and ideas, have proven to be great assets to Agropur. In today's high-tech world, where activities are increasingly dependent on information systems, the Cooperative is relying more than ever on these basic values to meet future challenges.

During the fiscal year, Natrel completed the expansion and modernization of its Toronto facilities, now ranked among the most advanced dairies in North America. Natrel injected \$19 million over two years to make this site a processing and distribution nerve centre in southern Ontario.



This resulted in, among other things, the closing of the Brantford plant, the opening of a new distribution centre in this region, and vocational changes or closures of other centres. At the heart of its cutting-edge technology, a computerized inventory management system serves as a bridge between the plant and the refrigerated warehouse.

The Saint-Hyacinthe cheese plant improved its mastery of an automation-based technology acquired over the past few years. This fine-tuning resulted in a reduction of the time and energy devoted to the manufacturing process. The addition of packaging equipment also generated efficiency gains throughout the chain.

The efforts of Ultima Foods have been rewarded with annual growth of 11% over the past decade. In the summer of 2004, a \$6 million expansion project was initiated at Ultima's plant in Granby. Phase II of this project, which is even more important, will continue in 2005. Combined with work reorganization, the expansion, while increasing Ultima's processing capacity, will create some 30 jobs. An integrated warehouse management system, which uses radiofrequency, was added to an existing software package, in order to provide better support for re-stocking and the monitoring of finished products all the way to the customer.

The fine cheese sales team offers its customers service that goes beyond the traditional role of salespersons. Designed for in-depth analysis, the tools used allow these profitability counsellors to act with distinctive competence and to make business more profitable for Agropur and its customers. The effectiveness of these tools has been increased with the adoption, at a cost of \$3 million, of a management system to which their computers are connected. A team of about ten employees, freed up from their regular duties for six months, combined its expertise with that of a consulting firm to ensure that the system was successfully deployed across many sectors, including sales.

Confirmed by its slogan, *Driven By Customer Needs*, the Industrial Division shows an ever-increasing desire to get closer to the retail market and the hotel, restaurant and institutional sector in particular. Meetings facilitated by members of its management committee have allowed 250 employees who provide customer service support to participate in the process. Made aware via the existing communication channels, all employees are solicited by the new challenge, which is to set the Cooperative apart through the quality of its service and a more diversified, value-added product line.



OUR ACCOMPLISHMENTS GUIDE THE WAY TO THE FUTURE.

The reinforcement of partnerships and strategic alliances are some of the means being considered in order to achieve results. A modernization project to be implemented at the Granby cheese plant, which is designed to improve the quality of its products, dovetails perfectly with this context of renewal.

Just like for Natrel, the United States remains a development avenue for fine cheeses. To ensure a leadership, Agropur plans to penetrate unexplored market segments and thereby offset declining export sales. Increasing its presence in Western Canada and the Maritimes and developing value-added products are among Natrel's priorities. Attracting and retaining major customers through the quality of its service and its capacity for innovation, while getting closer to the distribution sector, are among the strategies for Ultima Foods, which intends to consolidate its presence across Canada.

Milk has not yet disclosed all its secrets. Research is reconfirming its high nutritional value and constantly revealing its new properties. Case in point: the latest discoveries are bringing to light milk's virtues in the fight against obesity.

For Agropur, privileged to have such a rich resource at its disposal, innovation has always been and continues to be an issue of health and vitality, which are nutritional values not only in terms of personal diet, but also with regard to corporate fitness.



QUALITY PRODUCTS, SYNONYMOUS WITH HEALTH

Products that promote wellbeing and double as comfort food are in keeping with current trends. The Yoplait line took a 90-degree turn in 2004, which was initiated with the launching of Yoplait Source in 2002. This yogurt, a veritable phenomenon that captured a Cassies award in the *Best Launch* category at a contest paying tribute to Canadian advertisements, is the perfect example of a product that was able to pick up market signals. In the spring of 2004, two consecutive launches aimed in the same direction introduced the Yoplait Delicieux and Yoplait Creme & fruit yogurt families.

The World of Natrel, a concept that embraces added-value milks while underpinning the notion of healthy products, continues to evolve. New Natrel chocolate Lactose Free, capitalizing on the double success of chocolate beverages and Natrel regular lactose-free milk, made its debut. Very popular in Quebec, Natrel Omega-3, a milk that benefits bodily functions in more ways than one, is making inroads into Ontario and Western Canada. The title of *Dairy Product of the Year* captured at the Canadian Grand Prix New Product Awards constitutes an excellent vehicle for conquering these horizons. Riding this wave of innovation, Natrel Café flavoured creams made their entrance in the Canadian market, where they are benefiting from the dynamism of a high-growth segment.

Minigo Duo, a new concept that has re-energized the image of these fresh cheeses, is delivering the goods: three months after its launch, sales of this new product tripled forecasts. Providing double the pleasure by offering two flavours in each unit, Minigo Duo is also appreciated for its colourful containers, which make healthy eating fun.



In terms of fine cheeses, havarti still tops the best seller list. Soft cheeses, for their part, show the strongest growth and benefit from favourable market conditions. The variety of the line, which features several imports, is an undeniable advantage. However, in 2004, this line required considerable energy in terms of adapting the packaging to the nutritional labelling rules to be applied in December 2005. In addition, the concentration of retailers in Canada, accompanied by increasingly personalized services and rising costs for manufacturers, is exerting pressure on the latter.

Agropur, which has always made a point of offering quality products, is building its reputation on major labels. Some, such as Oka and Sealtest, are centenarians, while others are setting popularity records.

Powerful and omnipresent, technology is providing new tools for asserting our leadership in a fiercely competitive world of perpetual change. While they make a difference, these tools are of little use without the men and women who control them. It is through their efforts that the desired efficiency is achieved.

