



SAPUTO INC.

ANNUAL INFORMATION FORM

June 1, 2002

TABLE OF CONTENTS

ITEM 1 - THE COMPANY	1
1.1 INCORPORATION.....	1
1.2 CORPORATE STRUCTURE.....	1
ITEM 2 - GENERAL DEVELOPMENT OF THE BUSINESS.....	2
2.1 OVERVIEW.....	2
2.2 HISTORY (INCLUDING ACQUISITIONS AND DISPOSITIONS).....	3
ITEM 3 - INDUSTRY OVERVIEW	5
3.1 DAIRY PRODUCTS INDUSTRY	5
3.1.1 The Canadian Dairy Industry.....	5
3.1.2 The United States Dairy Industry	7
3.1.3 Future Trends	9
3.2 GROCERY PRODUCTS INDUSTRY	10
ITEM 4 - DESCRIPTION OF THE BUSINESS.....	10
4.1 DAIRY PRODUCTS SECTOR	14
4.1.1 Products.....	14
4.1.2 Production	15
4.1.3 Markets.....	17
4.1.4 Distribution.....	19
4.1.5 Competition	20
4.1.6 Employee Relations.....	20
4.2 GROCERY PRODUCTS SECTOR.....	20
4.2.1 Products.....	20
4.2.2 Production	21
4.2.3 Markets and distribution.....	21
4.2.4 Competition	21
4.2.5 Employee Relations.....	21
ITEM 5 - SELECTED CONSOLIDATED FINANCIAL INFORMATION	22
ITEM 6 - DIVIDEND POLICY	23
ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS	23
ITEM 8 - MARKET FOR SECURITIES	23
ITEM 9 - DIRECTORS AND OFFICERS	23
9.1 DIRECTORS.....	23
9.2 EXECUTIVE OFFICERS.....	25
ITEM 10 – ADDITIONAL INFORMATION.....	26

ITEM 1 - THE COMPANY

1.1 Incorporation

Saputo 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. On August 2, 2000, the Certificate was further amended to enable the directors to appoint additional directors between shareholders' meetings. The head office and principal place of business of the Company is located at 6869 Metropolitan Boulevard East, Saint-Léonard, Québec, Canada, H1P 1X8.

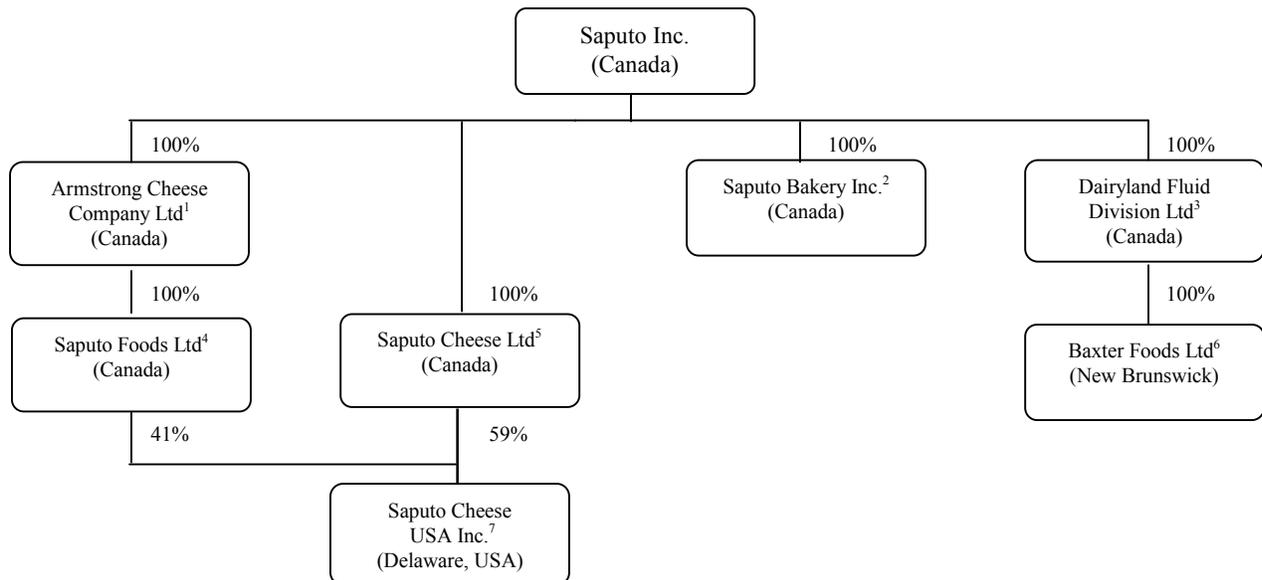
In this Annual Information Form, unless the context otherwise requires or indicates, the terms "Saputo" and the "Company" mean Saputo Inc. itself or together with its subsidiaries, or any one or more of them.

On November 23, 2001, Saputo declared a 100% stock dividend on the Common Shares which had the same effect as a two-for-one split (the "Stock Split") and doubled the number of Common Shares outstanding. All references to numbers of Common Shares and prices of Common Shares made herein have been adjusted to reflect the Stock Split.

In this Annual Information Form, all references to "\$" or "CDN \$" are to Canadian dollars and all references to "US \$" are to United States 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 sale of dairy products, including cheese, butter, powdered milk and evaporated milk throughout Canada.
- (2) Production, sale and distribution of bakery items in Canada.
- (3) Production, sale and distribution of a wide range of fluid milk, cream products, sour cream, cottage cheese, yogurt and soft serve dairy mixes as well as juices and other beverages, and distribution of a variety of other dairy and related products in Western Canada and Ontario. Quebec fluid milk operations are conducted through Crémierie des Trois Rivières S.E.C.
- (4) Production, sale and distribution of dairy products, mainly cheese, and other food products in Canadian provinces other

- than Québec.
- (5) Production, sale and distribution of dairy products, mainly cheese, and other food products in the Province of Québec.
 - (6) Production, sale and distribution of dairy products including fluid milk, sour cream and juices and other beverages in the Maritime Provinces.
 - (7) Production and sale of dairy products, mainly cheese, in the United States.

ITEM 2 - GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Overview

The Company operates its business through two sectors, the Dairy Products sector composed of the Cheese division and the Milk Division, and the Grocery Products sector composed of the Bakery division. The Dairy Products sector and the Grocery Products sector represent respectively 94.6% and 5.4% of total sales.

37.1% of the Company's total consolidated sales are made in the United States and 62.9% are made in Canada¹. Through its two sectors, the Company operates 52 manufacturing facilities and employs over 7,000 employees.

