Annual Report **2001**

SAPUTO

The most important dairy processor in Canada and one of the leading cheese producers in North America, Saputo Inc. is a public company operating in the dairy and grocery products sectors.

Active in international markets, the Company's Dairy Products sector markets and distributes mozzarella, as well as a comprehensive range of Italian, European and North American cheeses, fluid milk, yoghurt, butter, powdered milk, juices and whey by-products such as lactose and whey protein. In Canada, this sector also operates a specialized distribution network that offers clients a vast assortment of imported cheeses and non-dairy products in addition to Company lines. The main brands are *Saputo, Stella, Frigo, Dragone, Dairyland, Dairy Producers, Baxter, Armstrong, Caron* and *Cayer*.

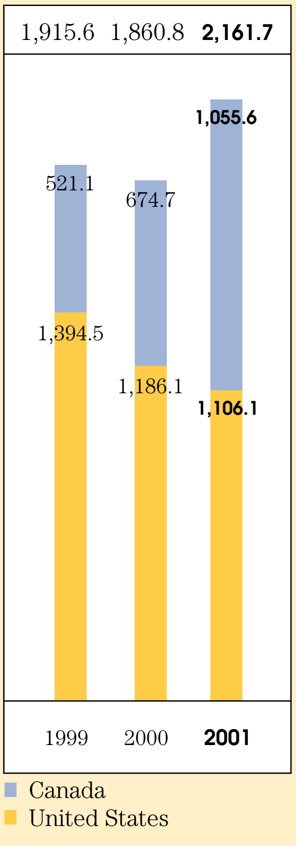
Dairy Products sector facilities include 15 plants in the United States, as well as 36 plants in Canada.

Operating nationwide in Canada, Saputo's Grocery Products sector markets and distributes a broad selection of snack cakes, cookies, fine breads and soups, under such well-known brand names as *Vachon, Viau-McCormicks, Grissol* and *Loney's.* Facilities include five plants and a direct-to-store delivery network.

A dynamic, world class company, Saputo Inc. today employs over 7800 individuals. Company shares are listed on the Toronto Stock Exchange under the symbol SAP. For further information, please visit our website at **www.saputo.com.**

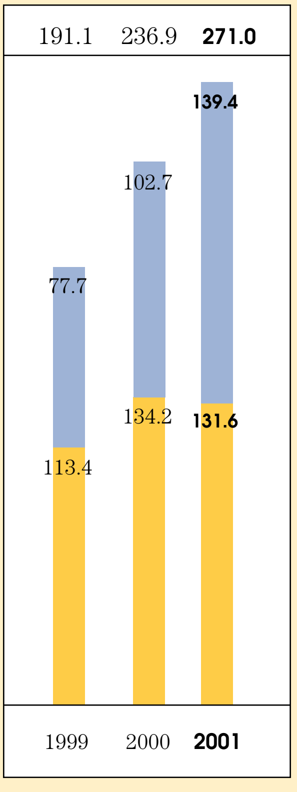
Revenues

(in millions of dollars)



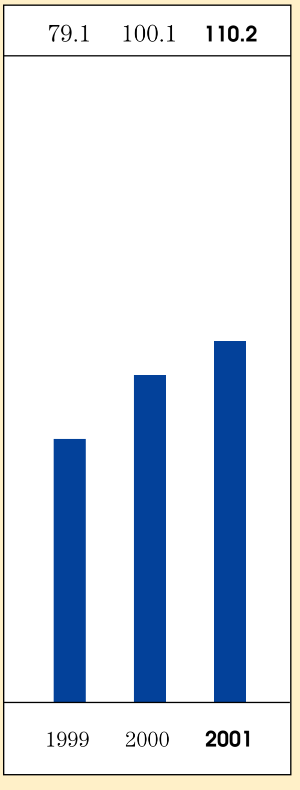
EBITDA

(in millions of dollars)



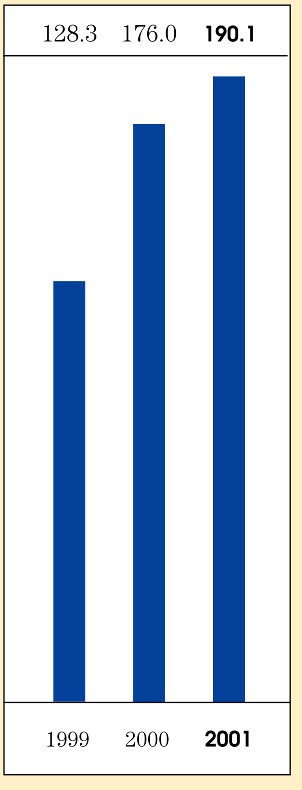
Net Earnings

(in millions of dollars)



Cash flow generated by operations

(in millions of dollars)



All amounts in this report are in Canadian dollars, unless otherwise stated.

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Financial Highlights

As at March 31

(In thousands of dollars, except per share amounts and ratios)	2001	2000	1999
REVENUES			
Dairy Products sector			
Canada	$ 803,970	$ 528,466	$ 521,146
United States	$ 1,106,039	$ 1,186,136	$ 1,394,491
	$ 1,910,009	$ 1,714,602	$ 1,915,637
Grocery Products sector	$ 251,662	$ 146,276	—
	$ 2,161,671	$ 1,860,878	$ 1,915,637
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)			
Dairy Products sector			
Canada	$ 96,912	$ 81,539	$ 77,744
United States	$ 131,555	$ 134,188	$ 113,343
	$ 228,467	$ 215,727	$ 191,087
Grocery Products sector	$ 42,507	$ 21,218	—
	$ 270,974	$ 236,945	$ 191,087
NET EARNINGS	$ 110,241	$ 100,068	$ 79,093
Cash flow generated by operations, before changes in non-cash operating working capital items	$ 190,090	$ 176,047	$ 128,334
Working capital	$ 242,878	$ 171,232	$ 98,459
Total assets	$ 2,012,979	$ 1,441,002	$ 1,072,049
Long-term debt, including current portion	$ 795,896	$ 501,575	$ 377,784
Shareholders' equity	$ 747,901	$ 628,894	$ 449,933
PER SHARE			
Earnings before amortization of goodwill			
Basic	$ 2.42	$ 2.20	$ 1.79
Diluted	$ 2.41	$ 2.19	$ 1.78
Net earnings			
Basic	$ 2.15	$ 2.00	$ 1.63
Diluted	$ 2.14	$ 1.99	$ 1.62
Cash flow generated by operations, before changes in non-cash operating working capital items	$ 3.71	$ 3.52	$ 2.64
Book value	$ 14.60	$ 12.28	$ 9.25
FINANCIAL RATIOS			
Interest bearing debt / Shareholders' equity	1.07	0.83	0.99
Return on average shareholders' equity	16.0 %	18.6 %	19.3 %

A reflection of our **objectives**

Net earnings at March 31, 2001 totalled $110.2 million ($2.15 per share), representing an increase of 10.1% over the figure of $100.1 million ($2.00 per share) posted the previous year. This rise was primarily attributable to the full-year contribution of our Grocery Products sector, as opposed to just twenty-eight weeks in 2000. With the Dairyworld Foods acquisition, we are now the most important dairy processor in Canada.

REVENUES

Revenues in 2001 amounted to $2.162 billion compared with $1.861 billion a year ago. This 16.2% increase was mainly due to the addition of Dairyworld, as well as the full-year contribution of Cayer-JCB Group and the Grocery Products sector.

For the second time in three years, acquisitions have contributed significantly to the increase in corporate revenues. Indeed, in keeping with our business development plan to become a leader in the North American dairy industry, Saputo acquired Dairyworld Foods, one of Canada's leading cheese and fluid milk producers, on February 5, 2001. This transaction has enabled us to diversify product offerings in our core sector of activities. We are confident that our operating expertise will contribute to maximizing shareholder return on investment.

PROGRESS

We fully integrated our subsidiary, Cayer-JCB Group, into the Cheese division where it enjoys the benefits of our nationwide distribution network. We are now poised to develop new markets for our extensive offering of European-style cheeses.

