



SAPUTO GROUP INC.

ANNUAL INFORMATION FORM

June 9, 1999

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ITEM 1 - THE COMPANY

1.1 Incorporation

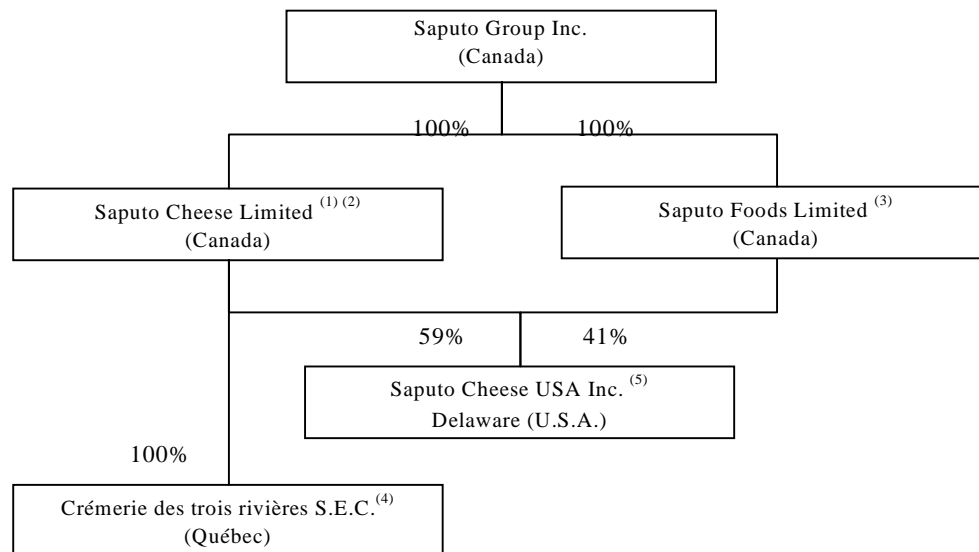
Saputo Group Inc. was constituted by a Certificate of Amalgamation issued pursuant to the provisions of the *Canada Business Corporations Act* on July 1, 1992, which was amended on August 25, 1997 in order to change the provisions attached to its authorized share capital. Saputo Group Inc. is the successor corporation to Placements Saputo Inc., Fonds Saputo Inc., Placements Sapco Inc. and Fonds Sapco Inc. The head office and principal place of business of the Company is located at 6869 Metropolitan Boulevard East, Saint-Léonard, Québec, Canada, H1P 1X8.

In this Annual Information Form, unless the context otherwise requires or indicates, the terms “Saputo” and the “Company” mean Saputo Group Inc. itself or together with its subsidiaries, or any one or more of them.

In this Annual Information Form, all references to “\$” or “CDN\$” are to Canadian dollars and all references to “US\$” are to American dollars.

1.2 Corporate Structure

The following organizational chart illustrates the corporate structure of Saputo and its significant subsidiaries, and their respective jurisdictions of incorporation.



- (1) Production and distribution of dairy and other food products in the Province of Québec.
- (2) Company resulting from the amalgamation, on March 31, 1998, of Saputo Cheese Limited and Froma-Dar Inc.
- (3) Production and distribution of dairy and other food products in Canadian provinces other than Québec.
- (4) Production and distribution of fluid milk and frozen novelties in the Province of Québec. Saputo Cheese Limited acts as the sole limited partner of this limited partnership.
- (5) Company resulting from the amalgamation, on April 1, 1999, of Saputo Cheese USA Inc. (formerly, Stella Foods, Inc.), Jefferson Cheese Mfg., Inc., Richmond Cheese Company, Saputo Foods USA, Inc. (formerly Jolina Foods USA, Inc.), Saputo Cheese USA I, Inc. (formerly Avonmore Cheese Inc.) and Saputo Cheese USA II, Inc. (formerly, Waterford Food Products, Inc.).

ITEM 2 - GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Overview

Saputo produces and markets mozzarella, other specialty cheeses and by-products such as butter, lactose and whey protein. In Canada, Saputo also distributes fine imported cheeses and a large assortment of other non-dairy products that complement its cheese distribution. In fiscal 1999, mozzarella represented approximately 55.3% of the Company's total cheese production and 48.5% of its total sales. Of the Company's total sales, approximately 24% were made in Canada, 73% were made in the United States and 3% were made internationally. The Company operates nine manufacturing facilities in Canada and 18 in the United States. On June 1, 1999, the Company had 2,762 full-time employees and 197 part-time employees.

Saputo has established itself as Canada's leading producer of mozzarella, with a share of approximately 37% of the Canadian mozzarella production, and ranks as one of the leading natural cheese producers in the United States. In Canada, Saputo services mainly through its own distribution network three distinct market segments: food service (principally pizzerias), retail and industrial/ingredient. In the United States, Saputo markets its products to such segments through direct sales and independent non-exclusive distributors. Internationally, products are sold through direct sales, local distributors and sales agents.

2.2 History

Mr. Emanuele (Lino) Saputo, the Chairman of the Board and Chief Executive Officer of Saputo, started the Company with his parents in 1954, producing quality cheeses for the Italian community of Montréal. In the late 1950's, the Company's first major production facility was constructed in the Montréal St-Michel district. In the 1960's, Saputo grew significantly as demand for its products increased both in Montréal and in new markets, such as other regions of Québec, Ontario and the Maritimes.

In the 1970's, Saputo acquired several production operations and developed its national distribution network, positioning itself, in Canada, as the leading producer of mozzarella, principally to the food service market segment. In 1981, the Company built a cheese plant in Mont-Laurier, Québec and acquired a cheese plant in Cookstown, Ontario. In 1984, Saputo acquired a plant in St-Hyacinthe, Québec which processes liquid whey, a by-product of its cheese production operations, into value-added products such as lactose and whey protein.

Since 1984, Saputo has continued its growth in Canada by acquiring small to medium-sized cheese manufacturers, food distributors and manufacturers of other dairy products located in various parts of Canada. In 1988, the Company entered the United States market by acquiring a cheese manufacturing plant located in Richmond, Vermont and the Jefferson cheese plant now located in Hancock, Maryland.

In 1996, Saputo acquired Fromages Caron Inc., a distributor of fine imported cheeses. On July 31, 1997, Saputo acquired Crémierie des Trois-Rivières, Limitée and entered the fluid milk and frozen novelties markets, two segments of the dairy industry it had not previously explored.

On October 15, 1997, the Company completed its initial public offering of 9,470,500 Common Shares at \$17.00 per share (the "Initial Public Offering"). In December of the same year, Saputo issued 9,000,000 special warrants at \$25.00 per warrant in order to finance, in part, the Stella Acquisition (as defined below). Following these two transactions, the Saputo family held, directly and indirectly, approximately 74% of all of the outstanding Common Shares of Saputo, with the balance being held by the public.

On December 5, 1997, Saputo acquired Stella Holdings, Inc. (which, together with its then wholly-owned subsidiaries, are herein collectively referred to as “Stella”) from Specialty Foods Corporation for a total consideration of approximately CDN \$580 million (US \$408 million) paid in cash (the “Stella Acquisition”). During its fiscal year ended December 31, 1996, Stella had revenues of approximately \$1 billion. With this acquisition, the Company tripled its size and established itself as one of the leading natural cheese producers in the United States.

On May 1, 1998, Saputo acquired from Avonmore Waterford Group plc. all of the outstanding shares of Avonmore Cheese Inc. and Waterford Food Products, Inc., both located in the United States, mainly in Wisconsin (the “AW Acquisition”). These companies produced Italian specialty cheeses, sweetened condensed milk, Swiss cheese and value-added products such as whey protein concentrates, ingredient blends and cream. Of the six plants acquired, two were whey processing facilities. The acquisition price of CDN \$54.1 million (US \$37.8 million) was financed through the Company’s bank credit facilities.

