MANAGEMENT'S ANALYSIS

THE GOAL OF THE MANAGEMENT REPORT IS TO ANALYZE THE RESULTS OF AND THE FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 2007. IT SHOULD BE READ WHILE REFERRING TO OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES. THE COMPANY'S ACCOUNTING POLICIES ARE IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES OF THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS. ALL DOLLAR AMOUNTS ARE IN CANADIAN DOLLARS UNLESS OTHERWISE INDICATED. THIS REPORT TAKES INTO ACCOUNT MATERIAL ELEMENTS BETWEEN MARCH 31, 2007 AND JUNE 5, 2007, THE DATE OF THIS REPORT, ON WHICH IT WAS APPROVED BY THE BOARD OF DIRECTORS OF SAPUTO INC. (COMPANY OR SAPUTO). ADDITIONAL INFORMATION ABOUT THE COMPANY, INCLUDING THE ANNUAL INFORMATION FORM FOR THE YEAR ENDED MARCH 31, 2007, CAN BE OBTAINED ON SEDAR AT WWW.SEDAR.COM.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report, including the "Outlook" section, contains forward-looking information within the meaning of securities laws. These statements are based on our current assumptions, expectations and estimates, regarding projected revenues and expenses, the Canadian, US, Argentinean, German and United Kingdom (UK) economic environment, our ability to attract and retain clients and consumers, our operating costs and raw materials and energy supplies which are subject to a number of risks and uncertainties. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed throughout this MD&A and, in particular, in "Risks and Uncertainties". Forward-looking information contained in this report, including the "Outlook" section, is based on management's current estimates, expectations and assumptions, which management believes are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation and do not undertake to update this information at any particular time.

GLOBAL OVERVIEW

Entering fiscal 2007, a common objective among Saputo employees was to seek the levels of profitability that all stakeholders have been accustomed to. This objective was met with great enthusiasm and determination by each and every one of Saputo's employees. Their efforts were the driving force behind the profitability levels attained in fiscal 2007, the highest ever in the Company's history. Given the progress made in fiscal 2007, combined with our relentless drive to improve all aspects of our operations, Saputo is well positioned for the future.

Fiscal 2007 also marked the first time an acquisition was completed by Saputo outside the Americas, with the acquired activities of Spezialitäten-Käserei De Lucia GmbH (De Lucia), in Germany, in April 2006, and with the acquisition of the activities of Dansco Dairy Products Limited (Dansco) in the UK in March 2007. These will strengthen our goal to become a world leader in the dairy industry. Saputo's operations are carried out in 46 plants and numerous distribution centers across Canada, the United States (US), Argentina, Germany and the UK.

In an increasingly challenging dairy industry, Saputo is proud to have maintained its position as the largest dairy processor in Canada, among the top five cheese producers in the US, and the third largest dairy processor in Argentina. On a worldwide scale, Saputo ranks as one of the top twenty dairy processors. Saputo is also the largest snack-cake manufacturer in Canada. These rankings should improve with the acquisition of the activities of Land O'Lakes West Coast industrial cheese business in the US (Land O'Lakes West Coast Acquisition). This business was acquired on April 2, 2007, after the fiscal year-end. The results do not include any activities from this acquisition.

Saputo is active in two sectors: Dairy Products, which accounts for 95.7% of consolidated revenues, and Grocery Products, with 4.3% of consolidated revenues. Saputo manufactures almost all of the products it commercializes.

Our Dairy Products Sector consists of the following: Canadian and Other Dairy Products Sector and US Dairy Products Sector. The Canadian and Other Dairy Products Sector is comprised of our Dairy Products Division (Canada), Dairy Products Division (Argentina), Dairy Products Division (Germany) and Dairy Products Division (United Kingdom). The US Dairy Products Sector consists of our Cheese Division (USA). Saputo's dairy products are available in all segments of the food market: retail, foodservice, and industrial.

The **retail** segment accounts for 55% of total revenues within the Dairy Products Sector. Sales are made to supermarket chains, mass merchandisers, convenience stores, independent retailers, warehouse clubs and specialty cheese boutiques under our own brand names as well as under private labels. Products manufactured and sold in this segment include dairy products as well as non-dairy products such as non-dairy creamers, juices and drinks. The increase in this segment compared to last fiscal year, is due mainly to increased retail sales from our Canadian and Other Dairy Products Sector.

The **foodservice** segment accounts for 33% of total revenues within the Dairy Products Sector. Sales are made to specialty cheeses and broad line distributors as well as to restaurants and hotels under our own brand names and various private labels. Through our Canadian distribution network, we also offer non-dairy products manufactured by third parties. We also produce dairy blends for fast-food chains. The acquisition of the activities of Dansco in the UK, toward the end of fiscal 2007, complements our existing activities in the foodservice segment.

The **industrial** segment accounts for 12% of total revenues within the Dairy Products Sector. Sales are made to food processors that use our products as ingredients to manufacture their products.

Through our Canadian, US, and Argentinean cheese manufacturing facilities, we also produce by-products such as lactose, whey powder and whey protein. Our Canadian and Argentinean facilities supply numerous international clients with cheese, lactose, whey powder, milk powder and whey protein.

With the Land O'Lakes West Coast Acquisition in the US, the split of our Dairy Products Sector segment revenues should be approximately 49% retail, 35% foodservice and 16% industrial, on a pro forma basis.

Our Grocery Product Sector consists of our Bakery Division which manufactures and markets snack-cakes, tarts, cereal bars, and also fresh cookies and tarts since the acquisition of the activities of Boulangerie Rondeau Inc. and Biscuits Rondeau Inc. (Rondeau) in July 2006. In the Canadian market, our products are sold almost exclusively in the retail segment, through supermarket chains, independent retailers, and warehouse clubs. The Bakery Division is also present in the US, through co-packing agreements whereby the Company manufactures products for third parties under brand names owned by such parties.

Financial Orientation

Over the past four fiscal years, Saputo has completed many acquisitions in an effort to grow its business and become a leader in the global dairy industry. Acquisitions were undertaken in Canada, US, Argentina, and more recently, in Europe. Due to our disciplined approach towards acquisitions and our core value of maintaining profitable growth, we have grown over this period our top and, more importantly, our bottom line. The results in fiscal 2007 demonstrate that Saputo has remained true to its commitment of profitable growth, and in questioning current operations and re-engineering work methods to create additional value for all employees, business partners, and shareholders.

With these values in place, Saputo's financial position continues to improve. Our strong cash flows have resulted in another dividend increase and in the implementation of a second share purchase program through a new normal course issuer bid. These strong cash flows also allow Saputo to continually invest in capital projects and in research and development activities to ensure the Company remains amongst the leaders in terms of technological advancement. In addition, Saputo continues to invest in its most valuable asset, its employees.

On a global scale, the dairy industry poses many challenges for Saputo. From creating new ways to increase profitability in a mature Canadian market, to adapting to the ever changing market conditions in the US and Argentina, and to integrating our newly acquired European and US operations, we are confident that our employees are up to these challenges and that they will succeed. In addition, we will continue to evaluate acquisition opportunities. The Company looks to fiscal 2008 with great anticipation and unrelenting focus.

Elements to consider when reading Management's Analysis for fiscal 2007

During fiscal 2007, we experienced solid financial performance:

- Net earnings totalled $238.5 million, up 24.2%
- Earnings before interest, income taxes, depreciation, amortization and devaluation (EBITDA) totalled $426.3 million, up 16.5%
- Revenues reached $4.001 billion, down 0.5%
- Cash flows generated by operations totalled $343.5 million, up 14.7%

The improved results in fiscal 2007 are due mostly to our Canadian and Other Dairy Products Sector. Benefits derived from prior year rationalization activities undertaken in our Canadian operations, sales volume increases in both our Canadian and Argentinean operations, along with benefits resulting from a more favourable by-product market explain the improved results. These improvements offset rationalization costs of approximately $2.1 million for the closure of our Vancouver, British-Columbia facility and our Boucherville, Quebec facility. In addition, our Argentinean operations incurred additional charges with regards to increases in the export tax in comparison to the last fiscal year.

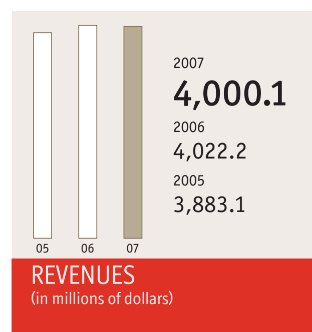
The results from our US Dairy Products Sector also improved in fiscal 2007. Significant measures undertaken by the Company to counteract adverse market conditions, along with improved efficiencies, offset the negative impacts from a lower average block market per pound of cheese, and a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material. The overall average block market per pound of cheese in fiscal 2007 of US$1.26 was US$0.16 lower compared to the US$1.42 for last fiscal year. This downward trend created a negative effect on the absorption of fixed costs. With regards to inventories, the block market had a favourable impact on their realization. All market factors combined had a negative impact of approximately $20 million on EBITDA. The division also incurred rationalization costs of approximately $1.3 million for the closure of our Peru, Indiana facility.

The results of fiscal 2007 from our Grocery Products Sector remained relatively stable in comparison to fiscal 2006. Decreased marketing expenditures and the inclusion of Rondeau, acquired on July 28, 2006, offset lower EBITDA due to increased raw material and other costs, and lower EBITDA resulting from reduced revenues from our co-packing agreements for the manufacturing of products for the US market in comparison to the last fiscal year. Also included in fiscal 2007, are rationalization charges of approximately $0.6 million for the closure of our Laval, Quebec facility.

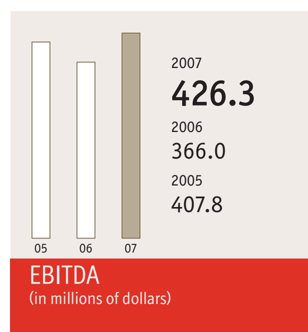
In fiscal 2006, the Company wrote down the value of its portfolio investment by $10 million, and in addition, a dividend of $1.0 million during fiscal 2006 was accounted for as a reduction of the cost of the investment. The write-down had an after-tax effect of approximately $8 million. An evaluation of the fair value of the portfolio investment was also performed in fiscal 2007. The evaluation concluded that the carrying value on the March 31, 2007 balance sheet is appropriate and no write-down was required in fiscal 2007.

Included in the results of fiscal 2006, were rationalization charges of approximately $2 million in our Canadian and Other Dairy Products Sector for the closure of our Harrowsmith, Ontario facility, and approximately $3.3 million in our US Dairy Products Sector for the closure of our Whitehall, Pennsylvania facility.

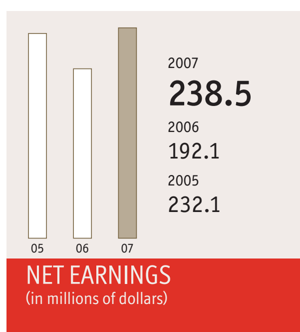
In fiscal 2007 the Company benefited from a one-time tax reduction to adjust future tax balances, due to a reduction in Canadian federal tax rates, thus increasing net earnings by approximately $6 million. In fiscal 2006, the Company recorded tax benefits resulting from prior tax losses available for our Argentinean operation of approximately $4 million. The Company also recorded in fiscal 2006 a tax charge of approximately $2 million to adjust future tax balances due to an increase in Canadian provincial tax rates.



