# Management's Analysis

**The goal of the present management report is to provide a better understanding of our activities, and it should be read while referring to our audited consolidated financial statements and accompanying notes.**

This disclosure document contains management's analysis on forward-looking statements. Caution should be used in the interpretation of management's analysis and statements, since management often makes reference to objectives and strategies, which contain a certain element of risk and uncertainty. Due to the nature of our business, the risks and uncertainties associated with it could cause the results to differ materially from those stated in such forward-looking statements. We disclaim any intention or obligation to update or revise forward-looking statements based on any new information or event that may occur.

## Global overview

Solidly established across North America, Saputo operates 47 plants as well as its distribution centres with nearly 7,000 employees.

Our employees comprise our most important asset. Our approach in the matter of human resources is to build quality employer-employee relationships that translate into a dynamic environment open to exchanges. Additionaly, our family and entrepreneurial approach results in a positive climate, which in turn makes for minimal turnover in personnel. This work environment encourages all our employees to contribute to the success of our Company on a daily basis. Presenting new ideas for improvement and efficiencies as they occur remains highly contributive in reaching results that are beneficial to everyone.

We are active in two sectors of the food industry: dairy and grocery products.

Our **Canadian Dairy Products Sector** encompasses the activities of the Company's Cheese Division (Canada) and Milk Division. The Company's **US Dairy Products Sector** consists of the Cheese Division (USA). Our dairy products can be found in all segments of the food market: retail, foodservice and industrial.

The **retail** segment includes supermarket chains, independent retailers, warehouse clubs and specialty cheese boutiques. In grocery stores, our products are sold in the dairy case and deli cheese counter sections. In Canada and in the United States, we also offer specialty cheeses to our retail-segment customers. We provide our customers in this sector with dairy products under our own brand names as well as under private labels.

The **foodservice** segment comprises distributors of both specialty and complete product lines, as well as restaurants and hotels. We offer our customers in this segment dairy products under our own brand names as well as under private labels. In Canada, we also supply other non-dairy products manufactured by third parties through our own distribution network. We also produce dairy blends for fast-food chains and retain an important market share of this category in Canada.

Our **industrial** segment comprises processors that use our products as ingredients in the preparation of other food products. We supply cheese to the majority of frozen-pizza producers in Canada as well as to processors of frozen food, and supply several large food-product producers in the United States. Saputo's technical experts work closely with customers to adapt new products to their specific needs.

We also produce by-products from our Canadian and US cheese manufacturing activities such as lactose, whey powder and whey protein. We sell, through our Canadian industrial segment, cheese, lactose, whey powder, ice cream mixes and whey protein to a vast array of clients in Canada, Europe, South America, Asia and Africa.

Active across Canada, Saputo's **Grocery Products Sector** manufactures and markets snack cakes, tarts and cereal bars through the Bakery Division. Its products are sold almost exclusively in the Canadian retail segment, primarily in supermarket chains, at independent retailers and at warehouse clubs, and recently on a small scale in the Northeastern United States.

The Company's **consolidated revenues** for the fiscal year ended March 31, 2003, were $3.398 billion, compared to $3.457 billion for the previous fiscal year. The average selling price per pound of cheese on the US market was 21% lower for fiscal 2003 as compared to last year, creating a shortfall in revenues of approximately $158 million. Also, our Bakery Division operated exclusively in a snack cake environment in fiscal 2003, unlike last year, when there were 15 weeks of operations in the cookie, fine bread and soup categories. These operations were transferred to Dare Foods in July 2001.

Overall, on a comparable basis, revenues would be 3.5% higher in fiscal 2003 as compared to last year, reflecting increases in the four divisions of the Company.

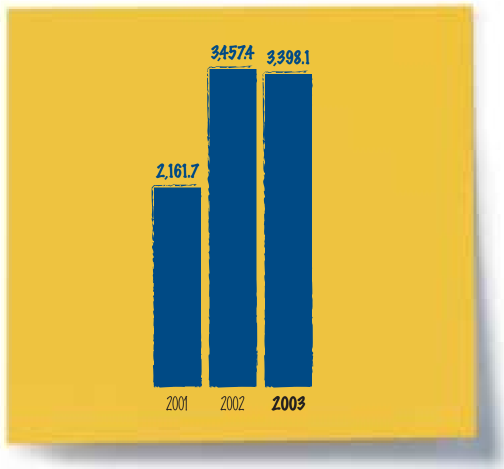
During fiscal 2003, **earnings before interest, income taxes, depreciation, amortization and stock based compensation (EBITDA)**[1] amounted to $354.3 million. Up 0.5% over the $352.4 million posted for fiscal 2002.

Fiscal 2003 was marked by a world dairy-product market that was volatile and depressed. World sales prices of whey protein concentrate suffered a decrease of almost 34% compared to fiscal 2002, while the market for lactose was down nearly 19% in fiscal 2003. Those market conditions created a shortfall of approximately $2.5 million in the Canadian Dairy Products Sector EBITDA, as well as a shortfall of approximately $4 million in the US Dairy Products Sector EBITDA. At the same time, the world economy had a rough ride, certainly affecting our expenses in such matters as energy costs for our manufacturing processes, distribution and delivery, as well as insurance costs.

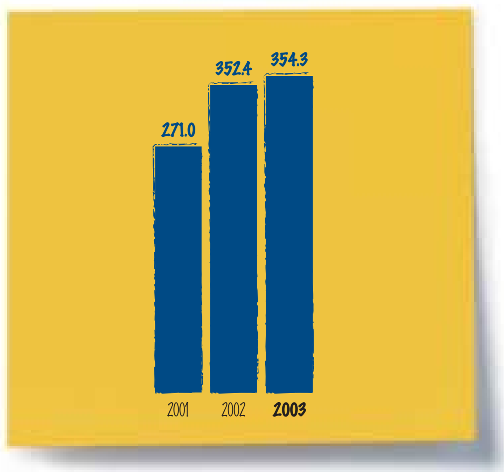
The Canadian Dairy Products Sector enjoyed a growth of 9.6% in its EBITDA, continuing its integration process of Dairyworld, even though it had to face a shortfall on EBITDA created by the depressed dairy by-product selling prices. As far as the US Dairy Products Sector is concerned, despite a growth in our sales volumes of close to 9.5% in fiscal 2003 over last year, our EBITDA decreased by $13.5 million. The US market experienced an average selling price per pound of cheese that was 21% lower than in fiscal 2002, creating a direct negative effect on the absorption capacity of fixed charges, as well as producing negative effects on the pricing of inventories between March 31, 2002 and March 31, 2003. Combined with depressed dairy by-products selling prices, this situation created a shortfall of potential EBITDA of almost $19 million in comparison to fiscal 2002. The snack cake category of the Grocery Products Sector generated relatively stable EBITDA.

Overall, actions taken throughout fiscal 2003, whether in integration, rationalization or innovations, have contributed to the real growth, thus lessening the negative impact of the various other market factors.

**Revenues**
(in millions of dollars)




**EBITDA**
(in millions of dollars)




[1] **Measurement of results not in accordance with generally accepted accounting principles**
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation, amortization and stock based compensation. EBITDA is not a measurement of performance as defined by generally accepted accounting principles in Canada, and consequently may not be comparable to similar measurements presented by other companies.

# Canadian Dairy Products Sector

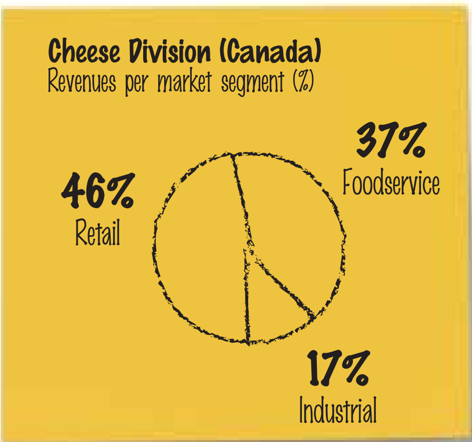

Our Canadian Dairy Products Sector is composed of the Cheese Division (Canada) and the Milk Division.