On August 31, 1998, the Company acquired all of the outstanding shares of Riverside Cheese and Butter Inc., a specialty cheese manufacturer located in Trenton, Ontario. Saputo also acquired, on September 16, 1998, substantially all of the assets and assumed certain liabilities of Bari Cheese Ltd., an Italian specialty cheese manufacturer based in Vancouver, British Columbia. The two acquired manufacturing facilities increased the geographic diversification of the Company’s asset base in Canada, while consolidating its position in both the Ontario and British Columbia markets. The aggregate purchase price of \$11.4 million was paid through the private placement of 26,750 Common Shares of Saputo at a price of \$40.00 per share, with the balance paid in cash.

The Company is presently completing the transfer of its interest in the Montreal Impact to a new group of Québec-based business people with ties to the local soccer and sports community. Saputo owned and operated this professional soccer club since it was founded in 1993 and will remain a sponsor of the club.

ITEM 3 - INDUSTRY OVERVIEW

3.1 The Canadian Dairy Industry

Regulatory Environment

The regulation of the content, composition, labelling, packaging, marketing and distribution of all food products in Canada is a shared responsibility between the federal and the provincial governments. The dairy industry is further governed by a series of federal and provincial regulations specific to the production, processing and distribution of milk and milk-related products. All applicable statutes, whether provincial or federal, permit plant inspections, product testing and other regulatory scrutiny.

In Canada, all milk processing plants are subjected to regular inspection by federal authorities and are required to be registered under the *Canada Agricultural Products Act*. Provincial legislation also demands that milk processing plants be licensed, compelling them to comply with all provincial inspections and regulations.

Milk Supply

The Canadian dairy industry operates within a highly regulated environment. The Canadian Dairy Commission (“CDC”), a crown corporation, has been mandated by the federal government to implement Canada’s national dairy policy which is predicated on shared jurisdictional powers between the federal and provincial governments. Fluid milk is regulated provincially, while industrial milk is regulated federally. “Fluid milk” refers to table milk or cream intended for consumption in fluid forms, whereas “industrial milk” is used for the manufacturing of all other dairy products, such as cheese, butter, ice cream and yogurt. According to CDC information, the fluid milk sector represents approximately 38.2% of raw milk delivered in Canada while the industrial milk sector represents approximately 61.8%.

The Canadian dairy industry operates within a supply management system. The key goal of supply management is to ensure stable revenues for dairy farmers while maintaining the production of sufficient volumes of industrial milk to satisfy the domestic Canadian consumer demand for dairy products as well as certain planned exports. This is essentially achieved by setting the support price that the dairy processors can receive for butter and skimmed milk powder and by controlling the supply of industrial milk.

Dairy farmers also receive a direct federal subsidy which is set to be phased out over the course of the five years commenced in February 1998. It is expected that the subsidy loss will be recovered through higher industrial milk prices.

Every dairy year, the CDC calculates the national industrial milk production quantum based on anticipated domestic demand and certain planned exports. This quantum is then allocated according to the terms of the National Milk Marketing Plan, a federal/provincial agreement. This agreement stipulates, among other things, that Québec’s and Ontario’s shares of the national industrial milk production quantum (the “Market Sharing Quota”) are approximately 47.8% and 30.6% respectively.

Once the industrial milk quantum is determined and allocated among the provinces, provincial marketing boards govern the production, pricing and marketing of milk within their own borders. Each provincial marketing board allocates the milk to dairy processors. Industrial milk is allocated according to a cascading system that classifies industrial milk into various classes of products to be manufactured. Priority of supply is given to the higher milk class, which also commands a higher milk price.

Although there may be some provincial variations, quantities of milk in each class other than fluid milk are generally restricted in their growth. As a result, operating in a supply managed system means that a dairy processor can only achieve significant growth through acquisitions. Any attempt to grow internally is stymied by the plant quota which limits a dairy processor to a specific guaranteed volume. Conversely, since the Market Sharing Quota is based on historical and anticipated demand for dairy products, the risk of a processor losing an important part of its market share is very low.

International Trade (Canada)

Imports. The Department of Foreign Affairs and International Trade administers Canada’s cheese import quotas. These quotas are divided into European Union and non-European Union sources. This results from Canada’s obligation to the European Union to import 66.0% of the approximately 20.4 million kilograms of cheese that Canada is committed to import annually under the World Trade Organization (“WTO”) Agreement on Agriculture. Imports within this minimum access commitment are subject to low rates of duty while imports over this amount are subject to significantly higher tariffs. Over-access tariffs for cheese currently stand at 252.5% of invoiced value.

Exports. All dairy export activities must be submitted for consideration by the CDC. The issuance of a permit to the exporter under the agreement amongst provinces for international cheese exports is particularly important since it entitles the cheese processor to a price discount given by the local milk boards on the milk purchases required for the manufacturing of the products to be exported. This allows Canadian processors to be competitive in world markets as Canadian milk prices are higher than the average world industrial milk price. Since Canada's dairy policy's objective is to balance the supply and demand of milk, export activities are limited.

Notwithstanding the foregoing and in view of the increasing importance of the dairy world market, various provincial dairy boards have established an optional export program whereby both the farmer, through his board, and the processor commit themselves to a specific volume that would not be calculated as part of Canada's domestic requirement. The Company intends to take advantage of the optional export program should it deem the potential return to be adequate.

Canadian Market

The dairy processing industry makes a major contribution to the Canadian economy with shipments valued at over \$8 billion in 1998. Second only to meat processing, the dairy processing sector accounted for approximately 14% of the estimated value of all food and beverage processing sales during the same year. Significant rationalization is occurring in the processing sector as plants strive to achieve the greater efficiencies and economies of scale required to remain competitive in increasingly global markets.

The following table indicates the production volumes of selected dairy products manufactured in Canada in 1998.

Canadian Production Volumes of Selected Dairy Products in 1998 ⁽¹⁾
(in thousands)

Cheddar.....	127,216 kg	Yogurt.....	110,893 kg
Specialty cheeses ⁽²⁾	202,735 kg	Milk powder.....	69,701 kg
Cottage cheese	21,417 kg	Concentrated milk	92,311 kg
Butter	85,935 kg	Fluid milk	2,547,518 litres
Ice cream and other ice cream products.....	552,448 litres	Cream	145,731 litres

(1) Source: Canadian Dairy Commission.

(2) Includes mozzarella.

Production of mozzarella accounts for an important portion of the Canadian production volumes of specialty cheeses as demonstrated by the table below.

Canadian Production Volumes of Specialty Cheeses and Mozzarella ⁽¹⁾

	1998	1997	1996	1995	1994
	(In thousands of kilograms)				
Specialty cheeses	202,735	207,370	173,109	172,137	162,527
Mozzarella.....	112,194	104,643	101,148	103,950	102,691

(1) Source: Statistics Canada and Canadian Dairy Commission.

3.2 The United States Dairy Industry

Regulatory Environment

In the United States, the production of all food products is subject to extensive federal, state and local government regulations regarding the advertising, quality, packaging, labelling and safety.

All food plants are subject to regulation and inspection by agencies such as the Food and Drug Administration (“FDA”) and the United States Department of Agriculture (“USDA”). Individual states may also enforce more stringent regulations regarding the manufacturing of food products. State and local government agencies work with the federal government to ensure the safety of food produced within their jurisdictions. Violations of federal, state and local regulations may result in seizure and condemnation of products, cease and desist orders, injunctions and monetary penalties. State and local government agencies also enforce environmental compliance.

Milk Supply

In the United States, there are two grades of milk: Grade A and Grade B. Grade A milk is produced under specific sanitary requirements and dairy producers must hold a Grade A shipping permit. Grade A milk accounts for 97% of the United States milk supply and is used for fluid as well as manufacturing purposes. Grade B milk represents 3% of the United States milk production, and it is used exclusively to manufacture butter, cheese and skim milk powder. Almost 50% of the United States Grade B milk production is located in Minnesota and Wisconsin.