In 2001, we also completed the integration of Culinar. While some Culinar activities were rationalized to enhance efficiency, appropriate marketing support was lent to high growth brands and efforts devoted to maintaining high standards of quality. Although the Cookies category is currently facing intense competition, we are confident to be able to increase our market share in the Grocery Products sector, particularly with regard to the Snack cakes category, and to achieve the future profitability objectives we have set.

The process of integrating Dairyworld began with an in-depth analysis followed by the drawing up of an action plan to be implemented over a period of 12 to 18 months. As a result, our Canadian Dairy Products sector was restructured in early May 2001, and now comprises two divisions: Cheese, grouping together the Canadian cheese operations of Saputo and Dairyworld; and Milk, which oversees Saputo and Dairyworld fluid milk, yoghurt and juice operations. We are now poised to optimize the integration process in the coming months. Several corporate functions of Dairyworld have already been incorporated into existing functions within the Company.

WORLD TRADE ORGANIZATION

At the close of the 2000 fiscal year, the World Trade Organization (WTO) panel handed down its final decision confirming that the Canadian dairy export system was not consistent with the trade agreement to which Canada is a signatory. Canada was allowed one year to put a new system into place. Industry players therefore began revamping provincial procedures to enable dairy producers and manufacturers to negotiate the purchase of milk used in export dairy products.

Early in 2001, the United States and New Zealand, the two countries that had lodged the original complaint with the WTO, advised the organization that they were dissatisfied with the new Canadian system. They alleged that a two-tier system, with one price for domestic dairy producers and another for the international market, still exists. They also requested the right to impose commercial sanctions on Canada. The WTO referred this issue to the same panel that had previously rendered an unfavourable decision against Canada. At the time this message was written, no decision had yet been rendered.

As this situation has led to problems of ensuring adequate milk supply for export products, we have had to limit our international activities until the situation is resolved.

OUTLOOK

On April 6, 2001, following the resignation of Camillo Lisio as President and Chief Operating Officer, I assumed full control of the Company's activities, supported in these functions by the corporate management team. Also, the Dairyworld acquisition brought with it the realization that in order to maintain our ability to grow and to preserve the management style that has guaranteed our success to date, we would have to restructure. To optimize our operations and respond to the Company's new business needs, we have implemented a structure that will eventually see the creation of business units. As already indicated, the Dairy Products sector has been divided into two units, the Cheese and Milk divisions, while Grocery Products activities are all included within the Bakery division. Each division will have its own operating structure, thereby strengthening the Saputo organization and better enabling us to pursue expansion from within or by means of acquisitions.

Human resources are currently focusing efforts on incorporating the Dairyworld activities into the corporate fold. Once this has been achieved, we shall be poised to consolidate our position as a major player in the North American food processing industry.

Our philosophy of discerning growth has always proved a major strength of Saputo. Should any acquisition opportunities arise while we are integrating Dairyworld into the group, they will be examined in the light of this philosophy.

Throughout the year, our employees once again proved to be a constant source of inspiration given their ongoing dedication and professionalism. I should like to take this opportunity to thank all the men and women who, day in and day out, have contributed to the success of our Company. I should also like to extend a warm welcome to the employees of Dairyworld who joined us on February 5, 2001. The merger of our two companies will, I am certain, prove to be an enriching experience for everyone. My thanks also to our clients for the trust and loyalty they continue to place in us year after year, and to our suppliers who, yet again, have proven to be excellent business partners.

In closing, I wish to thank Camillo Lisio most sincerely for his contribution to corporate growth and for his close, inestimable cooperation with all the members of the management team. Finally, my thanks to the members of the Board of Directors for their continued support and wise counsel throughout the year.

"Lino Saputo"
(signed)

LINO SAPUTO
Chairman of the Board and Chief Executive Officer
June 5, 2001

Dairy Products sector

Dairy Products form the backbone of corporate development and remain our primary focus. Now divided into the Cheese and Milk divisions, this sector produces dairy products of all kinds.

The Cheese Division manufactures, distributes and markets a comprehensive range of cheeses, including mozzarella, cheddar and a vast assortment of other Canadian and European specialty cheeses, as well as value-added by-products such as butter and whey.

Recognized industry leader in Canada, Saputo is the largest producer of cheese in the country. Saputo is also one of the most important manufacturers of natural cheeses in the United States.

Created following the acquisition of Dairyworld in February 2001, the Milk Division transforms, markets and distributes fluid milk, cream-based products, cottage cheese, yoghurt and other types of beverages, including juices, across Canada.

Saputo is one of the top three processors of fluid milk in Canada.

Cheese Division

This division provides customers with premium products designed to satisfy the most discerning palates. Originally recognized for our "savoir-faire" in producing quality Italian cheeses, we have broadened our expertise over the years to include the production of Canadian and European cheeses as well.

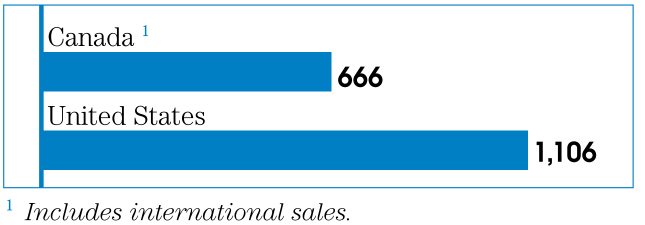
With the purchase of Dairyworld in February 2001, our Cheese Division acquired an impressive lineup of internationally renowned cheddars as well as expertise that admirably complements our production know-how. These cheeses, many of which have won coveted international awards, are marketed mainly under the *Armstrong* label, but are also sold under private labels to major food chains.

In Canada, the Cheese Division also operates its own distribution network, which was developed in parallel with corporate growth in the pizzeria and retail segments of the market.

In fiscal 2001, Cheese Division operations in Canada and the United States generated aggregate revenues of $1.772 billion.

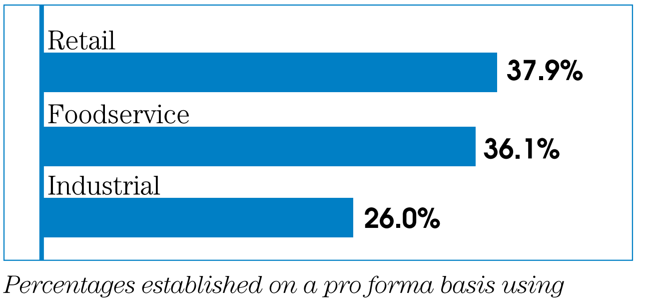
Historically, foodservice was the Company's dominant sector of activities. With the acquisition of Dairyworld, which operates primarily in the retail market, Saputo has aligned itself more closely with the buying habits of North American consumers. As a result, sales are now divided more equitably among the foodservice, retail and industrial segments of the market. Backed by a team of seasoned professionals, Saputo is now firmly established in the marketplace and ranks among the leaders in the food processing industry in North America.

SALES BY MARKET *(in millions of dollars)*



[1] *Includes international sales.*

SALES BY MARKET SEGMENT



Percentages established on a pro forma basis using revenues of Dairyworld from February 5 to March 31, 2001, on an annualized basis.

Retail

Saputo offers retail clients — supermarket chains, warehouse stores, independent stores and specialty cheese shops — a vast assortment of Canadian, Italian and European cheeses. Indeed, we offer more than just an impressive selection of quality cheeses under one roof. We ensure that our products are packaged to meet the needs of consumers and appropriately supported by targeted marketing efforts. Campaign customization serves to promote and position each range or variety of cheese. When combined with in-store programs, which include sampling by consumers, our promotional initiatives enhance consumer product awareness while boosting demand with intermediaries.

CANADA

Throughout fiscal 2001, we sought to achieve a stronger retail presence. Accordingly, we expanded our range of counter-ready cheeses and then broadened our coast-to-coast offering of specialty cheeses by fully integrating Cayer-JCB Group into our sales and distribution network. Promotional initiatives such as *"Les poésies du chef"*, involvement in the Italian cooking show *"La Trattoria"*, and the publication of recipe booklets contributed to enhancing consumer awareness of Saputo branded cheeses.