Our **Cheese Division (Canada)** operates in a fairly consolidated industry. The natural-cheese production in Canada as a whole amounts to roughly 350 million kilograms. The division, which represents 33.5% of our revenues, manufactures and markets a wide range of cheeses, from mozzarella and cheddar to specialty cheeses. The division also markets milk by-products such as lactose, whey powder and whey protein. The products are marketed under brand names such as *Saputo, Armstrong, Caron, Cayer, Stringers, Bari* and *Stella* to all segments of the food industry, namely retail, foodservice and industrial.

Saputo is the leading cheese producer in Canada, accounting for approximately 35% of all domestically produced natural cheeses. The largest producer and marketer of mozzarella in Canada, Saputo ranks at or near the top in producing cheddar and other varieties of specialty cheeses. We also sell and distribute a vast assortment of imported cheeses to the retail segment and complementary items to independent pizzerias. The Cheese Division (Canada) employs 2,187 people in 18 plants and 14 distribution centres spread out over nine of the 10 Canadian provinces.

Our **Milk Division** accounts for 25.9% of our revenues. With 1,925 employees and 14 plants located all across Canada, the division manufactures and markets mainly fluid milk, but also a full range of dairy products, including cream, yogurt, sour cream and cottage cheese. Our dairy product line is complemented by various non-dairy products, including flavoured coffee creamers, juices and drinks. Products in this division are marketed under the brand names *Dairyland* in Western Canada and Ontario, *Nutrilait* in Québec, and *Baxter* in the Maritimes.

### **Revenues** (Canadian Dairy Products Sector)




Dairy Products Sector's revenues for the fiscal year ended March 31, 2003 totalled $2.017 billion, an increase of 1.5% over the $1.987 billion posted last year. Essentially the increase in revenues was generated by the Milk Division. In Canada, the regulated system limits the possibilities of growth to acquisitions and consumption increase.

The **Cheese Division (Canada)** recorded $1.139 billion in revenues for fiscal 2003, compared with $1.142 billion last year. The decrease in revenues is mainly driven by a decline in cheese export sales and by the dairy by-products market price decrease on a worldwide scale, despite the fact that generally all the cheese selling prices increased due to the yearly raw material (milk) price increase.

In Canada, per capita consumption remained stable during fiscal 2003. In the **retail** segment, which accounts for 46% of the Cheese Division (Canada) sales, we increased our volumes and revenues on branded and speciality cheeses as well as on private label products.

Our business continued to grow with current national customers. We also supported our customers in achieving their objectives for their private labels with new product introductions and with ongoing attention to existing products in terms of quality and service.

Our *Saputo* brand is predominant in Québec, whereas our *Armstrong* brand is predominant in Western Canada. The rather restricted possibilities for growth in these markets encourage us to stimulate per capita cheese consumption in the country, in order to bring it up at least to the US level.

To bolster our position as a supplier capable of responding to all the needs of our customers in terms of cheese, we took several steps, including the expansion of our *Saputo* branded programs in Western Canada and the introduction of new cheeses such as seasoned feta and *Mozzarina,* which is a fresh mozzarella offered in a 250g pouch that rivals similar imported Italian products. We also launched several other speciality cheeses – a double crème brie under the brand *Bonaparte,* a goat camembert named *Chèvre d'art* – and revamped several other soft cheeses. We also added to our specialty cheese line value-added products in interleaved sliced format designed for convenience. These initiatives enabled us to increase the geographical and store presence of our full product line.


In Ontario we invested in an integrated promotion program that includes advertising in specialized TV programs tied to the launch of our first issue of *Cucina*, an upscale 68-page recipe and lifestyle quarterly magazine, including many recipes using our products. The magazine was also launched in the Québec market. In addition, we revamped and modernized our *Saputo* brand logo and ran extensive research in cheese positioning as a prelude to a total revamping of *Saputo* packaging, launched in April 2003. An overhaul of the internet site was designed with a consumer focus in mind.

Fiscal 2003 marked the 100th anniversary of the *Armstrong* brand in Canada, and we promoted the event through the launch of an extra-old white cheddar supported by a major "Great Taste Pursuit" promotion all across Western Canada in both the foodservice and retail segments.


Revenues from the **foodservice** segment, which accounts for 37% of the Cheese Division (Canada) sales, enjoyed a slight increase over fiscal 2002, which can be accounted for by a rise in prices related to the yearly milk price increase and by an increase in volumes with certain major customers. We also broadened our customer base in this segment. We listened to our customers and responded to their needs with new recipes, formats and/or cost-reduction ideas to make them more efficient. With this in mind, we continued to realign our production to be more responsive to market needs. We also strengthened our relations with our major distributors to provide full coverage in all "food away from home" segments.

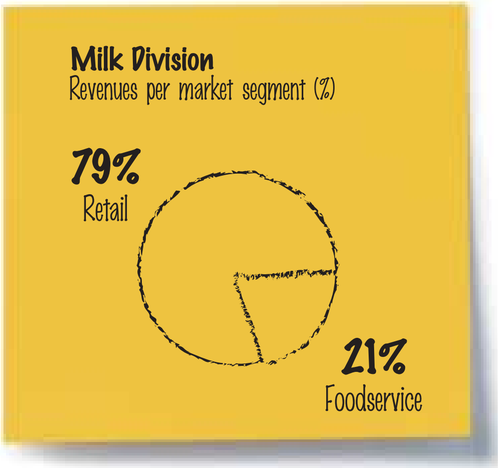
The **industrial** segment is comprised of Canadian industrial and export sales. This segment accounts for 17% of the Cheese Division (Canada) sales, and we observed during fiscal 2003 a decrease in volumes and revenues created mainly by the drop in cheese exports related to the WTO decision as well as the decrease in by-product prices on the international market.


In the Canadian industrial segment, we have been able not only to maintain market share but also to expand our customer base. While there has been downward pressure with respect to pricing, we have increased our sales, keeping pace with the growth in this industry by supplying cheese ingredients to the largest frozen-food processors in Canada. The rising trend towards prepared meals, as consumers embrace convenience, is driving the increase in frozen pizzas, lasagnas, and various other meals, many of which use cheese.

During fiscal 2003, we maintained our customer base abroad and strove to manage the difficult balance between supply of milk for export and customer demands. Unfortunately, in December 2002, the decision from the WTO Appellate Body maintained that the Canadian system for the supply of milk to be used in products for the export market does not comply with the commitments assumed by Canada with the WTO. In order to comply with this decision, Canadian dairy processors are required to export their products at prices that make the exporting of dairy products from Canada non-competitive, causing us to scale down our exports to nil in the fourth quarter. We are continuing to look at ways to serve our customers through our operations in the United States or through milk imports in Canada for re-export.

The exports of by-products such as lactose and whey are not affected by the WTO decision. We continued with a steady supply of lactose, whey proteins, whey powder and other dairy derivatives to the local and international markets, and were more involved in the supply of these ingredients to the food industry in general. The price of by-products is determined by the international market. The decrease in the prices for whey protein concentrate, and for by-products in general, caused by the excess milk in the worldwide dairy system from fiscal 2002 levels, had a downward effect on our revenues in comparison with last year.

The **Milk Division** accounted for $878.0 million in revenues, an increase of 3.8% compared with $845.5 million in fiscal 2002.