The following table presents the utilization of the United States milk production in 1998:

Utilization of United States Milk Production in 1998 ⁽¹⁾

Utilized as fluid milk and cream	35.7%
Manufactured into cheese	35.9%
Manufactured into creamery butter	12.1%
Manufactured into frozen dairy products	10.4%
Manufactured into evaporated and condensed milk	0.9%
Used on farms where produced	0.9%
Other uses	4.1%

(1) Source: USDA, Milk Production, Disposition and Income 1998, published May 1999.

In most cases, milk prices are set monthly based on the average milk price paid for Grade B milk in Minnesota-Wisconsin, updated by a product price formula known as the Basic Formula Price which takes into account weekly cheese price surveys conducted by the National Agriculture Statistics Service.

Wholesale pricing for the bulk of the United States cheese production is established by daily cash cheddar cheese trading on the Chicago Mercantile Exchange (CME). The last trade of the day establishes the market price for the day. If no trades occur, the market price is determined based on the bid and offer prices. Processors usually charge a premium over the CME price.

A dairy processing plant is not limited in terms of the quantity of milk it can receive and is free to negotiate its milk supply with whomever it chooses. Independent processors usually negotiate with local cooperatives or may procure milk directly from individual farms for the necessary milk quantities and are charged a price which reflects the current month's milk price plus a negotiated handling charge.

United States dairy programs influence the production and marketing of milk and milk products through the operation of the Commodity Credit Corporation ("CCC"), a federal agency. CCC buys butter, non-fat dry milk and cheese at the following support prices:

- Butter @ \$0.65 per pound;
- Cheddar Cheese 40 pound blocks @ \$1.10 per pound;
- Nonfat dry milk powder @ \$1.01 per pound.

Such products are sold or used either domestically or internationally in specific government programs. The CCC does not however directly support dairy farmers, nor does it establish a target return for farmers.

International Trade (United States)

Imports. Another key component of the United States dairy program is import restrictions. Most United States cheese import quotas are country and product specific. Under the terms of the WTO Agreement on Agriculture, the United States agreed to import, at a lower tariff rate, approximately 132 862 metric tons of cheese in 1999. Tariffs for cheese in excess of the quota are prohibitive.

Entry for dairy products made with sheep, goat and buffalo milk do not require a license nor are they subject to a United States duty. The same is true for a few other products including Brie cheese.

Exports. The United States is not a significant exporter of dairy products. In 1998 and 1997, the United States export activity accounted for US \$884.5 million and US \$904.5 million, respectively.

Most export activity is conducted through the Dairy Export Incentive Program which allocates subsidized export volumes to specific countries thereby enabling exporters to bid for export assistance for dairy products destined to these countries.

United States Market

According to the USDA, there were 398 cheese manufacturing plants in the United States in 1998 producing 3.4 billion kilograms of cheese. In 1997, the aggregate wholesale value of cheese and cheese products in the United States exceeded US \$18.1 billion.

Of the 3.4 billion kilograms of cheese produced in 1998, cheddar accounted for 35% of this total or 1.2 billion kilograms and Italian cheeses, as a whole, contributed 40% or 1.4 billion kilograms. Mozzarella alone accounted for almost 1.1 billion kilograms of total cheese production, representing 79% of Italian cheeses and 32% of all cheeses produced in 1998.

The following table indicates the production volumes of Italian cheeses and Mozzarella in the United States from 1994 to 1998.

	United States Production Volumes of Italian Cheeses and Mozzarella ⁽¹⁾				
	1998	1997	1996	1995	1994
	(In thousands of kilograms)				
Italian cheeses.....	1,361,293	1,307,015	1,275,695	1,213,095	1,191,010
Mozzarella.....	1,072,380	1,018,346	1,020,690	963,788	937,999

(1) Source: USDA, Dairy Products Annual Report, April 1999.

3.3 Future Trends

The rationalization trend which began several years ago in both the American and Canadian dairy industries is, in the Company's opinion, set to continue. This evolving competitive environment will necessarily force regional processors to either adapt, sell or merge with other industry participants. Well-capitalized industry consolidators should take advantage of this rationalization trend to make strategic acquisitions.

In 1997, the United States and New Zealand challenged the legality of Canada's dairy supply management system under the terms of the 1994 GATT Agreement alleging that Canada's dairy exports benefit from subsidies. In March 1999, the WTO panel ruled in favour of the United States and New Zealand and determined that the structure of Canada's dairy export system provides for the grant of subsidies as a result of the intervention of the governments and their agencies. Canada intends to appeal this decision. Should the decision be confirmed, Canada would probably benefit from a period of three to 15 months in order to comply. At this time, it is difficult to foresee the consequences of this decision on the domestic market.

In 1999, a new round of tariff reduction negotiations is set to begin under the auspices of the WTO. It is anticipated that over quota tariffs for agricultural products will be subject to reductions.

As long as Canada's supply management system remains in place, no significant growth can be achieved by Canadian dairy processors other than through acquisitions. The recent consolidation that took place in the Canadian dairy industry has, however, greatly reduced the number of companies that can be acquired.

In the United States, plant quotas are non-existent. Accordingly, dairy processing companies are not limited to their existing milk reception volumes, but rather their expansion is a function of the market place's acceptance of their products.

ITEM 4 - DESCRIPTION OF THE BUSINESS

4.1 Products

In Canada, Saputo produces and markets nationally a wide variety of quality cheeses. It also produces a number of products derived from its cheese production including butter, lactose and whey protein. The Company's distribution network also distributes fine imported cheeses and a large assortment of third party manufactured non-dairy products that complement its cheese distribution to the food service industry, especially pizzerias. On a smaller scale, through its interest in Cr merie des trois rivi res S.E.C., the Company bottles fluid milk and produces frozen novelties.

In the United States, Saputo produces a broad line of mozzarella-type and specialty cheese products. Since the AW Acquisition in May 1998, Saputo also produces sweetened condensed milk as well as whey protein concentrates and ingredient blends which are derived from its cheese production.

The following table shows Saputo's segmentation of sales by product category for the last two fiscal years:

	Year ended March 31, 1999		Year ended March 31, 1998 ⁽¹⁾	
	Sales (\$,000)	% of total sales	Sales (\$,000)	% of total sales
Mozzarella	928,087	48.5	465,878	57.0
Other manufactured cheeses, butter, fluid milk and frozen novelties	788,593	41.1	249,594	30.6
By-products and sweetened condensed milk	105,098	5.5	22,229	2.7
Imported cheeses	25,805	1.3	21,135	2.6
Non-dairy products	68,054	3.6	58,419	7.1
Total	<u>1,915,637</u>	<u>100.0</u>	<u>817,255</u>	<u>100.0</u>

(1) Includes the results of Stella from December 6, 1997 to March 31, 1998.

Mozzarella

Saputo's major product is mozzarella which represents approximately 55.3% of the total volume of cheese manufactured by the Company and 48.5% of all sales. Used mainly as an ingredient in the preparation of various foods, especially pizza, mozzarella has always been at the centre of the Company's operations. Saputo has grown to become Canada's leading producer of mozzarella with a production share of approximately 37%. In the United States, Saputo produces around 9% of the approximately one billion kilograms of mozzarella production.

Other Manufactured Cheeses

Specialty Cheeses. In Canada, Saputo produces an Italian specialty cheese line that includes ricotta, provolone, friulano, tuma, cacino, trecce, caciocavallo, bocconcini and a variety of parmesan cheese blends. Saputo's products are sold mainly under the *Saputo* and *Stella* brand names, and under private labels. Further to the completion in March 1997 of the Montréal specialty plant located in St-Léonard, Québec, Saputo intends to further expand its share of this market segment with the introduction of new high margin specialty cheeses, some of which are presently imported from Europe and sold at premium prices.

In the United States, the Company produces parmesan, romano, string cheese, blue and gorgonzola, feta, ricotta, Swiss cheese as well as Italian table cheeses such as asiago, fontina, Italian sharp, provolone and Fontinella. Saputo's specialty cheese products are sold under a variety of brand names such as *Stella*, *Frigo*, *Cheese Heads*, *Tolibia*, *Olympus*, *Dragone*, *Gardenia*, *Lorraine*, *Falbo* and *Lugano*, and under private labels.