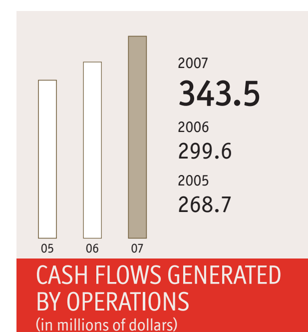
REVENUES
(in millions of dollars)



EBITDA
(in millions of dollars)



NET EARNINGS
(in millions of dollars)



CASH FLOWS GENERATED BY OPERATIONS
(in millions of dollars)

Selected consolidated financial information

Years ended March 31 (in thousands of dollars, except per share amounts and ratios)		2007	2006	2005
Statement of earnings data				
Revenues	Dairy Products Sector			
	Canada and Other	$2,794,099	$ 2,651,402	$ 2,415,541
	United States	1,036,830	1,206,601	1,308,735
		3,830,929	3,858,003	3,724,276
	Grocery Products Sector	170,051	164,207	158,793
		$4,000,980	$4,022,210	$3,883,069
Cost of sales, selling and administrative expenses				
	Dairy Products Sector			
	Canada and Other	$ 2,477,013	$2,389,809	$ 2,171,380
	United States	953,940	1,128,301	1,171,692
		3,430,953	3,518,110	3,343,072
	Grocery Products Sector	143,695	138,135	132,238
		$ 3,574,648	$3,656,245	$ 3,475,310
EBITDA[1]	Dairy Products Sector			
	Canada and Other	$ 317,086	$ 261,593	$ 244,161
	United States	82,890	78,300	137,043
		399,976	339,893	381,204
	Grocery Products Sector	26,356	26,072	26,555
		$ 426,332	$ 365,965	$ 407,759
	EBITDA margin (%)	*10.7%*	*9.1%*	*10.5%*
Depreciation of fixed assets				
	Dairy Products Sector			
	Canada and Other	$ 36,163	$ 34,146	$ 29,743
	United States	29,849	29,881	31,175
		66,012	64,027	60,918
	Grocery Products Sector	6,104	5,334	5,147
		$ 72,116	$ 69,361	$ 66,065
Operating income				
	Dairy Products Sector			
	Canada and Other	$ 280,923	$ 227,447	$ 214,418
	United States	53,041	48,419	105,868
		333,964	275,866	320,286
	Grocery Products Sector	20,252	20,738	21,408
		$ 354,216	$ 296,604	$ 341,694
Devaluation of portfolio investment		–	10,000	–
Interest on long-term debt		22,603	24,474	28,026
Other interest, net of interest income		(3,498)	(644)	1,064
Earnings before income taxes		335,111	262,774	312,604
Income taxes		96,644	70,672	80,459
Net earnings		$ 238,467	$ 192,102	$ 232,145
Net earnings margin (%)		*6.0%*	*4.8%*	*6.0%*
Net earnings per share		$ 2.30	$ 1.83	$ 2.23
Diluted net earnings per share		$ 2.28	$ 1.82	$ 2.20
Dividends declared per share		$ 0.80	$ 0.72	$ 0.60
Balance sheet data				
Total assets		$2,488,367	$2,253,933	$ 2,133,072
Long-term debt (including current portion)		$ 254,033	$ 291,846	$ 302,521
Shareholders' equity		$1,533,018	$1,402,543	$1,315,850
Statement of cash flows data				
Cash flows generated by operations		$ 343,501	$ 299,567	$ 268,676
Amount of additions to fixed assets, net of proceeds on disposal		$ 72,319	$ 92,868	$ 76,345

[1] Measurement of results not in accordance with Generally Accepted Accounting Principles.
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation, amortization and devaluation of portfolio investment. EBITDA is not a measurement of performance as defined by Generally Accepted Accounting Principles in Canada, and consequently may not be comparable to similar measurements presented by other companies. Reference is made to the section entitled "Measurement of results not in accordance with Generally Accepted Accounting Principles".

Saputo's **consolidated revenues** totalled $4.001 billion, a decrease of $21.2 million or 0.5% compared to $4.022 billion for fiscal 2006. The decrease is attributed to our US Dairy Products Sector, whose revenues decreased by approximately $170 million. An average block market per pound of cheese of US$1.26 in fiscal 2007, compared to US$1.42 in fiscal 2006, negatively affected revenues by approximately $84 million. The appreciation of the Canadian dollar in fiscal 2007 eroded approximately $48 million in revenues in comparison to last fiscal year. Sales volumes decreased by 5.9%, due to the closure of the Peru, Indiana facility in May 2006. Excluding this closure, sales volumes remained relatively stable in fiscal 2007 in comparison to last fiscal year. Revenues from our Canadian and Other Dairy Products Sector increased by approximately $143 million in comparison to last year. Higher selling prices in our Canadian operations, in accordance with the increase in the cost of milk as raw material, increased sales volumes from our Canadian fluid milk activities and Argentinean operations, additional revenues due to a more favourable by-products market, and the inclusion of our German operations, acquired on April 13, 2006, explain the increased revenues in this sector. These factors offset the erosion of revenues from our Argentinean operations due to the appreciation of the Canadian dollar. Revenues from our Grocery Products Sector increased by approximately $6 million in comparison to last fiscal year. Additional sales volumes intended for the Canadian market and the inclusion of Rondeau, acquired on July 28, 2006, offset lower revenues generated by our co-packing agreements for the manufacturing of products for the US market.

Consolidated earnings before interest, income taxes, depreciation, amortization and devaluation (EBITDA) amounted to $426.3 million in fiscal 2007, an increase of $60.3 million or 16.5% compared to the $366.0 million for fiscal 2006. The increase is attributed essentially to our Canada and Other Dairy Products Sector, whose EBITDA increased by $55.5 million to $317.1 million in comparison to $261.6 million for fiscal 2006. This increase is mainly attributed to the benefits derived from rationalization activities undertaken in our Canadian operations during prior years, along with increased sales volumes from our Canadian fluid milk activities and Argentinean operations in comparison to last fiscal year. The sector also benefited from a more favourable by-products market. The EBITDA of our Argentinean operations continues to be negatively affected by the appreciation of the Canadian dollar, as well as the previously reported changes in the export tax. Both factors negatively affected EBITDA by approximately $4 million compared to the previous fiscal year. During fiscal 2007, rationalization charges of approximately $2.1 million were taken for the closure of our Vancouver, British Columbia facility and our Boucherville, Quebec facility. Fiscal 2006 included a rationalization charge of approximately $2.0 million for the closure of our Harrowsmith, Ontario facility. The EBITDA of our Dairy Products Division (Germany) and our Dairy Products Division (United Kingdom) had a minimal effect on the sector's EBITDA.

The EBITDA of our US Dairy Products Sector amounted to $82.9 million, an increase of $4.6 million in comparison to $78.3 million for last fiscal year. Significant efforts were undertaken by the sector to increase EBITDA, such as improving operational efficiencies, increasing selling prices, reducing promotional, energy, packaging and ingredients costs, and reducing the cost associated with milk handling. These efforts increased EBITDA by approximately $22 million in fiscal 2007 compared to fiscal 2006. The division also benefited from the revisions to the milk pricing formulas from both the California Department of Agriculture, effective November 1, 2006 as well as the US Department of Agriculture, effective February 1, 2007. These positive factors offset reductions in EBITDA due to the negative market conditions. An average block market per pound of cheese of US$1.26 in fiscal 2007 was lower than US$1.42 in fiscal 2006, causing a negative effect on the absorption of our fixed costs. In addition, a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material was observed this fiscal year compared to last fiscal year. With regards to inventories, the market factors had a favourable impact on their realization. These factors combined had a negative impact of approximately $20 million on EBITDA. The rise of the Canadian dollar eroded approximately $3.4 million from the current year's EBITDA. In fiscal 2007, the division incurred approximately $1.3 million of rationalization charges, in relation to the closure of our facility in Peru, Indiana. In fiscal 2006, the division incurred approximately $3.3 million of rationalization charges in relation to the closure of our facility in Whitehall, Pennsylvania.

The EBITDA of our Grocery Products Sector increased slightly to $26.4 million in the current fiscal year from $26.1 million in fiscal 2006. Decreased marketing expenditures and the inclusion of Rondeau, acquired on July 28, 2006, increased EBITDA by approximately $5 million in fiscal 2007. This increase was offset by increased raw material and other costs, and lower EBITDA resulting from reduced revenues generated by our co-packing agreements for the manufacturing of products for the US market in comparison to last fiscal year. The Grocery Products Sector also incurred in fiscal 2007 approximately $0.6 million of rationalization charges in relation to the closure of its facility in Laval, Quebec.

The consolidated EBITDA margin increased from 9.1% in fiscal 2006 to 10.7% in fiscal 2007. This increase is due to higher EBITDA margins achieved by essentially all sectors in fiscal 2007 in comparison to fiscal 2006.

Depreciation expense totalled $72.1 million in fiscal 2007, an increase of $2.7 million over $69.4 million in fiscal 2006. The increase is mainly attributed to capital expenditures undertaken in the prior and current years in all sectors, more predominantly in our Canadian and Other Dairy Products Sectors. The acquisitions completed in fiscal 2007 also explain the increased depreciation. These increases offset lower depreciation from our Cheese Division (USA) and our Dairy Products Division (Argentina) as a result of the appreciation of the Canadian dollar.

In fiscal 2006, the Company wrote down the value of its **portfolio investment** by $10.0 million, negatively affecting net earnings before income taxes. In addition, a dividend of $1.0 million received during fiscal 2006 was accounted for as a reduction of the cost of the investment. These actions were deemed necessary following an evaluation of the fair value of the investment. The write-down had an after-tax effect of approximately $8 million in fiscal 2006. The same evaluation was performed in fiscal 2007. The conclusion was that no write-down was necessary in fiscal 2007.

Net interest expense amounted to $19.1 million in fiscal 2007 compared to $23.8 million in fiscal 2006. The decrease is due to additional interest revenue generated from excess cash on hand in fiscal 2007 compared to fiscal 2006, the appreciation of the Canadian dollar and the repayment of the US$30 million of long-term debt.

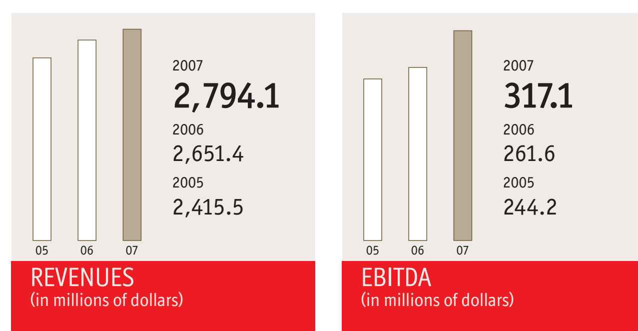
Income taxes totalled $96.6 million in fiscal 2007 for an effective tax rate of 28.8%, compared to $70.7 million for an effective tax rate of 26.9% in fiscal 2006. During fiscal 2007, the Company benefited from a one-time tax reduction of approximately $6 million to adjust future tax balances, due to a reduction in Canadian federal tax rates. In fiscal 2006, the Company recorded a tax benefit of approximately $4 million resulting from prior tax losses available for our Argentinean operations. Also in fiscal 2006, the Company recorded a tax charge of approximately $2 million to adjust future tax balances due to an increase in Canadian provincial tax rates. Excluding these tax adjustments, the effective tax rate for fiscal 2007 was 30.6% in comparison to 27.7% in fiscal 2006. Our income tax rate varies and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates. During the fiscal year, a proposed change with retroactive effect to a Canadian provincial tax legislation was effectively enacted. A tax assessment for an amount of approximately $12 million was issued as a result of the enactment. The Company has legal basis to believe that it will not have to pay such tax assessment. Therefore, no amount relating to this assessment has been included in the March 31, 2007 financial statement.

