Interim Report
Fiscal • 2003

Saputo

2nd Quarter

Message to Shareholders
and Analysis of Operating Results and Financial Position

We are pleased to present the results for the second quarter of fiscal 2003 for Saputo Inc., the largest dairy processor in Canada and one of the leading cheese producers in North America.

Highlights of the Second Quarter •

- Net earnings of $42.1 million or $0.41 (basic) per share, an increase of 1.5% as compared to the second quarter of fiscal 2002. This amount takes into account the recording of an expense relative to the stock-based compensation in the amount of $0.735 million or $0.007 (basic) per share.
- EBITDA[1] in the Dairy Products Sector (Canada) of $48.5 million, up 11% compared to the same period last year.
- EBITDA in the Dairy Products Sector (United States) of $31.6 million, down 18.6% in comparison with the $38.8 million for the same period last year.
- Average selling price per pound of cheese on the American market down 33.7% as compared to the same period last year, representing a decrease of US$0.57 a pound.
- Unfavourable impact of about $9 million on EBITDA and of approximately $70 million on revenues in the Dairy Products Sector (United States) owing to cheese price conditions on the American market during the quarter as compared to the same period in the previous fiscal year.
- Sales volume in the Dairy Products Sector (United States) up 12.5% (11.1% since the beginning of the fiscal year) as compared to the same quarter last year.
- EBITDA in the Grocery Products Sector of $8.4 million.
- Cash generated before changes in non-cash working capital items of $66.5 million, up 8.5% compared to the same period a year earlier.
- Repayment of $51.5 million in long-term debt and bank loans.

Operating Results •

Company revenues totaled $861.8 million for the second quarter of fiscal 2003, a decrease of 3.5% as compared to the $893.4 million for the same period last year. In the course of the quarter, the average selling price per pound of cheese on the American market, US$0.57 lower than it was during the same period last year, had a downward effect on Company revenues equal to roughly $70 million, obscuring the 12.5% growth in sales volume in the United States division of our Dairy Products Sector. Revenues since the beginning of the fiscal year are at $1.736 billion, as compared to the $1.766 billion for the corresponding period last year.

EBITDA for the second quarter of fiscal 2003 reached $87.6 million, compared to

[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 and amortization. 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.

$91.0 million for the same period last year. EBITDA would have risen had it not been for the unfavourable conditions connected with the selling price of cheese on the American market, which resulted in a shortfall of roughly $9 million during the quarter. Since the beginning of the fiscal year, this situation has given rise to a shortfall of roughly $20 million in EBITDA. For the six-month period ended September 30, 2002, EBITDA was $176.1 million, compared to $182.1 for the same period last year.

Net interest expense totaled $10.3 million for the quarter, compared to $13.7 million for the same period last year, reflecting not only interest saved as a result of long-term debt repayments but also more advantageous interest rates.

Income taxes totaled $17.4 million for the quarter, for an actual tax rate of 29.3%, compared to a rate of 31.2% last year. The lower rate stems among other things from the variations in the sources of revenues related to the different jurisdictions.

For the second quarter, net earnings totaled $42.1 million or $0.41 (basic) per share, an increase of 1.5% over the $41.5 million or $0.40 (basic) per share for the same period last year.

Accounting Policies •

In conformity with the suggestion of the Canadian Institute of Chartered Accountants (CICA) to use the fair value-based method of accounting, the Company entered stock-based payments on a prospective basis in its results beginning April 1, 2002. The effect of this expense on the results is $0.860 million (before income taxes) for the second quarter of fiscal 2003 and $1.720 million (before income taxes) for the six-month period ended September 30, 2002. Basic earnings per share and diluted earnings per share were affected by this expense, the effects of this expense for the three- and six-month periods ended September 30, 2002, representing $0.007 and $0.014 respectively.

Cash and Financial Resources •

Since the beginning of the fiscal year, cash generated before changes in non-cash working capital items amounted to $129.8 million or $1.26 (basic) per share, up 5.8% over the $122.7 million or $1.20 (basic) per share for the same period a year earlier.

