MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

Overview

Saputo successfully pursued corporate growth objectives in the 1998 fiscal year through a number of new developments. These included the acquisition of Crémerie des Trois-Rivières on July 31, 1997, the initial public offering on October 15, 1997, the acquisition of Stella on December 5, 1997, the issue of Special Warrants on December 10, 1997, and lastly, the acquisition of Froma-Dar on January 30, 1998.

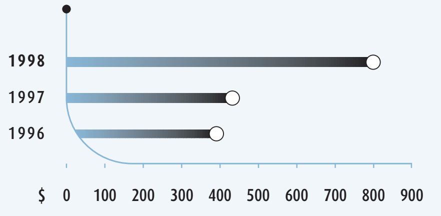
For the year ended March 31, 1998, the financial statements of Saputo Group Inc. reflect all of the above-mentioned transactions as at their respective dates. The transactions completed in 1998 allowed the Company to position itself to sustain growth with a better distribution of its revenues, both geographically and by market segments, yet still maintaining its historically predominant mozzarella focus. Company sales have almost doubled while net earnings of Saputo Group Inc. have increased by 11.5% when compared with 1997 fiscal year results.

Results

Sales for the year ended March 31, 1998, totalled $817.3 million, up 81.4% over the 1997 figure of $450.5 million. A full 84.3% of this increase is attributable to acquisitions completed during the year, most notably that of Stella which represented an additional $296.4 million in sales over a period of 16 weeks. Sales, excluding the aforementioned acquisitions rose by $57.5 million, resulting in a 12.7% rise compared with 1997. This growth is attributable to a surge in activity by the international division, and to an increase in sales of imported cheeses and other non dairy products.

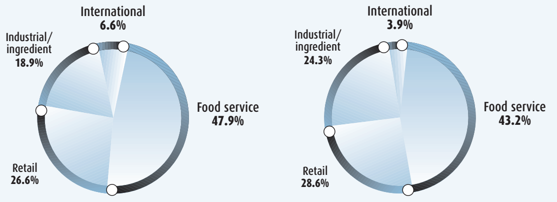
Sales

[in millions of dollars]



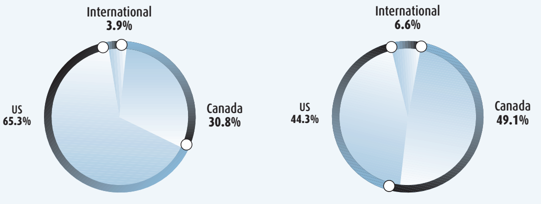
Sales by market segments

[Year ended March 31, 1998] [Three months ended March 31, 1998]



Sales by geographic segments

[Three months ended March 31, 1998] [Year ended March 31, 1998]

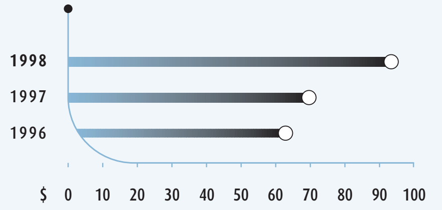


The acquisition of Stella considerably altered the breakdown of sales by market and geographic segments. The majority of Company sales is now generated in the United States and specialty cheeses now contribute a greater share to corporate revenues.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) amounted to $95.4 million in 1998, up 33.1% over the EBITDA figure of $71.7 million in 1997. In terms of percentages, the EBITDA margin represented 11.7% in 1998 compared with 15.9% in 1997. This decrease is mainly due to the operations of Stella, which exerted downward pressure on the Company's margin. Canadian operations contributed a 15.6% EBITDA margin in 1998, compared with 16.8% in 1997. Even though Canadian sales during 1998 increased by 17.5%, the decrease in margin is the result of lower margin sales generated by fluid milk activities, the international sales division and the sale of other products. In the United States segment, the EBITDA margin decreased from 10.6% in 1997 to 6.7% in 1998. Stella generated an EBITDA margin of 5.8% during the 16-week period of operation since the acquisition on December 5, 1997. These results were consistent with expectations. On the other hand, the combined operations of Jefferson Cheese and Richmond Cheese generated an EBITDA margin of 10.8% in 1998 compared to 10.6% in 1997, due to improvements in plant efficiency.

EBITDA

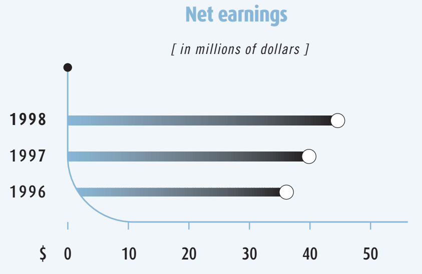
[in millions of dollars]



Depreciation and amortization of fixed assets rose by $5.7 million owing to the acquisitions completed during the year. The $2.2 million increase in the **amortization of goodwill** in 1998 is related essentially to goodwill arising from the Stella acquisition, which is amortized over a period of 40 years.

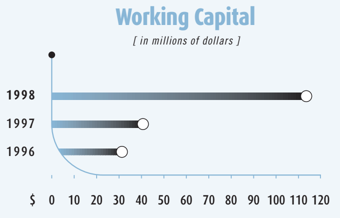
Interest expenses rose from $0.2 million in 1997 to $8.9 million in 1998 mainly as a result of the long-term debt financing obtained for the acquisition of Stella on December 5, 1997.