In fiscal 2002, the addition of the *Armstrong* branded cheese line will help us further increase our presence in this market segment. As one of the most important producers of private-label cheese in Canada, we aim to take maximum advantage of this fast growing category. We shall also pursue Dairyworld's promotional efforts at the regional level to increase the market penetration of our cheddar lineup. Lastly, in an effort to maximize consumer impact and spur the sales of specialty cheeses, we plan to enhance the image and positioning of our various trademarks.

Industrial

UNITED STATES

In fiscal 2001, we increased market penetration and brand awareness among consumers using innovative promotions. Some of these advertising initiatives developed for our *Cheese Heads* string cheese spurred additional sales of this product, which today commands a 20.4% share of the market, up 2.4%[1] over the previous fiscal year. In addition, three new blends of *Stella* shredded cheese were added to our range of Italian cheeses, and *Stella* cheese wedges were relaunched in a new, resealable pack: an industry first.

For fiscal 2002, we intend to increase our position in this segment and gain additional distribution by focusing on key brands with strong growth potential. Marketing support will continue to consistently provide innovative consumer promotions designed to increase our retail presence and brand equity. In addition, we shall continue to develop product line extensions that address emerging consumer needs.

[1] *Information Resources Incorporated – April 22, 2001 (52 weeks)*

In the industrial segment of the market, we supply ingredients to processors who manufacture frozen meals and ready-to-serve foods. These clients rely upon Saputo to develop quality, competitively priced products in accordance with rigidly monitored specifications. Our low-cost production expertise and our ability to guarantee consistent ingredient quality combine to provide Saputo with an important competitive edge. Given these fundamental strengths, clients further appreciate that we are poised to help them preserve the exclusive character of their products. Our sales team plays an invaluable role at this level. Each member is specially trained to offer clients first-rate technical support in developing new and original convenience foods.

In the markets where we serve industrial clients, we consistently focus upon broadening our knowledge of their activities with a view to developing cheese varieties and other ingredients adapted to their individual needs and production processes. As a result, we are able to make an extensive selection of products better known to clients and enhance our presence in this market segment.

"To run a successful promotion, one must know one's market well and then be willing to take calculated, strategic risks."

Steve Josen, Vice-President, Marketing, Cheese Division (USA)

Foodservice

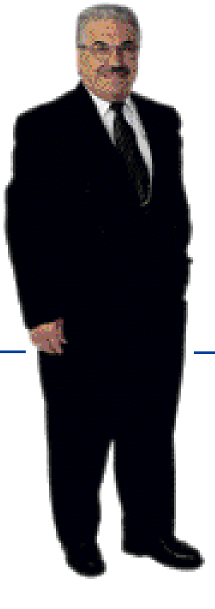
Most of our foodservice clients are distributors, national restaurant chains, hotels, pizzerias and caterers. They look to Saputo for innovative solutions and products designed to meet their specific needs. Day after day, we seek to enhance our reputation as master cheesemakers and become the supplier of choice.

CANADA

During the year, we further solidified ties with clients, established relations with new customers and thus increased market penetration. The specialized training of our sales personnel was instrumental in maintaining our lead in this particular segment of the market.

In the upcoming fiscal year, we shall continue to align our marketing efforts with those of our clients in an attempt to broaden product awareness with customers. The integration of Dairyworld into the corporate fold will open the doors to new market niches and provide an opportunity to offer these new clients an expanded range of products and services. By continuing to favour a partnership approach, we seek to establish lasting relationships with clients and grow together.

"In the Sales Department, our primary goal is to build mutually profitable relationships with our clients. Business is bound to thrive when everyone's a winner!"



Frank Conte, Regional Sales and Logistics Manager, Atlantic Canada

UNITED STATES

In 2001, we increased the size of our sales organization to raise the level of customer coverage and personalized service. Targeted promotions and original meal suggestions helped spur business volume, particularly the sale of blue, gorgonzola and Italian specialty cheeses. We enhanced our promotion management system to provide greater accuracy and turnaround and, in turn, reinforce our position with clients.

During fiscal 2002, we intend to increase our presence in this segment by focusing on key brands with considerable growth potential, especially our *Stella* branded products. For 80 years, *Stella* has been a trusted name in fine cheeses of unsurpassed flavour, quality and variety. Our intention in the coming year is to seize the full potential of this long established, value-added brand.

INTERNATIONAL

Saputo's international activities slowed significantly during fiscal 2001. To comply with the requirements of the World Trade Organization, industry players in Canada worked towards implementing a new Canadian system for dairy exports which made it difficult, and sometimes impossible, to secure milk for export dairy products. Although we honoured commitments to our international clients, in part through our US operations, we were obliged to forego some sales volume until the situation is resolved.

At the outset of fiscal 2002, the milk supply for export products is as uncertain as it was in fiscal 2001. We shall continue to monitor the situation and proceed with caution. Accordingly, we shall attempt to maintain a certain volume of sales abroad until we are certain that conditions are favourable to renewed development in these markets.

"At Saputo, we are totally committed to quality. It is a challenge we rise to day after day with a combination of discipline and passion."

Sandra Veaudry, Laboratory Supervisor, Cheese Division (Canada)


Dairyland

Milk Division

This new division, which blends well with the Company's core operations, bottles fluid milk and beverages, and manufactures dairy products other than cheese.

Retail

In fiscal 2001, the Milk Division generated sales of $137.9 million in Canada. On a pro forma basis, annualizing Dairyworld revenues for the eight weeks ended March 31, 2001, the Milk Division revenues would represent $831 million, which would be approximately 27% of the Company pro forma revenues.

The retail segment accounts for the majority of our business in this division. Distributed nationwide, our products are mainly marketed under recognized brands such as *Dairyland* and *Baxter*. In Quebec, we bottle fluid milk and market it under the *Régal* brand; we also manufacture frozen novelties under various private label brands.

In Western and Atlantic Canada respectively, *Dairyland* and *Baxter* spell freshness and quality for consumers. We use this platform of well established brands as a springboard for developing value-added products that allow us to capture market share and increase profitability. In each of these regions, we also operate an extensive home delivery network. Day after day, more than 60 000 families enjoy the convenience of buying milk and dairy products at their own front door.

During fiscal 2001, Dairyworld focused on reinforcing brand equity and extending the value-added product segment. Brand activities included advertising campaigns, as well as numerous events and seasonal promotions. Expansion of the value added component of the product mix included *Pure'n Fresh* microfiltered milk, *Calcium Plus* milk, ultra-pasteurized eggnog and single-serve plastic bottle *Milk 2 Go*. All of these marketing endeavours were backed by a commitment to provide clients with premium quality products and excellent service.

In fiscal 2002, we shall pursue business development by focusing on the types of retailers we serve, such as convenience stores and service station outlets, which now tend to offer a wider choice of food items. Extensive efforts will also be undertaken in Québec and Ontario to target major clients and significantly enhance market penetration.

Foodservice

The foodservice sector continues to experience rapid expansion. To increase market share, Dairyworld has adopted a strategic development plan well adapted to this particular segment of the market. Among other things, Dairyworld provides customers with a flexible distribution network and varied product offering with multiple flavours and formats designed to respond to a broad spectrum of individual customer needs.

Our seasoned team of sales representatives deploy the full extent of their expertise to understand and satisfy the highly specific requirements of our customer base, which includes major foodservice distributors, fast food restaurant chains, upscale restaurants, schools, hospitals, caterers and organizers of sporting events.

In fiscal 2001, Dairyworld secured growth through strategic alliances with major national distributors. These connections expanded our customer base and opened up new business opportunities for our products. We are henceforth poised to adapt ourselves to client preferences by supplying them either through these distributors or through our vast direct delivery network.