Revenues increased slightly, partly caused by the yearly raw-milk price increase, which was transferred as an increase in the selling price. Although the Canadian milk market is basically flat, through a marketing and distribution focus we have driven market share growth in key categories, including yogurt, cream, sour cream and non-dairy creamer. As for fluid milk, we maintained our market share in Western Canada, in Ontario and in the Maritimes, and increased our market share in Québec.

We introduced more higher-margin products in the yogurt and premium milk categories, and globally introduced eight new products to complement our offering. Our marketing group focused on building brand equity and sales growth by investing in higher-margin brand-sustainable products – as for example in the launch of a *Classic Vanilla* line of yogurts – with annual volume and market share increases. We also increased the investment in the *International Delight*[1] line of non-dairy creamers, with growth year over year in excess of 20%, remaining a leader in that fast-growing category. The expansion of the single-serve *Milk 2 Go* product line resulted in a significant increase in sales volumes and margins. We made improvements to the packaging (spout cap, plastic bottle) for our milk lineup in Central Canada and the Maritimes. The R&D team now reports to our marketing group with dedicated resources to drive innovation in new product development and to reduce our current cost of goods. We also developed an online order system for our customers linked to us through the Internet.

We began the process of building an improved Ontario and Québec sales and operations team poised to meet the needs of planned growth in Central Canada and able to meet the growth requirements of large national customers.

Fiscal 2003 saw the sales and distribution team adapt to the significant changes in the national foodservice segment. We were able to establish long-term arrangements with new customers. We introduced longer-shelf-life products in one-way shipping containers specifically targeted to foodservice distributors. We expanded our route coverage in the Maritimes, as well as introducing a more diversified product line.


**EBITDA** (Canadian Dairy Products Sector)

Earnings before interest, income taxes, depreciation, amortization and stock based compensation totalled $200.6 million at March 31, 2003, compared to the $183.1 million reported in fiscal 2002 – an increase of $17.5 million, or 9.6%. EBITDA margin for this sector climbed from 9.2% last year to 9.9% during fiscal 2003. This increase can be accounted for by the optimization of operations during the process of integrating Dairyworld, acquired in 2001, despite the fact that energy and insurance costs have risen.


With the aim of increasing operational efficiency, our **Cheese Division (Canada)** decided to shut down three plants: Souris, Manitoba; Yorkton, Saskatchewan; and Oakville, Ontario, and to transfer production to other facilities. The first two ceased operations in the third and fourth quarters respectively, while the Oakville plant, which has started to transfer its operations to our Tavistock, Ontario, plant, will close definitely in the third quarter of fiscal 2004. We began a major expansion project in the Tavistock plant that should be completed in the course of 2004, and that will increase efficiency and warehousing operations, as well as cutting, packaging and by-products processing. We also consolidated all our distribution, selling and administration operations from various Ontario locations in our Woodbridge distribution centre, where we increased space by over 30%. We also invested in our Saskatoon plant to improve efficiency in by-product treatment. During fiscal 2003, absorbed rationalization costs were approximately $1.1 million, for a savings of approximately $0.2 million. To complete the rationalization project initiated in 2003, we intend to spend approximately $2 million over the course

[1] Trademark used under license

of fiscal 2004, which should translate into savings of approximately $7 million for that period and of approximately $8 million per year thereafter.

We are well under way towards ensuring compatibility with the industry cost-savings initiative by investing in proper information technology such as the Electronic Commerce Council of Canada (ECCnet), the majority of our production lines now being equipped accordingly.

In terms of supply, we experienced a period of milk surplus during the first months of fiscal 2003, followed by a shortage of 6% to 8% in Eastern Canada during the second quarter. That shortage obliged us to multiply inventory movements between our plants and our distribution centres to be able to serve adequately our customers, which entailed additional inventory and distribution costs. These variations are the exception. Provincial milk marketing agencies are aware of the situation and are working on means to prevent such irregularities from recurring.

As always, we continue to invest in maintaining the quality of our infrastructures at every level of our business.

As mentioned in the revenues section, the **Milk Division** was able to improve its profitability through the introduction of higher-margin products. Also, the Milk Division's sales and distribution team was able to meet the needs of a consolidating retail and foodservice customer environment by continuing the process of cost reduction through: the continued conversion of company routes to an owner-operated distributor system; changes to our fleet infrastructure, reducing the number of vehicles and increasing the average load capacity per vehicle; improvements to the customer drop size and the creation of a minimum pick size by stock-keeping unit (SKU) at the warehouse level. The division also further automated bottling operations in order to lower unit costs.


Our continuous investments in plant and personnel put us in an excellent position to respond to market opportunities. More specifically, we have increased our investment in marketing and R&D, and integrated these functions so that we can capitalize on market opportunities in a timely manner. We increased investment in the training and development of all staff, from floor workers to senior management.

## Perspectives (Canadian Dairy Products Sector)

We are going to complete the rationalization plan initiated in fiscal 2003, which should translate into significant savings, as discussed in the EBITDA section.

We plan to carry on investing in maintaining the quality of our equipment and fixed assets. We will increase our investment in developmental programs for our employees, as they constitute our most valuable asset.

The WTO decision limits export capabilities out of Canada for our **Cheese Division (Canada)**, which adversely affects our ability to develop new cheese product markets from Canada and forces us, as an industry, to better manage any surplus production. We will therefore review our production capacity, production currently being at 30% of available capacity, and strive for maximum efficiency in serving the Canadian market. We are forced to look at new and innovative ways of consolidating our businesses.

We will increase our marketing support for our core brands, *Saputo* and *Armstrong,* in order to expand awareness of our high-quality products within the category. We will also bolster our efforts in the development of functional milk by-products in order to maximize the use of all milk solids received at our plants.

We will continue to play an important role within every aspect of the highly regulated dairy industry – through governmental organizations and associations at both the provincial and federal levels – all for the benefit of a strong Canadian dairy industry and keeping in mind the interests of customers.

In fiscal 2004, our **Milk Division** will be entering another phase of its evolution towards becoming the only truly national dairy company in Canada. We intend to focus on growth in Central Canada, in both the Ontario and Québec markets. We intend to expand our market share in Nova Scotia and to improve overall profitability by more efficient gross margins maintenance and by creating significant cost reductions in the areas of distribution and sales. At the same time that we are organically increasing our fluid-milk volume in Québec and Ontario, we intend to pursue a significant share of the cultured-product segment, which includes products such as yogurt, in certain regions of Canada, primarily through existing retailers' own distribution systems. We believe that the development of new value-added products should sustain the growth and development of new or existing categories of milk products or of dairy beverages. Centralization of certain services of the division should generate some cost reductions and improve the services.

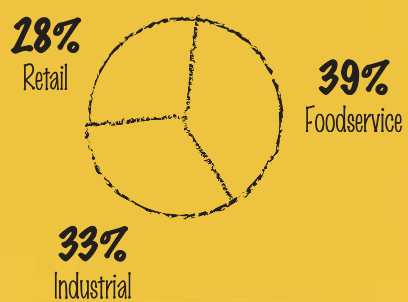
## US Dairy Products Sector

Approximately 6% of all natural cheese produced in the United States is provided by our Cheese Division (USA)'s 14 plants and three distribution centres, which are spread out over seven states. We have a dedicated sales force located all across the country. Familiar brands like *Stella, Frigo, Frigo Cheese Heads, Saputo, Treasure Cave, Dragone, Lorraine, Gardenia* and *Lugano*, among others, are marketed in the retail, foodservice and industrial segments. Our 1,798 dedicated employees contribute to distinguishing Saputo from the competition. The Cheese Division (USA) represents 35.7% of the total Company revenue.