The Company used this important cash inflow to repay $96.8 million in long-term debt and bank loans, $51.5 million of that during the quarter ended September 30, 2002, amounting to $20 million over and above its contractual commitments. The Company also earmarked an important part of these funds for additional capital expenditures of $32.3 million, $17 million of these during the second quarter. Roughly half of these amounts was allocated to replacement of certain of our fixed assets, and the balance towards improvement of our processes. These capital expenditures are part of the commitments of $64 million earmarked for the fiscal year 2003. Also during the quarter, the Company paid out $16 million in dividends. On September 30, 2002, the Company had working capital of $271.5 million, compared to $258.9 million on March 31, 2002. The ratio of interest-bearing debt to shareholders' equity went from 0.78 on March 31, 2002, to 0.60 on September 30, 2002. On September 30, the Company had unused bank credit facilities of approximately $225 million.

Financial Instruments, Risk and Uncertainty •

On September 30, 2002, only 4% of long-term debt was subject to interest-rate fluctuations, the rest being fixed directly or by means of interest swap contracts.

The Company realizes approximately 37% of its sales in the United States and is 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. The Company is also subject to commodity pricing fluctuation.

The Company operates in the area of edible products intended for a broad range of consumers, and is diligent in applying all its quality-control procedures from start to finish of the process of manufacturing and marketing. For any other risks the Company could be exposed to, controls and mechanisms currently in place continuously enable the firm to reduce them.

Outlook •

Over the coming quarters we will complete the last phases in the integration of Canadian dairy activities, while continuing in our efforts to grow organically and by acquisition.

In the United States, our goal of increasing production volume by 13% remains unchanged, and we are actively seeking potential cheese-making acquisitions. Finding solutions to the volatility of prices on the American market remains a priority, in order to counteract the effects of that volatility on our results.

Our Bakery Division, this September 27, transferred the activities of the plant in Aurora, Ontario, to the facility in Sainte-Marie, Québec. The division just made its first deliveries of snack cakes to the United States, in early October, and will continue with its efforts to penetrate those markets where we are currently less represented.

In the month of October we carried out the closing, as announced earlier, of a cheese-making plant in the United States. We also announced, this past September, the shutdown of three Canadian cheese-making plants. One of those plants closed its doors at the end of October, while the two others will cease their activities during the course of the next year. These rationalizations are part of the uninterrupted analysis of our processes. The activities of these plants will be transferred to other facilities of the Company. After-tax costs related to these Canadian and American rationalizations will be approximately $4.1 million, including $1.8 million related to the devaluation of fixed assets. The Company expects to realize annual after-tax savings of roughly $4.9 million.

Information by Sector •

DAIRY PRODUCTS (CANADA)

Revenues for the second quarter of fiscal 2003 totaled $500.7 million, an increase of 1.4% over the $493.7 for the same quarter last year. On a cumulative basis, the $25.5 million improvement in the revenues over the previous fiscal year represents an increase of 2.6%.

EBITDA for the quarter amounted to $48.5 million, which represents an increase of 11% over the $43.7 million for the same period a year earlier. EBITDA margin for this sector climbed from 8.9% last year to 9.7% during the quarter. These increases can be accounted for by the optimization of operations generated during the process of integrating Dairyworld, which was acquired in 2001.

Since the start of the fiscal year, EBITDA has progressed from $13.3 million to total $98 million on September 30, 2002.

DAIRY PRODUCTS (UNITED STATES)

Revenues for this quarter amounted to $319.1 million. Last year, for the same period, revenues were $354.7 million.

Despite a growth of 12.5% in our cheese sales volume during the quarter, our revenues took a downward turn equal to roughly $70 million because of an average selling price per pound of cheese that was US$0.57 lower than it was during the same period last year.

EBITDA for this quarter amounted to $31.6 million, a drop of $7.2 million from the $38.8 million in the same period the previous fiscal year. Certain important factors explain this decrease in the American sector's EBITDA. First, the average selling price per pound of cheese for the quarter was US$1.12, a drop of US$0.57 in relation to the US$1.69 of the same period last year. This situation created an important unfavourable effect on EBITDA given that the absorption basis of other costs were lessened. Combined with the favourable impact in the cost of milk, which maintained a level lower than its customary relation with the average selling price per pound of cheese, and with certain effects that prices on the American market had on our inventories, this situation reduced EBITDA by roughly $9 million for the quarter compared to the same period last year. Since the beginning of the fiscal year, American market conditions relative to the milk and cheese price situation have deprived the Company of nearly $20 million in EBITDA as compared to last year.