In the upcoming fiscal year, we intend to enhance our penetration of the markets in Québec and Ontario. We are also planning to strengthen our position in Atlantic Canada by revitalizing production and marketing, optimizing ties with key clients in this region, and forging new partnerships.

"Home delivery helps to personalize and gives character to a company. Customers really appreciate it."

Randy Gerbrandt, Home Service Franchisee, Vancouver

Grocery Products sector

The Grocery Products sector comprises the production and marketing of snack cakes, cookies, fine breads and soups. Saputo is the most important producer of snack cakes and fine breads in Canada and one of the nation's leading manufacturers of cookies. Grocery Products sector sales totalled $251.7 million for the 2001 fiscal year.

With sales generated almost exclusively by the Canadian retail market and trademarks firmly positioned with consumers, the Grocery Products sector provides a better balance between our core line of dairy products and our branded product offering.

Snack cakes Category

The prominent position achieved in Canada has transformed this category into a major development thrust within our Grocery Products sector. We produce a broad spectrum of snack cakes, muffin bars, flakies and tarts which are marketed under well known brands such as **Jos.Louis**, **Ah Caramel!, Hop & Go!, May West** and **Passion Flakie,** to name but a few. The majority of the trademarks in this category are part of the extensive **Vachon** family of products, a name that has enjoyed a solid reputation for over 60 years.

During the 2001 fiscal year, a number of promotional activities were conducted in relation to our key brands with a view to enhancing visibility with consumers. Indeed our "*What is your Passion?*" and "*You've Got Taste*" campaigns proved particularly successful. New products such as our *May West* bar as well as several seasonal products were introduced into the market during the year. These new products further contributed to improving brand visibility. In 2001, we also entered into two partnership agreements which resulted in the launch of a new *Jos.Louis* ice cream and a new *Ah Caramel!* spread.

During the year, we continued to revamp corporate packaging under a program designed to enhance product visibility and in-store appeal, and ultimately set our products apart from rival brands.

In the year ahead, we shall again seek to promote our leading trademarks by means of targeted promotional initiatives. Moreover, in an effort to increase our consumer base, we plan on introducing new products backed by several of our well established trademarks.

"In the Production Department, we are committed to maintaining standards of high quality and excellent product reputation."

Aline Jacques, Lead Hand, Sainte-Marie plant

Cookies Category

In this category, we manufacture a broad range of products marketed under the **Viau-McCormicks** brand which comprises a vast selection of cookies bearing such renowned names as **Whippet, Viva Puffs, Normandie, Wagon Wheels** and **Imagine**.

During the year, we introduced new products to reinforce our position in this particularly competitive market. Among them, the launch of our new *Ah Caramel!* cookies, which enjoyed the visibility of this already well established snack cake brand, yielded results well beyond corporate expectations.

In the upcoming fiscal year, we will be faced with increasing competition in this segment of the market. In an attempt to better offset the effects of intense competition and improve product profitability, efforts will focus upon key brands. Accordingly, our new *Ah Caramel!* cookie will occupy a dominant position in our product portfolio.

Fine Breads Category

We produce a variety of rusks, bread sticks and croutons, including the well known Melba toasts. These products are marketed under the **Grissol** and **Li'l Cravings** labels.

During the 2001 fiscal year, our main objective was to enhance the image of the *Grissol* label with a view to maintaining our leading position in this market segment. Developed in this light, the *"Grissol My Way!"* campaign proved highly successful and contributed to spurring sales in this category.

In an effort to enhance consumer utilization of our products, a number of activities were also initiated to promote new suggested uses for our products.

During the fiscal year now in progress, we shall continue to devote efforts to reinforcing our leading position in this market segment and to increasing product use. To do so, we plan to develop a new platform for the *"Grissol My Way!"* campaign. In fact, to optimize the impact of this initiative, various products marketed under the *Li'l Cravings* brand will be repositioned under the *Grissol* label. Other promotional activities aimed at increasing market share will also be developed and carried out over the coming year.

Soups Category

In this category, a comprehensive range of soups and stock mixes are produced and marketed under the **Loney's** label.

During the 2001 fiscal year, a number of product packages were revisited to enhance brand image, an initiative that resulted in increased sales. In-store tactical activities also continued, with an emphasis on the use of display units and bonus size product formats to attract consumer attention.

In the year ahead, we plan to capitalize on past achievements and continue to foster impulse buying through in-store tactical initiatives.

Financial section

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

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

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

OPERATING RESULTS

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

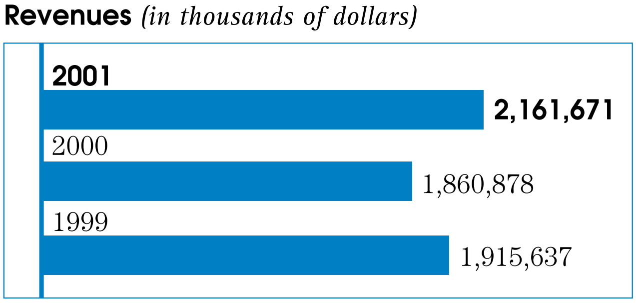
This increase in revenues was essentially the result of the contribution of Dairyworld. Other notable sources included the full-year contribution by Cayer-JCB Group and the Grocery Products sector (Culinar). During the previous fiscal year, contributions to revenues by each of these acquired companies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

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

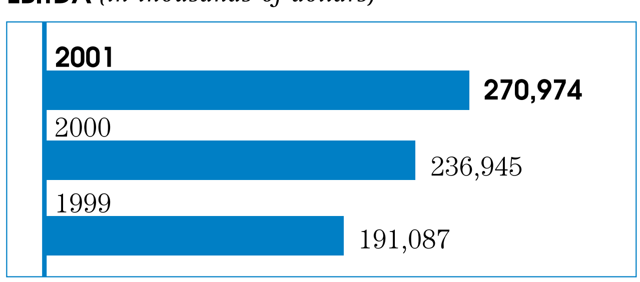
With the advent of Dairyworld, approximately 66% of Saputo Inc. revenues will now be generated in Canada, the remainder being generated in the United States.

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

Revenues *(in thousands of dollars)*



EBITDA *(in thousands of dollars)*



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

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

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

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

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

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

CASH AND FINANCIAL RESOURCES

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

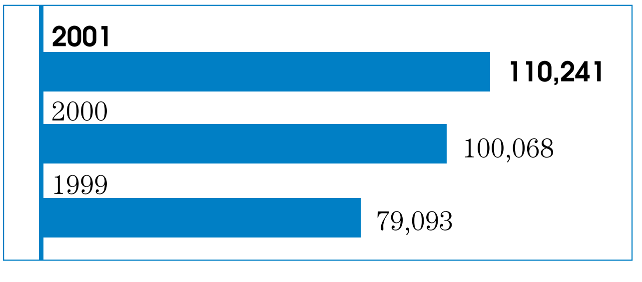
On February 5, 2001, the Company completed the acquisition of Dairyworld for a total consideration of $407.3 million, financed in full by a bank loan with a term of four years.

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

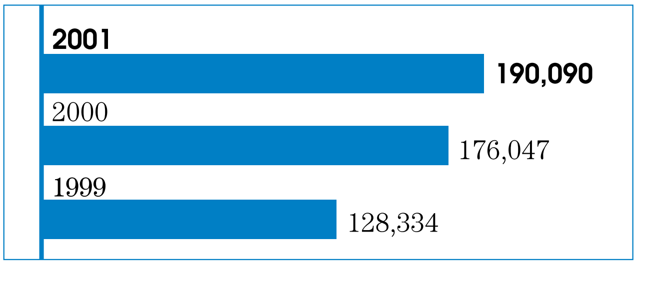
During the 2002 fiscal year, we expect to spend an amount of $52 million to enhance efficiency and profitability. This amount does not take into account additional expenses that may be necessary once integration plans have been finalized with regard to our recently acquired Dairyworld activities.