The US cheese market accounts for approximately 3.90 billion kg per year, which includes mozzarella, cheddar and specialty cheeses, and with 403 manufacturing facilities in the country, the industry remains quite segmented. Despite this fact, the Cheese Division (USA) plays a leading role. We believe that our unique combination of scale, geographic spread, rich product mix and well-balanced sales segmentation is unmatched in the US industry. We manufacture and market 9.7% of the total mozzarella as well as 7.3% of the specialty cheeses produced in the United States.

### Revenues (US Dairy Products Sector)

**Cheese Division (USA)**
Sales volumes per market segment (%)




Revenues amounted to $1.213 billion, down $70.0 million or 5.4% compared to fiscal 2002. Fiscal 2002 revenues were $1.283 billion. Considering the fact that the average selling price per pound of cheese was US$0.30 lower in fiscal 2003 compared to last year, the US$1.15 average in fiscal 2003 affected our revenues in the United States by approximately $158 million. A stronger Canadian dollar had a negative impact on revenues of approximately $4 million. If we were to compare fiscal 2003 and fiscal 2002 using the same selling price and the same currency exchange rate, revenues in the United States would have been up 7.2%, partially reflecting our volume growth in fiscal 2003.

Total cheese production for the entire US market increased by 4.1% in 2002, while milk production grew by 2.6%. Commercial prices were among the lowest in the last 20 years, and about 21% below the previous fiscal year. At the same time, retail prices for dairy products did not reflect the decline, and consumption was relatively flat nationally. Despite these adverse conditions, the Cheese Division (USA) achieved a 9.5% increase in volume. Approximately 4% of that increase derives from the Whitehall plant acquired at the end of March 2002, the rest of the growth coming from internal efforts. The majority of the product categories in which we manufacture increased in fiscal 2003 compared to last year.

With brand names consumers respect like *Frigo, Stella, Dragone* and *Frigo Cheese Heads*, the most popular string cheese in the United States with a 23.8%[1] market share, the **retail** segment represents 28% of our total volume of sales in the United States. The segment is up 9.4% over fiscal 2002. This segment is dominated by

[1] Information Resources Inc. – March 30, 2003 (52 weeks)

strong brands at the consumer level. Point-of-sale promotion and brand support often help in stimulating sales. In July, to further maximize the penetration and sales of *Frigo Cheese Heads*, production commenced for the *Frigo Cheese Heads* Spongebob Squarepants promotion. About 8 million packages were produced, and September marked our biggest ever back-to-school season. In January we launched our new string variety pack and started production for our Marvel Superhero promotion. Over 100 million of the one-ounce inner cheese packages were produced throughout the promotion period. Several other new products were introduced during fiscal 2003, including *Frigo Parmazest!* grated Italian topping.


The **foodservice** segment represents 39% of our total sales volume in the United States, and the volume of that segment is up 13.1%. We observe growing opportunities for specialty cheeses, with growth in pizza consumption. More pizzerias are using or adding cheese blends to their meals; specialty cheeses such as blue, gorgonzola, asiago and feta are found on salads, burgers, steaks and sandwiches; and restaurants are offering cheese plates.

At the end of fiscal 2002, we launched a new product called *Saputo Premium*, geared to the independent pizza trade and mom and pop establishments. Our strategy was successful, and we enjoyed significant growth with independent distributors. We increased our business with broad-line distributors as well. We achieved this while developing our business with both our existing customer base and with new customers. We were able to meet the precise needs of large and national customers. We feel that consolidation among customers and within our industry has benefited us and will likely continue to benefit us as the emphasis shifts to quality suppliers with national capabilities, situations on which we can benefit.

The **industrial** segment represents 33% of our total sales volume in the United States and is up 5.4% over fiscal 2002. In this segment we have strengthened existing relationships as well as developed new business. We made significant gains throughout fiscal 2003, most notably in the ricotta category for prepared meals and in provolone for slicing in sandwich shops.


Our ingredient products include both those associated with cheese manufacturing, typically whey derivatives, and a wide variety of others including sweetened condensed milk and eggnog. Volumes and prices varied by product type within the category. The situation on the world market affected the price of by-products, bringing them to historically low levels. We continue to manage this area of the business with a strong focus on value-added products. We furthermore have to remain at the forefront of all new developments in this segment while ensuring our efficiency. The post-year-end investment of approximately $3 million in Gallo Protein 2003, LLC should help us further maximize by-products coming from our cheese operations.

### **EBITDA** (US Dairy Products Sector)

Earnings before interest, income taxes, depreciation, amortization and stock based compensation amounted to $120.5 million, a decrease of $13.5 million from the $134.0 million of fiscal 2002. Market price conditions in fiscal 2003 created a shortfall of approximately $19.0 million in EBITDA compared to fiscal 2002, offsetting the EBITDA generated through increase in sales volume in fiscal 2003. To minimize the impact on EBITDA, in October 2002, the Company partially implemented a minimum pricing formula for its specialty cheeses. This formula reflects the US Government's support price for cheese. We extended that minimum pricing formula to all of our cheeses beginning on April 1, 2003.

During fiscal 2003, the Company's Whitehall, Pennsylvania cheese facility (acquired in March 2002) was successfully integrated into the group. In August 2002, the Denmark, Wisconsin cheese manufacturing plant was closed and production was transferred to the Whitehall facility, contributing to increased efficiencies during fiscal 2003, despite a $0.4 million expense related to the closure of the Denmark facility. Our focus was on consolidating, reducing expenses and improving efficiencies while increasing volume. Unfortunately, major improvements achieved, combined with volume growth throughout the fiscal 2003, were offset by slim margins resulting from consistently low market prices and depressed by-product values.

The fact that the average selling price per pound of cheese was US$1.15 in fiscal 2003, US$0.30 below last year's average of US$1.45, reduced considerably the base of absorption of fixed costs, as well as producing negative effects on inventory pricing between March 31, 2002 and March 31, 2003. On the other hand, the relation between the average selling price per pound of cheese and the cost of milk was more favourable in fiscal 2003. Overall, these elements created a shortfall of approximately $15 million in our EBITDA. Depressed by-product values caused a shortfall of approximately $4 million in fiscal 2003.

Insurance and energy costs were higher in fiscal 2003, in light of the economic context of the market.

The appreciation of the Canadian dollar in fiscal 2003 had a negative impact of $0.5 million on EBITDA.

Our efforts during fiscal 2003 in terms of logistics centred around the relocation of production along with the realignment of the distribution to improve efficiencies, reduce distribution costs, and better serve our customers. The goal of overhead reduction was achieved at the same time volume was increasing. Highlights include savings from the renegotiation of certain leases and contracts.

We have added further measures to protect our products and customers to the ones already existing to address bio-terrorism concerns.

### **Perspectives** (US Dairy Products Sector)

Since its founding, Saputo's focus has always been to produce the best-quality products at competitive costs, and the same holds true for the Cheese Division (USA). In fiscal 2003, in light of the depressed market situation, a minimum selling pricing formula was established last October for our specialty cheeses, closely linked to the government support price per pound of cheese in the US market, which is established at US$1.13. In April 2003, both the federal and California state governments implemented changes to manufacturing milk price formulas intended to provide additional relief to dairy farmers and California established a minimum milk price. From there we extended, as of April 2003, our minimum selling pricing formula policy to all cheese categories in such a way as to be able to minimize the market pricing impact, and to continue to grow with our customers over the long term.

We observe that consumer tastes are more sophisticated. Consumers are looking for extra convenience, added portability and ready-to-use/eat/serve products. Demand for specialty cheeses such as blue, feta, asiago and gorgonzola is growing and we are well-positioned to grasp these opportunities as we grow our specialty cheese offering.