Net earnings for the year ended March 31, 2007 totalled $238.5 million, an increase of $46.4 million or 24.2% compared to $192.1 million in fiscal 2006. The increase is due to the factors mentioned above.

INFORMATION BY SECTOR

CANADIAN AND OTHER DAIRY PRODUCTS SECTOR

The sector is comprised of our Dairy Products Division (Canada), Dairy Products Division (Argentina), Dairy Products Division (Germany), and Dairy Products Division (United Kingdom).



Revenues (Canadian and Other Dairy Products Sector)

Revenues from the Canadian and Other Dairy Products Sector amounted to $2.794 billion, an increase of $142.7 million compared to $2.651 billion for fiscal 2006. The increase in revenues is distributed as follows: approximately $94 million is attributed to our Dairy Products Division (Canada), approximately $31 million is attributed to our Dairy Products Division (Germany), approximately $17 million is attributed to our Dairy Products Division (Argentina), and approximately $1 million is attributed to our newly acquired Dairy Products Division (United Kingdom).

The $94 million increase in revenues from our Dairy Products Division (Canada) is attributable to three main factors. Approximately $53 million relates to higher selling prices in accordance with the increase of the cost of milk as raw material. In addition, we enjoyed volume growth in most categories, especially in fluid milk and cream. Continuing the trend from our previous fiscal year, we increased sales volume in our core category of fluid milk as we further penetrated those regions where we are less prevalent. Our sales volume for our fluid milk category increased by 3.3%. Last fiscal year, the same increase was 2.9%. Finally, our industrial segment contributed to the revenue increase through higher by-products sales due to a more favourable by-product market. These increases offset lower sales volume from certain less profitable products in our Canadian retail and industrial cheese segments.

Our pricing, rebating and discounting practices in all segments were unchanged throughout the fiscal year.

The Company produces about **37%** of all the natural cheese manufactured in Canada and remains the leader in the industry. On the fluid milk side, Saputo's production accounts for approximately **22%** of the Canadian total.

In the **retail** segment, most product categories within the Canadian dairy market are relatively stable in terms of per capita consumption. Therefore, we rely on product innovations and enhancements to fuel our sales development. Our continuous efforts in the growing specialty cheese category are fruitful and have enabled us to capitalize on numerous opportunities. Our sales volume growth in the soft cheese category demonstrates that we are heading in the right direction and we expect the consumer's enthusiasm for these products to continue. In fiscal 2007, we continued towards the development of value added product categories. Our efforts in this regard are yielding positive results. *Milk 2 Go/Lait's Go* is a good example of a Saputo innovation that has delivered several years of sales growth and became the number one brand in Canada as Single Serve Plastic Beverage[1] in its segment. Other examples include *Shape* diet yogurt and a variety of new cheeses launched under our *Saputo* and *Armstrong* brands. The retail segment sales accounts for 64% of revenues in our Dairy Products Division (Canada). This percentage remains unchanged as compared to the prior fiscal year.

The **foodservice** segment remained relatively stable compared to the previous fiscal year and represents 32% of revenues in our Dairy

[1] Source: ACNielsen, Brand Overview, Total Single Serve Milk, Milk Shakes, 500mL or Under, Plastic Bottle (Control Label Excluded), 52 weeks ending September 2, 2006.

Products Division (Canada). We are working closely with our customers in order to better satisfy their needs and helping to maintain and develop a strong relationship to grow our business. The largest volume increase in this segment was in the fluid milk and cream category. Our specialty cheese team has continued to successfully introduce their products, thus increasing volume.

The **industrial** segment accounts for 4% of revenues in our Dairy Products Division (Canada), relatively stable in comparison to last fiscal year. This segment is comprised of cheese sales as well as by-product sales. Our increase in revenues is attributable to a more favourable by-product market and higher sales volumes versus last fiscal year.

The $17 million revenue increase from our Dairy Products Division (Argentina) in fiscal 2007 compared to fiscal 2006 is due to increased sales volumes mainly from our export sales. Our export market enjoyed sales volume increases and higher market prices. Sales volumes of our cheese products destined for the domestic market also showed an increase in fiscal 2007 compared to the prior fiscal year. These increases offset the erosion of revenues in fiscal 2007 due to the appreciation of the Canadian dollar.

Revenues from our Dairy Products Division (Germany) are in line with our pre-acquisition expectations. The acquisition of our Dairy Products Division (United Kingdom) was completed on March 23, 2007, and our results only reflect one week of revenues.

EBITDA (Canadian and Other Dairy Products Sector)

Our earnings before interest, income taxes, depreciation and amortization (EBITDA) totalled $317.1 million for the fiscal year ending March 31, 2007, an increase of 21.2% compared to $261.6 million for the previous fiscal year. The EBITDA margin increased from 9.9% in fiscal 2006 to 11.3% in fiscal 2007. The margin improvement is the result of better margins from both our Dairy Products Division (Canada) and our Dairy Products Division (Argentina).

The Dairy Products Division (Canada) had a strong performance this fiscal year in comparison to last fiscal year, benefiting from prior years' operational rationalizations. These rationalization measures, an integral part of our commitment to being a low cost producer, have allowed our manufacturing facilities to become more specialized and efficient.

On July 21, 2006, we completed the closure of our cheese manufacturing plant in Harrowsmith, Ontario. In addition, on March 7, 2007, we announced the closure of two plants, one cheese manufacturing plant in Vancouver, British Columbia (closed as of March 31, 2007) and one cutting and wrapping facility in Boucherville, Quebec (closure completed during the first quarter of fiscal 2008). These decisions are part of the Company's continual analysis of its overall activities and the implementation of measures aimed at improving its operational efficiency. As part of this process, the Company plans to invest approximately $10 million in fixed assets in fiscal 2008 mainly to enhance automation within our Canadian plants.

As a result of these rationalizations, the Company expects annual EBITDA savings of approximately $4.8 million, and approximately $3 million for fiscal 2008. In fiscal 2007, rationalization charges of approximately $2.1 million were incurred for the closure of the two facilities mentioned above. The EBITDA for fiscal 2006 included a rationalization charge of approximately $2.0 million for the closure of our Harrowsmith, Ontario facility.

The increase in EBITDA during fiscal 2007 clearly reflects better efficiencies throughout our manufacturing plants. In addition, savings generated through logistics optimization contributed positively to the increased EBITDA. Furthermore, a strong by-product market in fiscal 2007 had a positive impact on EBITDA of approximately $11 million compared to fiscal 2006.

The EBITDA of our Dairy Products Division (Argentina) performed well in fiscal 2007. Additional EBITDA generated from increased sales volumes, and benefits derived from capital investments in the current and prior years offset the negative impacts from the increased export tax as well as the appreciation of the Canadian dollar.

The EBITDA of our Dairy Products Division (Germany) and our Dairy Products Division (United Kingdom) had a minimal effect on our consolidated financial statements.

Outlook (Canadian and Other Dairy Products Sector)

Fiscal 2007 has been a successful year. The years to come will benefit from the optimization of our production facilities through the closure of our Vancouver and Boucherville plants, but also through the investment in automation planned for fiscal 2008. These investments will allow us to remain a low cost producer and competitive within the industry.

In fiscal 2008, we will continue to concentrate on all areas of our business and increase marketing efforts to launch value added products that generate higher margins throughout the chain while providing a true benefit to our consumers and customers. We will also continue to support our core brands in an effort to maintain our position in the market.

We believe that the market for specialty cheeses offers good potential for growth. Our dedicated specialty cheese resources are well positioned to capitalize on this potential. We consider innovation as a primary focus in order to be able to offer products that meet the needs of today's consumers. Accordingly, we are allocating resources to new product innovations that will allow us to secure and build long-term relationships with both our customers and our consumers.

We see excellent opportunities for innovation in several dairy categories, including milk, cream, yogurt and cheese. Accordingly, we are planning to launch a variety of value added products in these categories during fiscal 2008. Moreover, we will support our product innovations via advertising and promotional programs throughout fiscal 2008.

The Company is constantly evaluating its production capacity in all categories of products. Our goal is to ensure that the right product is produced at the right place. Our excess production capacity stands at 31% in our Canadian cheese activities and 36% in our Canadian fluid milk activities.

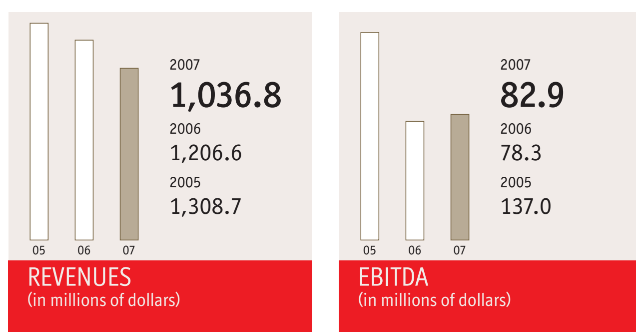
As the capital expenditures have been completed, our focus in our Dairy Products Division (Argentina) will be on ensuring costs are maintained at minimal levels. We will also evaluate our product mix, along with its respective distribution channels, in order to further improve our customer service. Our goal is to continue the growth of our domestic and export activities. We plan to increase our sales volumes, the variety of products offered, and the locations served.

The goal in fiscal 2008 for our Dairy Products Division (Germany) and our Dairy Products Division (United Kingdom) will be to continue the integration of these operations within Saputo. We will also focus on these operations to obtain a better understanding of the European market.

US DAIRY PRODUCTS SECTOR

Cheese margins in the US dairy industry are heavily influenced by government regulation. In most cases, regulations dictate the minimum price that must be paid for milk. The minimum milk price is derived from formulas based on the value of basic commodities such as cheddar cheese, butter, dry whey and nonfat dry milk. The formulas provide an allowance intended to cover manufacturing expense and profit. The allowance is fixed and seldom updated by government for periodic increases in manufacturing expenses. In November 2006 the State of California reduced its manufacturing milk price by approximately US$0.42 per hundredweight and in late February 2007, the United States Department of Agriculture followed suit with a US$0.25 reduction effective February 1, 2007. In both cases, the amounts were less than those expected by the industry. As previously mentioned, one of the primary inputs in the formulas that establish the minimum price for milk is the value of dry whey. This is without regard to the fact that relatively few cheese manufacturers produce that commodity. Most have migrated to the production of more sophisticated whey products. Once a whey strategy is decided, it is generally not economically feasible to switch back and forth between alternative products. From the middle of calendar 2006 through the middle of fiscal 2007, the market for dry whey had been averaging about 40% above historic levels. In late calendar 2006 and early 2007, the dry whey market skyrocketed to unprecedented levels of more than three times the historic average. This high dry whey price has driven up milk prices beyond the economic return attainable from other cheese by-products.

