Management's Discussion and Analysis of Operating Results and Financial Position

During the 2001 fiscal year, net earnings totalled $110.2 million, up 10.1% over the figure of $100.1 million reported the previous year. Results would, however, have risen considerably higher had it not been for the uncontrollable negative impact of declining cheese prices per pound in the United States which tumbled to a twenty-year low, difficult export market conditions which hindered development at the international level, and the sharp rise in energy costs.

This past fiscal year has, without question, established Saputo Inc. as a leader in the Canadian dairy processing industry, particularly following the acquisition of Dairyworld on February 5, 2001, and for which results of the fiscal year include eight weeks of operations.

OPERATING RESULTS

Revenues totalled $2.162 billion for the fiscal year ended March 31, 2001, an increase of 16.2% over the figure of $1.861 billion reported the previous year.

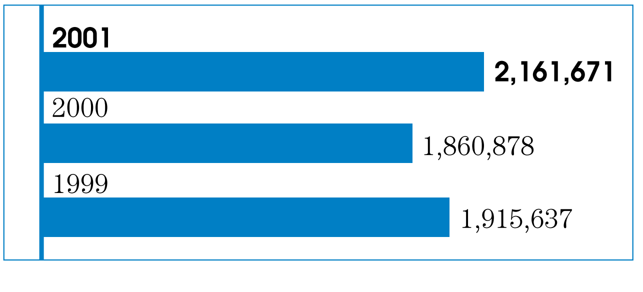
This increase in revenues was essentially the result of the contribution of Dairyworld. Other notable sources included the full-year contribution by Cayer-JCB Group and the Grocery Products sector (Culinar). During the previous fiscal year, contributions to revenues by each of these acquired companies amounted to four and twenty-eight weeks respectively.

These additional contributions to revenues, which are the result of acquisitions by Saputo, offset the negative impact of the average price per pound of cheese in the United States, which declined by almost 13% from levels last year.

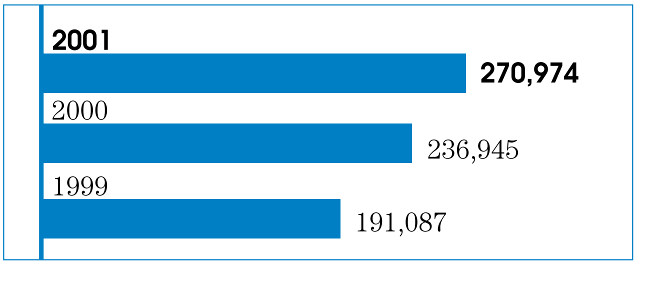
With the advent of Dairyworld, approximately 66% of Saputo Inc. revenues will now be generated in Canada, the remainder being generated in the United States.

The Company experienced a 14.4% increase in **earnings before interest, income taxes, depreciation and amortization (EBITDA)** for a total of $271,0 million for the 2001 fiscal year, compared with $236.9 million for the preceding year. This rise in EBITDA was mainly due to the twelve-month contribution of Culinar to the 2001 fiscal year.

Revenues *(in thousands of dollars)*



EBITDA *(in thousands of dollars)*



EBITDA profit margins declined from 12.7 % in 2000 to 12.5% in 2001, a slight decline largely attributable to the addition of Dairyworld, which currently generates profit margins in the order of 4.6%.

Depreciation of fixed assets amounted to $51.8 million as at March 31, 2001, compared with $37.8 million a year earlier; this rise is owed mainly to acquired companies.

Interest expense climbed to $39.5 million for the year ended March 31, 2001, compared to $37.6 million for the previous fiscal year. Increased debt relating to the acquisition of Dairyworld and the financing of Culinar over fifty-two weeks as opposed to twenty-eight in 2000 resulted in the rise in interest charges, which were nonetheless reduced following substantial repayment of debt during the fiscal year. Repayment was made possible as a result of Saputo's excellent performance in cash flow generated from operations.