Dairy Products Sector – Cheese division

Through its Cheese division, Saputo produces and markets mozzarella, cheddar, as well as other specialty and fine cheeses, butter, and value-added by-products such as whey powder, ice cream mixes, lactose and whey protein. In Canada, Saputo also distributes fine imported cheeses to specialty delis and a large assortment of other non-dairy products that complement its cheese distribution mainly to pizzerias. During fiscal 2002, the Cheese division represented approximately 70.1% of the Company's total sales and 74.1% of the Dairy Products sector sales. Of the Company's total sales for the Cheese division in fiscal 2002, approximately 47.1% were made in Canada¹ and 52.9% were made in the United States. In the Cheese division, the Company operates 20 manufacturing facilities in Canada and 16 in the United States. On May 1, 2002, the Company had 3,691 full-time employees and 276 part-time employees working in the Cheese division.

Saputo has established itself as Canada's leading producer of cheese, with a share of approximately 35% of the Canadian natural cheese production, and also ranks as one of the leading natural cheese producers in the United States. In its Cheese division, Saputo services, through independent non-exclusive distributors and sales agents as well as through its own distribution network, three market segments: food service, retail and industrial. During fiscal 2002, the food service segment accounted for 38.8% of the Cheese division sales, the retail segment for 36.1%, and the industrial segment for 25.1%.

Dairy Products Sector – Milk division

The Company also produces, markets and distributes fluid milk, cream products, sour cream, cottage cheese, yogurt, juices and other beverages which it sells mainly to the retail segment through its direct-store delivery (**the "DSD"**) distribution network operated by Company-owned and independent distributors, as well as through an important home delivery network. The Milk division represented 24.5% of the Company's total sales in fiscal 2002. In this division, the Company operates 14 manufacturing facilities, all of which are located in Canada. On May 1, 2002, the Company had 1,999 full-time employees working in this division.

¹ Including international sales made from Canada.

Grocery Products Sector

The Company produces, markets and distributes snack cakes and tarts in Canada. These products are sold almost exclusively in the Canadian retail market through a DSD distribution network as well as independent distributors. Saputo is the largest manufacturer of snack cakes in Canada. In this sector, the Company operates one manufacturing facility in the Province of Québec and one in the Province of Ontario² and employed, as of May 1, 2002, 979 full-time employees and 152 part-time employees.

2.2 History (including Acquisitions and Dispositions)

Mr. Emanuele (Lino) Saputo, Chairman of the Board and Chief Executive Officer of Saputo, founded 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 Saint-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 a leading producer of mozzarella, serving primarily 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 Saint-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 and food distributors 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 thereby entering the fluid milk and frozen novelties markets.

On October 15, 1997, the Company completed its initial public offering of 18,941,000³ Common Shares at \$8.50³ per share (the "**Initial Public Offering**"). In December of the same year, Saputo issued 18,000,000³ special warrants at \$12.50³ per warrant in order to finance, in part, the Stella Acquisition (as defined below).

On December 5, 1997, Saputo expanded its presence in the United States by acquiring Stella Holdings, Inc., a manufacturer of mozzarella and specialty cheeses (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 the Stella Acquisition, the Company tripled its revenues and established itself as one of the leading natural cheese producers in the United States.

2 The facility in Ontario will close before September 27, 2002 and its activities will be relocated to the facility located in Québec.

3 This information has been restated to reflect the Stock Split.

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**”) for CDN \$54.1 million (US \$37.8 million). These companies produced mozzarella and specialty cheeses, sweetened condensed milk, and value-added by-products such as whey protein concentrates, ingredient blends and cream. Of the six plants acquired, two were whey processing 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., a mozzarella and specialty cheese manufacturer based in Vancouver, British Columbia. The aggregate purchase price of \$11.4 million was paid through the private placement of 53,500³ Common Shares of Saputo at a price of \$20.00³ per share, with the balance paid in cash.

On September 15, 1999, the Company acquired all of the outstanding shares of Culinar Inc., now known as Saputo Bakery Group Inc. (“**Saputo Bakery**”), from SGF Soquia Inc. and various minority shareholders for a price of \$283.5 million (the “**Culinar Acquisition**”). This transaction was paid by the issuance of 5,006,000³ Common Shares of Saputo at a price of \$19.98³ per share, with the balance paid in cash. Culinar produced, marketed and distributed snack cakes, cookies, fine breads and soups and had sales of approximately \$270 million. With this acquisition, Saputo became the largest manufacturer of snack cakes and fine breads as well as one of the most important cookie manufacturers in Canada.

On November 12, 1999, Saputo completed the private placement of US \$250 million Senior Notes to institutional investors in the United States. The term of the Notes ranges from seven to fifteen years with an average interest rate of 8.16%. The proceeds of the private placement were used to refinance part of the Company’s existing credit facilities.

On February 28, 2000, the Company acquired all of the outstanding shares of Groupe Cayer-JCB Inc., a manufacturer of fine cheeses based in the Province of Québec, for a price of \$13.7 million paid in cash and \$6.7 million of indebtedness (the “**Cayer Acquisition**”). Cayer had sales of approximately \$55 million.

On February 5, 2001, Saputo completed the acquisition of the fluid milk and cheese operations of Agrifoods International Co-operative Limited (“**Agrifoods**”), one of the largest dairy processors in Canada, through the purchase of all of the outstanding shares of some of Agrifoods’ operating subsidiaries including Dairyland Fluid Division Limited (“**DFDL**”), Armstrong Cheese Company Limited (“**Armstrong**”) and Baxter Foods Ltd. (“**Baxter**”) for the price of \$407.3 million paid in cash (the “**Dairyworld Acquisition**”). The acquired businesses generated net sales of approximately \$1.4 billion and earnings before interest, tax, depreciation and amortization (“**EBITDA**”) of \$61.4 million per annum.

On July 15, 2001, Saputo concluded a partnership agreement pursuant to which Dare Foods Limited (“**Dare**”) acquired the cookies, fine breads and soup operations of Saputo’s Grocery Products sector which represented annual revenues of approximately \$83 million. In consideration therefor, Saputo obtained an interest of 21% in the Dare group (the “**Dare Transaction**”). As a result of this transaction, Dare became the second largest cookie producer in Canada.

3 This information has been restated to reflect the Stock Split.

On November 23, 2001, Saputo completed its Stock Split and doubled the number of Common Shares outstanding. See “The Company – Incorporation”.

On March 11, 2002, Saputo acquired from ConAgra Dairy Foods Company a cheese plant located in Whitehall, Pennsylvania. The plant produces mozzarella and provolone cheese.

ITEM 3 - INDUSTRY OVERVIEW

3.1 Dairy Products Industry

3.1.1 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 inspections 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 40% of raw milk delivered in Canada while the industrial milk sector represents approximately 60%.