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

Net earnings
(in thousands of dollars)



Cash flow generated by operations
(in thousands of dollars)



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

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

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

FINANCIAL INSTRUMENTS, RISK AND UNCERTAINTY

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

OUTLOOK

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

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

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

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

Information **by sector**

DAIRY PRODUCTS

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

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

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

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

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

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

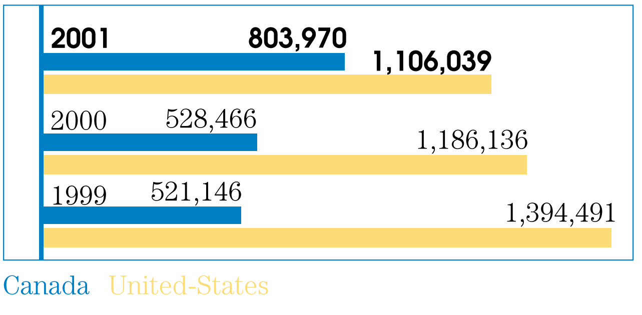
operations during the year. Secondly, the export market developed by Saputo had to be financially supported to maintain ties with our international clients and enable the Company to assess the possibilities offered by the new export regulations.

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

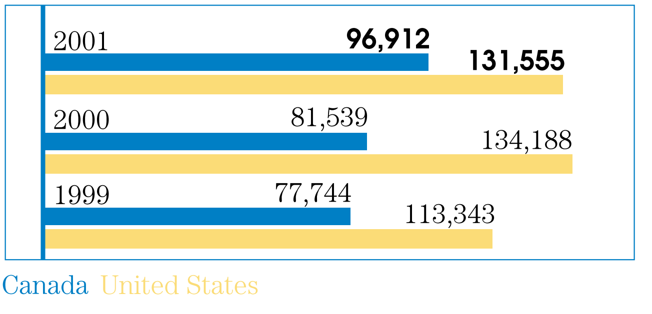
As mentioned previously, the decline in the average price per pound of cheese during the 2001 fiscal year resulted in a decrease of $83 million in revenues, a figure that was partially offset by an influx of $26 million as a result of a weaker Canadian dollar. Regardless of the effect of these two factors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

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

Revenues / Dairy Products sector
(in thousands of dollars)



EBITDA / Dairy Products sector
(in thousands of dollars)



GROCERY PRODUCTS

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

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

Corporate **Management**

First row, from left to right
***Lino Saputo**, Chairman of the Board and Chief Executive Officer*
***Lino Saputo Jr.**, Executive Vice-President, Operations*
***Randy Williamson,** Executive Vice-President and Chief Operating Officer, Milk Division*
Second row, from left to right
***Louis-Philippe Carrière,** Executive Vice-President, Finance and Administration*
***Dino Dello Sbarba,** Executive Vice-President, Sales, Marketing and Logistics*
***Pierre Leroux,** Executive Vice-President, Human Resources and Quality Assurance*

Management's **statement of responsibility** for financial reporting

Management is responsible for the preparation and presentation of the consolidated financial statements and the financial information presented in this annual report.

This responsibility includes the selection of accounting policies and practices and making judgements and estimates necessary to prepare the consolidated financial statements in accordance with generally accepted accounting principles. Management has also prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is comprised solely of directors who are not employees of the Company.

The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit Commitee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Commitee. The consolidated financial statements have been audited by the external auditors, Deloitte & Touche, whose report follows.

"Lino Saputo"
(signed)

LINO SAPUTO
Chairman of the Board and
Chief Executive Officer

"Louis-Philippe Carriere"
(signed)

LOUIS-PHILIPPE CARRIÈRE, CA
Executive Vice-President, Finance
and Administration, and Secretary

Auditors' report to the Shareholders of Saputo Inc.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Deloitte & Touche, LLP"
(signed)

Deloitte & Touche, LLP

Chartered Accountants
Laval, Quebec
May 11, 2001

Consolidated **statements of earnings**

Years ended March 31

(in thousands of dollars, except per share amounts)	2001	2000
REVENUES	$ 2,161,671	$ 1,860,878
Cost of sales, selling and administrative expenses	1,890,697	1,623,933
EARNINGS BEFORE INTEREST, DEPRECIATION, AMORTIZATION AND INCOME TAXES	270,974	236,945
Depreciation of fixed assets	51,763	37,785
OPERATING INCOME	219,211	199,160
Interest on long-term debt	40,703	34,184
Other interest (note 7)	(1,184)	3,397
EARNINGS BEFORE INCOME TAXES AND AMORTIZATION OF GOODWILL	179,692	161,579
Income taxes (note 9)	55,607	51,386
EARNINGS BEFORE AMORTIZATION OF GOODWILL	124,085	110,193
Amortization of goodwill	13,844	10,125
NET EARNINGS	$ 110,241	$ 100,068
EARNINGS PER SHARE (note 10)		
Earnings before amortization of goodwill		
Basic	$ 2.42	$ 2.20
Diluted	$ 2.41	$ 2.19
Net earnings		
Basic	$ 2.15	$ 2.00
Diluted	$ 2.14	$ 1.99

Consolidated **statements of retained earnings**

Years ended March 31

(in thousands of dollars)	2001	2000
RETAINED EARNINGS, BEGINNING OF YEAR	$ 177,746	$ 89,655
Net earnings	110,241	100,068
Dividends	(16,900)	(11,977)
RETAINED EARNINGS, END OF YEAR	$ 271,087	$ 177,746

Consolidated **balance sheets**

As at March 31

(in thousands of dollars)	**2001**	2000
ASSETS		
CURRENT ASSETS		
Cash	**$ 6,294**	$ 4,310
Receivables	**279,493**	147,188
Inventories	**376,447**	236,791
Income taxes	**2,866**	3,096
Future income taxes	**22,751**	13,422
Prepaid expenses and other assets	**10,628**	8,999
	698,479	413,806
FIXED ASSETS (note 3)	**675,021**	491,514
GOODWILL, UNAMORTIZED PORTION (COST OF $630,599)	**592,646**	475,229
OTHER ASSETS	**33,970**	9,534
FUTURE INCOME TAXES	**12,863**	20,919
	$ 2,012,979	$ 1,411,002
LIABILITIES		
CURRENT LIABILITIES		
Bank loans (note 4)	**$ 10,643**	$ 17,585
Accounts payable and accrued liabilities	**320,426**	162,637
Income taxes	**29,457**	22,130
Current portion of long-term debt	**95,075**	40,222
	455,601	242,574
LONG-TERM DEBT (note 5)	**700,821**	461,353
EMPLOYEE FUTURE BENEFITS	**11,574**	7,248
FUTURE INCOME TAXES	**97,082**	70,933
	1,265,078	782,108
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)	**451,047**	450,632
RETAINED EARNINGS	**271,087**	177,746
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**25,767**	516
	747,901	628,894
	$ 2,012,979	$ 1,411,002

On behalf of the board

"Lino Saputo"
(signed)

"Louis A. Tanguay"
(signed)

Lino Saputo, *Director*

Louis A. Tanguay, *Director*

Consolidated **statements of cash flows**

Years ended March 31

(in thousands of dollars)	**2001**	2000
Cash flows related to the following activities:		
OPERATING		
Net earnings	**$ 110,241**	$ 100,068
Items not affecting cash		
Depreciation and amortization	**65,607**	47,910
Future income taxes	**15,232**	28,069
Other items	**(990)**	—
	190,090	176,047
Currency loss (gain) on cash held in foreign currency	**7**	(82)
Changes in non-cash operating working capital items	**44,310**	(10,363)
	234,407	165,602
INVESTING		
Business acquisitions (note 8)	**(1,432)**	(2,334)
Net additions to fixed assets	**(42,934)**	(53,115)
Other assets	**(1,694)**	(2,119)
Foreign currency translation adjustment	**(48,411)**	22,433
	(94,471)	(35,135)
FINANCING		
Bank loans	**(6,942)**	(44,074)
Increase in long-term debt	**—**	96,287
Repayment of long-term debt	**(151,140)**	(145,194)
Issuance of share capital	**415**	1,150
Dividends	**(16,900)**	(11,977)
Foreign currency translation adjustment	**36,622**	(14,576)
	(137,945)	(118,384)
INCREASE IN CASH	**1,991**	12,083
CURRENCY (LOSS) GAIN ON CASH HELD IN FOREIGN CURRENCY	**(7)**	82
CASH (BANK OVERDRAFT), BEGINNING OF YEAR	**4,310**	(7,855)
CASH, END OF YEAR	**$ 6,294**	$ 4,310
SUPPLEMENTAL INFORMATION		
Interest paid	**$ 39,165**	$ 28,030
Income taxes paid	**$ 31,976**	$ 12,963

Notes to the Consolidated **Financial Statements**

Years ended March 31 *(in thousands of dollars)*

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and take into account the following significant accounting policies:

Use of estimates
In the course of the preparation of financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses for the period. Actual results could differ from these estimates.