Despite these challenges in fiscal 2007, our Cheese Division (USA) was able to deliver significant improvements over fiscal 2006.



Revenues (US Dairy Products Sector)

Revenues from our US Dairy Products Sector totalled $1.037 billion in fiscal 2007, a decrease of $169.8 million in comparison to $1.207 billion for fiscal 2006. The lower average block market per pound of cheese this fiscal year had a negative impact of approximately $84 million on revenues. The average block market per pound of cheese during fiscal 2007 was US$1.26, a US$0.16 decrease from the US$1.42 in fiscal 2006. The appreciation of the Canadian dollar throughout the fiscal year negatively affected revenues by approximately $48 million. Sales volumes were 5.9% lower than fiscal 2006 primarily as the result of closing our Peru, Indiana facility in May 2006. The volume decline was concentrated in the industrial channel, which felt the majority of the impact of the Peru closure. Retail sales volumes increased 1.5% over last year while foodservice sales volume remained relatively stable. Our volumes increased in many of our cheese types with notable increases in string and feta.

Our pricing, rebating and discounting practices in all segments were unchanged throughout the fiscal year.

The retail segment accounts for 31% of our total sales volume in the US, slightly higher than the previous fiscal year. In the last fiscal year, we concentrated our marketing efforts on supporting our brands with distinctive promotions, and product advertising to grow market share in several highly competitive retail cheese categories. *Frigo Cheese Heads* continues to be the number one brand of string cheese in the US along with the *Treasure Cave* blue cheese brand[1].

The foodservice segment accounts for 48% of our total sales volume in the US, slightly higher than that of last fiscal year. To support our growing foodservice segment, we implemented an awareness building plan through print advertising in key trade publications, and the launch of a website focused on that segment. During the fiscal year, we managed to maintain volume despite the necessity of implementing further price increases to offset the adverse industry economics, thanks to the quality of our products, our customer service, and most importantly, our people.

The industrial segment represents 21% of our total sales volume in the US, which is lower than last fiscal year because of the Peru, Indiana closure. Products in the industrial segment also include whey by-products, sweetened condensed milk and eggnog. Prices of by-products in the international market were even stronger in fiscal 2007 compared to an already strong market in fiscal 2006.

EBITDA (US Dairy Products Sector)

During fiscal 2007, earnings before interest, income taxes, depreciation and amortization totalled $82.9 million, a $4.6 million or 5.9% increase compared to $78.3 million posted in fiscal 2006. Major strides were made during the fiscal year with respect to improved operational efficiencies, increased selling prices, and the reduction of the cost associated with milk handling. The sum of these efforts resulted in approximately $15 million improvement in EBITDA in fiscal 2007 compared to fiscal 2006. In addition, the division spent approximately $4 million less on promotional costs and approximately $3 million less on energy, packaging and ingredients costs during the current fiscal year. Finally, the reduction of the manufacturing milk price of approximately US$0.42 per hundredweight by the state of California and approximately US$0.25 per hundredweight by the United States Department of Agriculture improved EBITDA by approximately $3 million during fiscal 2007.

These efforts offset the negative market conditions that existed throughout fiscal 2007. The “spread” or margin between the average block market per pound of cheese and the cost of milk as raw material was actually lower than that of fiscal 2006 which had

[1] Source: Information Resources, Inc. (IRI), 52 weeks ending March 25, 2007, Total US FDMW.

been the lowest in the past 25 years. The spread was adversely impacted by the unprecedented high market value of dry whey, which impacts the price of milk as raw material. The overall average block market per pound of cheese of US$1.26 this fiscal year was lower compared to US$1.42 of last fiscal year. This eroded our EBITDA by reducing the basis for absorption of our fixed costs. Fortunately, the cheese market rose gradually through much of the fiscal year. When the market is rising, cheese produced at a lower cost is subsequently sold at a higher sales price. Fiscal 2007 commenced with a block market per pound of cheese at US$1.17 and ended at US$1.42, while fiscal 2006 started at US$1.62 and ended at US$1.17. The rising market created a favourable impact on the realization of inventories. These combined factors had a negative impact of approximately $20 million. The appreciation of the Canadian dollar created a shortfall in EBITDA of approximately $3.4 million. Rationalization costs for the closure of our Peru, Indiana facility of approximately $1.3 million were incurred in fiscal 2007. Included in fiscal 2006 was a rationalization charge of $3.3 million for the closure of our facility in Whitehall, Pennsylvania.

Outlook (US Dairy Products Sector)

On April 2, 2007, we completed the Land O'Lakes West Coast Acquisition. This business employs approximately 530 people in Tulare, California and its operations consist of manufacturing, selling, shredding and blending of mostly mozzarella and provolone cheese products. In 2006, the activities related to the Land O'Lakes West Coast Acquisition generated annual sales of approximately US$415 million. In connection with this transaction, Saputo secured a long-term milk supply agreement for approximately two billion pounds of milk annually.

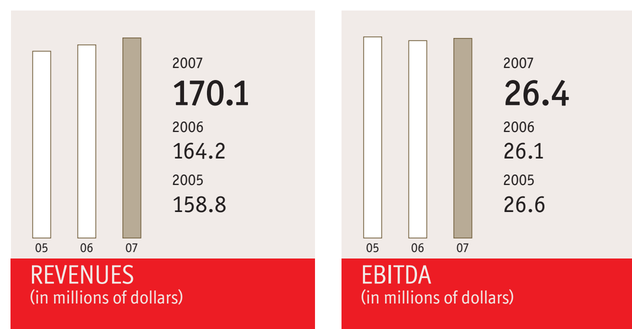
This transaction will enable our Cheese Division (USA) to grow significantly in enhancing the capability of serving all customers regardless of size. This business, which represents almost half of our existing US activities, is also equipped with a by-product drying facility that provides us with greater flexibility in our US operations. Much of our focus for the next fiscal year will be concentrated on the successful integration of these activities into the Cheese Division (USA). As always, instilling the culture and values of Saputo will be of utmost importance. In the months to follow, we will undertake an extensive analysis of the cost structure looking to optimize synergies between the new business and our existing activities. Customer relationships and practices will be transitioned over time to mirror those of our existing US business.

Given the increasing world demand for dairy proteins, we expect another challenging year in the context of the US dairy market. The cost of milk is again expected to be high relative to the value of cheese. We will continue to work toward mitigating the adverse market impacts by improving efficiencies, innovating, and providing quality products and services to customers.

There will be exciting new product developments in the coming year, some of which will employ technology from our new German division. During fiscal 2008, we will relaunch our *Frigo Cheese Heads* string cheese with an improved texture, flavour and new packaging. We will also focus on our specialties including hard Italian, blue and *Lorraine* cheeses. As always, we approach the new year with energy and optimism while respecting the difficulty of the challenges ahead.

GROCERY PRODUCTS SECTOR

The Grocery Products Sector consists of the Bakery Division and accounts for 4.3% of the revenues of the Company.



Revenues (Grocery Products Sector)

Revenues for the Grocery Products Sector totalled $170.1 million for the fiscal year ended March 31, 2007, a $5.9 million increase compared to the previous fiscal year. The increase is due to a combination of higher Canadian sales volumes and the inclusion of Rondeau, partly offset by a reduction in sales volumes from our co-packing agreements for the manufacturing of products for the US market.

Our Canadian sales volumes showed an increase of 6.4%. This increase is due to the following factors: the inclusion of Rondeau, acquired in July 2006, an improved product offering and a better execution of our marketing programs both at the store level and in our promotional activities. In Canada, despite an ever increasing competition and a static market, we increased our market share.

During the fiscal year, we have actively supported our brands. The sector in which we are present requires innovation and the necessity to constantly adapt our product offering on a seasonal basis. During fiscal 2007, we have introduced 26 new products, including four under the *Rondeau* brand name. As an example, the following products have been introduced under the *Vachon* brand: the gorilla-shaped muffin *Igor*, 100 calories Half *Jos Louis* as well as mini *Half moon* and Maple *Mille Feuilles*. At the beginning of fiscal 2007, we also launched *HOP&GO!* Multigrains available in four different flavours.

In the US, we concentrated our efforts in developing co-packing agreements. Unfortunately our efforts did not bear fruit, as we saw a decline in sales volumes.

EBITDA (Grocery Products Sector)

The EBITDA for our Grocery Products Sector totalled $26.4 million for fiscal 2007, a $0.3 million increase as compared to the last fiscal year. Decreased marketing expenditures in relation to the *HOP&GO!* brand in Ontario and in the Maritimes and the inclusion of Rondeau, acquired on July 28, 2006, increased EBITDA by approximately $5 million. This increase was offset by higher manufacturing costs, mainly related to ingredients, packaging, labor and energy and lower EBITDA resulting from reduced revenues generated by our co-packing agreement for the manufacturing of products for the US market. EBITDA margin went from 15.9% in

fiscal 2006 to 15.5% in fiscal 2007. This decrease is the result of the inclusion of revenues from Rondeau, which generates a lower EBITDA margin than the rest of the division. The Grocery Products Sector also incurred in fiscal 2007 approximately $0.6 million of rationalization charges in relation to the closure of our Laval, Quebec facility announced on March 29, 2007. During the prior fiscal years, our investment in fixed assets have allowed us to increase our operational efficiency by different automation and robotization projects. The savings related to these investments have partly offset the increase in the previously mentioned costs.

OUTLOOK (Grocery Products Sector)

The *Vachon* product portfolio has managed not only to retain its clientele but also has showed a slight increase. Even though brand recognition of these products is quite high, we will focus our marketing and sales efforts behind this brand which is the core of the Bakery division. Our main objective remains the same: respond to consumers needs with healthier products in both the indulgent and nutritious products category such as *HOP&GO!* and *Igor* product lines. These products benefit from an excellent reputation and a dedicated consumer base and will receive the necessary attention required for their development.

The product portfolio of fresh cookies and tarts from the acquisition of Rondeau will see the introduction of new flavours. Our attention will mainly be directed towards the penetration of these products in Ontario as well as in Atlantic and Western Canada. In June 2007, we will be closing our fresh cookies manufacturing plant in Laval, Quebec. The activities of that plant will be integrated in our Ste-Marie plant, as announced in March 2007.

Fiscal 2008 will be the third year of our three year program for the development and the redeployment of our brands. As mentioned in the previous fiscal year, our program spending in fiscal 2008 will be identical to the amount spent in fiscal 2007, being $2.5 million with a total representing $10 million over the life of the 3-year program. In the US, we will maintain the same approach and seek to improve the development of our co-packing business.