The Canadian dairy industry operates within a supply management system. The key goal of supply management is to ensure a fair return 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 sold to the CDC to clear market surpluses and by controlling the supply of industrial milk.

Dairy farmers also received a direct federal subsidy which was phased out over the course of the five years ended in February 2002. The subsidy loss was fully recovered by dairy farmers through higher industrial milk prices over the phase-out period.

Every dairy year (which runs from August 1 to July 31), 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 46.9% and 31.3% 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 classes, which command 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 of industrial milk can only achieve significant growth through acquisitions. Any attempt to grow internally is stymied by the plant quota which limits a dairy processor of industrial milk to a specific guaranteed volume. Conversely, since the Market Sharing Quota is based on historical and anticipated demand for dairy products, Management believes that the risk of a processor losing a significant part of its available milk volume 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 from it 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 of 20.4 million kilograms of cheese are subject to low rates of duty while imports over this commitment are subject to significantly higher tariffs. Over-access tariffs for cheese currently stand at 245.5% of invoiced value.

Exports. 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 Uruguay Round 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 appealed this decision and, in October 1999, an appellate body of the WTO confirmed most of the original decision thereby forcing Canada to review its exports practices. The federal and provincial governments then worked with industry stakeholders to devise an export system that is WTO compatible, while attempting to protect the integrity of Canada's supply management system and Canada claims to have modified its dairy system accordingly.

On March 1, 2001, the United States and New Zealand formally asked the Dispute Settlement Body of the WTO for permission to impose on Canada economic sanctions of US\$35 million per year for each of the United States and New Zealand as compensation for alleged damages to their dairy industry due to Canadian dairy exports. The United States and New Zealand also officially requested that the WTO establish a panel (the "Panel") to examine the issue of compliance in light of Canada's new system. The Panel's decision, unfavourable to Canada, was rendered on July 5, 2001 and Canada subsequently appealed this decision. The appeal process began on July 12, 2001 and a final decision was rendered on December 3, 2001. This ruling clarified many of the issues raised by the Panel's report and established new benchmarks for determining the existence of subsidies in Canada's export milk pricing regime. It did not however, provide a definitive answer as to whether or not Canada's new export system was in compliance with WTO obligations as the appeal panel concluded it did not have the required authority to complete this analysis within its mandate. Consequently, a

new compliance panel was requested by the United States and New Zealand in January 2002. The review process began in April, 2002 and the panel's report is expected in mid Summer 2002. In Canada, industrial milk available for export generally represents approximately 6% of the total production of industrial milk.

Canadian Market

The dairy processing industry makes a major contribution to the Canadian economy with shipments valued at over \$9.8 billion in 2001. Second only to meat processing, the dairy processing sector accounted for approximately 15% of the estimated value of all food and beverage processing sales during the same year. Significant rationalization is occurring in the processing sector as processors strive to achieve the greater efficiencies and economies of scale required to remain competitive in increasingly global markets.

In 2000-2001, there were 19,369 dairy farms in Canada. This represents a decrease of 1,207 farms from the previous dairy year. Approximately 81% of Canada's dairy farms are located in the Provinces of Québec and Ontario. The Western provinces and the Maritime provinces account for 14% and 5% respectively.

The following table indicates the production volumes of selected dairy products manufactured in Canada in 2001.

Canadian Production Volumes of Selected Dairy Products in 2001 ⁽¹⁾
(in thousands)

Cheddar.....	120,673kg	Yogurt.....	161,268 kg
Specialty cheeses ⁽²⁾	200,038 kg	Milk powder.....	90,150 kg
Cottage cheese	22,696 kg	Concentrated milk	117,005 kg
Butter	81,584 kg	Fluid milk	2,710,139 litres
Ice cream and other ice cream products.....	526,082 litres	Cream	230,758 litres

(1) Source: Canadian Dairy Commission.

(2) Includes mozzarella (115,251 kg).

3.1.2 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 the United States Food and Drug Administration (“**FDA**”) and by 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 98% of the United States milk supply and is used for fluid as well as manufacturing purposes. Grade B milk represents 2% of the United States milk production, and it is used exclusively to manufacture butter, cheese and skim milk powder.

The following table presents the utilization of the United States milk production in 2001:

Utilization of United States Milk Production in 2001 ⁽¹⁾

Utilized as fluid milk and cream	33.2 %
Manufactured into cheese	36.8 %
Manufactured into creamery butter	13.3 %
Manufactured into frozen dairy products	8.9 %
Manufactured into evaporated and condensed milk	1.0 %
Used on farms where produced	0.8 %
Other uses	6.0 %

(1) Source: USDA, Dairy Products 2001 Annual Report, published April 2002.

In most cases, milk marketed within the United States is priced according to its use. Milk prices are set monthly based on product price formulas. Price data used in the formulas is collected through surveys conducted by the USDA’s National Agriculture Statistics Service. Milk used in fluid products is placed in Class I, the highest priced class. Milk used to produce ice cream, yogurt, cottage cheese, sour cream, ricotta cheese and other soft products is Class II. Milk used to manufacture cheese and cream cheese is Class III, and milk used to produce butter and milk powders is Class IV.

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 typically 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. Processors are charged a price which reflects the current month’s USDA class 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 @ US \$0.8548 per pound;
- Cheddar Cheese 40 pound blocks @ US \$1.1314 per pound;
- Nonfat dry milk powder @ US \$0.9000 per pound.

Such products are sold or used either domestically or internationally in specific government programs. However, the CCC does not 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 141,991 metric tons of cheese in 2001. 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. Its export activity accounted for US \$1.066 billion in 2001 and US \$972.4 million in 2000.

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

The USDA states that there were 405 cheese manufacturing plants in the United States in 2001, which produced 3.7 billion kilograms of cheese. Cheddar accounted for 33.7% of this amount, or 1.2 billion kg, while Italian cheeses totalled 1.5 billion kg, or 41 %. Mozzarella alone added up to 1.2 billion kg, representing 80.1% of Italian cheeses and 32.8% of all cheeses produced in 2001.

3.1.3 Future Trends

The consolidation 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 consolidation trend to make strategic acquisitions.

Representatives of the various governments have initiated discussions through the Doha Round of WTO that should lead to new tariff and subsidy reductions in agricultural products during the coming years. A Chairman's working paper is expected in March of 2003, which will serve as the basis for negotiations between the countries. The Doha Round is expected to be completed between 2005 and 2008.

Regarding the WTO's decisions on Canada dairy exports, a new compliance panel was requested by the United States and New Zealand in January 2002. The review process began in April, 2002 and the panel's report is expected in mid Summer 2002.

As long as Canada's supply management system remains in place, and there is no significant increase in per capita consumption of dairy products, no significant growth can be achieved by Canadian dairy processors other than through acquisitions.