EBITDA margin for the quarter was 9.9%, having reached 10.9% for the same quarter the previous fiscal year.

GROCERY PRODUCTS

During the second quarter, revenues totaled $41.9 million and EBITDA reached $8.4 million, for a margin of 20.0%.

The decrease in revenues is accounted for by the transfer of manufacturing and marketing activities of cookies, fine breads and soups to Dare Foods in July 2001. That is, this year the Company's revenues contain no revenue relative to those activities, whereas revenues relative to those activities for a period of two weeks were included in those of the corresponding quarter last year.

Dividends •

The Board of Directors of the Company declared a dividend of $0.10 per share, payable on December 13, 2002, to shareholders of record as of November 29, 2002. This dividend is for the quarter ended September 30, 2002.

Lino Saputo
Chairman of the Board
and Chief Executive Officer

November 12, 2002

Consolidated Statements of
Earnings

(unaudited)

	For the three-month periods ended September 30		For the six-month periods ended September 30	
	2002	2001	**2002**	2001
(in thousands of dollars, except per share amounts)				
Revenues	**$ 861,763**	$ 893,443	**$1,735,705**	$1,766,499
Cost of sales, selling and administrative expenses (Note 2)	**774,155**	802,413	**1,559,584**	1,584,360
Earnings before interest, depreciation and income taxes	**87,608**	91,030	**176,121**	182,139
Depreciation of fixed assets	**17,743**	17,085	**35,354**	35,342
Operating income	**69,865**	73,945	**140,767**	146,797
Interest on long-term debt	**10,804**	13,907	**22,472**	28,198
Other interest	**(481)**	(235)	**(728)**	(573)
Earnings before income taxes	**59,542**	60,273	**119,023**	119,172
Income taxes	**17,433**	18,815	**35,591**	37,437
Net earnings	**$ 42,109**	$ 41,458	**$ 83,432**	$ 81,735
Per share (Notes 4 and 5)				
Net earnings				
Basic	**$ 0.41**	$ 0.40	**$ 0.81**	$ 0.80
Diluted	**$ 0.40**	$ 0.40	**$ 0.80**	$ 0.79

The Company adopted the new Canadian Institute of Chartered Accountants accounting recommendations for stock-based compensation on April 1, 2002. These recommendations propose the fair value method to record stock options granted to employees. During the quarter ended September 30, 2002, the Company therefore used the fair value method accounting for stock-based compensation (Note 5).

Consolidated Statements of
Retained Earnings

(unaudited)

For the six-month periods ended September 30	2002	2001
(in thousands of dollars)		
Retained earnings, beginning of period	**$ 409,648**	$ 271,087
Net earnings	**83,432**	81,735
Dividends	**(16,023)**	(10,270)
Retained earnings, end of period	**$ 477,057**	$ 342,552

Segmented Information

(unaudited)