LIQUIDITY

Cash generated by operating activities before changes in non-cash working capital items amounted to $313.6 million for fiscal 2007, an increase of $48.2 million compared to $265.4 million in fiscal 2006. During fiscal 2007, non-cash working capital items generated $29.9 million, in comparison to $34.2 million generated in fiscal 2006. The higher funds generated from non-cash working capital items in fiscal 2006 were due to inventory reductions in our Canadian and US dairy operations due to lower cheese production in Canada and a lower average block market per pound of cheese in the US. In fiscal 2007, the generation of funds was due mainly to reduced inventories as a result of improved inventory management in our Canadian and Argentinean dairy operation.

In **investing activities**, the Company acquired in fiscal 2007 the activities of De Lucia, Rondeau and Dansco for a combined purchase price of $31.8 million. The Company added $76.1 million in fixed assets, of which nearly 22% went into the replacement of fixed assets. The remaining funds were used to implement new technologies, as well as to expand and increase certain manufacturing capacities. The total fixed asset spending is on target when compared to our original fiscal 2007 budget of $76 million. The Company also disposed of unused assets in fiscal 2007 for total proceeds of $3.8 million.

As for **financing activities** in fiscal 2007, the Company increased the use of its bank loans by $93.7 million, essentially for the Land O'Lakes West Coast Acquisition, which occurred immediately following fiscal 2007. In fiscal 2007, the Company also repaid $33.8 million of long-term debt, issued shares for a cash consideration of $20.9 million, as part of the stock option plan, purchased share capital totalling $50.7 million in accordance with the normal course issuer bid, and paid $80.7 million in dividends.

FINANCIAL RESOURCES

As at March 31, 2007, the Company's working capital stood at $521.1 million, an increase of $97.5 million compared to the $423.6 million at March 31, 2006. The increase is attributed to the significant accumulation of cash and cash equivalents generated by our operations in fiscal 2007. Our interest bearing debt[1]-to-equity ratio improved to 0.08 as at March 31, 2007, compared to 0.17 as at March 31, 2006. The improvement is due to the strong cash flows generated from operations in fiscal 2007. As our financial position continues to improve, we do not foresee any additional working capital requirements.

For fiscal 2008, the Company expects to add about $118 million to fixed assets, with approximately $72 million marked for new technology and added manufacturing capacity. The remainder will be devoted to replacing certain fixed assets. The Company expects fixed-asset depreciation expense to total approximately $84 million in fiscal 2008. The increase in depreciation expense in comparison to fiscal 2007 is the result of capital expenditures undertaken in prior fiscal years and the additional depreciation expense from acquisitions completed in the current and prior fiscal years. All funds required for the additions to fixed assets will be generated from Company operations. As at March 31, 2007, the Company had no significant commitments related to fixed asset acquisitions.

The Company currently has at its disposal bank credit facilities of approximately $357 million, $139.0 million of which are drawn. The Company also had $276.9 million of cash and cash equivalents, for which $254 million was used for the Land O'Lakes West Coast Acquisition on April 2, 2007. Should the need arise, the Company can make additional financing arrangements to pursue growth through acquisitions.

BALANCE SHEET

In comparison to March 31, 2006, the main balance sheet items as at March 31, 2007 varied due to the appreciation of the Canadian dollar versus both the US dollar and the Argentina peso. The conversion rate of our US operations' balance sheet items in US currency was CND$1.1546 per US dollar as at March 31, 2007, compared to CND$1.1671 per US dollar as at March 31, 2006. The conversion rate of our Argentinean operations' balance sheet items in Argentina pesos was CND$0.3691 per Argentina peso as at March 31, 2007 compared to CND$0.3775 per Argentina peso as at March 31, 2006. The increased Canadian dollar results in lower values recorded for the balance sheet items of our foreign operations. Changes in the main balance sheet items were also due to the acquisition of the activities of De Lucia, Rondeau and Dansco.

[1] Net of cash and cash equivalents.

During fiscal 2007, the current portion of long-term debt of $35.0 million reported on our March 31, 2006 balance sheet was paid. This amount related to the US$30.0 million senior note. Our net cash position increased from $50.0 million as at March 31, 2006, to $137.9 million as at March 31, 2007. The change in foreign currency translation adjustment listed under shareholders' equity varied due to the appreciation of the Canadian dollar. The Company's total assets stood at $2.488 billion as at March 31, 2007, compared to $2.254 billion as at March 31, 2006.

SHARE CAPITAL INFORMATION

Share capital authorized by the Company is comprised of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares can be issued in one or more series, and the terms and privileges of each class must be determined at the time of their creation.

	Authorized	Issued as at March 31, 2007	Issued as at May 28, 2007
Common shares	Unlimited	103,676,917	103,782,700
Preferred shares	Unlimited	None	None
Stock options		4,855,608	5,536,393

The Company announced on November 7, 2005 its intention to purchase, by way of a normal course issuer bid (Bid), for cancellation purposes, some of its common shares through the facilities of the Toronto Stock Exchange, beginning on November 11, 2005.

Under the Bid, the Company could have purchased for cancellation up to 5,256,369 common shares. This represented 5% of its 105,127,391 issued and outstanding common shares as of October 28, 2005. These purchases could have been made in accordance with applicable regulations over a maximum period of 12 months beginning on November 11, 2005 and ending on November 10, 2006. The Company could not have purchased more than 2% of the issued and outstanding common shares in any 30-day period. The consideration, which was in cash, which the Company paid for any common shares acquired by it under the Bid was the market price of such common shares at the time of acquisition.

The Company announced on November 7, 2006 its intention to purchase, by way of a new normal course issuer bid (New Bid), for cancellation purposes, some of its common shares through the facilities of the Toronto Stock Exchange, beginning on November 13, 2006.

Under the New Bid, the Company may purchase for cancellation up to 5,179,304 common shares. This represents 5% of its 103,586,089 issued and outstanding common shares as of October 31, 2006. These purchases can be made in accordance with applicable regulations over a maximum period of 12 months beginning on November 13, 2006 and ending on November 12, 2007. The Company cannot purchase more than 2% of the issued and outstanding common shares in any 30-day period. The consideration, which is in cash, which the Company pays for any common shares acquired by it under the New Bid is the market price of such common shares at the time of acquisition.

For the year ended March 31, 2007, the Company purchased for cancellation an aggregate of 1,406,700 common shares at an average of $36.04 for a total of $50.7 million. For the year ended March 31, 2006, the Company purchased for cancellation an aggregate of 1,094,900 common shares at an average of $34.71 for a total of $38.0 million.

The Company believes that the purchase of its own shares may, under appropriate circumstances, be a responsible investment of funds on hand. Copies of the notice with respect to both bids may be obtained without charge upon request to the Secretary of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has certain off-balance sheet arrangements, consisting primarily of leasing certain premises as well as certain lease agreements for equipment and rolling stock. These agreements are recorded as operating leases. Future minimum lease payments as at March 31, 2007 totalled $40.0 million.

The Company does not use derivative financial instruments for speculation. Saputo uses certain derivative financial instruments in specific situations. In the normal course of business, our Canadian operations import some products and our management of foreign exchange risk occasionally leads us to make certain foreign currency purchases in euros, of which the total amount as at March 31, 2007 was 1,300,000 euros. The Company has also outstanding foreign currency contracts in US dollars, of which the total amount as at March 31, 2007 was US$5,000,000.

The Company periodically enters into forward contracts to protect itself against price fluctuations on certain commodities when it has secured a commitment to sell a finished product. As at March 31, 2007 the market value of these contracts was negative $0.8 million.

The Company's exposure to the derivative financial instruments used is not affected by changing economic conditions, since these instruments are generally held until maturity.

Notes 16 and 18 to the consolidated financial statements describe the Company's off-balance sheet arrangements.

GUARANTEES

From time to time, the Company enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or disposals, agreements, which by nature may provide for indemnification to third parties. These indemnification provisions may be in connection with breach of representations and guarantees and for future claims for certain liabilities, including liabilities related to tax and environmental issues. The terms of these indemnification provisions vary in duration.

Note 16 to the consolidated financial statements discusses the Company's guarantees.

CONTRACTUAL OBLIGATIONS

The Company's contractual obligations consist of commitments to repay its long-term debt as well as certain leases of premises, equipment and rolling stock.

Note 7 describes the Company's commitment to repay long-term debt, and Note 16 describes its lease commitments.

(in thousands of dollars)	Long-term debt	Minimum lease	TOTAL
2008	21	10,038	10,059
2009	–	8,275	8,275
2010	196,282	7,111	203,393
2011	–	6,228	6,228
2012	–	3,482	3,482
Subsequent years	57,730	4,890	62,620
Total	254,033	40,024	294,057

RELATED PARTY TRANSACTIONS

In the normal course of business, the Company receives and provides goods and services from and to companies subject to significant influence by its principal shareholder. These goods and services of an immaterial amount are compensated by a counterpart equal to the fair market value. See Note 17 to the consolidated financial statements that describes the related party transactions.

ACCOUNTING STANDARDS

Applied Standards

Determining the Variability to be Considered in Applying AcG-15

The Canadian Institute of Chartered Accountants (CICA Handbook) Emerging Issues Committee EIC-163, Determining the Variability to be Considered in Applying AcG-15, provides guidance on whether certain arrangements, such as a contract to reduce or eliminate the variability created by certain assets or operations of an entity, should be treated as variable interests or be considered creators of variability when applying CICA Accounting Guideline AcG-15, Consolidation of Variable Interest Entities. The Company prospectively adopted this new recommendation effective April 1, 2006, which had no impact on the Company's consolidated financial statements.

Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date

The CICA Emerging Issues Committee EIC-162, Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date, addresses how to account for compensation costs attributable to a stock-based award for a compensation plan that contains a provision that allows an employee to continue vesting in accordance with stated vesting terms after the employee has retired. The Company prospectively adopted this new recommendation effective April 1, 2006, which had no impact on the Company's consolidated financial statements.

Discontinued Operations

The CICA Emerging Issues Committee EIC-161, Discontinued Operations, provides guidance on the allocation of interest expense and general corporate overhead expenses to discontinued operations. It also states whether an entity should report the results of operations of a component classified as held for sale as discontinued operations if the remaining operations are insignificant. The Company prospectively adopted this new recommendation effective April 1, 2006, which had no impact on the Company's consolidated financial statements.

Future Standards

Accounting Changes

Section 1506 of CICA Handbook, *Accounting Changes*, revises the current standards on changes in accounting policies, estimates or errors. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007. The Company is currently assessing the disclosure impact of this new recommendation on the consolidated financial statements.

Comprehensive Income

Section 1530 of the CICA Handbook, *Comprehensive Income*, establishes standards for the reporting and display of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events from non-owner sources. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company is currently assessing the disclosure impact of this new recommendation on the consolidated financial statements.