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 usual conditions of the market place.

3.2 Grocery Products 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 grocery products industry is subject to stringent quality and labelling standards, including those of the *Food and Drugs Act* and of the *Consumer Packaging and Labelling Act*.

Canadian Retail Market

Over the recent years, Canada's retail market has changed with the increasing importance of non-supermarket channels of distribution such as mass merchandisers and warehouse clubs. This trend has resulted in significant consolidation within the grocery channel where five national chains controlled approximately 85% of all retail sales in 2001.

The snack cake industry generates sales of approximately \$559.4 million per year in Canada. This industry segment comprises among others, snack cakes, muffins, granola, cereal and fruit bars, fresh baked deserts business as well as marshmallow squares. Pre-packaged snack cake products enjoy a 22.6% market share of the snack cake industry in Canada. Of the pre-packaged snack cake products total sales in Canada, approximately 61.9% and 27.8% are made in the provinces of Québec and Ontario, respectively.

ITEM 4 - DESCRIPTION OF THE BUSINESS

The Company operates its business through two sectors, the Dairy Products sector (which includes the Cheese division and the Milk division) and the Grocery Products sector composed of the Bakery division. Through its two sectors, the Company operates 52 manufacturing facilities and employs over 7,000 employees.

The following table presents the relative importance of the Company's two sectors the last two fiscal years.

	Sales by Sector					
	Year ended March 31, 2002		Pro forma year ended March 31, 2001 ⁽¹⁾		Year ended March 31, 2001 ⁽²⁾	
	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales
Dairy Products sector						
Cheese division	2,424,533	70.1	2,209,042	67.1	1,772,125	82.0
Milk division	<u>845,508</u>	<u>24.5</u>	<u>831,014</u>	<u>25.3</u>	<u>137,884</u>	<u>6.4</u>
	3,270,041	94.6	3,040,056	92.4	1,910,009	88.4
Grocery Products Sector ...	187,371	5.4	251,662	7.6	251,662	11.6
Total	<u>3,457,412</u>	<u>100.0</u>	<u>3,291,718</u>	<u>100.0</u>	<u>2,161,671</u>	<u>100.0</u>

⁽¹⁾ Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001 on an annualised basis.

⁽²⁾ Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001.

Dairy Products Sector – Cheese division

Through its Cheese division, Saputo produces and markets mozzarella, cheddar as well as other specialty and fine cheeses, butter and value-added by-products such as whey powder, ice cream mixes, lactose and whey protein. In Canada, Saputo also distributes fine imported cheeses to specialty delis and a large assortment of other non-dairy products that complement its cheese distribution mainly to pizzerias. In fiscal 2002, the Cheese division represented approximately 70.1% of the Company's total sales and 74.1% of the Dairy Products sector sales. Of the Company's total sales for the Cheese division in fiscal 2002, approximately 47.1% were made in Canada⁴ and 52.9% were made in the United States. In the Cheese division, the Company operates 20 manufacturing facilities in Canada and 16 in the United States. On May 1, 2002, the Company had 3,691 full-time employees and 276 part-time employees working in the Cheese division.

Saputo has established itself as Canada's leading producer of cheese, with a share of approximately 35% of the Canadian natural cheese production, and also ranks as one of the leading natural cheese producers in the United States. In its Cheese division, Saputo services, through independent non-exclusive distributors and sales agents as well as through its own distribution network, three market segments: food service, retail and industrial. The food service segment accounts for 38.8% of the Cheese division sales, the retail segment for 36.1% and the industrial segment for 25.1%.

⁴ Including international sales made from Canada.

Dairy Products Sector – Milk division

The Company also produces, markets and distributes fluid milk, cream products, sour cream, cottage cheese, yogurt, juices and other beverages which it sells mainly to the retail segment through its DSD distribution network operated by Company-owned and independent distributors, as well as through an important home delivery network. The Milk division represented 24.5% of the Company's total sales in fiscal 2002. In this division, the Company operates 14 manufacturing facilities, all of which are located in Canada. On May 1, 2002, the Company had 1,999 full-time employees working in the Milk division.

Grocery Products Sector

The Company produces, markets and distributes snack cakes and tarts in Canada. These products are sold almost exclusively in the Canadian retail market through a DSD distribution network as well as independent distributors. Saputo is the largest manufacturer of snack cakes in Canada. In this sector, the Company operates one manufacturing facility in the Province of Québec and one in the Province of Ontario⁵ and employed, as of May 1, 2002, 979 full-time employees and 152 part-time employees.

Overall Profile

The following tables present the segmentation of total Company sales by region and by market segment for the last two fiscal years:

Total Company Sales – Geographic Segmentation

	Year ended March 31, 2002		Pro forma year ended March 31, 2001 ⁽¹⁾		Year ended March 31, 2001 ⁽²⁾	
	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales
United States.....	1,282,555	37.1	1,106,039	33.6	1,106,039	51.2
Canada ⁽³⁾	2,174,857	62.9	2,185,679	66.4	1,055,632	48.8
Total.....	<u>3,457,412</u>	<u>100.0</u>	<u>3,291,718</u>	<u>100.0</u>	<u>2,161,671</u>	<u>100.0</u>

- (1) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001 on an annualized basis.
- (2) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001.
- (3) Includes international sales made from Canada.

⁵ The facility in Ontario will close before September 27, 2002 and its activities will be relocated to the facility located in Québec.

Total Company Sales – Market Segmentation

	Year ended March 31, 2002		Pro forma year ended March 31, 2001 ⁽¹⁾		Year ended March 31, 2001 ⁽²⁾	
	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales
Dairy Products Sector						
Cheese Division						
Food Service	939,719	27.2	796,956	24.2	694,206	32.1
Retail	874,748	25.3	838,035	25.5	568,966	26.3
Ingredient	610,066	17.6	574,051	17.4	508,953	23.6
Sub-Total	2,424,533	70.1	2,209,042	67.1	1,772,125	82.0
Milk Division ⁽³⁾	845,508	24.5	831,014	25.3	137,884	6.4
Grocery Products Sector⁽³⁾	187,371	5.4	251,662	7.6	251,662	11.6
Total.....	<u>3,457,412</u>	<u>100.0</u>	<u>3,291,718</u>	<u>100.0</u>	<u>2,161,671</u>	<u>100.0</u>

(1) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001 on an annualized basis.

(2) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001.

(3) The Milk division products and the grocery products are mainly sold in the retail market segment.

As the Company's sectors are completely different, the description of the Company's business will be divided in two sections, (i) the Dairy Products sector, segregated into the Cheese division and the Milk division, and (ii) the Grocery Products sector.