Income tax expense rose by $4.2 million during the year, an increase nonetheless lessened by a lower applicable consolidated tax rate than during the preceding year.

Amortization of goodwill totalled $13.8 million, an increase of $3.7 million over the figure of $10.1 million reported last year. This increase was attributable to goodwill associated with corporate acquisitions.

Net earnings totalled $110.2 million ($2.15 per share) for the fiscal year ended March 31, 2001, an increase of 10.1% over the $100.1 million ($2.00 per share) reported in 2000. Rising energy prices cost the Company an additional $3.8 million in 2001 over the figure posted for 2000.

CASH AND FINANCIAL RESOURCES

Once again, cash generated before changes in non-cash working capital items was important, totalling $190.1 million ($3.71 per share) and representing an increase of 8.0 % over the level of $176.0 million ($3.52 per share) posted for the previous year.

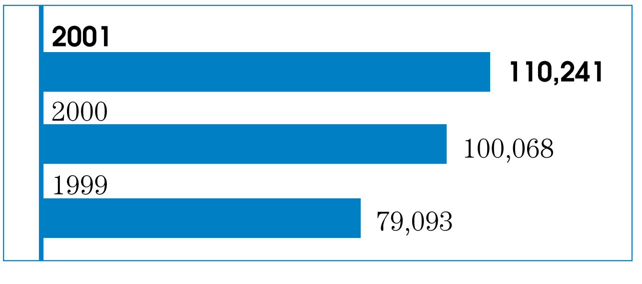
On February 5, 2001, the Company completed the acquisition of Dairyworld for a total consideration of $407.3 million, financed in full by a bank loan with a term of four years.

Net capital expenditures totalled $42.9 million, $30.9 million of which related to our American activities, $9.8 million to our Canadian Dairy Products sector activities, and $2.2 million to our Grocery Products sector activities. Although a portion of these expenses was earmarked for ongoing asset maintenance, the majority was devoted to additional equipment required to increase overall production efficiency, especially packaging equipment. Additional fixed assets were indeed required to pursue rationalization in the United States. As a result, production at our Thorp and Monroe facilities was absorbed by our existing facilities at Almena and Lena. Lastly, head office expansion was completed in March 2001.

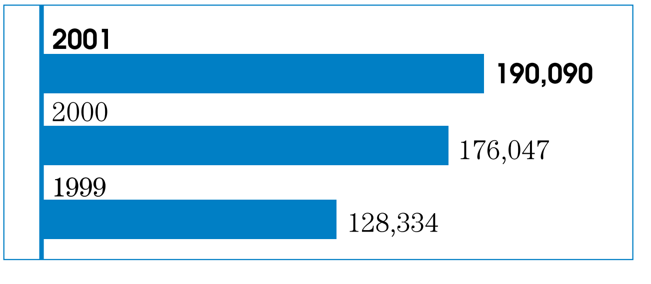
During the 2002 fiscal year, we expect to spend an amount of $52 million to enhance efficiency and profitability. This amount does not take into account additional expenses that may be necessary once integration plans have been finalized with regard to our recently acquired Dairyworld activities.

The Company reimbursed $151.1 million in long-term debt during the 2001 fiscal year, a full $111 million above stated

Net earnings
(in thousands of dollars)



Cash flow generated by operations
(in thousands of dollars)



commitments, and also paid out $16.9 million in dividends. Saputo presently pays a quarterly dividend of $0.09 per share.

Backed by sound working capital resources and repayments of long-term debt totalling $296.3 million over the past two fiscal years, the Company posted an extremely sound financial position. Additional long-term debt in the amount of $411.4 million was contracted in connection with the acquisition of Dairyworld and has been scheduled to be repaid in only four years.

The current financial structure in place at Saputo Inc. would allow for additional debt of nearly $300 million without impacting in any way the financial ratios that the Company is committed to honouring. It goes without saying that this speaks eloquently about the quality of the tools in place to provide for future needs and ensure continued growth.