Financial Instruments – Recognition and Measurement

Section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*, establishes standards for recognizing and measuring financial assets, financial liabilities, non-financial derivatives and embedded derivatives. The standard requires all financial assets and financial liabilities to be classified by characteristic and/or management intent. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Financial Instruments – Disclosure and Presentation

Section 3861 of the CICA Handbook, *Financial Instruments – Disclosure and Presentation*, establishes standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Hedges

Section 3865 of the CICA Handbook, *Hedges*, establishes standards for when and how hedge accounting may be applied. The section requires that formal documentation, designation of specific hedging relationship components, and assessment of effectiveness are pre-requisites for the application of hedge accounting. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Foreign Currency Translation

Section 1651 of the CICA Handbook, *Foreign Currency Translation*, establishes standards for the translation of transactions of a reporting enterprise that are denominated in a foreign currency and financial statements of a foreign operation for incorporation in the financial statements of a reporting enterprise. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Investments

Section 3051 of the CICA Handbook, *Investments*, establishes standards for accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instrument investments. The new section is to be applied for interim and annual financial statements relating to fiscal year beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Equity

Section 3251 of the CICA Handbook, *Equity*, establishes standards for the presentation of equity and changes in equity during the reporting period. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Capital Disclosures

Section 1535 of the CICA Handbook, *Capital Disclosures*, establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with Generally Accepted Accounting Principles requires management to make estimates. These estimates are established on the basis of previous fiscal years and management's best judgment. Management continually reviews these estimates. Actual results may differ from those estimates. The following section establishes the main estimates used in preparing the consolidated financial statements of Saputo Inc.

Fixed Assets

In order to allocate the cost of fixed assets over their useful lives, estimates of the duration of their useful lives must be carried out. The cost of each fixed asset will then be attributed over the duration of its useful life and amortized year after year on this basis.

Portfolio Investment

The portfolio investment is recorded at cost. The Company carries out an annual valuation to ensure that the fair value of the investment is not lower than the carrying amount. To calculate an estimated fair value, the Company uses the Company's EBITDA by applying to it a multiple based on comparable industry standards. If the portfolio investment undergoes a decline in value that is permanent, its carrying amount would be written down to account for this decline in value. The Company has performed the impairment test and no write-down was recorded in fiscal 2007. A write-down of $10.0 million was recorded in fiscal 2006.

Goodwill

The accounting standards require that goodwill no longer be amortized and that an impairment test be performed annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. To determine any decline in value, each of the respective accounting units are required to undergo an assessment. The Company's assessments are based on multiples for Saputo and for the industry. These multiples are applied to EBITDA and net assets. Should the calculated value be lower than the book value, a write-down would be taken. The Company has performed the impairment test, no write-down was necessary in fiscal 2007.

Stock Based Compensation

The Company uses the fair value based method to expense stock based compensation. With this method, the Company records a compensation cost over the vesting period of the options granted. The expected useful life of options used for calculating the fair value of options is based on management's experience and judgment.

Trademarks

Impairment testing has to be performed on all trademarks annually. Estimated future cash flows to be derived from the intangible are discounted to the present using current market rates. The discounted cash flow is compared to the carrying value of the trademarks. Should the discounted cash flow be lower than the book value, a write-down is taken. The Company has performed the impairment test and no write-down was necessary in fiscal 2007.

Pension Plans

The Company offers and participates in defined contribution pension plans of which close to 82% of its active employees are members. The net pension expenditure under these types of plans is generally equal to the contributions made by the employer.

The Company also participates in defined benefit pension plans of which the remaining active employees are members. The cost of these pension benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using management's assumptions bearing on, among other things, the discount rate, expected return on plan assets, rates of compensation increase and the retirement age of employees. All of these estimates and assessments are formulated with the help of external consultants.

Sensitivity Analysis
Pension Plan and Other Employee Future Benefits

	Pension plans		Other employee future benefits	
(in thousands of dollars)	Accrued benefit obligations	Net expense	Accrued benefit obligations	Net expense
Anticipated rate of return on assets				
Effect of an increase of 1%	N/A	(1,740)	N/A	N/A
Effect of a decrease of 1%	N/A	1,740	N/A	N/A
Discount rate				
Effect of an increase of 1%	(22,174)	(1,736)	(1,194)	(20)
Effect of a decrease of 1%	26,134	1,471	1,415	6
Assumed growth rate of overall healthcare costs				
Effect of an increase of 1%	N/A	N/A	1,125	66
Effect of a decrease of 1%	N/A	N/A	(963)	(55)

The discount rate is determined on the basis of the effective rates of return on high-quality long-term corporate bonds, as required by the adjusted standard, to account for the duration of plan liability. The rate applied for the period ended December 31, 2006 was 5.26%, identical to the rate used in the prior year.

We established the expected average return on invested assets at 7.3% given the type and combination of these assets. This assumption is deemed reasonable and is supported by our external consultants.

The compensation growth rate was set at 3.5% over the long-term, taking into consideration estimated future inflation rates.

The Company also offers a post-retirement medical benefit program. For the purposes of assessing costs related to this program, the hypothetical annual growth rate of medical costs was set at between 7% and 10% for fiscal 2008 and, based on the assumptions used, these rates should gradually decline to reach 5.1% in fiscal 2012.

Any change in these assumptions or any plan experience that differs from the expected entails actuarial gains or losses with respect to expected results. If these gains or losses exceed 10% of the maximum of the asset or liability of the plans, they are amortized over the expected average remaining service life of the group of employees participating in the plans, in compliance with CICA recommendations.

The above table presents a sensitivity analysis of the key economic assumptions used to measure the impact on defined benefit pension obligations, on other employee future benefit obligations and on net expenditures. This sensitivity analysis must be used with caution, as its results are hypothetical, and variations in each of the key assumptions could turn out not to be linear. The sensitivity analysis should be read in conjunction with Note 15 of the Consolidated Financial Statements. The sensitivity of each key variable has been calculated independently of the others.

The measurement date of pension plan assets and liabilities is December 31 of each fiscal year.

Pension plan assets are held by several independent trusts, and the average composition of the overall portfolio as at December 31, 2006 was 4% in cash and short-term investments, 43% in bonds and 53% in shares of Canadian, US and foreign companies. In the long-term, we do not expect any major change to this asset allocation. In comparison to December 31, 2005, the average composition was 6% in cash and short-term investments, 45% in bonds and 49% in shares.

For defined benefit plans, actuarial valuations were performed in December 2003 and 2005, covering all obligations with respect to this type of plan. In light of these valuations, a solvency deficiency of $28.8 million was posted on December 31, 2005. This deficiency is primarily due to an increase in plan liabilities resulting from a sharp decline in the discount rate prescribed by provincial legislation on pension plans, and from insufficient asset returns at the time of the evaluation. In accordance with this provincial legislation, an additional contribution is required for the next five years to pay off this deficiency. An additional payment of $7.2 million was made in fiscal 2007 ($6.0 million for fiscal 2006). The additional payment required for fiscal 2008 remains to be determined given the actuarial valuation for some pensions plans is currently being performed, as at December 31, 2006. The next evaluation for certain pension plans is scheduled for December 2008.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery or settlement period for temporary differences. The projection of future taxable income is based on management's best estimates and may vary from actual taxable income. On an annual basis, the Company assesses its need to establish a valuation allowance for its future income tax assets. Canadian, US and international tax rules and regulations are subject to interpretation and require judgment on the part of the Company that may be challenged by the taxation authorities. The Company believes that it has adequately provided for future tax obligations that may result from current facts and circumstances. Temporary differences and income tax rates could change due to fiscal budget changes and/or changes in income tax laws.

RISKS AND UNCERTAINTIES

Product Liability

Saputo's operations are subject to certain dangers and risks of liability faced by all food processors, such as the potential contamination of ingredients or products by bacteria or other external agents that may accidentally be introduced into products or packaging. Saputo has quality control procedures in place within its operations to reduce such risks and has never experienced any material contamination problems with its products. However, the occurrence of such a problem could result in a costly product recall and serious damage to Saputo's reputation for product quality. We maintain product liability and other insurance coverage that we believe to be generally in accordance with the market practice in the industry.

Supply of Raw Materials

Saputo purchases raw materials that may represent up to 85% of the cost of products. It processes raw materials into the form of finished edible products intended for resale to a broad range of consumers. Availability of raw materials as well as variations in the price of foodstuffs can therefore influence Company results upwards or downwards, and the effect of any increase of foodstuff prices on results depends on the Company's ability to transfer those increases to its customers, and this in the context of a competitive market.

US and International Markets

The price of milk as raw material and the price of our cheese products in the US, Argentina, Germany and the UK and by-products on international markets are based on market supply and demand forces. The prices are tied to numerous factors, such as the health of the economy and supply and demand levels for dairy products in the industry. Price fluctuations may affect the Company's results. The effect of such fluctuations on our results will depend on our ability to implement mechanisms to reduce them.

Competition

The food processing industry in North America is extremely competitive. Saputo participates in this industry primarily through its dairy operations. The Canadian dairy industry is highly competitive and is comprised of three major competitors, including Saputo. In the US, Argentina, Germany and the UK, Saputo competes in the dairy industry on a national basis with several regional and national competitors. Our performance will be dependent on our ability to continue to offer quality products at competitive prices, and this applies to all the countries in which we operate.

Consolidation of Clientele

During the last few years, we have seen important consolidation in the food industry in all market segments. Given that we serve these segments, the consolidation within the industry has resulted in a decrease in the number of clients and an increase in the relative importance of some clients. Within the retail, foodservice and ingredient market segments, no customer represents more than 10% of our total consolidated sales, except for one retail customer representing 11.2% to which we sell both branded and private label products. Our ability to continue to service our clients in all the markets that we serve will depend on the quality of our products, services and the prices of our products.

Environment

Saputo's business and operations are subject to environmental laws and regulations. We believe that our operations are in compliance, in all material aspects, with such environmental laws and regulations, except as disclosed in our Annual Information Form dated May 28, 2007 for the fiscal year ended March 31, 2007. Any new environmental laws or regulations or more vigorous regulatory enforcement policies could have a material adverse effect on the financial position of Saputo and could require significant additional expenditures to achieve or maintain compliance.

Consumer Trends

Demand for our products is subject to changes in consumer trends. These changes may affect the Company's earnings. In order to constantly adapt to these changes, the Company innovates and develops new products.

Financial Risk Exposures

Saputo has financial risk exposure to varying degrees relating to the foreign currency of its US, Argentina, Germany and UK operations. Approximately 26% and 5% of sales are realized in the US and in Argentina, respectively. However, the cash flows from these operations act as a natural hedge against exchange risk. Cash flows from the US also constitute a natural hedge against the exchange risk related to debt expressed in US dollars. As at March 31, 2007, the Company's long-term debt was made up of the US senior notes only, which are at a fixed rate throughout their term.

Legislative, Regulatory, Normative and Political Considerations

The Company is subject to local, provincial, state, federal and international laws, regulations, rules and policies as well as to social, economical and political contexts prevailing in places where we conduct our activities. Consequently, the modification or change of any of these elements may have an unfavourable impact on Saputo's results and operations and may require that important expenses be made in order to adapt to or comply with it.

More specifically, the production and distribution of food products are subject to federal, state, provincial and local laws, rules, regulations and policies and to international trade agreements, all of which provide a framework for Saputo's operations. The impact of new laws and regulations, stricter enforcement or interpretations or changes to enacted laws and regulations will depend on our ability to adapt and comply. We are currently in compliance with all important government laws and regulations and maintain all important permits and licenses in connection with our operations.

Growth by Acquisitions

The Company plans to grow both organically and through acquisitions. Historically, the Company has grown through acquisitions and should reasonably and in large part rely on new acquisitions to pursue its growth. The ability to properly evaluate the fair value of the businesses being acquired, to properly evaluate the time and human resources required to successfully integrate their activities with these of the Company as well as our capability to realize synergies, improvements and the expected profit and to achieve anticipated returns constitute inherent risks related to acquisitions.