4.1 Dairy products sector

The following table shows, for the Dairy Products sector, the segmentation of sales by product category for the last two fiscal years:

	Year ended March 31, 2002		Pro forma year ended March 31, 2001 ⁽¹⁾		Year ended March 31, 2001 ⁽²⁾	
	Sales (\$ 000)	% of total sales	Sales (\$ 000)	% of total sales	Sales (\$ 000)	% of total sales
Cheese.....	2,157,725	65.9	1,922,886	63.3	1,568,058	82.1
Fluid milk, cream, cottage cheese, yogurt, dairy mixes, juices, and frozen novelties.....	845,508	25.9	831,014	27.3	137,884	7.2
By-products, sweetened condensed milk, powdered and evaporated milk, butter and non-dairy products ...	266,808	8.2	286,156	9.4	204,067	10.7
Total.....	<u>3,270,041</u>	<u>100.0</u>	<u>3,040,056</u>	<u>100.0</u>	<u>1,910,009</u>	<u>100.0</u>

(1) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001 on an annualized basis.

(2) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001.

4.1.1 Products

4.1.1.1 Cheese division

In Canada, Saputo produces and markets nationally a wide variety of quality cheeses including mozzarella and cheddar, speciality cheeses such as ricotta, provolone, parmesan, feta, havarti, fine cheeses such as brie and camembert, other firm cheeses including brick, colby, farmer, munster and monterey jack, as well as process cheeses. Saputo's cheese products are sold under various brand names, such as *Saputo*, *Stella*, *Armstrong*, *Caron*, *Cayer*, and *Tavistock*. Saputo also sells its cheese products under private labels and produces butter, powdered milk and evaporated milk as well as a number of by-products derived from its cheese production, including whey powder, ice cream mixes, lactose and whey protein. The Company's distribution network distributes fine imported cheeses to specialty delis and a large assortment of third party manufactured non-dairy products that complement its cheese distribution to the pizzerias in the food service industry.

In the United States, Saputo produces a broad line of mozzarella, specialty cheeses such as ricotta, provolone, blue, swiss, parmesan and romano and imitation cheese products which are sold under various brand names such as *Saputo*, *Stella*, *Friigo*, *Cheese Heads*, *Dragone* and *Lorraine*, as well as under private label. The Company also produces sweetened condensed milk as well as whey protein concentrates and ingredient blends which are derived from its cheese production.

4.1.1.2 Milk division

Saputo is one of the three largest fresh milk processors in Canada, with an estimated 21% share of the Canadian market. Fluid milk is sold under the *Dairyland* brand in Western Canada and Ontario, the *Baxter* brand in the Maritimes and the *Nutralait* brand in Québec. Saputo also produces and markets cream, sour cream and cottage cheese under the *Dairyland* and *Baxter* brands and specialty milk under the brand names *Pure 'n Fresh Microfiltered Milk*, *Pure 'n Fresh Calcium Extra* and *Milk 2 Go*. In addition to its dairy products line, Saputo also produces and distributes other refrigerated products, including juices and other products manufactured under license from third parties.

4.1.2 Production

Milk Sourcing

Due to the regulated nature of the Canadian dairy industry, Saputo sources its milk in Canada through the milk boards in each province. In the United States, Saputo sources its milk primarily from cooperatives pursuant to contracts.

Facilities

In the Dairy Products sector, the Company operates a total of 50 manufacturing facilities, 34 of which are located in Canada and 16 in the United States. All of the manufacturing facilities operated in the United States relate to the Cheese division while in Canada, 20 facilities relate to the Cheese division and 14 to the Milk division. In Canada, the Company owns all of its plants with the exception of the facility located in Annacis Island, British Columbia and one of its two facilities located in Calgary, Alberta. 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.

Canada. The Company operates 19 facilities in Western Canada, of which 10 operate in the Cheese division and 9 in the Milk division. These facilities have the overall weekly capacity to process approximately 36 million litres of milk into cheese, fluid milk and other related dairy products and to produce processed cheese.

In Ontario, the Company operates 6 facilities, with an overall weekly capacity to process approximately 7,8 million litres of milk into cheese or fluid milk. Five of these facilities are used in the Cheese division while the other operates in the Milk division.

Of the Company's 9 facilities in Quebec and in the Maritimes, 5 form part of the Cheese division and the remaining 4 are in the Milk division. The Company has an overall weekly capacity to process approximately 16 million litres of milk into cheese, fluid milk and other related dairy products as well as liquid whey in these facilities.

United States. In the American Northeast, the Company operates 3 plants with an overall weekly capacity to process approximately 9.1 million litres of milk into cheese. The Company also operates 11 facilities in the Midwest, with a total overall weekly capacity to process approximately 33.5 million litres of milk into cheese and related dairy products and to produce canned milk powders. Finally, the Company operates 2 facilities in the Western United States, which have a combined weekly capacity to process approximately 9.6 million litres of milk into cheese. All of the U.S. facilities operate in the Cheese division.

Net Capital Expenditures

Management believes that the Company has adequate dairy 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 \$240.5 million in net capital expenditures. During the fiscal years 1998 to 2001, the previous owners spent \$130.4 million in net capital expenditure on the Dairyworld operations. In fiscal 2002, the Company spent \$33.0 million on its Canadian dairy operations and \$24.2 million on its United States operations. In fiscal 2003, Saputo expects to incur net capital expenditures of approximately \$44.5 million for its Canadian dairy operations and \$14.0 million for its United States dairy 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. It is the Company's intention to comply with all applicable environmental laws and regulations.

The Grocery Products facility located in Sainte-Marie does not have the required certificate of authorization to operate. On October 30, 2001, the Sainte-Marie facility filed with the relevant authority a request to obtain the environmental certificate of authorization. The Company expects to obtain such authorization within the next few weeks and does not anticipate any problems.

The Saint-Raymond facility does not have the required certificate of authorization for its current operations. On May 31, 2001, the Saint-Raymond facility filed with the relevant authority a request to obtain the certificate of authorization. Issuance of the certificate of authorization is subject to the prior authorization of the *Commission de protection du territoire agricole (CPTAQ)* with respect to the non-agricultural use of the land. The Company does not anticipate any problems in obtaining the authorization from the CPTAQ and the certificate of authorization.

Certain of the acquired Dairyworld facilities have minor contamination problems. At the Calgary dairy plant, the Company, with the concurrence of provincial authorities, has undertaken further investigation in respect of petroleum contaminated groundwater to assess the extent of the contamination and has prepared a work plan pursuant to which remediation activities should commence in October 2002. At the Harrowsmith, Bashaw and Yorkton facilities, discrete areas of minor petroleum contamination in the soil and/or groundwater have been identified and the Company will be undertaking further investigation during this fiscal year to determine the appropriate course of action, if any.