More new products are planned for fiscal 2004. Different *Frigo Cheese Heads* formats, new exact weight items, different sizes of *Lorraine* loaves, low- and high-end premium mozzarella and upsized pack sizes for club stores are all in various stages of development. New and exciting marketing promotions are also in the works and we intend to capitalize on the recent acquisition of the blue cheese business associated with the *Treasure Cave* brand.

Capital investments made during fiscal 2003 were oriented towards new product development, packaging efficiency, and capacity increases in the rapidly growing California industry. The division is now well-positioned to perform in difficult conditions and to take full advantage when market conditions return to more traditional levels.

We are currently operating at 93% capacity. We are going to continue our strategic organic growth, on which we could easily obtain, if necessary, additional capacity with a minor investment. The division is continuing its active pursuit of strategic acquisitions. After a year in which potential opportunities were reviewed, the extended duration of adverse market conditions appears to be motivating industry players to consider other options. We intend to capitalize on this.

Just as the post-year-end investment in Gallo Protein 2003, LLC will help us further maximize the industrial segment, the post-year-end blue cheese business acquisition will extend our presence in that segment of the retail market.

## Grocery Products Sector

The Grocery Products Sector, which consists of the Bakery Division, represents 4.9% of the Company's revenues. The division manufactures and markets a wide range of snack cakes, tarts and cereal bars under several solidly established brand names in Canada, such as *Vachon, Jos Louis, Ah Caramel!, Passion Flakie, Hop & Go!, May West* and *Granny's*. The division has a total of 1,069 employees and one plant. The Bakery Division distributes its products primarily by way of its direct-to-store delivery network consisting of company routes and independent distributors.


Through its Bakery Division, the Company is positioned in first place among manufacturers of snack cake products in Canada and as one of the leaders in the Québec cereal bars market.

### Revenues (Grocery Products Sector)

Revenues for the sector went from $187.4 million at March 31, 2002 to $167.9 million for the fiscal year ended March 31, 2003. That decrease is attributable to the transfer, in July 2001, of our cookie, fine bread and soup manufacturing and marketing activities to Dare Foods. Those activities did not contribute to revenues for fiscal 2003, whereas they did for 15 weeks during fiscal 2002.

Notwithstanding the activities transferred to Dare Foods, revenues were up slightly during fiscal 2003, despite increased competition in all segments where we are present. The snack cake market in which our Bakery Division operates is an increasingly competitive market, one in which our *Vachon* brand holds a dominant position in Canada. Our products and our recognized brand names set us apart. Nationally, our 1.1% sales increase was primarily driven by our targeted merchandizing efforts, more effective penetration of certain distribution networks, the launch of seasonal products, and sampling programs.


The Bakery Division counts among other things on the development of innovative niche products to ensure its growth. During fiscal 2003, the relaunch program for the *Hop & Go!* line in the cereal bars segment, aimed at differentiating it from other types of products manufactured by the division, was a key element for growth in Québec.

The integrated promotional program included the relocation of the product within the store with attractive, specially identified display racks. Combined with merchandising activities with customers, in-store promotions, and advertising with Montréal Canadiens goaltender José Théodore – who became our *Vachon* spokesman in 2002 – the program elicited a positive response from retailers and contributed to expanded sales for the *Hop & Go!* line in Québec.

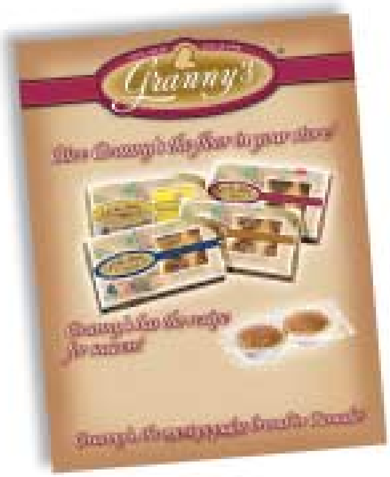
Penetration of the US market began in mid-September 2002 for *Vachon* products, and at the beginning of October 2002 for *Mr. Snacko* individual pack size. We took a step-by-step approach in entering this new market, enabling us to get a better feel for the market. We have already made some adjustments, both in terms of our product offering and the choice of our distributors. The latter must be able to adapt to the short shelf life of our products.

### EBITDA (Grocery Products Sector)

EBITDA closed at $33.2 million at March 31, 2003 for an EBITDA margin of 19.8%, compared to $35.4 million and a margin of 18.9% at March 31, 2002. EBITDA remains almost at the same level as in fiscal 2002 if the lower EBITDA margin contribution of 15 weeks of our cookie, fine bread and soup manufacturing and marketing activities is subtracted from that year – activities turned over to Dare Foods in July 2001 in exchange for a 21% interest in that company. From our 21%

equity position in Dare Foods, we received a dividend that is included in our revenues, and we expect the value of our investment to appreciate over time.

During the 2003 fiscal year, we undertook several projects aimed at improving the operational efficiencies of the division. We transferred the manufacturing activities of the plant in Aurora, Ontario to our facility in Sainte-Marie de Beauce, Québec. Transfer of those activities necessitated a period of transition and breaking in that lasted some months. We took advantage of the transfer to increase the profitability of the tart business by completely reconfiguring the product portfolio. That step allows us to maximize our merchandising efforts by concentrating our product offering. Thus, we now offer our tarts in one family-size format and under only one brand name (*Granny's*). Such changes allowed us to rationalize considerably the tarts product line, the number of products dropping from 25 to 9, yet with no loss in the choice of flavours.



In addition to the closing of the Aurora plant, various other improvement projects were undertaken. We continued to work on reducing the importance of administrative costs and general expenses. We undertook a reorganization of the sales warehouses in Ontario in order to make distribution activities still more efficient. We also proceeded with an outsourcing of internal transport activities. These steps, combined with other projects, improved profitability by $1.3 million and enabled us to establish a stronger foundation that will benefit us in the future. Understanding that a large portion of our ingredients supply is subject to international price fluctuations, our ingredient and packaging cost increases were limited in 2003 due to existing arrangements with our suppliers.

### Perspectives (Grocery Products Sector)

The Canadian growth should come from the Maritimes, Ontario and Western Canada, where we have lower household penetration. In the Québec market, where our presence is well established, we will make sure to maintain our positioning in the snack cake category through marketing initiatives. New product launches will play an integral part in the growth. We will boost our operational efficiency through process improvement, including robotization of certain production lines to help offsetting certain cost increases. Maximizing the use of our overall 30% excess manufacturing capacity remains an everyday priority.

For the 2004 fiscal year, we foresee cost increases in ingredients and packaging, which should be largely offset by cost-reduction initiatives undertaken in fiscal 2003.

We will gradually forge ahead with our development in the US market. Distribution is certainly an important challenge in terms of effective penetration of that market. We will continue with efforts aimed at strengthening our business base and at coming to terms for third parties manufacturing contracts.

## Other consolidated results items

**Depreciation expense** totalled $70.9 million during the fiscal year ended March 31, 2003 compared with $68.1 million for the previous fiscal year. This increase primarily reflects the additional depreciation required on new fixed-asset acquisitions made. The greater part of the increase relates to certain expansions of facilities and new technologies.

**Interest expense** fell by $10.3 million to finish at $42.3 million for the fiscal year ended March 31, 2003 compared to an interest expense of $52.6 million last year. Accounting for the decrease are the repayment in the course of fiscal 2003 of $133.9 million in long-term debt and bank loans, combined with the lower interest rates on our Canadian debt throughout fiscal 2003, these averaging 4.55% compared to 5.32% last fiscal year.