Cheddar and Other Firm Cheeses. In Canada, Saputo also manufactures a more traditional North American product line which includes cheddar, brick, colby, farmer, munster, monterey jack and other cheese varieties belonging to the firm cheese family.

Process Cheese. Saputo's Canadian operations also produce process cheese, a product that is widely consumed in Canada. Saputo sells this product both to institutional and food service clients which buy in bulk sizes and to retailers which buy packages consisting of individually wrapped slices.

Imitation Cheese. In the United States, the Company produces imitation mozzarella-style cheese which is used in various food service applications and as an ingredient by manufacturers of prepared foods. Saputo's imitation cheeses are sold under the *Uni-Chef* brand primarily to the industrial/ingredient segment.

Other Dairy Products

Butter. In Canada, Saputo produces butter from fat skimmed off the milk used in its cheese manufacturing process. The butter manufactured by Saputo is distributed to restaurants and retail stores under the Saputo brand name and is packaged pursuant to private label arrangements with certain key customers.

In the United States and, when advantageous, in Canada, the Company sells its excess fat to other manufacturers who use it in the production of butter or ice cream.

Fluid Milk and Frozen Novelties. The acquisition of Cr merie des Trois-Rivi res, Limit e in 1997 marked Saputo's entry into the fluid milk and frozen novelties markets. On March 31, 1999, this company was converted into a limited partnership bearing the name Cr merie des trois rivi res S.E.C. and having the Company as its sole limited partner. Cr merie intends to further broaden its understanding of the fluid milk and frozen novelties production processes and market segments and to increase the efficiency of its operations. This should improve the profitability of this business and allow it to slowly grow its share of the Qu bec fluid milk and frozen novelties markets.

Sweetened Condensed Milk. Since the AW Acquisition completed in May 1998, the Company produces sweetened condensed milk in the United States.

By-Products: Lactose, Whey Protein, Whey Powder and Dairy Blends

Liquid whey is a by-product of Saputo's cheese production which represents approximately 90% of total milk composition, leaving the remaining ten percent as the basis for cheese production.

Utilizing liquid whey from its operations and from third party facilities, Saputo's St-Hyacinthe facility extracts solids from liquid whey and processes these solids into lactose, whey protein and whey powder. Lactose, which is commonly found in infant formulas and dry soup mixes, is sold primarily on the international market. Saputo produces more than 10,000 tons of lactose per year and is the only producer of lactose in Canada.

Whey protein is used in the formulations of ice cream, caramel and yogurt and may also be used as animal feed. It is sold both domestically and internationally. In its St-Hyacinthe facility, Saputo also produces numerous blends of dairy product powders which clients use as substitutes for higher priced ingredients in their specific product formulations.

Whey powder results from the drying of liquid whey and is used in various product formulations, including bread. The resulting by-product of lactose and whey protein production, known as “mother liquor”, is also sold by Saputo as animal feed.

All of Saputo’s Canadian plants (with the exception of the Souris, Manitoba plant), as well as the Richmond, Hancock and Hinesburg United States plants, send liquid whey by truck to the St-Hyacinthe facility for processing. The liquid whey emanating from the Souris plant is dried on site. The process in place is different than the one in St-Hyacinthe and the resulting product, commonly referred to as roller dried whey, has less value and is sold as animal feed.

Prior to the AW Acquisition, the Company did not have any whey processing facilities in the United States and disposed of the whey generated by its American plants (other than Richmond, Hancock and Hinesburg) through plant-specific contracts with third parties. Of the six plants acquired through the AW Acquisition, two are whey processing facilities. The Company is presently transferring a portion of the liquid whey produced by its United States plants to the two newly acquired whey processing facilities.

Imported Cheeses

As a holder of a cheese import allocation in Canada, Saputo is active in this market segment. The Company does not have sufficient quotas to satisfy demand for imported cheeses. Accordingly, it enters into agreements with existing Canadian quota holders.

In the United States, Saputo holds a very small import quota and also imports some very limited quantities of cheese originating from its Canadian operations through arrangements made with authorized American licence holders.

Non-Dairy Products

In Canada, Saputo’s sales force distributes a wide variety of other products sourced from domestic and international suppliers. This line of products includes pasta, vegetable oils, margarine, spices, flour, various meats, tomato sauce, pizza boxes, olives, pineapples and shortening.

The nation-wide distribution of these complementary products is exclusively used to enhance the sale of Saputo’s cheeses by offering clients, especially pizzerias, the advantage of dealing with one supplier offering a full range of products. Most of these products are sold under the *Saputo* label.

4.2 Production

Individually Quick Frozen

Saputo is equipped to apply the Individually Quick Frozen (“IQF”) process to some of its cheese production, particularly mozzarella. This process requires that the mozzarella be diced into small cubes weighing approximately one gram before going through a tunnel that freezes each individual cube of cheese. The shelf life of the resulting product is at least one year if kept under consistent freezing conditions. This process enables the Company to dice its cheese at the moment of optimum aging thereby ensuring quality and proper performance, both of which are important attributes for the pizza trade.

Although the Company's IQF capability is currently limited to its Canadian operations, Saputo has nonetheless a non-IQF freezing process which it applies to a portion of its mozzarella stick production in the United States.

Quality Control

Fundamental to Saputo's growth and success has been its insistence on maintaining high standards of product quality. This has been achieved mainly through the training of all manufacturing employees and the control, on an ongoing basis, of every variable of the production process.

Milk Sourcing

Due to the regulated nature of the Canadian dairy industry, Saputo sources its milk in Canada from the Fédération des producteurs de lait du Québec, the Dairy Farmers of Ontario, the Manitoba Milk Producers, and various farmers located in British Columbia. In the United States, Saputo sources its milk primarily from cooperatives pursuant to contracts.

Facilities

The Company operates a total of twenty seven manufacturing facilities, nine of which are located in Canada and 18 of which are located in the United States. Except for the facility located on Rolling Meadows Drive in Fond du Lac, Wisconsin, all of the facilities are owned by the Company.

The following table sets forth, for each facility, its location, surface, weekly processing capacity and the products manufactured at such facility.

Canadian facilities location	Square metres	Weekly capacity ⁽¹⁾	Products
Saint-Léonard, Québec Main plant	5,450	5,700,000 litres	Mozzarella, cheddar, farmer, monterey jack, brick, provolone, parmesan blends, butter
Specialty plant	3,890	1,600,000 litres	Ricotta, bocconcini, cacino, friulano, string cheese, trecce, feta, provolone, mozzarella, pastorella, caciocavallo, tuma, cheddar curds
Cutting operation	2,597	N/A	Process cheese, IQF process, cheese shredding, cheese dicing, retail cuts, food service cuts
St-Hyacinthe, Québec	5,860	9,675,000 litres of liquid whey ⁽²⁾	Whey protein, lactose, dairy blends, whey powder
Mont-Laurier, Québec	1,995	2,100,000 litres	Mozzarella
St-Boniface de Shawinigan, Québec	1,163	1,275,000 litres	Cheddar
Trois-Rivières, Québec ⁽³⁾	3,070	1,100,000 litres	Fluid milk, frozen novelties
Cookstown, Ontario	3,723	2,100,000 litres	Mozzarella
Trenton, Ontario	2,415	540,000 litres	Mozzarella
Souris, Manitoba	1,575	1,200,000 litres	Aged cheddar, monterey jack, mozzarella, colby, brick, munster, roller dried whey
Vancouver, BC	1,445	500,000 litres	Mozzarella