Under an agreement entered into with the Town of Winkler the Company has undertaken to fund part of the cost of upgrading the Town's wastewater treatment system. The upgraded treatment system is anticipated to be fully operational in the fall of 2002. Once this system is operational, the Company will be subject to the limits and fee structure set out in the Agreement entered into with the Town.

One of the five groundwater quality monitoring wells located at the Kent facility shows levels of chloride in excess of the level generally permitted in the State of Illinois. The Company closed this facility on

April 1, 1999 and, at the request of the authority, continues to monitor the groundwater on the site to assess the natural attenuation process and confirm whether further action is warranted.

During fiscal 2002, approximately \$3.3 million⁶ were spent to comply with existing environmental laws and regulations and improve plant efficiency to reduce wastewater discharge, to update or remove underground storage tanks, and to improve wastewater treatment systems at a number of its facilities in Canada and the United States. Management estimates that similar expenditures will amount to \$2.6 million⁶ during fiscal 2003.

Management believes that compliance with currently applicable environmental protection requirements will not have a material effect on the Company's earnings or competitive position in the near future. Any new environmental laws or regulations could have a material adverse effect on the financial position of the Company and could require significant additional expenditures to achieve or maintain compliance.

4.1.3 Markets

Geographic Segmentation

The Company sells its products in Canada and the United States. The following table presents, for the Dairy Products sector, the geographic segmentation of sales during the last two fiscal years:

	Year ended March 31, 2002		Pro Forma year ended March 31, 2001 ⁽¹⁾		Year ended March 31, 2001 ⁽²⁾	
	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales
United States.....	1,282,555	39.2	1,106,039	36.4	1,106,039	57.9
Canada ⁽³⁾	1,987,486	60.8	1,934,017	63.6	803,970	42.1
Total.....	<u>3,270,041</u>	<u>100.0</u>	<u>3,040,056</u>	<u>100.0</u>	<u>1,910,009</u>	<u>100.0</u>

(1) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001 on an annualized basis.

(2) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001.

(3) Includes international sales made from Canada.

Canada. Saputo is Canada's leading producer of cheese with a share of approximately 35% of the Canadian cheese production. Saputo sells its products to the food service, retail and industrial market segments. In Canada, the Company also distributes fine imported cheeses to specialty delis and provides independent pizzerias with numerous food and non-food products sourced from third-party manufacturers that are complementary to the sale of its cheeses to such clients. The Company is one of the three largest fresh milk processors in Canada with an estimated 21% share of the Canadian market. Saputo also sells, through its

⁶ These amounts are included in the amounts disclosed under the section "Dairy Products Sector – Production – Net Capital Expenditures".

Canadian operations, cheese, lactose, whey powder, ice cream mixes, and whey protein to a vast array of clients in Europe, South America, Asia and Africa.

United States. The Company competes in the United States natural cheese industry, by selling branded and private label products to retail, industrial and food service customers.

Clientele

Within the Cheese division, the Company services three market segments: food service, retail and industrial. Within the Milk division, the Company operates in Canada and sells its products mostly in the retail market segment.

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

Dairy Products Sector – Sales – Market Segmentation

	Year ended March 31, 2002		Pro Forma Year ended March 31, 2001 ⁽¹⁾		Year ended March 31, 2001 ⁽²⁾	
	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales	Sales (\$000)	% of total sales
Cheese Division						
Food Service	939,719	28.7	796,956	26.2	694,206	36.3
Retail	874,748	26.7	838,035	27.6	568,966	29.8
Ingredient	610,066	18.7	574,051	18.9	508,953	26.7
Sub-Total	2,424,533	74.1	2,209,042	72.7	1,772,125	92.8
Milk Division ⁽³⁾	845,508	25.9	831,014	27.3	137,884	7.2
Total	<u>3,270,041</u>	<u>100.0</u>	<u>3,040,056</u>	<u>100.0</u>	<u>1,910,009</u>	<u>100.0</u>

(1) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001 on an annualized basis.

(2) Takes into account the sales by the businesses acquired pursuant to the Dairyworld Acquisition from February 5, 2001 to March 31, 2001.

(3) The fluid milk products are mainly sold in the retail market segment.

Cheese Division

Food service. Food service customers principally include broad-line distributors, restaurants (corporate restaurant chains, franchisees and individually-owned) and hotels. Saputo provides its food service customers with branded and private label dairy products. In the case of independent pizzerias in Canada, Saputo also provides these clients with non-dairy products manufactured by third parties through its own distribution network. Saputo also produces soft-serve dairy mixes for quick service restaurant chains and holds an important market share of volume processed in this category in Canada. No food service customer represented more than 10% of total consolidated sales during each of fiscal 2002 and 2001.

Retail. Saputo sells both branded and private label products to its retail customers which include supermarket chains, independent retailers, warehouse clubs and specialty cheese boutiques. In fiscal 2002, the majority of Saputo's retail sales was in branded products with the remainder being private label. Saputo's retail

grocery products are sold in the dairy case and deli cheese counter sections of stores. In Canada, Saputo also provides its retail customers with speciality cheeses and fine cheeses. The acquisitions made by the Company have enhanced the Company's presence in the retail market segment. No retail customer represented more than 10% of total consolidated sales during each of fiscal 2002 and 2001.

Industrial. Industrial 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. Consistent with the trend of increased home-meal replacements, Saputo continues to seek opportunities in this market segment. To support this effort, Saputo's technical experts work with customers to develop new products customized to their needs. No industrial customer represented more than 10% of total consolidated sales during each of fiscal 2002 and 2001.

Milk Division

Saputo's fluid milk products are mainly sold in the retail market segment. Saputo has strong relationships with the majority of the large national and regional grocery retailers in Canada for its Milk division. The Canadian retail segment is mainly comprised of the grocery channel, which represents approximately 77% of fluid milk and related products sold at the wholesale level. The top ten customers in the Milk division account for approximately 63% of the sales of this division. No fluid milk customer represented more than 10% of total consolidated sales during each of fiscal 2002 and 2001.

4.1.4 Distribution

4.1.4.1 Cheese division

In Canada, sales are made through direct shipments to certain large food service, retail and industrial customers as well as to national and regional third party distributors. Saputo has also developed a nation-wide distribution network for its cheese operations which is targeted at serving a clientele comprised of independent pizzerias and retail deli customers. This network is comprised of 15 distribution centers located across Canada. Saputo believes that its distribution network is the cornerstone of its market penetration in these Canadian niche markets as its weekly personalized service constitutes an advantage against competing cheese manufacturers.