Also, given the anticipated shortage of qualified workforce, Agropur is focusing its energy on enhancing its profile as an ideal employer. For the Cooperative, which continues to put the human element at the forefront, this process begins internally. Thus, greater emphasis is being given to one of its main priorities: providing employees with an environment conducive to development and adaptation while encouraging employee participation.



Thus, mobilization is a primary objective. Presenting issues and challenges in a global perspective is the starting point for communication. Adapting this communication to the reality of its employees, transposing issues into their daily activities, providing them with the information and feedback they need to integrate into the improvement process, whether in their workplace or on a broader scale, are the cornerstones of an approach based on mutual trust and respect. In such a context, where everyone receives as much as he gives and the role of manager doubles as that of coach, adherence to the organization's objectives is strengthened, helping to create a very solid partnership.

The development of talents and skills makes it possible for each and everyone to achieve new heights. Employees can acquire the knowledge required to effectively perform their duties, while enhancing their personal experience. Since these positive effects are widespread, the organization reaps the benefits of professionalism and efficiency, concepts that will set it apart, primarily among its clientele, where there is an increasingly strong desire to establish closer ties.

A corporate culture centered on customers underpins the actions of an organization like Agropur, where the fragility of the product establishes the rules of the game. Flexibility, speed and efficiency, which stand out as the main qualities of its operations, are achieved through, among other things, better work organization and optimum use of skills and infrastructures. The result: increased product quality and customer satisfaction.

Occupational health and safety (OHS) is establishing itself as a major group project. No matter how much Agropur invests in the wellbeing of its human resources in order to protect their most precious assets, namely life and health, the exercise would be futile without their commitment. On the one hand, employees develop safe behaviours. On the other hand, the organization is assured of its compliance with industry requirements and a high level of operational efficiency. The importance given to this priority is such that an annual event aimed at all local OHS committees has taken on a national dimension for the purpose of more constructive discussions. An excellent opportunity for sharing experiences and promoting initiatives, this forum also puts the organization's orientations and vision into perspective.



HUMAN CAPITAL, PRIMARY RESOURCE OF THE ENTERPRISE OF THE FUTURE

Agropur invites you to taste quality and excellence. The gateway to healthy and balanced meals, a line of dairy products lending itself to a host of occasions. For you, bountiful, versatile and imaginative food that meets your every expectation. The guarantee accompanying this food is the verdict of some major contests in which the Cooperative participated in 2004.

For the third consecutive year, the *Canadian Grand Prix New Product Awards* bestowed the title of *Dairy Product of the Year* to an Agropur product. Well-adapted to a modern lifestyle, Natrel Nutrition 24, Providence Oka and Natrel Omega-3 have, one by one, achieved this feat.



At the *World Championship Cheese Contest*, Agropur's mild cheddar missed out on the title of the *World's Best Cheddar* by just a few decimals. The samples entered captured the silver and bronze in their category. Anco smoked gouda received the bronze medal in the firm cheese category.

At the *Canadian Cheese Grand Prix*, first prizes were awarded to St-Paulin Anco, Britannia mild yellow cheddar and Providence Oka, the latter for its packaging design.

At the *Royal Agricultural Winter Fair* in Toronto, a foursome comprising plain Havarti Danesborg, plain Délicrème and two Britannias, two and three years old, earned four first prizes. Two-year-old Britannia and Havarti each walked away with a *Championship* title in their respective categories.

At the *World Dairy Expo*, held in Wisconsin, the U.S. cheese plant *Deutsch Käse Haus*, which received the USDA's seal of quality approval in 2004, brought home second prize in the Colby – Monterey Jack category.

There is nothing better than television to put this know-how into perspective. Since September 2004, Agropur has been a major sponsor of the show, *Par-dessus le marché*. The purpose of this show, aired every Saturday on the TVA network, is to give voice to the architects of the agrifood world and answer consumers' questions, while promoting the farming profession.



T H E T A B L E I S S E T .

BOARD OF DIRECTORS

01 Roger Daoust^{1,2}
Salaberry,
1993

02 Michel Couture¹
De L'Érable,
2001

03 René Grimard¹
Vice-Chairman
Des Appalaches,
1995

04 Serge Riendeau¹
Chairman
Estrie, 1991

05 Roger Massicotte
Mauricie / Portneuf,
2003

06 Lorna Jean Neveu²
Laurentides / Lanaudière,
1996

07 Darie Gagné²
Chaudière,
1997



01

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08 François Pelletier
Yamaska,
2002

09 René Moreau¹
Bois-Francs,
1998

10 Daniel Lamy
Berthier / Maskinongé,
2004

11 Gaétan Jodoin
Granby,
1996

12 Denis Vallée
Lac Saint-Pierre,
1991

13 Daniel Gingras
Des Seigneuries,
1997

14 Roger Beaulieu²
Est du Québec,
2000

15 Jean Filiatrault²
Acton,
1993



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

¹ Executive Committee members

² Directors whose term expires in 2005; however, they can be re-elected.

MANAGEMENT COMMITTEE

01 Serge Paquette
President
Natrel

03 Pierre Claprood
Chief Executive Officer

04 Benoit Gagnon
Chief Financial Officer

02 Louis Lefebvre
President
Industrial Division

05 Pierre Robert
President
Fine Cheese Division



01

02

03

04

05

06 Michel Leclair
Vice-President
Quality Assurance

08 Denis Lachance
Vice-President
Legal Affairs
and Corporate Secretary

09 Dominique Benoit
Vice-President
Institutional Affairs

07 Robert Gour
Vice-President
Human Resources
and Communications

10 Jacques R. Rolland
Vice-President
Research and Development



06

07

08

09

10

A promising future...



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