United States facilities location	Square metres	Weekly capacity ⁽¹⁾	Products
Lena, Wisconsin	16,720	5,000,000 litres	Mozzarella, string cheese, shredded, ricotta
Almena, Wisconsin	11,800	5,300,000 litres	Mozzarella, provolone, parmesan, romano, ricotta, asiago, Fontinella
Fond du Lac, Wisconsin (East Scott Street)	16,165	2,700,000 litres	Mozzarella, stick, blue
Reedsburg, Wisconsin	2,415	2,150,000 litres	Mozzarella, provolone
Denmark, Wisconsin	1,895	1,100,000 litres	<i>Lorraine</i> , mozzarella curd
Thorp, Wisconsin	12,960	1,575,000 litres	Blue, gorgonzola
Fond du Lac, Wisconsin (Tompkins Street)	12,000	7,400,000 litres ⁽⁴⁾	Whole milk powder, dried ingredients, sweetened condensed milk, canned egg nog, whey protein concentrate
Fond du Lac, Wisconsin (Rolling Meadows Drive)	2,765	630,000 lbs ⁽⁵⁾	Canned milk powders
New London, Wisconsin	10,770	1,775,000 litres	Swiss cheese
Monroe, Wisconsin (11th Street)	1,800	8,017,000 litres ⁽⁴⁾	Whey protein concentrate, buttermilk product, concentrated permeate
Monroe, Wisconsin (18th Street)	3,200	1,700,000 litres	Mozzarella, provolone
Tulare, California	8,080	5,400,000 litres	Mozzarella, provolone, shredded
South Gate, California	5,915	4,250,000 litres	Mozzarella, string cheese, ricotta
Richmond, Vermont	1,420	1,600,000 litres	Mozzarella
Hinesburg, Vermont	9,869	1,300,000 litres	Feta
Hancock, Maryland	4,640	2,400,000 litres	Mozzarella, provolone
Peru, Indiana	1,610	--	Imitation cheese
Big Stone, South Dakota (aging/finishing)	8,695	--	Parmesan, romano, asiago, packaging, Fontinella

- (1) Weekly plant capacity refers to the hourly pasteurization rate of the plant for a 20-hour operation (4 hours for washing), 6 days a week. Total capacity is then reduced by 15% to compensate for unforeseen events.
- (2) Weekly capacity refers to the liquid whey processing capacity based on a 24-hour operation, 7 days a week with 8 hours a week for maintenance and washing.
- (3) The plant is owned by Cr merie des trois rivieres S.E.C., a limited partnership having the Company as its sole limited partner.
- (4) Weekly capacity was determined based on a 20-hour operation (4 hours for washing), 7 days a week.
- (5) Weekly capacity was determined based on a 24 hour operation, 7 days a week and current product mix.

During fiscal 1999, the Company closed two of its US manufacturing facilities respectively located in Branch, Wisconsin and Kent, Illinois. These measures lie within the ongoing rationalization process commenced by the Company after the Stella Acquisition and the AW Acquisition. The production of these two plants, which totalled approximately 16.5 million kg of cheese per year, was transferred to other manufacturing facilities operated by the Company.

Net Capital Expenditures

Management believes that the Company has adequate manufacturing capacity to meet current and near term demand for its products. It is Saputo's intention to continue to expand and modernize its plants, with investments being focused on equipment and processes designed to increase output per litre of milk. More specifically, during the last five fiscal years, Saputo incurred \$112.5 million in net capital expenditures. In fiscal 1999, the Company spent \$11.8 million on its Canadian operations and \$50.8 million on its United States operations. In fiscal 2000, Saputo intends to incur net capital expenditures of approximately \$11.7 million for its Canadian operations and \$26.3 million for its United States operations to enhance the efficiency of its plants.

Environment

The Company's operations are subject to various federal, provincial, state and local government laws and regulations relating to the protection of the environment. Compliance with these laws and regulations requires the Company to incur expenses and to monitor its operations on an ongoing basis. The Company believes that its operations are in compliance in all material respects with currently applicable environmental laws and regulations except for the issues discussed below.

The Vancouver facility has been exceeding the fat, oil and grease and total suspended solids limits of its wastewater discharge permit. On February 23, 1999, the City of Vancouver sent a notice of violation with respect to such exceedances, indicating that further violation may result in additional action by the City. The Company acquired the Vancouver facility on September 16, 1998. Since then, the Company has taken various measures to reduce its discharges and is currently discussing various alternatives with the authorities.

The Company is required to provide the US Federal, State and Local authorities with certain environmental information relating to recently acquired facilities in the United States. The Company is filing the required reports with the authorities and expects to complete the process by April 1, 2000.

On July 9, 1997 and June 16, 1998, the Richmond plant received a notice of infraction from the Department of Environmental Conservation of the State of Vermont concerning the violation of flow, biochemical oxygen demand ("BOD₅") and pH standards provided in its wastewater pre-treatment permit. The Company has implemented various measures to reduce wastewater and bring BOD₅ discharges within permitted limits. The Company is also looking into solutions to resolve the pH exceedances.

Some of the groundwater quality monitoring wells at the Almena facility have shown levels of nitrate and/or chloride exceeding the permitted concentration. The facility found ways to substantially reduce its chloride discharge into the lagoon. Some groundwater quality monitoring wells at the Lena facility have shown levels of chloride exceeding the permitted concentration. In 1997, 1998 and 1999, the Wisconsin Department of Natural Resources notified the Lena facility that it was violating certain provisions of its permit relating to groundwater and wastewater quality. The facility responded to the notices by implementing various actions to substantially reduce its chloride discharge into the lagoon and minimize BOD₅ and suspended solids loading. The Company is closely monitoring the situation at both sites in order to determine the source of the problem and take further actions if necessary to reduce concentrations to an acceptable level.

The Almena facility has occasionally failed the whole effluent toxicity test on its wastewater discharge. In February and May 1999, the facility received a notice of non-compliance with the BOD₅ discharge limitations contained in its discharge permit. The facility has significantly reduced its discharge flow at one of its outfall and the Company is currently discussing various alternatives with the State in order to ensure compliance.

The Tulare facility has been exceeding electrical conductivity, BOD₅ and sodium and chloride limits of its wastewater discharge permit issued by the City of Tulare and, as of January 1, 1998, is considered to be in violation with municipal wastewater discharge by-law. The Company is currently taking action to reduce loadings and is also evaluating other alternatives to ensure compliance with its discharge permit and with municipal by-law.

One of the six groundwater quality monitoring wells located at the Kent facility shows levels of chloride in excess of the level permitted in the State of Illinois. The Company has ceased production at this facility and is closely monitoring the situation to evaluate if further action is required.

The Peru facility has been exceeding the fat, oil and grease limit contained in its discharge permit to the City. The Company has taken measures to reduce its discharges and is currently evaluating alternatives to ensure compliance.

On November 30, 1998, the Reedsburg facility received a notice of violation relating to land application of whey by-products which allegedly contaminated a residential groundwater well. It appears that the whey hauler did not comply with proper land application procedures. The Company has ensured that the hauler has taken corrective measures and the Company expects to resolve this matter shortly.

During fiscal 1999, the Company implemented a replacement and removal program of underground storage tanks at a number of its facilities in Canada and in the United States. An amount of approximately \$215,000 has been spent in this regard and the Company expects to spend an additional \$800,000, including the cost of remediation of soil contamination, to complete this project.

During fiscal 1999, capital expenditures of approximately \$1.6 million were spent at the Company's facilities to comply with existing environmental laws and regulations. Management estimates that capital expenditures required for environmental compliance with laws and regulations currently in effect will aggregate approximately \$5.9 million during fiscal 2000, primarily to improve plant efficiency to reduce wastewater loadings, to update or remove underground storage tanks, and to improve wastewater systems at a number of its facilities in Canada and the United States.

Management believes that compliance with currently applicable environmental protection requirements will not have a material effect on the Company's earnings or competitive position during fiscal 2000. Any new environmental laws or regulations or more vigorous regulatory enforcement policies could have a material adverse effect on the financial position of the Company and could require significant additional expenditures to achieve or maintain compliance.

4.3 Markets

Saputo is one of Canada's largest cheese manufacturers and has established itself as Canada's leading producer of mozzarella with a production of 41.6 million kilograms in a total market of approximately 112 million kilograms of mozzarella. In the United States market, which accounts for around one billion kilograms of mozzarella, Saputo produces on an annual basis approximately 99.5 million kilograms of mozzarella.