Tariff Protection

Dairy-producing industries are still partially protected from imports by tariff-rate quotas which permit a specific volume of imports at a reduced or zero tariff and impose significant tariffs for greater quantities of imports. There is no guarantee that political decisions or amendments to international trade agreements will not, at some point in the future, result in the removal of tariff protection in the dairy market, resulting in increased competition. Our performance will be dependent on our ability to continue to offer quality products at competitive prices.

CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer together with management, after evaluating the effectiveness of the Company's disclosure controls and procedures as of March 31, 2007, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with management, have concluded after having conducted an evaluation and to the best of their knowledge that, as of March 31, 2007, no change in the Company's internal control over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

SENSITIVITY ANALYSIS OF INTEREST RATE AND THE US CURRENCY FLUCTUATIONS

The portion of the long-term debt covered by fixed interest rates equals 100%. The used portion of the bank credit facility is subject to interest rate fluctuations, and was not being protected as of March 31, 2007. A 1% change in the interest rate would lead to a change in net earnings of approximately $1.0 million, based on the $139.0 million in bank loans outstanding as of March 31, 2007.

Canadian-US currency fluctuations may affect earnings. Appreciation of the Canadian dollar compared to the US dollar would have a negative impact on earnings. Conversely, a decrease in the Canadian dollar would have a positive impact on earnings. During the fiscal year ended March 31, 2007, the average US dollar conversion was based on CND$1.00 for US$0.88. A fluctuation of CND$0.01 would have resulted in a change of approximately $0.3 million in net earnings, $1.0 million in EBITDA and $11.5 million in revenues.

MEASUREMENT OF RESULTS NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company defines EBITDA as earnings before interest, income taxes, depreciation, amortization and devaluation. EBITDA is presented on a consistent basis from period to period.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of depreciation expense. We exclude depreciation expense because it largely depends on the accounting methods and assumptions a company uses, as well as on non-operating factors such as the historical cost of capital assets.

EBITDA is not a measurement of results that is defined in accordance with Generally Accepted Accounting Principles (GAAP) in Canada, nor is it intended to be regarded as an alternative to other financial operating performance measures. It is not intended to represent funds available for debt service, dividend payments, reinvestment or other discretionary uses, and should not be considered separately or as a substitute for measures of performance prepared in accordance with GAAP in Canada. EBITDA is used by the Company because management believes it is a meaningful measure of performance. EBITDA is commonly used by the investment community to analyze the performance of companies in the industries in which the Company is active. The Company's definition of EBITDA may not be identical to similarly titled measures reported by other companies and consequently may not be comparable to similar measurements presented by other companies.

The most comparable Canadian GAAP financial measures is that of operating income. The tables below present the reconciliation of operating income to EBITDA on a consolidated basis.

Measurement of results not in accordance with Generally Accepted Accounting Principles

	2007				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada & Other	United States	Total	Products	Total
Operating income	280,923	53,041	333,964	20,252	354,216
Depreciation of fixed assets	36,163	29,849	66,012	6,104	72,116
EBITDA	317,086	82,890	399,976	26,356	426,332

	2006				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada & Other	United States	Total	Products	Total
Operating income	227,447	48,419	275,866	20,738	296,604
Depreciation of fixed assets	34,146	29,881	64,027	5,334	69,361
EBITDA	261,593	78,300	339,893	26,072	365,965

The 2006 and 2007 quarterly financial information has not been reviewed by an external auditor.

2007 Quarterly Financial Information – Consolidated Statements of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2007 (audited)
Statement of earnings data					
Revenues	$ 981,142	$ 994,145	$ 1,016,989	$ 1,008,704	$ 4,000,980
Cost of sales, selling and administration expenses	888,065	887,378	901,955	897,250	3,574,648
Earnings before interest, income taxes, depreciation, amortization and devaluation	93,077	106,767	115,034	111,454	426,332
Margin %	9.5%	10.7%	11.3%	11.0%	10.7%
Depreciation of fixed assets	18,129	17,652	18,732	17,603	72,116
Operating income	74,948	89,115	96,302	93,851	354,216
Devaluation of portfolio investment	–	–	–	–	–
Interest on long-term debt	5,586	5,739	5,594	5,684	22,603
Other interest	(545)	(760)	(959)	(1,234)	(3,498)
Earnings before income taxes	69,907	84,136	91,667	89,401	335,111
Income taxes	16,643	25,850	27,609	26,542	96,644
Net earnings	$ 53,264	$ 58,286	$ 64,058	$ 62,859	$ 238,467
Net margin %	5.4%	5.9%	6.3%	6.2%	6.0%
Per Share					
Net earnings					
Basic	$ 0.51	$ 0.56	$ 0.62	$ 0.61	$ 2.30
Diluted	$ 0.51	$ 0.56	$ 0.61	$ 0.60	$ 2.28

2006 Quarterly Financial Information – Consolidated Statements of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2006 (audited)
Statement of earnings data					
Revenues	$ 1,006,708	$ 1,030,785	$ 1,014,841	$ 969,876	$ 4,022,210
Cost of sales, selling and administration expenses	910,034	929,269	928,852	888,090	3,656,245
Earnings before interest, income taxes, depreciation, amortization and devaluation	96,674	101,516	85,989	81,786	365,965
Margin %	9.6%	9.8%	8.5%	8.4%	9.1%
Depreciation of fixed assets	17,904	17,659	17,412	16,386	69,361
Operating income	78,770	83,857	68,577	65,400	296,604
Devaluation of portfolio investment	–	–	–	10,000	10,000
Interest on long-term debt	6,344	6,158	5,953	6,019	24,474
Other interest	(1)	354	128	(1,125)	(644)
Earnings before income taxes	72,427	77,345	62,496	50,506	262,774
Income taxes	18,273	22,134	17,464	12,801	70,672
Net earnings	$ 54,154	$ 55,211	$ 45,032	$ 37,705	$ 192,102
Net margin %	5.4%	5.4%	4.4%	3.9%	4.8%
Per Share					
Net earnings					
Basic	$ 0.52	$ 0.52	$ 0.43	$ 0.36	$ 1.83
Diluted	$ 0.51	$ 0.52	$ 0.43	$ 0.36	$ 1.82

SUMMARY OF THE FOURTH QUARTER RESULTS ENDED MARCH 31, 2007

Revenues for the quarter ended March 31, 2007 amounted to $1.009 billion, an increase of $38.8 million or 4.0% compared to $969.9 million for the same quarter last year. The increase is attributed mostly to our Canadian and Other Dairy Products Sector, whose revenues increased by approximately $37 million compared to the corresponding period last year. Higher selling prices in our Canadian operations in accordance with the increase in the cost of milk as raw material, increased sales volumes from our Canadian fluid milk activities and Argentinean operations, additional revenues due to a more favourable by-product market, and the inclusion of our German operations, acquired on April 13, 2006, were the main factors responsible for this increase. Revenues from our US Dairy Products Sector remained relatively stable in the fourth quarter of fiscal 2007 in comparison to the same quarter last year. An average block market per pound of cheese of US$1.34 in the current quarter compared to US$1.27 in the same quarter last fiscal year, generated approximately $8 million of additional revenues. The appreciation of the US dollar in the fourth quarter of fiscal 2007 also generated approximately $4 million of additional revenues. These increases were offset by reduced revenues due to lower sales volume in the fourth quarter of fiscal 2007 compared to the same quarter last year. The lower sales volume is due entirely to the closure of our Peru, Indiana facility at the beginning of fiscal 2007. Revenues from our Grocery Products Sector increased by approximately $2 million in the fourth quarter of fiscal 2007 in comparison to the same quarter last year. Additional sales volumes intended for the Canadian market and the inclusion of Rondeau, acquired on July 28, 2006, offset reduced revenues generated by our co-packing agreements for the manufacturing of products for the US market.

Earnings before interest, income taxes, depreciation, amortization, and devaluation totalled $111.5 million for the quarter ended March 31, 2007, an increase of $29.7 million or 36.3% compared to the $81.8 million for the same quarter last year. The increase is mainly attributed to our Canadian and Other Dairy Products Sector, whose EBITDA increased by approximately $23 million in comparison to the same quarter last year. Savings derived from increased efficiencies in our Canadian operations, a more favourable by-product market, and higher sales volumes from our Canadian fluid milk activities and Argentinean operations were the main factors behind this increase. Our Argentinean operations also benefited from lower export tax charges in the current quarter compared to the same quarter last year. Included in the results of the fourth quarter of fiscal 2007 was a rationalization charge of approximately $2.1 million for the closure of our facilities in Vancouver, British Columbia and Boucherville, Quebec. Included in the results of the fourth quarter of fiscal 2006 was a rationalization charge of approximately $1.0 million for the closure of our facility in Harrowsmith, Ontario.

The EBITDA of our US Dairy Products Sector increased by approximately $9 million in the current quarter compared to the same period last year. The increase is due to the measures undertaken by the Company to counteract adverse market conditions, improved operational efficiencies achieved in the current quarter, benefits derived from the revised milk pricing formulas from both the California Department of Agriculture and the US Department of Agriculture and reduced promotional, energy, packaging and ingredients costs, which in aggregate amounted to approximately $15 million. The average block market per pound of cheese between the current quarter and the third quarter of fiscal 2007, in comparison to the same quarters in fiscal 2006, created a favourable impact on the realization of inventories. An average block market per pound of cheese of US$1.34 in the current quarter, compared to US$1.27 in the same quarter last fiscal year, created a better absorption of our fixed costs. The relationship between the average block market per pound of cheese and the cost of milk as raw material was less favorable this quarter compared to the same period last year. Together, these market factors had a negative effect of approximately $9 million on the EBITDA of the fourth quarter of fiscal 2007. Included in the results of the fourth quarter of fiscal 2006, was a rationalization charge of approximately $2.5 million for the closure of our facility in Whitehall, Pennsylvania.

The EBITDA of our Grocery Products Sector decreased by approximately $1.0 million for the quarter ended March 31, 2007 in comparison to the same quarter last fiscal year. The decrease is due to higher raw material and other costs, lower EBITDA resulting from reduced revenues generated by our co-packing agreements for the manufacturing of products for the US market, and rationalization costs of approximately $0.6 million incurred in the current quarter for the closure of our facility in Laval, Quebec. These negative factors offset higher EBITDA due to lower marketing expenditures and the inclusion of Rondeau, acquired on July 28, 2006.

Depreciation expense for the quarter ended March 31, 2007 totalled $17.6 million, an increase of $1.2 million compared to $16.4 million for the same quarter last fiscal year. The increase is due to capital investments undertaken across all divisions, along with additional depreciation expense from the acquisitions completed in the current fiscal year. Net interest expense decreased to $4.5 million compared to $4.9 million for the corresponding period last year, as a result of the long-term debt payment made in fiscal 2007 and interest revenue derived from excess cash on hand in the fourth quarter of fiscal 2007. The effective tax rate for the current quarter was 29.7% compared to 25.3% for the same quarter last year. During the quarter, the Company benefited from a one-time tax reduction of approximately $2 million to adjust future tax balances, due to a reduction in Canadian federal tax rates. For the quarter ended March 31, 2006, the company recorded tax benefits resulting from tax losses available from our Argentinean operations of approximately $4 million. Offsetting this benefit was a tax charge of approximately $2 million to adjust future tax balances due to an increase in Canadian provincial tax rates. Excluding these adjustments, the effective tax rate for the fourth quarter of fiscals 2007 and 2006 were 31.9% and 29.3%, respectively.