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

4.1.4.2 Milk division

With respect to its fluid milk operations, Saputo has a comprehensive DSD network in all Canadian provinces other than Quebec and Newfoundland. The DSD distribution network covers major retailers, mass merchandisers, convenience store chains, food service organizations and individual retailers. Saputo also operates one of the largest home delivery networks for milk and other food products in Canada, with over 60,000 accounts.

The Company's Canadian distribution network for the Milk division is comprised of 545 distribution routes and 14 warehouses.

4.1.5 Competition

4.1.5.1 Cheese division

Canada. In the Cheese division in Canada, the Company competes mainly with Agropur coopérative agro-alimentaire (“**Agropur**”), Parmalat Canada Inc. (“**Parmalat**”), Kraft General Foods Canada Inc. (through the production volumes of Agropur) and National Cheese Co. Ltd. Saputo has established itself as Canada’s leading producer of cheese with a share of approximately 35% of the Canadian cheese production.

United States. In the United States, the Company competes on a national basis with regional and national competitors including Lactalis USA, Inc. (Sorrento), LePrino Foods Company, Land O’Lakes, Inc., Kraft Foods, Inc., Dairy Farmers of America, Con Agra Dairy Foods (formerly known as Beatrice) and Belgioioso Cheese Inc.

4.1.5.2 Milk division

Saputo holds an estimated 21% share of the Canadian market for fluid milk which ranks it among the three largest fresh milk processors, all of which hold similar market shares. The Company faces very broad competition in most product categories, with specific competitors varying widely by region. Among the Company’s largest competitors are Agropur and Parmalat. Other competitors include co-operatives in British Columbia and Atlantic Canada.

4.1.6 Employee Relations

As at May 1, 2002, the Company’s Dairy Products sector had 3,873 full-time employees and 244 part-time employees in Canada and 1,817 full-time and 32 part-time employees in the United States.

Approximately 43% of the Canadian Dairy Products sector work force is unionized. In the United States, approximately 40% of the Dairy Products sector work force is unionized.

The Company presently does not foresee any labour unrest in connection with the renewal of collective agreements expiring in fiscal 2003. All agreements that expired in fiscal 2002 were either renewed upon satisfactory terms or continue to govern during ongoing negotiations, which are expected to result in satisfactory renewals. 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.

4.2 Grocery Products Sector

The Company produces, markets and distributes snack cakes in Canada. In July 2001, Dare acquired the cookies, fine breads and soup operations of the Grocery Products sector in consideration for the issuance to Saputo of a 21% interest in Dare. The following provides an overview of the products, production facilities, markets, competition and employee relations for the Grocery Products sector, which, since the Dare Transaction, consists solely of the snack cake products.

4.2.1 Products

In this sector, the Company produces and markets snack cakes, muffin bars, flakies and tarts which are sold almost exclusively in the Canadian retail market. Saputo occupies a predominant position in the snack

cake market in Canada and its products are sold under the *Vachon* and *Hostess* umbrella brands which carry recognized brand names such as *Jos Louis*, *Ah Caramel!*, *Hop & Go!*, *May West*, *Passion Flakie* and others.

4.2.2 Production

Facilities

Within this sector, Saputo operates one manufacturing facility in the Province of Québec which is owned by the Company, and one in the Province of Ontario which is leased⁷.

Net Capital Expenditures

During fiscal 2000 to 2002, the Company incurred 7.8 million in capital expenditures. During the three years prior to the Culinar Acquisition, the prior owners had spent an aggregate of approximately \$29.0 million in net capital expenditures on the five facilities then existing. In fiscal 2003, the Company expects to incur net capital expenditures of approximately \$5.7 million to enhance the efficiency of its Grocery Products sector.

Environment

For a discussion of environmental matters relating to the Grocery Products sector, reference is made to the section entitled “**Dairy Products Sector – Production – Environment**”.

4.2.3 Markets and distribution

The Company is the largest manufacturer of snack cakes in Canada. Saputo sells its products almost exclusively in the Canadian retail market, including a significant portion through the grocery channel. The majority of the Company’s sales for this sector is in branded products. The Company's products are distributed mainly through its DSD distribution network.

4.2.4 Competition

In the snack cakes category, the Company competes with regional manufacturers which enjoy significantly smaller market shares than Saputo. In the Province of Québec, the Company’s main competitors are Pâtisserie Chevalier Inc., McKee Foods Corporation and Pâtisserie Fortin, a division of Maple Hurst Bakery Inc. In Ontario and Western Canada, the principal competitors are Oakrun Farm Bakery Ltd., McKee Foods Corporation and McSweeney’s Plus Distribution Ltd., respectively.

4.2.5 Employee Relations

As at May 1, 2002, the Grocery Products sector had 979 full time employees and 152 part time employees, approximately 80% of which were unionized. The collective agreement for the Sainte-Marie facility will expire in fiscal 2003 and the Company does not foresee any labour unrest in connection with its renewal.

⁷ The facility in Ontario will close before September 27, 2002 and its activities will be relocated to the facility located in Québec.

ITEM 5 - SELECTED CONSOLIDATED FINANCIAL INFORMATION ⁽¹⁰⁾

	Years ended March 31				
	2002	2001 ⁽¹⁾	2000 (audited)	1999	1998 ⁽²⁾
	(in thousands of dollars, except per share amounts)				
Statement of earnings data					
Revenues.....	3,457,412	2,161,671	1,860,878	1,915,637	817,255
Cost of sales, selling and administrative expenses.....	<u>3,104,990</u>	<u>1,890,697</u>	<u>1,623,933</u>	<u>1,724,550</u>	<u>721,828</u>
EBITDA ⁽³⁾	352,422	270,974	236,945	191,087	95,427
EBITDA margin.....	10.2%	12.5%	12.7%	10.0%	11.7%
Depreciation of fixed assets.....	68,087	51,763	37,785	27,051	13,068
Operating income.....	284,335	219,211	199,160	164,036	82,359
Interest on long-term debt.....	53,379	40,703	34,184	28,589	8,435
Other interest, net of interest income	<u>(801)</u>	<u>(1,184)</u>	<u>3,397</u>	<u>5,307</u>	<u>491</u>
Earnings before income taxes and amortization of goodwill.....	231,757	179,692	161,579	130,140	73,433
Income taxes.....	<u>71,596</u>	<u>55,607</u>	<u>51,386</u>	<u>43,170</u>	<u>25,053</u>
Earnings before amortization of goodwill	160,161	124,085	110,193	86,970	48,380
Amortization of goodwill ⁽⁴⁾	<u>-</u>	<u>13,844</u>	<u>10,125</u>	<u>7,877</u>	<u>2,635</u>
Net earnings.....	<u>160,161</u>	<u>110,241</u>	<u>100,068</u>	<u>79,093</u>	<u>45,745</u>
Net margin.....	4.6%	5.1%	5.4%	4.1%	5.6%
Earnings per share before amortization of goodwill ⁽⁵⁾⁽⁷⁾	1.56	1.21	1.10	0.90	0.65
Diluted earnings per share before amortization of goodwill ⁽⁶⁾⁽⁷⁾	1.54	1.20	1.09	0.89	0.64
Net earnings per share ⁽⁵⁾⁽⁷⁾	1.56	1.08	1.00	0.82	0.62
Diluted net earnings per share ⁽⁶⁾⁽⁷⁾	1.54	1.07	0.99	0.81	0.61
Balance sheet data					
Total assets.....	2,046,675	2,012,979	1,411,002	1,072,049	896,662
Long-term debt (including current portion)	675,125	795,896	501,575	377,784	361,334
Dividends per share ⁽⁷⁾	0.22	0.18	0.12	0.124	0.025 ⁽⁸⁾
Shareholders' equity.....	900,588	747,901	628,894	449,933	369,893
Statement of cash flow data					
Cash generated by operations ⁽⁹⁾	244,535	190,090	176,047	128,334	63,972
Net additions to fixed assets.....	59,735	42,934	53,115	62,624	22,107