Geographic Segmentation

The following table presents the geographic segmentation of the Company's sales during the last two fiscal years:

	Year ended March 31, 1999		Year ended March 31, 1998 ⁽¹⁾	
	Sales (\$,000)	% of total sales	Sales (\$,000)	% of total sales
United States	1,394,491	72.8	362,348	44.3
Canada	455,432	23.8	401,436	49.1
International	65,714	3.4	53,471	6.6
Total	<u>1,915,637</u>	<u>100.0</u>	<u>817,255</u>	<u>100.0</u>

(1) Includes the results of Stella from December 6, 1997 to March 31, 1998.

Canada. Saputo is Canada's leading producer of Mozzarella with a production share of approximately 37%. The Company is also a full-line product distributor selling to the food service industry, especially pizzerias, not only the products it manufactures but also a variety of fine imported cheeses as well as numerous other food and non-food products sourced from third-party manufacturers that are complementary to its cheese distribution business.

United States. The Company competes in most segments of the United States natural cheese industry, selling branded and private label products to retail, industrial/ingredient and food service customers. With the AW Acquisition, the Company became an important producer of sweetened condensed milk in the United States.

International. As a direct result of the liberalization of trade barriers in agricultural products following the GATT agreement of 1994, the Company has intensified its presence in foreign markets. Today, Saputo's products can be found in Europe, South America, Africa and Asia. The Company's product quality further enhances its international sales potential. It is the Company's intention to pursue its efforts in world markets.

Clientele

The Company services four distinct market segments: food service, retail, industrial/ingredient and international.

The following table illustrates the segmentation of sales by market segment for each of the last two fiscal years:

	Year ended March 31, 1999		Year ended March 31, 1998 ⁽¹⁾	
	Sales (\$,000)	% of total sales	Sales (\$,000)	% of total sales
Food Service.....	797,421	41.7	391,317	47.9
Retail	494,355	25.8	217,688	26.6
Industrial/Ingredient	558,147	29.1	154,779	18.9
International.....	65,714	3.4	53,471	6.6
Total	<u>1,915,637</u>	<u>100.0</u>	<u>817,255</u>	<u>100.0</u>

(1) Includes the results of Stella from December 6, 1997 to March 31, 1998.

Food service. In Canada, food service customers principally include pizzerias (corporate, franchisees and individually-owned) as well as restaurants and hotels. Saputo provides its food service customers with branded and private label cheeses as well as with non-dairy products manufactured by third parties. The direct customer service provided by the Company's trained sales force is the most important component of its food service segment marketing strategy. By selling directly to food service customers, the Company has forged valuable personal relationships based on the quality and effective distribution of its products. In the United States, Saputo provides branded and private label cheeses to its food service customers which include full range national distributors, corporate restaurant chains as well as independent distributors. Although Saputo's principal sales in the food service segment are comprised of mozzarella and provolone, Saputo is expanding its sales of specialty cheeses in this segment.

No food service customer represented more than five percent of total sales during each of fiscal 1999 and 1998.

Retail. Saputo sells both branded and private label cheese to its retail customers which include supermarket chains, stores, warehouse clubs and specialty cheese boutiques. In fiscal 1999, approximately 80% of Saputo's retail sales were in branded products with the remainder being private label. Saputo's retail grocery products are sold in the dairy case and deli cheese table sections of stores. In Canada, Saputo is also providing its retail customers with imported cheeses. The acquisition of Fromages Caron Inc. in 1996 has enhanced the Company's presence in this market segment.

No retail customer represented more than five percent of total sales during each of fiscal 1999 and 1998.

Industrial/Ingredient. Industrial/ingredient clients include processors who use the Company's products as an ingredient in the preparation of other food items. The Company supplies cheese to a majority of Canadian frozen pizza manufacturers as well as to processors of frozen entrées and supplies many important food manufacturers in the United States. Saputo is expanding its position in the industrial sector by building strategic alliances with key customers. To support this effort, Saputo's technical experts work with customers to develop new products customized to their needs.

No industrial/ingredient customer represented more than five percent of total sales during each of fiscal 1999 and 1998.

International. The Company is present in the international market through the sale of cheese, lactose and whey protein to a vast array of clients operating in the food service, retail and industrial/ingredient segments of their respective markets.

4.4 Distribution

In Canada, Saputo has developed its own nation-wide distribution network. Since its inception, the Company has invested substantial time and capital in its distribution infrastructure and today it services directly more than 7,500 clients per week across Canada. Saputo believes that its distribution network is the cornerstone of its market penetration as its weekly personalized service constitutes a major obstacle to serious competitor activity. The Company intends to continue to expand its direct distribution capabilities in Canada so as to further increase efficiency and sales.

Canadian sales and distribution activities are conducted by a dedicated staff operating in 13 distribution centres across Canada, strategically located in the following urban centres:

St. John's (Nfld.)	Ottawa (Ont.)
Halifax (NS)	Toronto (Ont.)
Moncton (NB)	Regina (Sask.)
Québec City (Que.)	Saskatoon (Sask.)
Montréal-Saint-Léonard (Que.)	Calgary (Alta.)
Montréal-Saint-Laurent (Que.)	Edmonton (Alta.)
Vancouver (BC)	

The Company also has a sales office in Sydney, Nova Scotia, and a local distributor in Winnipeg, Mondo Foods Company Limited, with whom it has had a long-term business relationship. The Company works with a few regional independent distributors servicing more remote areas of the country.

In the United States, sales are made through direct shipments to certain large food service, retail and industrial/ingredient customers as well as to national and regional third party distributors.

4.5 Competition

Food Service

Canada. In the food service segment in Canada, each of the Company's sales branches competes with a variety of regional cheese manufacturers and distributors. However, no other major Canadian cheese manufacturer has the Company's direct national market penetration and thus, in its overall business, the Company has developed a market position which is, in management's opinion, somewhat unique in the dairy industry.

The Company is Canada's leading producer of mozzarella with a production share of approximately 37%. Other significant mozzarella manufacturers in Canada with meaningful regional sales include Agropur coopérative agro-alimentaire ("Agropur"), Parmalat Canada Inc. ("Parmalat"), Kraft General Foods Canada Inc. (through the production volumes of Agropur) ("Kraft"), Groupe Lactel, Limited Partnership ("Lactel"), and Agrifoods International Cooperative Ltd. ("Dairyworld").

United States. In the food service segment in the United States, the Company competes by region with a variety of regional cheese producers. The Company's strength in this segment is specialty cheeses for which it enjoys important market shares in blue cheese, parmesan/romano wheels and Italian table cheeses. Saputo's main competitors in this segment include Raskas Foods, Inc., Belgioioso Cheese Inc. ("Belgioioso"), The Antigo Cheese Company and Sartori Foods.

The Company produces about 9% of the approximately one billion kilograms of mozzarella cheese production in the United States. The Company's mozzarella is almost exclusively sold to the food service and industrial/ingredient market segments. Saputo's principal mozzarella competitors in the food service segment are LePrino Foods Company ("Leprino"), Beatrice Cheese, Inc., Lactalis USA, Inc. ("Sorrento"), Dairy Farmers of America ("DFA") and Land O'Lakes, Inc.

Retail

Canada. In the Canadian retail cheese market segment, Saputo competes with a number of established cheese manufacturers who own well-recognized brand name products. Nonetheless, in Québec, Saputo believes it has built a reputation for its own brands which are also gaining market recognition in other provinces. Saputo is also a producer of cheese and butter for private labels.

With regards to Italian specialty cheeses produced by the Company and distributed to the retail market, Saputo has a strong position in Canada and its main competitors are National Cheese Co. Ltd. and Salerno Dairy Products Ltd. National Cheese Co. Ltd. also competes with the Company in the imported cheese category as does Parmalat and numerous smaller importers and distributors, but the most significant participant in this market segment is Agropur.

In Canada, the Company is not an important participant in the cheddar and firm cheese category. Dominant positions in this segment belong to Kraft (through Agropur's production volume), Dairyworld and Parmalat. Kraft (through its own production process), Dairyworld and Parmalat dominate the process cheese market at the retail level.