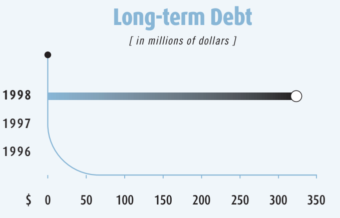
Net earnings for the year ended March 31, 1998 totalled $45.7 million, representing an increase of 11.5% over the $41.0 million in net earnings posted for 1997. This increase in net earnings is largely attributable to a better overall performance by the Company's Canadian, Jefferson and Richmond operations, when compared to the 1997 fiscal year. Given the short period of time that elapsed since the acquisition of Stella, the latter impacted only minimally on net earnings for the year.

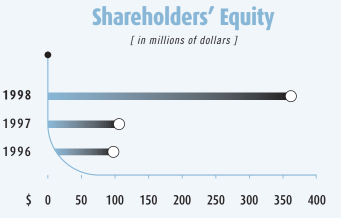


Financial Position

A number of developments altered the financial position of Saputo Group Inc. in 1998. These included an initial public offering, a major acquisition, a second public offering and the securing of long-term debt financing arrangements.







Total corporate assets rose to $896.7 million as at March 31, 1998 from $175.8 million in 1997. Working capital rose to $115.9 million in 1998 from $43.1 million in 1997. Goodwill at the same date totalled $248.1 million due mainly to the acquisition of Stella, which was acquired for a total consideration of $580 million, of which $246.5 million represented goodwill. Long-term financing obtained for the acquisition of Stella amounted to $355 million as at March 31, 1998. In addition, the Company has secured operating credit facilities amounting to $150 million, of which approximately $22 million was drawn as at March 31, 1998.

Shareholders' equity as at March 31, 1998 stood at $369.9 million compared with $114.2 million in 1997, an increase which resulted mainly from the public offerings completed during the year.

Cash and Financial Resources

Cash generated by operations, before changes in non-cash working capital items, rose from $49.1 million in 1997 to $64 million in 1998. This increase resulted directly from the improvement in earnings before interest, income taxes, depreciation and amortization. During the year, $22.3 million was invested in fixed assets. In Canada, $12.7 million was earmarked for a number of important projects. These included the acquisition of a new building located in Saint-Laurent, a suburb of Montréal, that now houses Fromages Caron and the Froma-Dar sales operations, the modernization of the fleet and equipment in the fluid milk division in Trois-Rivières, the expansion of the Saint-Hyacinthe plant and miscellaneous improvements to the Saint-Léonard facility in the Greater Montréal area. In the United States, $6.8 million in capital expenditures was incured for Stella's operations in order to complete certain projects initiated prior to the acquisition and $2.8 million was allocated to the Jefferson facility in Maryland.

To increase plant efficiency, Saputo intends to incur $17.9 million in capital expenditures in fiscal 1999, of which approximately $6.7 million in Canada and $11.2 million in the United States.

We believe that in the foreseeable future, our internal growth, capital expenditures and future acquisitions will be financed by funds from operations and by existing and additional credit facilities, if required.

Outlook

The 1998 fiscal year does not reflect the full impact of the Stella acquisition as consolidated results cover a period of only 16 weeks of joint operations. Nor does it reflect potential synergies that will result from the integration. Notwithstanding the short period of time since the acquisition, a number of analyses aimed at improving profitability, have already been conducted and completed.

This has resulted in the decision to concentrate all of Stella's administrative operations in the Lincolnshire, Illinois office and the subsequent closing of the Green Bay, Wisconsin office, which is scheduled towards the fall of 1998. The amalgamation of all administrative functions under one roof, combined with the integration of Stella's information systems, will contribute to Company efficiency, as will the ongoing analysis of possible plant and production rationalization.

In Canada, it is our intention to maintain our leadership position and to take advantage of any growth opportunities that may emerge.

Year 2000 compliance

For certain companies, the arrival of the Year 2000 may affect some computer programs, machinery and equipment which have date-sensitive software. This may result in system failures or miscalculations causing disruptions of operations, including among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

To assess the consequences of the arrival of Year 2000 on its operations, the Company has implemented a program under which an inventory of its software, equipment and machinery has been taken and inquiries were made with vendors of date-sensitive equipment and machinery to determine their commitment to achieving Year 2000 compliance.

The Company's overall assessment of its operations at this time indicates that the dawn of the new millennium should not have a material financial or operational impact. The Company has determined that the only matters to be addressed are the modification or replacement of certain minor software, equipment and machinery. The Company will use both internal and external resources to reprogram or replace and test its software, equipment and machinery for Year 2000 compliance and expects to complete all steps of its program before March 31, 1999. The Company is currently assessing the readiness of the Avonmore/Waterford operations acquired on May 1, 1998.

The Company is presently communicating with its major suppliers and customers to determine the extent to which it is vulnerable to their failure to remedy their own Year 2000 situation. There can be no guarantee that the systems of other companies on which the Company's systems rely will be converted in a timely manner, or that failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

The Company expects the Year 2000 program to cost less than $1 million, which will be amortized over a period of 3 years. Costs and time frames are based on current estimates by management.