FINANCIAL INSTRUMENTS, RISK AND UNCERTAINTY

To protect itself from interest rate fluctuations relating to corporate long-term debt, approximately half of Saputo's debt is in the form of fixed-rate senior notes, while the remaining half is at a floating rate as at March 31, 2001, which currently allows the Company to take advantage of reduced market rates. At the appropriate time, the Company intends to fix interest rates in full or in part through the use of swap contracts. Cash generated by our American activities is sufficient to provide a natural hedge against exchange rate risk.

OUTLOOK

Following the acquisition of Dairyworld in February 2001, the Company clearly established itself as the leader in the Canadian dairy industry. During the upcoming fiscal year, Dairyworld will constitute the Company's key challenge as work begins on enhancing Dairyworld profit margins, currently well below those of other Saputo operations. Every effort will be devoted to integrating Dairyworld activities into the corporate fold and raising standards of efficiency and profitability to levels achieved elsewhere within the group. Indeed the Company has already put the required structures into place to provide for the integration of existing Canadian cheese activities and those of Dairyworld in the coming months. Several corporate services have already been integrated and every effort will be made to achieve the same with production and distribution activities. Integration will be conducted gradually, with the majority expected to have been completed by March 31, 2002. Our operating expertise will allow us to enhance the profitability of this new subsidiary.

During the fiscal year, the Company initiated action to revisit the Cookies category of the Grocery Products sector. The Company is currently studying various alternatives and intends to make a decision on this issue in the near future, the object being to increase the profitability of this sector.

Always on the lookout for new means of enhancing efficiency, our US Dairy Products sector should begin to reap the benefits of plant rationalization undertaken in recent months. Furthermore, the Company intends to concentrate efforts upon maximizing current plant production capacity and optimizing manufacturing processes with a view to spurring growth in the United States.

Despite the importance of the Dairyworld acquisition and the significant efforts required to integrate the latter into the corporate fold, Saputo remains on the outlook for strategic growth and expansion opportunities.

Information **by sector**

DAIRY PRODUCTS

The Dairy Products sector is divided into two territories, namely Canada and the United States.

In Canada, revenues for the fiscal year ended March 31, 2001 totalled $804.0 million, an increase of 52.1% over the figure of $528.5 million posted the previous year. Some 76% of this $275.5 million increase was generated by Dairyworld, acquired on February 5, 2001; a further 18% is owed to the full-year contribution by Cayer-JCB Group, a subsidiary which contributed only four weeks to fiscal 2000 results. The remainder of the increase was primarily due to efforts devoted to developing industrial markets and private labels, efforts that proved sufficient to offset the decline in export sales.

In the United States, **revenues** amounted to $1.106 billion, a decrease of 6.7% over the $1.186 billion figure reported the previous year. The average price per pound of cheese was lower in 2001 than during the previous fiscal year; this resulted in a $83 million decrease in revenues, which was, however, partially offset by a $26 million increase in revenues due to a weaker Canadian dollar. The remainder of the decrease was attributable to a slight 1.5% drop in the volume of cheese sales.

EBITDA generated by the Dairy Products sector totalled $228.5 million at March 31, 2001, up 5.9 % over the figure of $215.7 million reported the previous year.

EBITDA from Canadian activities rose by $15.4 million or 18.8 %. Of this increase, $9.6 million resulted from the added contribution by Dairyworld, while the remainder was mainly due to the full-year contribution by Cayer-JCB Group to corporate results.