Consolidated financial statements
The consolidated financial statements include the accounts of Saputo Inc. and all its subsidiaries. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

Inventories
Finished goods and goods in process are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of cost and replacement value, cost being determined under the first-in, first-out method.

Fixed assets
Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives or by using the following methods:

Buildings	15 years to 40 years
Furniture, machinery and equipment	3 years to 15 years
Rolling stock	5 years to 10 years or based on kilometers traveled

Goodwill
Goodwill is recorded at cost and amortized under the straight-line method over a maximum period of forty years. Management reviews goodwill on a continuous basis to determine whether there has been a permanent impairment of its value by comparing the carrying amount with future undiscounted operating income.

Income taxes
The Company follows the liability method of income tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

Employee future benefits
The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using estimates of expected return on plan assets, rates of compensation increase, retirement ages of employees and expected health care costs and other post-retirement benefits.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currency translation

The balance sheet accounts of the self-sustaining companies operating in the United States were translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts were translated into Canadian dollars using the average monthly exchange rates in effect during the fiscal years. Canadian company debt relating to the financing of the acquisitions of the self-sustaining companies was also converted using the exchange rates at the balance sheet dates. The foreign currency translation adjustment account presented in shareholders' equity represents accumulated foreign currency gains or losses on the Company's net investments in self-sustaining companies operating in the United States. The change in the foreign currency translation account during the year ended March 31, 2001 resulted from the weakening of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of Canadian companies were translated into Canadian dollars using the exchange rates at the end of the year for current assets and liabilities and the prevailing exchange rates at the time of transactions for income and expenses. Gains or losses resulting from this translation are included in the statement of earnings.

2. CHANGES IN ACCOUNTING POLICIES

Income taxes

Effective April 1, 2000, the Company adopted the new Canadian Institute of Chartered Accountants accounting recommendations for income taxes. Under these new rules, income taxes must be accounted for using the liability method of income tax allocation. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Prior to April 1, 2000, the Company followed the deferred tax allocation method. Under this method, timing differences between accounting income and expenses and taxable income and deductible expenses gave rise to deferred income taxes. Deferred income taxes were determined using the tax rates prevailing at the time the provisions for income taxes were recorded.

The Company adopted the new recommendations retroactively and restated the presentation of the financial statements. The adoption of the new recommendations did not affect net earnings and retained earnings of prior years and its effect on earnings for the current year was immaterial.

Employee future benefits

Effective April 1, 2000, the Company adopted on a prospective basis the new recommendations of the Canadian Institute of Chartered Accountants concerning employee future benefits.

In accordance with these new recommendations, the cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using estimates of expected return on plan assets, rates of compensation increase, retirement ages of employees and expected health care costs and other post-retirement benefits. Plan obligations are discounted using current market interest rates. Previously, costs for employee future benefits other than pension were expensed as incurred and pension cost obligations were discounted using the expected long-term rate of return on plan assets.

As a result of the adoption of these new recommendations, operating income was reduced by $1,545,000 and the accrued employee future benefit liability increased by $919,000.

2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

Earnings per share

Effective January 1, 2001, the Company adopted on a retroactive basis the new recommendations of the Canadian Institute of Chartered Accountants concerning earnings per share. Basic earnings per share is based on the weighted average of common shares issued and outstanding, and is calculated by dividing earnings by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing earnings by the weighted number of shares used in the basic earnings per share calculation plus the number of shares that would be issued assuming that all potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan were issued using the treasury stock method.

Under the treasury stock method, share purchase options are assumed exercised at the beginning of the period and the proceeds from exercise are presumed to be used to purchase shares at the average market price during the period.

Diluted earnings per share for the year ended March 31, 2000 were restated in accordance with the new recommendations.

As a result of these new recommendations, diluted earnings per share before amortization of goodwill increased by $0.09 and net earnings per share increased by $0.08 for the year ended March 31, 2001 and $0.11 and $0.10 respectively for the year ended March 31, 2000.

3. FIXED ASSETS

	2001			2000
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	**$ 31,844**	**$ —**	**$ 31,844**	$ 20,179
Buildings	**238,237**	**29,033**	**209,204**	148,470
Furniture, machinery and equipment	**581,450**	**153,297**	**428,153**	318,052
Rolling stock	**8,720**	**2,900**	**5,820**	4,813
	$ 860,251	**$ 185,230**	**$ 675,021**	$ 491,514

4. BANK LOANS

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $235,000,000. These bank loans are available in Canadian or US dollars and bear interest at rates based on lenders' prime rates or LIBOR.

5. LONG-TERM DEBT

	2001	2000
Term bank loan, available in the form of bank advances or bankers' acceptances, repayable by quarterly variable instalments until December 2004, bearing interest at fluctuating rates based on prime rate plus a maximum of 0.6% and bankers' acceptances rates plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. As at March 31, 2001, the term bank loan is comprised of advances of $770,000 and bankers' acceptances of $400,600,000	**$ 401,370**	$ —
Senior notes		
7.97%, due in November 2006 (US$30,000,000)	**47,289**	43,482
8.12%, due in November 2009 (US$170,000,000)	**267,971**	246,398
8.41%, due in November 2014 (US$50,000,000)	**78,815**	72,470
Bonds and other loans, repayable in annual variable instalments, due in 2008	**451**	1,249
Term bank loan, bearing interest at fluctuating rates based on bankers' acceptances rates plus 0.5% up to a maximum of 1.25%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company, repaid during the year	**—**	80,000
Term bank loan (US$40,000,000), bearing interest at fluctuating rates based on LIBOR rate plus 0.75% up to a maximum of 1.5% depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company, repaid during the year	**—**	57,976
	795,896	501,575
Current portion	**95,075**	40,222
	$ 700,821	$ 461,353

Estimated principal payments required in each of the next five years are as follows:

2002	**$ 95,075**
2003	**102,557**
2004	**110,105**
2005	**93,969**
2006	**50**
2007 and subsequent years	**394,140**
	$ 795,896

6. SHARE CAPITAL

Authorized

The authorized share capital of the Company consists of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares may be issued in one or more series, the terms and privileges of each series to be determined at the time of their creation.

	2001	2000
ISSUED		
51,225,390 common shares (51,200,994 in 2000)	**$ 451,047**	$ 450,632

24,396 common shares for an amount of $414,732 were issued during the year ended March 31, 2001 pursuant to the share option plan.

2,503,000 common shares for an amount of $99,994,850 were issued during the year ended March 31, 2000 in partial consideration for the acquisition of Culinar Inc. 66,996 common shares for an amount of $1,149,850 were also issued pursuant to the share option plan.

Share option plan

The Company established a share option plan to allow for the purchase of common shares by key employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan will not exceed 3,000,000 common shares. Options may be exercised at a price equal to the closing quoted value of the shares on the day preceding the date of the grant. In general, the options vest at 20% per year and expire ten years from the date of the grant. No compensation expense is recognized for this plan when options are granted. The consideration paid on exercise of options is credited to share capital.