United States. In the United States retail cheese market segment, Saputo competes with a number of established national cheese manufacturers who own well-recognized brand name products. However, the Company believes that its *Stella* brand specialty cheeses combined with an organized network of brokers and distributors provide a strong presence in the deli section. Also, Stella's *Cheese Heads* brand is a leading national brand of string cheese. Saputo's main competitors in the retail segment are Belgioioso, Sorrento and Kraft Foods, Inc. ("Kraft USA").

Industrial/Ingredient

Canada. In Canada, the Company is a dominant supplier of mozzarella to this market segment. Competitors include Parmalat, Kraft, Lactel and Dairyworld.

United States. In the United States, the Company is a leading supplier of blue cheese to the dressing industry and is an important supplier of mozzarella, ricotta and Swiss cheese to industrial customers. The Company's main competitors include Sorrento, Kraft USA, DFA, Leprino and Brewster.

Other Products

With respect to butter, fluid milk and frozen novelties in Canada, Saputo is not a significant participant in these markets where it competes with large corporations and cooperatives which dominate the Canadian market.

With respect to the other by-products, whey protein is the object of competition in Canada from Agropur and Parmalat. The other by-products are either made according to customers' specifications, as is the case with dairy blends, or exported as the Company does with its lactose.

In terms of the distribution of other non-dairy products in Canada, the Company competes with a large number of regional distributors, only one of which has national distribution capability. Accordingly, each sales branch faces a different competitive environment depending on the presence, activity level, and product range of local distributors.

General

Although competition varies from one market segment to another, the Company believes that its manufacturing techniques, quality control and dedicated customer service differentiate Saputo from its competitors.

4.6 Employee Relations

As at June 1, 1999, the Company had 872 full-time employees and 160 part-time employees in Canada and 1,890 full-time and 37 part-time employees in the United States.

All of the Company's Canadian plants and distribution centres are non-unionized, except for the Trois-Rivières facility for which the collective agreement with Fédération des travailleurs du Québec expires on December 18, 1999 and covered 48 full-time and 24 part-time employees as at June 1, 1999. In the United States, a portion of the production employees is unionized as shown in the table below:

Facility	Number of employees covered as at June 1, 1999	Name of union	Expiry date of agreement
Fond du Lac (East Scott Street)	165	International Brotherhood of Teamsters Local Union No. 200	October 31, 2001
Thorp	96	International Brotherhood of Teamsters Local Union No. 662	May 30, 2000
Reedsburg	48	International Brotherhood of Teamsters Local Union No. 695	June 30, 2001
Lena	266	Lena Independent Union	December 31, 1999
Peru	41	United Paper Workers	May 23, 2001
Monroe Cheese Plant (18th Street)	39	International Brotherhood of Teamsters Local Union No. 579	May 30, 2001
Fond du Lac (Tompkins Street) and New London	134	International Brotherhood of Teamsters Local Union No. 200 and 563	January 15, 2000
Fond du Lac (Rolling Meadows Drive)	15	International Brotherhood of Teamsters Local Union No. 200	April 30, 2000

The Company presently does not foresee any difficulty or labour unrest in connection with the renewal of the Lena, Fond du Lac (Tompkins Street) and New London agreements expiring in fiscal 2000. The Company has good employee relations both in Canada and in the United States. The loyalty and dedication of its employees are key elements in the Company's performance. In management's opinion, this is the direct result of the family culture that has permeated the entire Company.

ITEM 5 - SELECTED CONSOLIDATED FINANCIAL INFORMATION

5.1 Selected Consolidated Financial Information for the Last Five Fiscal Years.

	Years ended March 31				
	1999	1998 ⁽¹⁾	1997 ⁽²⁾	1996 ⁽²⁾	1995 ⁽²⁾
	(audited) (in thousands of dollars, except per share amounts)				
Statement of earnings data					
Revenue	1,915,637	817,255	450,512	409,025	402,021
Cost of sales, selling and administrative expenses	<u>1,724,550</u>	<u>721,828</u>	<u>378,845</u>	<u>344,141</u>	<u>338,656</u>
EBITDA ⁽³⁾	191,087	95,427	71,667	64,884	63,365
<i>EBITDA margin</i>	10.0%	11.7%	15.9%	15.9%	15.8%
Depreciation and amortization.....	34,928	15,703	7,796	7,074	7,803
Interest on long-term debt.....	28,589	8,435	--	--	--
Interest.....	5,307	491	231	708	1,211
Income taxes.....	<u>43,170</u>	<u>25,053</u>	<u>22,642</u>	<u>19,829</u>	<u>19,217</u>
Net earnings.....	<u>79,093</u>	<u>45,745</u>	<u>40,998</u>	<u>37,273</u>	<u>35,134</u>
<i>Net margin</i>	4.1%	5.6%	9.1%	9.1%	8.7%
Earnings per share ⁽⁴⁾	1.63	1.23	1.37		
Fully diluted earnings per share ⁽⁵⁾	1.59	0.93			
Balance sheet data					
Total assets	1,072,049	896,662	175,767		
Long-term debt (excluding current portion).....	328,639	330,271	--		
Dividends per share ⁽⁶⁾	0.24	0.05 ⁽⁷⁾			
Shareholders' equity.....	449,933	369,893	114,190		
Statement of changes in financial position data					
Cash generated by operations ⁽⁸⁾	128,334	63,972	49,114		
Net additions to fixed assets	62,624	22,107	4,242		

(1) Includes the results of Stella from December 6, 1997 to March 31, 1998.

(2) Certain amounts for periods prior to the Company's Initial Public Offering are omitted as such information would be based upon assumptions that would make it irrelevant.

(3) Earnings before interest, income taxes, depreciation and amortization.

(4) Earnings per share have been calculated using the weighted average number of Common Shares outstanding during the year.

(5) Fully diluted earnings per share have been calculated using the number of outstanding Common Shares as well as the number of shares under options granted pursuant to the Company's Stock Option Plan.

(6) The amounts of dividends per share for the three-year period ended March 31, 1997 have been omitted as they are not indicative of future dividends as a result of the amount of dividends paid and the number of shares then outstanding.

(7) The amount of \$0.05 per share represents the quarterly dividend declared and paid on March 6, 1998 for the period from October 15, 1997 to December 31, 1997 in accordance with the Company's dividend policy. See "Dividend Policy".

(8) Before changes in non-cash operating working capital items.

5.2 Selected Consolidated Quarterly Financial Information

	Three-month periods ended							
	Fiscal 1999				Fiscal 1998 ⁽¹⁾			
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
	(unaudited) (in thousands of dollars, except per share amounts)							
Revenue.....	505,101	522,614	481,812	406,110	380,455	196,042	123,181	117,577
Cost of sales, selling and administrative expenses.....	<u>454,604</u>	<u>472,091</u>	<u>434,998</u>	<u>362,857</u>	<u>347,669</u>	<u>171,521</u>	<u>103,751</u>	<u>98,887</u>
EBITDA ⁽²⁾	50,497	50,523	46,814	43,253	32,786	24,521	19,430	18,690
<i>EBITDA margin</i>	10.0%	9.7%	9.7%	10.7%	8.6%	12.5%	15.8%	15.9%
Depreciation and amortization.....	6,105	10,664	9,459	8,700	7,369	4,287	2,051	1,996
Interest on long-term debt	5,690	7,062	7,601	8,236	6,539	1,896	--	--
Interest.....	3,290	1,336	279	402	271	198	68	(46)
Income taxes.....	<u>10,555</u>	<u>11,565</u>	<u>11,045</u>	<u>10,005</u>	<u>5,946</u>	<u>6,695</u>	<u>6,353</u>	<u>6,059</u>
Net earnings ⁽³⁾	<u>24,857</u>	<u>19,896</u>	<u>18,430</u>	<u>15,910</u>	<u>12,661</u>	<u>11,445</u>	<u>10,958</u>	<u>10,681</u>
<i>Net margin</i>	4.9%	3.8%	3.8%	3.9%	3.3%	5.8%	8.9%	9.1%
Earnings per share ⁽⁴⁾	0.51	0.41	0.38	0.33	--	--	--	--

(1) Includes the results of Stella from December 6, 1997 to March 31, 1998.