**Income taxes** totalled $65.9 million, for an effective tax rate of 27.5% for the fiscal year ended March 31, 2003. For the same period last year, tax expenses were $71.6 million, for an effective tax rate of 30.9%. The decrease in the overall tax rate in fiscal 2003 derives from the fact that a greater proportion of our taxable earnings were generated in Canada and were subject to tax rates lower than in the United States. In addition, a transfer-pricing agreement was reached in the fourth quarter, resulting in a tax benefit in the amount of $4.1 million determined by the difference in income tax rates applicable to Canadian-US inter-company transactions.

**Net earnings** for the fiscal year ended March 31, 2003 totalled $173.7 million, up 8.4% over the $160.2 million from the previous fiscal year. This increase reflects the various explanatory elements presented above. These net earnings take into account an amount of $1.3 million to reflect the Company's recording of stock based compensation. Excluding that element, net earnings would have been $175 million, up 9.2% over fiscal 2002.

## Cash and financial resources

**Cash generated before changes in non-cash working capital items** totalled $250.1 million for the fiscal year ended March 31, 2003, a slight increase over last year, consistent with the increase in net earnings combined with the decrease in future taxes during fiscal 2003 compared to last year. During the 2003 fiscal year, the non-cash operating working capital items used $26.6 million of the treasury, compared to $44.9 million last year, a decrease in use of $18.3 million. The use of funds for non-cash operating working capital items is mainly related to the US Dairy Products Sector decrease in the average price per pound of cheese compared to last year.

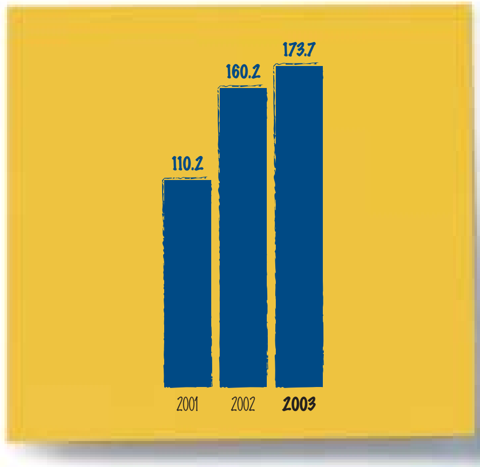
**Investment activities** consisted essentially of additions to fixed assets valued at $70.6 million, of which about 55% was involved in the replacement of fixed assets, the rest earmarked for new technologies and the expansion of certain of our sites as a result of rationalizations. Earlier and current rationalizations allowed for the disposal of sites and equipment for $4.1 million.

As for **financing activities,** strong cash flow performance enabled us to repay $133.9 million in long-term debt and bank loans, leaving an interest bearing debt-to-equity ratio of 0.53 with a total interest bearing debt of $540.0 million and shareholders' equity of $1.017 billion, compared to a ratio of 0.78 at March 31, 2002. During fiscal 2003, the Company paid out $36.7 million ($0.40 per share) in dividends compared to $21.6 million ($0.22 per share) last year.

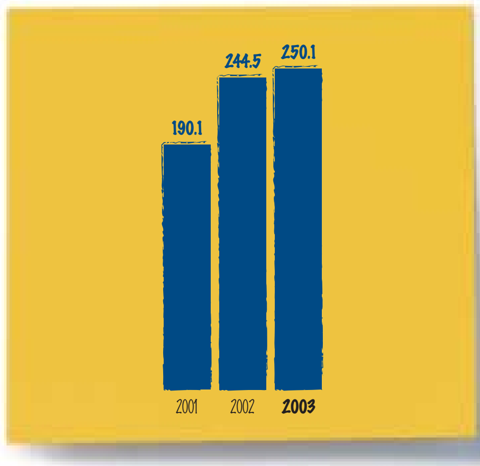
With a working capital of $269.3 million as at March 31, 2003 compared to $258.9 million last fiscal year, the Company does not foresee any additional working capital requirement. Over the course of fiscal 2003, interest bearing debt went from $699.2 million in fiscal 2002 to $540.0 million as at March 31, 2003, while shareholder's equity went from $900.6 million in fiscal 2002 to $1.017 billion.

The Company is in excellent financial health, with a debt-to-equity ratio well within its objective of keeping that ratio under 1.0. For fiscal 2004, we foresee adding $70 million in fixed-assets acquisitions, with nearly $42 million on replacement of fixed assets, the rest to be devoted to site expansions based on previously announced rationalizations, the addition of new lines of packaging and bottling, and new technologies. Fixed-asset depreciation expense should be approximately $72 million during the 2004 fiscal year. The Company intends to repay $110 million in the course of the 2004 fiscal year to honour its commitments to lending institutions. Note 8 of the consolidated financial statement represents the contractual commitment of the Company related to its long-term debt and Note 16 represents other leasing contractual commitments of the Company. The Company does not have any other off-balance sheet arrangements. Having at its disposal unused bank credit facilities of approximately $210 million and an important cash flow, the Company can easily pursue its growth objectives through acquisitions and, should the need arise, make additional financing arrangements while maintaining its debt-to-equity ratio objectives.

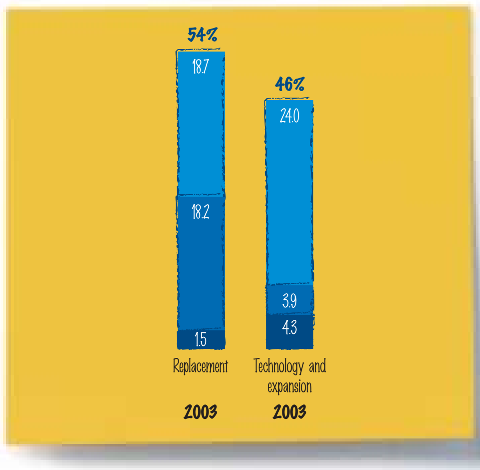
**Net earnings**
(in millions of dollars)




**Cash flow generated by operations**
(in millions of dollars)




**Additions to fixed assets**
(in millions of dollars)




- Canadian Dairy Products Sector
- US Dairy Products Sector
- Grocery Products Sector

# Financial instruments, risks and uncertainties

## Financial risk exposures

Saputo has financial risk exposure to varying degrees relating to interest rates, commodity pricing and United States currency exchange. While we use interest rate swaps to manage our interest rate exposure, we do not fully hedge against all of these financial risk exposures and there can be no assurance that such financial risk exposures will not affect our profitability. We realize approximately 36% of our sales in the United States and are therefore exposed to currency exchange fluctuations. The cash flows from US operations constitute a natural hedge against the exchange risk related to debt expressed in US dollars.

To minimize the effect of interest rate fluctuations on the results of the Company, Saputo has recourse to swap contracts for 49.3% of its long-term debt in Canadian currency. The debt in US currency is at a fixed rate throughout its term. Overall, 85% of the total long-term debt is protected from interest rate variations.

## Competition

The food processing industry in North America is highly competitive. Saputo participates in this industry primarily through its dairy operations. The Canadian dairy industry is highly competitive and is comprised of three major competitors, including Saputo. In the United States, Saputo competes in the dairy industry on a national basis with several regional and national competitors. Our performance in this industry, both in Canada and the United States, will be dependent on our ability to continue to offer quality products at competitive prices.

## Supply of raw material

Saputo purchases raw materials that it processes in the form of finished edible products intended for resale to a broad range of consumers. Thus, variations in the price of foodstuffs can influence Company results upwards or downwards, and the effect of any increase of foodstuff prices on results depends on the ability of the Company to transfer those increases to its customers, and this in the context of a competitive market.

## US and international markets

The price of our main raw material – milk – and the price of our cheese products in the United States and by-products on the international markets are based on market supply and demand forces. The prices are tied to numerous factors such as the health of the economy and supply and demand levels for dairy products in the industry. Variation in prices may affect the Company's results. The impact of such variations on our results will depend on our ability to implement mechanisms to reduce same.