(1) Includes the results of Dairyworld from February 5, 2001 to March 31, 2001.

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

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

(4) The Company adopted the new Canadian Institute of Chartered Accountants accounting recommendations on amortization of goodwill. Goodwill ceased to be amortized in accordance with these recommendations since April 1, 2001.

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

(6) Diluted earnings per share have been calculated using the sum of the weighted average number of outstanding Common Shares during the year ended March 31 as well as the number of potentially dilutive shares under options granted pursuant to the Company's Stock Option Plan.

(7) Prior years figures have been restated to reflect the Stock Split. (See "The Company - Incorporation").

(8) The amount of \$0.025 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".
- (9) Before changes in non-cash operating working capital items.
- (10) For information on each of the Dairy Products sector and the Grocery Products sector, reference is made to pages 51 to 53 of the 2002 Annual Report of Saputo, which information is incorporated herein by reference.

ITEM 6 - DIVIDEND POLICY⁸

Saputo has a policy of declaring quarterly cash dividends on the Common Shares. In fiscal 2002, the Company's dividend policy was reviewed by the Board of Directors and the dividend of \$0.045 per share, representing a yearly dividend of \$0.18 per share, was increased on August 1, 2001 to \$0.055 per share, representing a yearly dividend of \$0.22 per share. The balance of the Company's earnings are reinvested to finance the growth of its business. The Company's dividend policy will be reviewed from time to time, but at least once annually, 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, 2002 is presented under the section "Management's Discussion and Analysis" on pages 27 to 33 of the 2002 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, 2002, and the Notes thereto appearing on pages 36 to 53 of the 2002 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 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, 2002. 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.

⁸ The information contained in this section has been restated to reflect the Stock Split (See "The Company – Incorporation").

Name and municipality of residence	Director since	Principal occupation	Common Shares beneficially owned or over which control or direction was exercised
EMANUELE (LINO) SAPUTO ⁽²⁾⁽³⁾ Senneville, Québec	1992	Chairman of the Board and Chief Executive Officer of the Company	67,600,074 ⁽¹⁾
ANDRÉ BÉRARD ⁽²⁾ Verdun, Québec	1997	Chairman of the Board of a Canadian Chartered Bank	5,000
CLAUDE BLANCHET ⁽⁴⁾ Île Bizard, Québec	2000	Chairman of the Board, President and Chief Executive Officer of Société générale de financement du Québec	--
PIERRE BOURGIE ⁽²⁾ Outremont, Québec	1997	President and Chief Executive Officer of Société Financière Bourgie Inc. (a holding company)	460,000
CATERINA MONTICCIOLO, CA ⁽⁴⁾ Laval, Québec	1997	President of Julvest Capital Inc. (a holding company)	119,000
LINO A. SAPUTO, JR. Westmount, Québec	2001	President and Chief Operating Officer, Cheese Division (USA) of the Company	33,176
PATRICIA SAPUTO, CA, FP ⁽⁴⁾ Laval, Québec	1999	President of Pasa Holdings Inc. (a holding company)	17,200
LOUIS A. TANGUAY ⁽⁴⁾ Laval, Québec	1997	Corporate Director	4,000

- (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 and G. De Lucia Holdings Inc., all of 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) Mr. Emanuele (Lino) Saputo is a director of Uniforêt Inc. which filed for protection under the *Companies' Creditors Arrangement Act* on April 17, 2001.
- (4) Members of the Audit Committee.

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. Lino A. Saputo, Jr. who, from January 1, 2000 to January 15, 2001, was Assistant to the President of Uniforêt Inc. (a lumber company); and Ms. Patricia Saputo who, prior to July 1998, was a Senior 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, 2002, 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 Senneville, Québec	Chairman of the Board and Chief Executive Officer
Daniel Boulais Brossard, Québec	President and Chief Operating Officer, Bakery Division
Louis-Philippe Carrière, CA Lorraine, Québec	Executive Vice-President, Finance and Administration and Secretary
Dino Dello Sbarba Rosemère, Québec	President and Chief Operating Officer, Cheese Division (Canada)
Pierre Leroux Saint-Bruno, Québec	Executive Vice-President, Human Resources and Corporate Affairs
Lino A. Saputo, Jr. Westmount, Québec	President and Chief Operating Officer, Cheese Division (USA)
Randy Williamson Surrey, British Columbia	President and Chief Operating Officer, Milk Division

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, except for Lino A. Saputo, Jr. who, from January 1, 2000 to January 15, 2001, was Assistant to the President of Uniforêt Inc. (a lumber company); Randy Williamson who, between 1998 and the completion of the Dairyworld Acquisition, was Chief Operating Officer of Dairyworld, and prior to 1998 was Senior Vice-President, Operations of Dairyworld; and Daniel Boulais who joined Saputo Bakery (formerly known as Culinar) in 1995 as Director – Marketing and who, between the completion of the Culinar Acquisition in 1999 and July 2001, was Vice-President Marketing, Research and Development and International Sales for the same company.

As at June 1, 2002, the directors and executive officers of Saputo, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 68,263,077 Common Shares, representing approximately 66.1% 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 3 of the Company’s Management Proxy Circular dated June 4, 2002, 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 Management Proxy Circular dated June 4, 2002. Additional financial information is included in the Consolidated Financial Statements of Saputo and Notes thereto for the fiscal year ended March 31, 2002. Copies of these documents may be obtained upon request from the Secretary of Saputo, at its head office, 6869 Metropolitan Boulevard 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 Management Proxy Circular 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.

* * *