EBITDA profit margins at Dairyworld remained more or less the same as upon completion of the acquisition. Profit margins for the rest of the Dairy Products sector decreased from 15.4% at the end of the 2000 fiscal year to 14.7% at year-end in 2001. Two factors led to this decline. Firstly, although the integration of Cayer-JCB Group into the corporate fold has for all intents and purposes been completed, profit margins were lower at the time of acquisition and therefore exerted a downward pressure on overall profit margins generated by Canadian

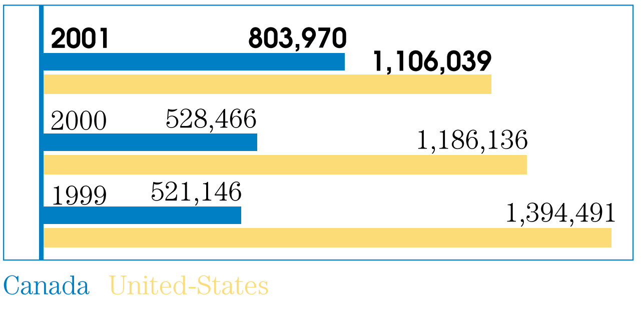
operations during the year. Secondly, the export market developed by Saputo had to be financially supported to maintain ties with our international clients and enable the Company to assess the possibilities offered by the new export regulations.

EBITDA from American activities totalled $131.6 million, a decrease of 1.9% over the figure of $134.2 million reported the previous year. Although this slight decline in volume had a softening effect on the EBITDA, the improved efficiency of our American operations was completely erased by the average price per pound of cheese, which fell to a 20-year low. It should be noted that the lower the price per pound of cheese, the more difficult it is to cover expenses other than milk, and the lower the profit margin, if any, per pound of cheese.

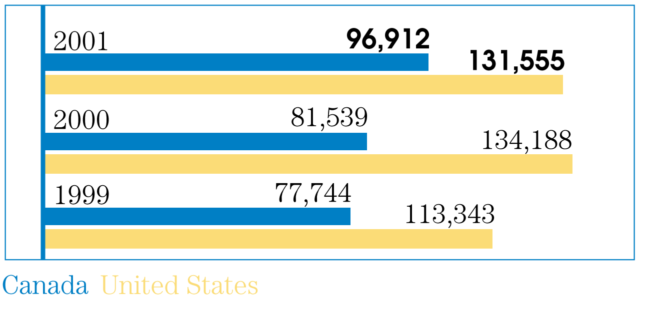
As mentioned previously, the decline in the average price per pound of cheese during the 2001 fiscal year resulted in a decrease of $83 million in revenues, a figure that was partially offset by an influx of $26 million as a result of a weaker Canadian dollar. Regardless of the effect of these two factors on revenues, EBITDA profit margins would have been 11.3%, which is the same level as the year before. During the year, two plants were closed in keeping with rationalization efforts, and all related expenses were absorbed.

A promising future lies ahead despite undeniably unfavourable market conditions during the fiscal year ended March 31, 2001.

Revenues / Dairy Products sector
(in thousands of dollars)



EBITDA / Dairy Products sector
(in thousands of dollars)



GROCERY PRODUCTS

Grocery Products sector revenues rose from $146.3 million for the fiscal year ended March 31, 2000 to $251.7 million for the fiscal year ended March 31, 2001. This increase was primarily due to the full, fifty-two-week contribution to corporate results in 2001, compared with just twenty-eight weeks the previous year. Annualized revenues decreased by nearly 7.4%, following the elimination of various unprofitable products. EBITDA totalled $42.5 million, up $21.3 million over the figure of $21.2 million posted at March 31, 2000. EBITDA profit margins grew from 14.5% at March 31, 2000 to 16.9% at March 31, 2001, which reflects the rationalization and integration efforts devoted by the Company in this sector during the year.

Although EBITDA profit margins increased from 12.2% at the time of the acquisition of Culinar Inc. in September 1999 to 16.9% at the end of the 2001 fiscal year, the Company intends to take a stand in the near future with respect to the status of the Cookies category, the object being to improve overall sector profitability. Action designed to capitalize on strong market awareness of the *Vachon* label should also contribute to enhancing performance in this sector.