## Product liability

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

## Regulatory considerations

The production and distribution of all food products in Canada and the United States are subject to state, federal, provincial and local laws, rules, regulations and policies and to international trade agreements, all of which provide a framework for Saputo's operations. We believe that we are currently in compliance with all material governmental laws and regulations and maintain all material permits and licenses in relation to our operations. The impact of any new law or regulation or stricter enforcement or interpretation or changes to any existing law or regulation will depend on our ability to adapt and conform to same. Also, the present Canadian supply managed system imposes milk quotas on dairy processing companies. As a result, growth of substance in Canada can be achieved only through acquisitions.

### Tariff protection

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

### Environmental issues

Saputo's business and operations are subject to environmental laws and regulations. We believe that our operations are in compliance in all material respects with such environmental laws and regulations except as disclosed in our Annual Information Form dated June 10, 2003 for the year ended March 31, 2003. Any new environmental laws or regulations or more vigorous regulatory enforcement policies could have a material adverse effect on the financial position of Saputo and could require significant additional expenditures to achieve or maintain compliance.

## Sensibility analysis of interest rate and US currency variation

Long-term debt is on a fixed interest rate basis for 85% of it. For the non-fixed interest portion, a 1% interest rate variation throughout fiscal 2004 would have a variation of approximately $0.350 million on the interest expense. The used portion of the bank credit facility is subject to interest rate fluctuations, not being protected as of March 31, 2003. A 1% variation in interest rate would lead to a variation in net earnings of approximately $0.140 million, based on the $18.8 million in bank indebtedness as of March 31, 2003.

Canadian-US currency variations may affect results. An appreciation of the Canadian dollar compared with the US dollar would result in a negative impact on results. Conversely, the decrease of the Canadian dollar would have a positive impact on results. In fiscal 2003, the average US dollar conversion was based on CND$0.64 for US$1.00. A change of CND$0.01 would have resulted in a variation of approximately $0.4 million in net earnings, $1.7 million in EBITDA and $17.0 million in revenues.

# Accounting policies

## Changes

Since April 1, 2002, the Company, in its results, has prospectively recorded stock based compensation in conformity with the recommendation of the Canadian Institute of Chartered Accountants (CICA) to use the fair-value method. The effect of that expense on net earnings is $1.3 million or $0.013 per share.

## Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the 2003 fiscal year. Actual results could differ from these estimates.

The Company regularly revises the estimates and assumptions used on the basis of available information. Overall, the Company is of the opinion that the estimates used would have no material impact on the financial situation of the Company, except for changes to the assumptions and estimates of a long-term sensitive and prospective nature, such as income tax rates, accounting of pension plans and other employee future benefits, and accounting of stock based compensation, which are based on several prospective assumptions.

## Pension plans and other benefit plans

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 assumptions bearing on among other things the discount rate, expected returns on plan assets, rates of compensation increase, retirement ages of employees, expected health-care costs and other post-retirement benefits.

Any change in these assumptions entails actuarial gains or losses, which if they exceed 10% of the maximum of the asset or liability of the plans at the start of the 2003 fiscal year, will be amortized over the expected average remaining service life of the group of employees participating in the plans, in conformity with CICA recommendations.

The table below presents a sensitivity analysis of the key economic assumptions used to measure the impact on accrued pension obligation, on other employee future benefits obligation, and on net expenditure. This sensitivity analysis must be used with caution, as its results are hypothetical and variations in each of the key assumptions could turn out not to be linear. That sensitivity analysis should be read in conjunction with Note 15 of the consolidated financial statements. The sensitivity of each key variable has been calculated independently of the others.

## Sensitivity analysis
## Pension plans and other benefit plans

| | | Pension plans | | Other benefit plans | |
|---|---|---|---|---|---|
| | | Accrued obligation | Net expenditure | Other obligation | Net expenditure |
| (in thousands of dollars) | | | | | |
| **Anticipated rate of return on asset** | | | | | |
| Effect of: | an increase of 1% | N/A | (1,665) | N/A | N/A |
| | a decrease of 1% | N/A | 1,665 | N/A | N/A |
| **Discount rate** | | | | | |
| Effect of: | an increase of 1% | (15,345) | (373) | (2,464) | (390) |
| | a decrease of 1% | 18,291 | 1,346 | 3,072 | 453 |
| **Assumed growth rate of overall health-care cost** | | | | | |
| Effect of: | an increase of 1% | N/A | N/A | 2,606 | 349 |
| | a decrease of 1% | N/A | N/A | (2,149) | (308) |

## Summary of the fourth quarter results ended March 31, 2003

Revenues totalled $807.1 million, compared to $833.6 million for the same period of fiscal 2002, amounting to a decrease of $26.5 million. In the US Dairy Products Sector, appreciation of the Canadian dollar in relation to US currency this last quarter compared to the corresponding period in fiscal 2002 represents roughly $15 million less in revenues. The average selling price per pound of cheese on the US market was down by about 11% during the quarter compared to fiscal 2002, representing about $17 million less in revenues. At December 31, 2002, our US sales volumes were up 11.1% for the nine-month period compared to the fiscal year before. For the final quarter, growth was 4.8%, bringing the increase for fiscal 2003 to 9.5%. The Canadian Dairy Products Sector and Grocery Products Sector enjoyed slight increases amounting to $4.1 million, or 0.8%.

Earnings before interest, income taxes, depreciation and amortization for the fourth quarter amounted to $88.6 million, compared to $92.5 million for the same period of fiscal 2002. The decrease stems essentially from the US Dairy Products Sector, where the average selling price per pound of cheese was lower than in fiscal 2002 and combined with the appreciation of the Canadian dollar. The Canadian Dairy Products Sector and Grocery Products Sector were relatively stable compared to fiscal 2002. The $88.6 million takes into account a positive adjustment of $1.1 million to the cumulative stock based compensation cost, resulting in a decrease of the expenses for the quarter.

Depreciation of fixed assets was consistent with other quarters of the 2003 fiscal year. The effective tax rate was 21.1%, lower than the last fiscal year and reflecting the different jurisdictions in which taxable profits originated, as well as a $4.1 million tax benefit in connection with a transfer pricing agreement reached in the fourth quarter, which takes into account the difference in income tax rates applicable to Canadian-US inter-company transactions. During the quarter ended March 31, 2003, the Company repaid $33.5 million in bank loans and long-term debt, paid out $10.3 million in dividends to its shareholders, and added $23.4 million in fixed assets. For the same period, cash flow generated by operations, before changes in non-cash operating working capital items amounted to $63.8 million. Net earnings stood at $47.8 million.

## Quarterly financial information

During the course of fiscal 2003, revenues and earnings before interest, income taxes, depreciation and amortization varied due to three main elements: the improvement of the Canadian Dairy Products Sector through the continued integration process; the average selling price per pound of cheese on the US market, which continued its downward trend in fiscal 2003 and which explains the decline in both consolidated revenues and US Dairy Products Sector revenues and its earnings before interest, income taxes, depreciation and amortization compared to fiscal 2002. The results also reflect the fact that the Company adopted the new CICA accounting recommendations for stock based compensation, which was applied effective April 1, 2002. These recommendations propose the fair-value method to record stock options granted to employees. For the fiscal year ended March 31, 2003, the stock based compensation amounted to $1.5 million before income taxes compared to nil for fiscal 2002.