Options issued and outstanding as at the year-ends are as follows:

2001				2000	
Granting period	**Exercise price**	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
1998	$ 17.00	**321,765**	**$ 17.00**	349,787	$ 17.00
1999	from $ 32.25 to $ 37.50	**265,358**	**$ 36.48**	278,306	$ 36.43
2000	$ 39.40	**358,786**	**$ 39.40**	373,699	$ 39.40
2001	$ 27.00	**705,069**	**$ 27.00**		
		1,650,978	**$ 29.27**	1,001,792	$ 30.75
Options exercisable at year-end		**363,497**	**$ 27.09**	199,075	$ 22.39

Changes in the number of options are as follows:

	2001		2000	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance at beginning of year	**1,001,792**	**$ 30.75**	745,502	$ 25.24
Options granted	**733,741**	**$ 27.00**	422,825	$ 39.40
Options exercised	**(24,396)**	**$ 17.00**	(66,996)	$ 17.16
Options cancelled	**(60,159)**	**$ 31.30**	(99,539)	$ 35.29
Balance at end of year	**1,650,978**	**$ 29.27**	1,001,792	$ 30.75

628,704 options to purchase common shares at a price of $38.00 were also granted on April 1, 2001.

7. OTHER INTEREST

	2001	2000
Expense	**$ 2,923**	$ 6,149
Income	**(4,107)**	(2,752)
	$ (1,184)	$ 3,397

8. BUSINESS ACQUISITIONS

Year ended March 31, 2001

On February 5, 2001, the Company completed the acquisition of the fluid milk and cheese manufacturing operations of Agrifoods International Cooperative Limited, commonly known as Dairyworld Foods. This acquisition of a total cost of $407,293,000 was financed by a term bank loan.

The acquisition was recorded using the purchase method of accounting. Goodwill resulting from the acquisition is amortized under the straight-line method over a period of forty years.

Net assets acquired were the following as at the date of acquisition:

Tangible assets	**$ 441,348**
Goodwill	**115,920**
Total assets	**557,268**
Liabilities assumed including bank indebtedness of $5,509	**149,975**
NET ASSETS ACQUIRED	**$ 407,293**

Purchase price	**$ 407,293**
Term bank loan	**(411,370)**
Bank indebtedness of the acquired business	**5,509**
CASH USED FOR THE ACQUISITION	**$ 1,432**

The final allocation of the purchase price between tangible and intangible assets is not finalized as the Company has not completed the valuation of net assets acquired. Adjustments to the allocation of the purchase price will be completed in the subsequent fiscal year.

Year ended March 31, 2000

On September 15, 1999, the Company acquired for a total consideration of $283,500,000, all of the issued shares of Culinar Inc., a manufacturer of pastry products, biscuits, fine breads and soups operating in Canada. This acquisition was paid by a cash consideration of $183,505,150 which was financed in part with a long-term credit facility of $180,000,000 and by the issuance of 2,503,000 common shares at $39.95 per share for an amount of $99,994,850.

On February 28, 2000, the Company also acquired for a cash consideration of $13,725,000 all of the issued shares of Groupe Cayer-JCB Inc., a Canadian producer of European cheeses. Liabilities assumed of $13,729,000 includes bank indebtedness and long-term debt of $6,689,000.

These acquisitions were recorded using the purchase method of accounting. Goodwill resulting from these acquisitions is amortized under the straight-line method over a period of forty years.

8. BUSINESS ACQUISITIONS (CONT'D)

Net assets acquired were the following as at the dates of acquisition:

	Culinar Inc.	Groupe Cayer-JCB Inc.	Total
Cash	$ 14,737	$ 159	$ 14,896
Tangible assets	118,117	14,856	132,973
Goodwill	201,721	12,439	214,160
Total assets	334,575	27,454	362,029
Liabilities assumed	51,075	13,729	64,804
NET ASSETS ACQUIRED	$ 283,500	$ 13,725	$ 297,225

Purchase price	$ 297,225
Long-term financing	(180,000)
Issuance of share capital	(99,995)
Cash of acquired businesses	(14,896)
CASH USED FOR THE ACQUISITIONS	$ 2,334

9. INCOME TAXES

The provision for income taxes is comprised of the following:

	2001	2000
Current income taxes	**$ 41,365**	$ 23,317
Future income taxes	**14,242**	28,069
	$ 55,607	$ 51,386

Reconciliation of income taxes, calculated using statutory Canadian income tax rates, to the income tax provision presented in the statement of earnings:

	2001	2000
Income taxes, calculated using statutory Canadian income tax rates	**$ 66,498**	$ 60,283
Adjustments resulting from the following:		
Manufacturing and processing credit	**(6,856)**	(6,440)
Other	**(4,035)**	(2,457)
Provision for income taxes	**$ 55,607**	$ 51,386

Future income taxes assets and liabilities reflect the temporary differences between the carrying amounts of balance sheet accounts and the amounts for income tax purposes.

The principal components of these differencies are as follows:

	2001	2000
Future income taxes asset		
Current		
Accounts payable and accrued liabilities	**$ 16,510**	$ 9,735
Shareholders' equity	**1,010**	1,010
Losses for income tax purposes	**5,231**	2,677
	22,751	13,422

9. INCOME TAXES (CONT'D)

	2001	2000
Long-term		
Employee future benefits and accounts payable and accrued liabilities	**5,816**	11,652
Other assets	**3,014**	2,823
Shareholders' equity	**—**	1,010
Losses for income tax purposes	**4,033**	5,434
	12,863	20,919
	$ 35,614	$ 34,341
Future income taxes liability		
Fixed assets	**$ 86,950**	$ 68,362
Other assets	**10,132**	2,571
	$ 97,082	$ 70,933

The Company and subsidiaries have accumulated losses for income tax purposes amounting to $32,000,000. These losses expire gradually up to 2018. The future tax asset corresponding to these tax losses has been recognized in the financial statements.

10. EARNINGS PER SHARE

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during each fiscal year: 51,209,763 shares in 2001 and 50,008,209 in 2000.

Diluted earnings per share for the year ended March 31, 2001 have been calculated using 51,508,669 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2001 (51,209,763 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (298,906 shares).

Diluted earnings per share for the year ended March 31, 2000 have been calculated using 50,356,959 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2000 (50,008,209 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (348,750 shares).

Earnings per share were calculated net of income taxes.

11. EMPLOYEE BENEFIT PLANS

The Company provides defined benefit and defined contribution pension plans as well as other benefits such as health insurance, life insurance and dental plans to eligible employees and retired employees.

Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years or the career salary. Contributions are paid by employees and contributions by the Company are based on recommendations from independent actuaries.

The defined contribution pension plans entitle participating employees to an annual contribution giving right to a pension.

Plan assets are principally comprised of shares of Canadian and foreign companies, mutual funds and fixed income investments.

11. EMPLOYEE BENEFIT PLANS (CONT'D)

FINANCIAL POSITION OF THE PLANS

	Defined benefit pension plans	Other benefit plans
CHANGES IN FAIR VALUE OF PLAN ASSETS		
Fair value of plan assets at beginning of year	$ 123,593	$ —
Acquisitions during the year	73,795	—
Actual return on plan assets	2,611	—
Employer contributions	267	452
Employee contributions	1,824	—
Benefits paid	(9,620)	(452)
Fair value of plan assets at end of year	192,470	—
CHANGES IN ACCRUED BENEFIT OBLIGATION		
Benefit obligation at beginning of year	92,737	13,694
Acquisitions during the year	55,135	2,890
Current service cost	3,363	504
Interest and foreign exchange	7,054	1,584
Benefits paid	(9,620)	(452)
Actuarial loss	8,917	475
Amendments and transfers	8,844	—
Benefit obligation at end of year	166,430	18,695
SURPLUS (DEFICIT)	26,040	(18,695)
Unamortized actuarial loss	15,533	1,099
Unamortized past service cost	1,321	—
Loss on foreign exchange	(271)	—
Unamortized transitional obligation	(17,571)	6,022
Asset (liability) as at the measurement date	25,052	(11,574)
Employer contributions made from the measurement date to the end of the year	69	—
Net asset (employee future benefit obligation) recognized in the balance sheet	$ 25,121	$ (11,574)

The net accrued benefit asset is included in other assets presented in the balance sheet.