During the quarter, the Company added approximately $17 million in fixed assets and acquired the activities of Dansco in the UK for approximately $13 million. The company issued shares for a cash consideration of $11.0 million as part of the stock option plan and paid out $20.7 million in dividends to its shareholders. The Company also increased its bank loans by approximately $99 million in the current quarter in anticipation of the Land O'Lakes West Coast Acquisition in the US during the early stages of fiscal 2008. For the same quarter, the Company generated cash flows of $91.9 million, an increase from the $59.5 million generated for the corresponding period last fiscal year, due essentially to the increased earnings in the fourth quarter of fiscal 2007 in comparison to the same quarter last year. During the fourth quarter

of fiscal 2006, the Company wrote down its portfolio investment by $10.0 million following an evaluation of its fair value. The Company also reduced the portfolio investment during the fourth quarter of fiscal 2006 by $1.0 million, the amount of dividends received from the investment. Net earnings amounted to $62.9 million for the quarter ended March 31, 2007, an increase of $25.2 million compared to the same quarter last fiscal year.

QUARTERLY FINANCIAL INFORMATION

During fiscal 2007, certain specific circumstances affected the quarterly changes in revenues and earnings before interest, income taxes, depreciation and amortization compared to fiscal 2006.

During the first three quarters of fiscal 2007, the average block market per pound of cheese was lower compared to the same quarters in fiscal 2006. However, the relationship between the average block market per pound of cheese and the cost of milk as raw material was unfavourable in all four quarters in comparison to last fiscal year. The Canadian dollar was also stronger during the first three quarters of fiscal 2007, eroding both revenues and EBITDA. The results of fiscal 2007 included the operations of De Lucia and Rondeau acquired during the first half of fiscal 2007. The Company also acquired the activities of Dansco in the UK at the very end of the fourth quarter of fiscal 2007. The Company incurred approximately $1.3 million and approximately $2.7 million of rationalization charges in the first and fourth quarters of fiscal 2007, respectively. Quarterly earnings directly reflect the effects of the previously mentioned items.

ANALYSIS OF EARNINGS FOR THE YEAR ENDED MARCH 31, 2006 COMPARED TO MARCH 31, 2005

Saputo's **consolidated revenues** in fiscal 2006 totalled $4.022 billion, an increase of $139.1 million or 3.6 % compared to $3.883 billion posted in fiscal 2005. The increase was attributed to our Canadian and Other Dairy Products Sector. Our Dairy Products Division (Canada) and Dairy Products Division (Argentina) increased revenues by approximately $208 million and $28 million, respectively, compared to fiscal 2005. An increase in selling prices in both divisions, in accordance with increases in the cost of milk as raw material as well as other manufacturing costs, the acquisition of Fromage Côté completed on April 18, 2005, and higher sales volumes in our Canadian fluid milk activities were responsible for these increases. Our US Dairy Products Sector revenues decreased by approximately $102 million in fiscal 2006. An average block market per pound of cheese of US$1.42 in fiscal 2006 compared to US$1.67 in fiscal 2005 negatively affected revenues by approximately $136 million. The continued rise in the Canadian dollar in fiscal 2006 eroded approximately $93 million in revenues in comparison to fiscal 2005. These factors offset a 9% sales volume increase achieved by the division throughout fiscal 2006. Revenues from our Grocery Products Sector increased in fiscal 2006 by $5.4 million to $164.2 million from $158.8 million for fiscal 2005. The increase was due to higher selling prices and additional revenues derived from our US co-packing agreements.

Consolidated earnings before interest, income taxes, depreciation, amortization and devaluation (EBITDA) amounted to $366.0 million in fiscal 2006, a decrease of $41.8 million compared to $407.8 million in fiscal 2005. The decrease was attributed to our US Dairy Products Sector, whose EBITDA decreased by $58.7 million, from $137.0 million in fiscal 2005 to $78.3 million in fiscal 2006. The lower average block market per pound of cheese in fiscal 2006 compared to the prior year had a negative effect on the absorption of our fixed costs. In addition, a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material was observed in fiscal 2006 compared to fiscal 2005. With regard to inventories, the market factors had an unfavourable impact on their realization. These factors combined had a negative impact of approximately $40 million on the EBITDA of fiscal 2006. The rise of the Canadian dollar eroded approximately $6 million from our fiscal 2006 EBITDA. The US Dairy Products Sector also incurred in fiscal 2006 $3.3 million of rationalization charges in relation to the closure of our plant in Whitehall, Pennsylvania and additional promotional expenses of approximately $15 million. Furthermore, the division's EBITDA was negatively affected by increased energy, packaging, ingredient and labour costs. All of the above-mentioned negative factors offset the positive effects of efficiency improvements and additional EBITDA derived from the increased sales volumes in fiscal 2006 in comparison to fiscal 2005.

The EBITDA of our Canadian and Other Dairy Products Sector increased by $17.4 million from $244.2 million in fiscal 2005 to $261.6 million in fiscal 2006. The increase was mainly attributed to the benefits derived from rationalization activities undertaken in our Canadian operations during prior years, the acquisition of Fromage Côté, completed on April 18, 2005, and increased sales volumes from our Canadian fluid milk activities in comparison to fiscal 2005. These increases offset a rationalization charge of $2.0 million in relation to the closure of our plant in Harrowsmith, Ontario. The EBITDA of our Argentinean operations was negatively affected by changes in the export tax which eroded EBITDA by approximately $6 million in fiscal 2006. The Canadian and Other Dairy Products Sector was also subject to increased energy, packaging, ingredient and labour costs in fiscal 2006 in comparison to fiscal 2005.

The EBITDA of our Grocery Products Sector decreased slightly to $26.1 million in fiscal 2006 from $26.6 million in fiscal 2005. Better margins achieved on existing sales and additional EBITDA generated by increased sales volumes derived from our US co-packing agreements were offset by additional costs of approximately $2 million related to the pension plan and approximately $5 million for increased marketing expenditures, in comparison to fiscal 2005.

The consolidated EBITDA margin decreased from 10.5% in fiscal 2005 to 9.1% in fiscal 2006, mainly as a result of reduced margins in our US Dairy Products Sector. The relationship between the average block market per pound of cheese and the cost of milk as raw material negatively affected the EBITDA of our US Dairy Products Sector. This relationship decreased by US$0.027 per pound of cheese in fiscal 2006 compared to fiscal 2005.

Depreciation expense totalled $69.4 million in fiscal 2006, an increase of $3.3 million over $66.1 million in fiscal 2005. The increase was mainly attributed to the acquisition of Fromage Côté, completed on April 18, 2005 and to additional depreciation relating to capital expenditures undertaken in the prior years, specifically in our Argentinean operations. These increases offset lower depreciation from our US Dairy Products Sector as a result of the appreciation of the Canadian dollar.

In fiscal 2006, the Company wrote down the value of its **portfolio investment** by $10.0 million, negatively affecting net earnings before income taxes. In addition, a dividend of $1.0 million received during fiscal 2006 was accounted for as a reduction of the cost of the investment. These actions were deemed necessary following an evaluation of the fair value of the investment. The evaluation concluded that the fair value of the investment was below the carrying value on the balance sheet, indicative of a permanent impairment. The write-down had an after-tax effect of approximately $8 million in fiscal 2006.

Net interest expense amounted to $23.8 million in fiscal 2006, compared to $29.1 million in fiscal 2005. The decrease resulted from the following factors. Firstly, the interest decreased following long-term debt repayments made in fiscal 2005. Secondly, the appreciation of the Canadian dollar also reduced the interest expense on our US dollar debt. Lastly, the Company had excess cash on numerous occasions throughout fiscal 2006 in comparison to fiscal 2005, which generated incremental interest revenue.

Income taxes totalled $70.7 million in fiscal 2006 for an effective tax rate of 26.9%, compared to an effective tax rate of 25.7% in fiscal 2005. The Company recorded in fiscal 2006 a tax benefit of approximately $4 million resulting from prior tax losses available for our Argentinean operations. Offsetting this benefit was a tax charge of approximately $2 million to adjust future tax balances due to an increase in provincial tax rates. In fiscal 2005, a one-time tax reduction to adjust future tax balances, due to a reduction in US tax rates, benefited the Company by $3.5 million. Our income tax rate varies and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates. During the first quarter of fiscal year 2007, a proposed change with retroactive effect to a Canadian provincial tax legislation was effectively enacted. A tax assessment for an amount of approximately $12 million was issued as a result of the enactment. The Company has legal basis to believe that it will not have to pay such tax assessment. Therefore, no amount relating to this assessment was included in the March 31, 2006 financial statement.

For the year ended March 31, 2006, **net earnings** amounted to $192.1 million, a decrease of $40.0 million or 17.2% compared to $232.1 million in fiscal 2005. The decrease was due to the factors mentioned above.

OUTLOOK

Fiscal 2007 was an excellent example of Saputo aligning all its resources and facing the challenges head on. Our divisions were successful at creating additional value for all stakeholders. As we enter fiscal 2008, the momentum created in the prior fiscal year along with our focus and dedication should allow us to achieve even greater heights.

The Land O'Lakes West Coast Acquisition completed at the beginning of fiscal 2008 will significantly increase our presence in the US market. The additional scale as a result of this acquisition, should create many opportunities to improve our profitability. Part of the fiscal 2008 objective is to analyse our new operations and integrate them within the Saputo culture and values, and improve profitability. We currently have dedicated teams in place to ensure this integration progresses efficiently.

In fiscal 2008, we will proceed with the integration of our UK operations, acquired in late fiscal 2007. We will use this acquisition, along with our German operation, to gain a better understanding of the European market. Our objectives, with regards to our European operations will be to increase efficiencies, expand our client base, and improve overall profitability.

Our Canadian dairy operations will continue to refine their operations in an effort to improve efficiencies. The closures announced during the late stages of fiscal 2007 will help the Canadian dairy operations achieve this goal. With the contribution of our research and development teams, we will also expand our value-added product offering in order to ensure our continued growth.

Given the completion of our capital expenditure program in Argentina, our Dairy Products Division (Argentina) is in good position to generate growth and improve profitability. In fiscal 2008, the division will focus on the cost effectiveness of its overall operation as well as expanding both the domestic and international markets.

Our Grocery Products Sector's objectives for fiscal 2008 will focus on the continued integration of Rondeau, acquired in early fiscal 2007, as well as increasing the areas where its products are marketed and sold. The closure of the Laval facility should allow the division to improve efficiencies and increase overall profitability.

We are in an excellent financial position with a low level of debt and strong cash flows. This will allow us to pursue our growth through acquisition and increase our overall position within the global dairy industry. It is with great enthusiasm that we look to the future.