## 2003 Quarterly Financial Information
## Consolidated Statements of Earnings

| (in thousands of dollars, except per share amounts) | 1st Quarter (unaudited) | 2nd Quarter (unaudited) | 3rd Quarter (unaudited) | 4th Quarter (unaudited) | Fiscal 2003 (audited) |
|---|---|---|---|---|---|
| **Statements of earnings data** | | | | | |
| **Revenues** | $ 873,942 | $ 861,763 | $ 855,342 | $ 807,065 | $3,398,112 |
| Cost of sales, selling and administrative expenses | 785,429 | 774,155 | 767,296 | 718,437 | 3,045,317 |
| **Earnings before interest, income taxes, depreciation and amortization** | 88,513 | 87,608 | 88,046 | 88,628 | 352,795 |
| *Margin %* | *10.1%* | *10.2%* | *10.3%* | *11.0%* | *10.4%* |
| Depreciation of fixed assets | 17,611 | 17,743 | 17,796 | 17,739 | 70,889 |
| **Operating income** | 70,902 | 69,865 | 70,250 | 70,889 | 281,906 |
| Interest on long-term debt | 11,461 | 11,159 | 10,776 | 10,276 | 43,672 |
| Other interest | (40) | (836) | (585) | 110 | (1,351) |
| **Earnings before income taxes** | 59,481 | 59,542 | 60,059 | 60,503 | 239,585 |
| Income taxes | 18,158 | 17,433 | 17,523 | 12,743 | 65,857 |
| **Net earnings** | $ 41,323 | $ 42,109 | $ 42,536 | $ 47,760 | $ 173,728 |
| *Net margin %* | *4.7%* | *4.9%* | *5.0%* | *5.9%* | *5.1%* |
| **Per share** | | | | | |
| Net earnings | | | | | |
| Basic | $ 0.40 | $ 0.41 | $ 0.41 | $ 0.46 | $ 1.68 |
| Diluted | $ 0.40 | $ 0.40 | $ 0.41 | $ 0.45 | $ 1.66 |

## 2002 Quarterly Financial Information
## Consolidated Statements of Earnings

| (in thousands of dollars, except per share amounts) | 1st Quarter (unaudited) | 2nd Quarter (unaudited) | 3rd Quarter (unaudited) | 4th Quarter (unaudited) | Fiscal 2002 (audited) |
|---|---|---|---|---|---|
| **Statements of earnings data** | | | | | |
| **Revenues** | $ 873,056 | $ 893,443 | $ 857,279 | $ 833,634 | $3,457,412 |
| Cost of sales, selling and administrative expenses | 781,947 | 802,413 | 779,517 | 741,113 | 3,104,990 |
| **Earnings before interest, income taxes, depreciation and amortization** | 91,109 | 91,030 | 77,762 | 92,521 | 352,422 |
| *Margin %* | *10.4%* | *10.2%* | *9.1%* | *11.1%* | *10.2%* |
| Depreciation of fixed assets | 18,257 | 17,085 | 16,974 | 15,771 | 68,087 |
| **Operating income** | 72,852 | 73,945 | 60,788 | 76,750 | 284,335 |
| Interest on long-term debt | 14,291 | 13,907 | 12,842 | 12,339 | 53,379 |
| Other interest | (338) | (235) | (92) | (136) | (801) |
| **Earnings before income taxes** | 58,899 | 60,273 | 48,038 | 64,547 | 231,757 |
| Income taxes | 18,622 | 18,815 | 12,943 | 21,216 | 71,596 |
| **Net earnings** | $ 40,277 | $ 41,458 | $ 35,095 | $ 43,331 | $ 160,161 |
| *Net margin %* | *4.6%* | *4.6%* | *4.1%* | *5.2%* | *4.6%* |
| **Per share** | | | | | |
| Net earnings | | | | | |
| Basic | $ 0.40 | $ 0.40 | $ 0.34 | $ 0.42 | $ 1.56 |
| Diluted | $ 0.39 | $ 0.40 | $ 0.34 | $ 0.41 | $ 1.54 |

## Outlook

The Company is well-positioned in each of its divisions through its leadership standing to pursue its efforts at growth. Increase in revenues is an obvious objective, be it organically or by way of acquisitions, but growth through efficiency and innovation, which contributes to increase profitability, remains the Company's top priority. That striving for peak efficiency is an essential element in our success, as it enables us to diminish the impact of negative side-effects that are to a large extent beyond our control.

Over the years the Company has built a sound and solid financial situation for itself, based on a financial strategy that contains a degree of caution – a strategy that allows for a maximum of opportunity for innovation and integration while ensuring minimal disruption of the normal and gradual stages of its development. Even in a difficult market environment, we have that ability to improve and to persevere in the building of our future.

Our divisions have established objectives that are specific to their markets and operations, guided by that overall vision of sustained growth. The Company's financial health is excellent, and it commits to spare no effort in achieving its goals.

# Corporate Management

From left to right:
Lino Saputo, Chairman of the Board and Chief Executive Officer
Lino Saputo, Jr., President and Chief Operating Officer, Cheese Division (USA)
Dino Dello Sbarba, President and Chief Operating Officer, Cheese Division (Canada)
Daniel Boulais, President and Chief Operating Officer, Bakery Division
Pierre Leroux, Executive Vice President, Human Resources and Corporate Affairs
Louis-Philippe Carrière, Executive Vice President, Finance and Administration
Randy Williamson, President and Chief Operating Officer, Milk Division


Matthew-David Koufos-DiLullo, Florence Fernet, Simon Pradella, Joannie T. Faucher

# Social Responsibility

Through its activities, Saputo is present in several communities in Canada and the United States. In those regions the Saputo presence means contribution for jobs and the economic life of the area, but it also means supporting many community and athletic activities.

Saputo has chosen to focus its sponsorship in two categories: sports and family activities. These speak to the importance of dairy products in a healthful diet, while enabling us to reach current consumers and to involve ourselves with the consumers of tomorrow.

In the sports category, the Company has an involvement in the recreational and amateur sectors as well as the professional. We take part in the development of soccer in Québec at different levels: as a sponsor of the Fédération québécoise de soccer-football, as well as for the Montreal Impact, a not-for-profit team in the professional soccer A-League playing both in Canada and the United States.

Saputo is also a sponsor of the Québec Foundation for Athletic Excellence, which through scholarships supports outstanding up-and-coming athletes from Québec and the rest of Canada. Through the Foundation, Saputo is the proud sponsor of three amateur athletes representing Canada around the world: Alexander Jeltkov, Audrey Lacroix and Giulio Zardo. Gymnast Alexander Jeltkov represented Canada at the 2002 Commonwealth Games in Manchester, England and won a bronze medal at the high bar. At the same games, Audrey Lacroix came in sixth and seventh place in the 100m and 200m butterfly. Giulio Zardo won a silver medal at the World Bobsleigh Championships in 2003. He, along with his partner, finished first in the World Cup 2002-2003 standings.

Saputo is a sponsor of the Rocketsports Racing team, which competes in the Champ Car series. Races in this series are staged in Canada, the United States, Europe, Australia and Japan. The team car is driven by Alex Tagliani, who hails from the Montréal area.

Operating as it does in the food industry and conscious of the importance of involving itself in the community, Saputo is providing support for a number of food banks in Canada as well as in the United States. The Company also supports other initiatives aimed at assisting children from underprivileged backgrounds, such as the Club des petits déjeuners du Québec.

Lastly, Saputo supports various universities by way of donations aimed at helping fund research programs or through scholarships. We intend concentrating our efforts in those universities where programs in agriculture or programs closely related to the dairy industry are offered.

# 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 judgments 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 unrelated directors. 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.

(signed)

Lino Saputo
**Chairman of the Board**
**and Chief Executive Officer**

(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, 2003 and 2002 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

**Deloitte & Touche LLP**
**Chartered Accountants**
**Laval, Québec**
**May 16, 2003**