	Pension plans	Other benefit plans
EMPLOYEE BENEFIT PLANS EXPENSE		
Defined benefit plans		
Current service cost	$ 1,539	$ 504
Interest cost	6,831	1,006
Expected return on plan assets	(9,589)	—
Amortization of transitional obligation	(1,294)	487
Amortization of past service cost	42	—
Amortization of actuarial gain	(23)	—
	(2,494)	1,997
Defined contribution plans	4,434	—
	$ 1,940	$ 1,997

11. EMPLOYEE BENEFIT PLANS (CONT'D)

Weighted average assumptions

	Defined benefit pension plans	Other benefit plans
Discount rate of obligation	6.75 %	7.00 %
Expected long-term rate of return on plan assets	7.75 %	n/a
Rate of compensation increase	3.50 %	3.50 %

For measurement purposes, a 5.5% to 9% annual rate of increase was used for health, life insurance and dental plan costs for the year 2001 and this rate is asssumed to decrease gradually to 5% in 2005 and remain at that level thereafter.

12. COMMITMENTS RELATED TO LEASES

The Company carries some of its operations in leased premises and has also entered into lease agreements for equipment and rolling stock. The minimum annual lease payments required for the next five years are as follows:

2002	$ 14,396
2003	12,512
2004	10,173
2005	8,341
2006	6,956
	$ 52,378

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The fair value of cash and bank loans, receivables, accounts payable and accrued liabilities corresponds to their carrying value due to their short-term maturity.

The fair value of long-term debt, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions, is $817,173,000.

b) Credit risk

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The Company does not have any credit risk concentration.

c) Interest rate risk

The short-term bank credit facilities and long-term bank loans bear interest at fluctuating rates.

The Company occasionally enters into interest swap contracts to hedge against exposures to increases in interest rates.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

c) Interest rate risk (cont'd)

No such contracts were outstanding as at March 31, 2001. In April 2001, the Company entered into an interest swap contract at 5.08% covering $150,000,000 of long-term debt. This contract expires in December 2004.

d) Currency risk

In the normal course of Canadian operations, the Company enters into certain foreign currency transactions. The Company manages its currency risks by occasionally entering into foreign currency contracts. Outstanding foreign currency contracts as at the balance sheet date are not material.

The majority of the Company's operations are carried out in the United States. The cash flows from US operations constitute a natural hedge against the exchange risk related to debt expressed in US dollars.

14. SEGMENTED INFORMATION

The dairy products segment principally includes the production and distribution of cheeses and fluid milk. The activities of this segment are carried out in Canada and the United States.

The grocery products segment includes all non-dairy products manufactured by the Company. These products are classified in four categories, snack cakes, cookies, fine breads and soups. The activities of this segment are carried out in Canada.

These operating segments are managed separately because each segment represents a strategic business unit that offers different products and serves different markets. The Company measures performance based on geographic operating income and segment operating income on a stand alone basis.

The accounting policies of the segments are the same as those described in note 1 relating to significant accounting policies. The Company does not make any intersegment sales.

Information on operating segments

	2001			2000		
	Canada	**United States**	**Total**	Canada	United States	Total
Revenues						
Dairy products	**$ 803,970**	**$ 1,106,039**	**$ 1,910,009**	$ 528,466	$ 1,186,136	$ 1,714,602
Grocery products	**251,662**	**—**	**251,662**	146,276	—	146,276
	$ 1,055,632	**$ 1,106,039**	**$ 2,161,671**	$ 674,742	$ 1,186,136	$ 1,860,878
Earnings before interest, depreciation, amortization and income taxes						
Dairy products	**$ 96,912**	**$ 131,555**	**$ 228,467**	$ 81,539	$ 134,188	$ 215,727
Grocery products	**42,507**	**—**	**42,507**	21,218	—	21,218
	$ 139,419	**$ 131,555**	**$ 270,974**	$ 102,757	$ 134,188	$ 236,945
Depreciation of fixed assets						
Dairy products	**$ 14,165**	**$ 28,078**	**$ 42,243**	$ 9,108	$ 23,739	$ 32,847
Grocery products	**9,520**	**—**	**9,520**	4,938	—	4,938
	$ 23,685	**$ 28,078**	**$ 51,763**	$ 14,046	$ 23,739	$ 37,785

14. SEGMENTED INFORMATION (CONT'D)

	2001			2000		
	Canada	**United States**	**Total**	Canada	United States	Total
Operating income						
Dairy products	**$ 82,747**	**$ 103,477**	**$ 186,224**	$ 72,431	$ 110,449	$ 182,880
Grocery products	**32,987**	**—**	**32,987**	16,280	—	16,280
	$ 115,734	**$ 103,477**	**$ 219,211**	$ 88,711	$ 110,449	$ 199,160
Interest			**39,519**			37,581
Earnings before income taxes and amortization of goodwill			**179,692**			161,579
Income taxes			**55,607**			51,386
Earnings before amortization of goodwill			**124,085**			110,193
Amortization of goodwill			**13,844**			10,125
Net earnings			**$ 110,241**			$ 100,068
Total assets						
Dairy products	**$ 825,458**	**$ 887,181**	**$ 1,712,639**	$ 255,352	$ 828,662	$1,084,014
Grocery products	**300,340**	**—**	**300,340**	326,988	—	326,988
	$ 1,125,798	**$ 887,181**	**$ 2,012,979**	$ 582,340	$ 828,662	$1,411,002
Net book value of fixed assets						
Dairy products	**$ 259,199**	**$ 345,954**	**$ 605,153**	$ 97,636	$ 316,714	$ 414,350
Grocery products	**69,868**	**—**	**69,868**	77,164	—	77,164
	$ 329,067	**$ 345,954**	**$ 675,021**	$ 174,800	$ 316,714	$ 491,514
Net additions to fixed assets						
Dairy products	**$ 9,776**	**$ 30,933**	**$ 40,709**	$ 13,278	$ 36,742	$ 50,020
Grocery products	**2,225**	**—**	**2,225**	3,095	—	3,095
	$ 12,001	**$ 30,933**	**$ 42,934**	$ 16,373	$ 36,742	$ 53,115
Goodwill, unamortized portion						
Dairy products	**$ 133,216**	**$ 270,347**	**$ 403,563**	$ 20,980	$ 255,373	$ 276,353
Grocery products	**189,083**	**—**	**189,083**	198,876	—	198,876
	$ 322,299	**$ 270,347**	**$ 592,646**	$ 219,856	$ 255,373	$ 475,229

15. COMPARATIVES FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Shareholder **Information**

GENERAL ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Wednesday August 1, 2001 at 11:00 AM
Salon Laval, Hotel Sheraton
2440 Autoroute des Laurentides
Laval, Québec

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Telephone: (514) 871-7171 or 1 800 341-1419
Fax: (514) 871-7442

EXTERNAL AUDITORS

Deloitte & Touche, Laval, Québec

DIVIDEND POLICY

It is the policy of Saputo Inc. to declare quarterly cash dividends on the common shares in an amount of $0.09 per share, representing a yearly dividend of $0.36 per share. The balance of corporate earnings is reinvested to finance the growth of the Company's business.

The Board of Directors may review the Company's dividend policy from time to time based on financial position, operating results, capital requirements and such other factors as are deemed relevant by the Board, at its sole discretion.

Un exemplaire français vous sera expédié sur demande adressée au :
Service des communications, Saputo Inc.
6869, boul. Métropolitain Est, Saint-Léonard (Québec) H1P 1X8

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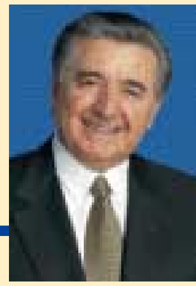
National Bank of Canada



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Chairman of the Board and Chief Executive Officer
Saputo Inc.

Claude **Blanchet**
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Société générale de financement du Québec

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Louis A. **Tanguay**
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Bell Canada International

A reflection of our **objectives**

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