

FIRST QUARTER

FISCAL 2000



SAPUTO GROUP INC.

INTERIM REPORT

Message

TO SHAREHOLDERS

Positive effects from the integration of our American division, Saputo Cheese USA, are clearly evident in our company's higher profitability during the first quarter ended June 30, 1999, compared to the same period of the last fiscal year.

Revenues totaled \$414.9 million, up 2.2% over \$406.1 million in the first trimester of fiscal 1999. The major share of this increase comes from our Canadian division, which generated sales of \$130.7 million, an increase of \$8.6 million over the first quarter in fiscal 1999. This increase was due primarily to the acquisition of Riverside Cheese and Butter Inc. and Bari Cheese Ltd., in September 1998, as well as to higher sales in our international division.

In the United States, as part of the initial process of integration and rationalization, we completed an in-depth study of our markets. In light of this study, we chose to relinquish a certain amount of sales volume. Even so, our revenues remained stable.

We should also point out that revenues have been affected by the lower value of the Canadian dollar in relation to the US dollar, as well as by fluctuations in the price of cheese in the United States. The exchange rate on the US dollar has impacted positively, increasing revenues by approximately \$4 million for the first quarter of fiscal year 2000 over the same period in the previous fiscal year. Fluctuations in the price of cheese, on the other hand, reduced our revenues by more than \$3 million in the first quarter ended June 30, 1999, compared to the same quarter in fiscal 1999.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the first quarter of fiscal 2000 were up 15.9%, reaching \$50.2 million compared to \$43.3 million in fiscal 1999. Our profit margin in the first quarter of the current fiscal year was 12.1%, compared to 10.7% in the same period of fiscal 1999. This growth is due to the successful integration of the companies we acquired last year. Specifically, Saputo Cheese USA posted a 1.9% increase in EBITDA margin, representing approximately \$5 million, and reached 10.7% for the first quarter of fiscal 2000. It should be noted that a lower Canadian dollar combined with fluctuating cheese prices in the United States did not affect the profit margin of our American division this quarter. In Canada, the EBITDA improved by 0.1%. This confirms that the companies acquired in September 1998 have now reach the same EBITDA level as our overall Canadian operations.

Net earnings in the first quarter of the current fiscal year were up \$21.1 million, or \$0.43 per share, an increase of 32.7% over \$15.9 million, or \$0.33 per share, for the same period of the previous fiscal year. The activities of Saputo Cheese USA have largely contributed to this increase in net earnings. We anticipate that this division's contribution to the results of Saputo Group Inc. will be even more substantial in the quarters immediately ahead.

Net earnings from operations before changes in non-cash operating items were \$34.1 million, up 10% over the \$31 million achieved in the first quarter of the previous fiscal year. Cash flow generated from operations was used to finance certain additions to fixed assets and also to pay down \$12.1 million in long-term debt. In the United States, net additions to fixed assets amounted to \$13.6 million. Modernization of our facility in Hinesburg, Vermont, was the main project. The improvements were completed by late July 1999. In Canada, net additions to fixed assets were \$3.2 million. This amount was devoted to the ongoing improvement of manufacturing processes and includes the cost of expanding the Company's head office, rendered necessary by the integrated approach the Group has taken in managing its Canadian and American activities. Net additions to fixed assets of \$38 million for the current fiscal year will be made mainly during the first semester of fiscal 2000. These investments will allow us to increase the company's profitability.

Management believes that Saputo is not likely to be affected by the year 2000 computer problem, given the simplicity of our own systems and the limited nature of our interactions with third-party systems. Nonetheless, in October 1997, we implemented a Y2K compliance program in order to locate possible problems and make any necessary corrections. All phases of this program should be completed before the fall of 1999. Although we shall make every reasonable effort to ensure the compliance status of our business partners, we cannot give any guarantees regarding third-party systems.

Saputo Group Inc. is a low-cost manufacturer of quality cheeses, with solid foundations, dedicated employees, and a healthy financial position. With such assets, we have every confidence of meeting the challenge of sustained growth.



LINO SAPUTO
Chairman of the Board
and Chief Executive Officer



CAMILLO LISIO
President and
Chief Operating Officer

August 3, 1999



Consolidated statements of earnings

(unaudited)

For the three months ended June 30
(in thousands of dollars, except per share amounts)

1999

1998

Revenue	\$ 414,931	\$ 406,110
Cost of sales, selling and administrative expenses	364,764	362,857
Earnings before the undernoted expenses	50,167	43,253
Depreciation and amortization of fixed assets	8,000	7,147
Amortization of goodwill	1,830	1,553
Earnings before interest and income taxes	40,337	34,553
Interest on long-term debt	6,318	7,436
Other interest, net of interest income	1,517	1,202
Earnings before income taxes	32,502	25,915
Income taxes	11,376	10,005
Net earnings	\$ 21,126	\$ 15,910
Earnings per share		
Basic	\$ 0.43	\$ 0.33
Fully diluted	\$ 0.42	

Selected segmented information

(unaudited)

For the three months ended June 30
(in thousands of dollars)

1999

1998

Revenue		
Canada	\$ 130,659	\$ 122,086
United States	284,272	284,024
	\$ 414,931	\$ 406,110
Earnings before interest, income taxes, depreciation and amortization		
Canada	\$ 19,768	\$ 18,330
United States	30,399	24,923
	\$ 50,167	\$ 43,253
Depreciation and amortization		
Canada	\$ 2,557	\$ 2,001
United States	7,273	6,699
	\$ 9,830	\$ 8,700
Operating income		
Canada	\$ 17,211	\$ 16,329
United States	23,126	18,224
	\$ 40,337	\$ 34,553
Net additions to fixed assets		
Canada	\$ 3,200	\$ 3,047
United States	13,578	7,442
	\$ 16,778	\$ 10,489

Consolidated statements of changes in financial position

(unaudited)

For the three months ended June 30
(in thousands of dollars)

1999

1998

Net inflow (outflow) of cash related to the following activities:

Operating

Net earnings **\$ 21,126** \$ 15,910

Items not affecting cash

Depreciation and amortization **9,830** 8,700

Deferred income taxes **3,174** 6,441

Gain on disposal of fixed assets **(41)** (11)

34,089 31,040

Changes in non-cash operating working capital items

(14,249) (9,789)

19,840 21,251

Investing

Net additions to fixed assets **(16,778)** (10,489)

Other assets **1,407** (405)

Business acquisitions - (53,223)

Cash of the acquired businesses - 2,039

Foreign currency translation adjustment **17,557** (18,807)

2,186 (80,885)

Financing

Repayment of long-term debt **(12,100)** (9,163)

Issuance of share capital **27** -

Increase in long-term debt - 50,014

Foreign currency translation adjustment **(11,039)** 13,257

(23,112) 54,108

Decrease in cash

(1,086) (5,526)

Bank indebtedness, beginning of period

(69,514) (9,689)

Bank indebtedness, end of period

\$ 70,600 \$ 15,215

Consolidated balance sheets

(unaudited)

As at June 30

(in thousands of dollars)

1999

1998

ASSETS

Current assets	\$ 376,779	\$ 360,864
Fixed assets	403,316	381,882
Goodwill	271,712	255,310
Other assets	3,768	6,015
	\$1,055,575	\$1,004,071

LIABILITIES

Current liabilities	272,435	232,153
Long-term debt	305,585	370,205
Deferred income taxes	13,688	10,248
	591,708	612,606

SHAREHOLDERS' EQUITY

	463,867	391,465
	\$1,055,575	\$1,004,071