(2) Earnings before interest, income taxes, depreciation and amortization.

(3) Net earnings reported by the Company for each of the first three quarters of fiscal 1999 were respectively \$15.9 million, \$18.4 million and \$19.9 million. In view of the fact that the allocation of the purchase price of Stella between the different assets and liabilities was completed during the fourth quarter of fiscal 1999 and as a result of certain financial transactions and corporate reorganizations, the provisions for depreciation and income tax expense were revised at the end of the year. Accordingly, had these adjustments been included in the quarterly results, the net earnings would have been \$16.7 million for the first quarter, \$19.6 million for the second quarter, \$21.6 million for the third quarter and \$21.2 million for the fourth quarter of fiscal 1999.

(4) Earnings per share for each quarter of fiscal 1999 have been calculated using the weighted average number of Common Shares outstanding during the quarter. Earnings per share for fiscal 1998 and earnings per share on a fully diluted basis have been omitted from the table as the amounts presented on a quarterly basis are not considered representative of actual results. See "Selected Consolidated Financial Information for the Last Five Fiscal Years" for information on earnings per share presented on a yearly basis.

ITEM 6 - DIVIDEND POLICY

Saputo has a policy of declaring quarterly cash dividends on the Common Shares in an amount of \$0.06 per share representing a yearly dividend of \$0.24 per share. The balance of its earnings will be reinvested to finance the growth of the Company's business. The Company's dividend policy will be reviewed from time to time by the Board of Directors and will depend on Saputo's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, in its sole discretion, deems relevant.

ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS

A discussion and analysis by management of the financial condition and results of operations of the Company for the fiscal year ended March 31, 1999 is presented under the section "Management's Discussion and Analysis" on pages 16 to 20 of the 1999 Annual Report of Saputo, which section is incorporated herein by reference. To complete management's discussion and analysis, reference is made to the Consolidated Financial Statements of Saputo for the fiscal year ended March 31, 1999, and the Notes thereto appearing on pages 21 to 31 of the 1999 Annual Report of Saputo, which Consolidated Financial Statements and Notes are also incorporated herein by reference.

ITEM 8 - MARKET FOR SECURITIES

The Common Shares of Saputo are listed on The Montréal Exchange and The Toronto Stock Exchange under the stock market symbol "SAP".

ITEM 9 - DIRECTORS AND OFFICERS

9.1 Directors

The following table sets forth, for each director, his name and municipality of residence, the year in which he first became a director, the principal occupation of each director and the number of Common Shares beneficially owned, directly or indirectly, or over which control or direction was exercised as at June 1, 1999. Directors are elected until the next annual meeting of shareholders or, in the case of a vacancy or resignation, until a successor is elected or appointed.

Name and municipality of residence	Director since	Principal occupation	Common Shares beneficially owned or over which control or direction was exercised
EMANUELE (LINO) SAPUTO Montréal, Québec	1992	Chairman of the Board and Chief Executive Officer of the Company	33,800,037 ⁽¹⁾
CAMILLO LISIO ⁽²⁾ Westmount, Québec	1997	President and Chief Operating Officer of the Company	15,195
ANDRÉ BÉRARD ⁽²⁾ Verdun, Québec	1997	Chairman of the Board and Chief Executive Officer of a Canadian Chartered Bank	1,500
PIERRE BOURGIE ⁽²⁾ Outremont, Québec	1997	President and Chief Executive Officer of Société Financière Bourgie Inc. (a holding company)	230,000
CATERINA MONTICCIOLO, CA ⁽³⁾ Laval, Québec	1997	Controller of Placements Vigica Inc. (a holding company)	27,500
PATRICIA SAPUTO, CA ⁽³⁾ Laval, Québec	1999 ⁽⁴⁾	President of Pasa Holdings Inc. (a holding company)	9,500 ⁽⁵⁾
LOUIS A. TANGUAY ⁽³⁾ Anjou, Québec	1997	President and Chief Operating Officer of Bell Canada International	2,000

(1) The shares are held by Jolina Capital Inc. and Gestion Jolina Inc., both of which are holding companies controlled by Mr. Emanuele (Lino) Saputo, and by other holding companies owned and controlled by his brothers and sisters and their families, which have granted to Gestion Jolina Inc. a power of attorney to vote all of the Common Shares held by them at the time of the Company's Initial Public Offering.

(2) Members of the Corporate Governance and Human Resources Committee.

(3) Members of the Audit Committee.

(4) Ms. Patricia Saputo was appointed to the Board of Directors of the Company on June 9, 1999, following the resignation of Mr. Carlo Bizzotto.

(5) As at June 9, 1999.

During the last five years, all of the above directors have been engaged in their present principal occupations or in other executive capacities with the companies indicated opposite their name or with related or affiliated companies, except for Mr. Pierre Bourgie who, prior to January 1997, was President and Chief Executive Officer of Urgel Bourgie Inc. (funeral services); Ms. Caterina Monticciolo who, from January 1995 to October 1996, was a financial analyst with the Company and prior thereto was an accountant with Deloitte & Touche (an accounting firm); and Ms. Patricia Saputo who, prior to July 1998, was a Tax Manager with Deloitte & Touche.

Information as to shares beneficially owned by each director, or over which each exercised control or direction, as at June 1, 1999, has been furnished by the directors individually as such information is not within the knowledge of the Company.

9.2 Executive Officers

The following table sets forth the name, municipality of residence and position with the Company of each person who is an executive officer of the Company as of the date hereof:

Name and municipality of residence	Position
Emanuele (Lino) Saputo Montréal, Québec	Chairman of the Board and Chief Executive Officer
Camillo Lisio Westmount, Québec	President and Chief Operating Officer
Dino Dello Sbarba Rosemère, Québec	Executive Vice-President, Sales, Marketing and Logistics
Lino A. Saputo, Jr. Westmount, Québec	Executive Vice-President, Operations
Pierre Leroux Boucherville, Québec	Executive Vice-President, Human Resources and Quality Assurance
Louis-Philippe Carrière, CA Lorraine, Québec	Executive Vice-President, Finance and Administration and Secretary

During the last five years, all of the above executive officers have held the principal occupation indicated above or other executive capacities with the Company.

As at June 1, 1999, the directors and executive officers of Saputo, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 34,101,362 Common Shares, representing approximately 70.1% of the outstanding Common Shares of the Company. Additional information concerning the share holdings of directors is contained in the section entitled "Election of Directors" appearing on page 4 of the Company's Information Circular for Solicitation of Proxies dated June 9, 1999, which information is incorporated herein by reference.

ITEM 10 - ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Saputo's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in Saputo's Information Circular for Solicitation of Proxies dated June 9, 1999. Additional financial information is included in the Consolidated Financial Statements of Saputo and Notes thereto for the fiscal year ended March 31, 1999. Copies of these documents may be obtained upon request from the Secretary of Saputo, at its head office, 6869 Metropolitan Blvd. East, Saint-Léonard, Québec, H1P 1X8, Telephone: (514) 328-6662.

In addition, when the securities of Saputo are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed, the following documents may be obtained free of charge from the Secretary of the Company:

- (i) one copy of the Annual Information Form, together with one copy of any documents or portion thereof incorporated by reference therein;
- (ii) one copy of the comparative financial statements of Saputo for its most recently completed fiscal year together with the report of the auditors thereon and one copy of any interim financial statements of Saputo subsequent to the financial statements for its most recently completed fiscal year;
- (iii) one copy of Saputo's Information Circular for Solicitation of Proxies for its most recent annual meeting of shareholders which involved the election of directors; and
- (iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus.

At any other time, one copy of the documents referred to in subparagraphs (i) (ii) and (iii) above will be provided free of charge upon request to the Secretary.