	For the three-month periods ended September 30		For the six-month periods ended September 30	
	2002	2001	**2002**	2001
(in thousands of dollars)				
Revenues				
Dairy products				
Canada	**$ 500,725**	$ 493,671	**$1,012,382**	$ 986,924
United States	**319,148**	354,742	**638,891**	673,864
	819,873	848,413	**1,651,273**	1,660,788
Grocery products	**41,890**	45,030	**84,432**	105,711
	$ 861,763	$ 893,443	**$1,735,705**	$1,766,499
Earnings before interest, depreciation and income taxes				
Dairy products				
Canada	**$ 48,507**	$ 43,738	**$ 97,996**	$ 84,709
United States	**31,559**	38,786	**62,616**	79,277
	80,066	82,524	**160,612**	163,986
Grocery products	**8,402**	8,506	**17,229**	18,153
Stock-based compensation charge (Note 5)	**(860)**	—	**(1,720)**	—
	$ 87,608	$ 91,030	**$ 176,121**	$ 182,139
Depreciation of fixed assets				
Dairy products				
Canada	**$ 7,317**	$ 7,153	**$ 14,631**	$ 14,562
United States	**9,066**	8,392	**17,987**	16,770
	16,383	15,545	**32,618**	31,332
Grocery products	**1,360**	1,540	**2,736**	4,010
	$ 17,743	$ 17,085	**$ 35,354**	$ 35,342
Operating income				
Dairy products				
Canada	**$ 41,190**	$ 36,585	**$ 83,365**	$ 70,147
United States	**22,493**	30,394	**44,629**	62,507
	63,683	66,979	**127,994**	132,654
Grocery products	**7,042**	6,966	**14,493**	14,143
Stock-based compensation charge (Note 5)	**(860)**	—	**(1,720)**	—
	$ 69,865	$ 73,945	**$ 140,767**	$ 146,797
Interest	**10,323**	13,672	**21,744**	27,625
Earnings before income taxes	**59,542**	60,273	**119,023**	119,172
Income taxes	**17,433**	18,815	**35,591**	37,437
Net earnings	**$ 42,109**	$ 41,458	**$ 83,432**	$ 81,735

Consolidated Statements of Cash Flows

(unaudited)

	For the three-month periods ended September 30		For the six-month periods ended September 30	
	2002	2001	**2002**	2001
(in thousands of dollars, except per share amounts)				
Cash flows related to the following activities:				
Operating				
Net earnings	**$ 42,109**	$ 41,458	**$ 83,432**	$ 81,735
Items not affecting cash				
Depreciation of fixed assets	**17,743**	17,085	**35,354**	35,342
Loss on disposal of fixed assets	**33**	—	**37**	—
Future income taxes	**6,582**	2,789	**10,972**	5,578
	66,467	61,332	**129,795**	122,655
Changes in non-cash operating working capital items	**30,562**	(9,989)	**23,447**	(32,428)
	97,029	51,343	**153,242**	90,227
Investing				
Additions to fixed assets	**(17,005)**	(17,532)	**(32,259)**	(29,358)
Proceeds on disposals of fixed assets	**965**	—	**1,518**	—
Other assets	**(2,223)**	695	**(1,706)**	(6,104)
	(18,263)	(16,837)	**(32,447)**	(35,462)
Financing				
Bank loans	**(6,502)**	9,031	**(26,757)**	(312)
Repayment of long-term debt	**(45,030)**	(30,000)	**(70,030)**	(40,000)
Issuance of share capital	**749**	1,130	**3,763**	3,456
Employee future benefits	**150**	312	**450**	576
Dividends	**(16,023)**	(10,270)	**(16,023)**	(10,270)
	(66,656)	(29,797)	**(108,597)**	(46,550)
Increase in cash	**12,110**	4,709	**12,198**	8,215
Effect of exchange rate changes	**1,691**	520	**2,471**	960
Cash, beginning of period	**5,720**	10,240	**4,852**	6,294
Cash, end of period	**$ 19,521**	$ 15,469	**$ 19,521**	$ 15,469
Supplemental information				
Interest paid	**$ 1,891**	$ 9,607	**$ 21,138**	$ 29,224
Income taxes paid	**$ 21,457**	$ 24,505	**$ 41,567**	$ 29,092
Per share (Note 4)				
Net inflow of cash related to operations before changes in non-cash operating working capital items				
Basic	**$ 0.64**	$ 0.60	**$ 1.26**	$ 1.20
Diluted	**$ 0.63**	$ 0.59	**$ 1.24**	$ 1.19

Consolidated Balance Sheets

(in thousands of dollars)	September 30 2002 (unaudited)	March 31 2002 (audited)
Assets		
Current assets		
Cash	**$ 19,521**	$ 4,852
Receivables	**270,633**	272,895
Inventories	**379,816**	406,621
Income taxes	**5,862**	4,288
Future income taxes	**13,587**	13,781
Prepaid expenses and other assets	**7,280**	11,078
	696,699	713,515
Portfolio investment	**55,991**	55,991
Fixed assets	**650,674**	658,845
Goodwill	**569,561**	572,375
Other assets (Note 3)	**43,546**	41,859
Future income taxes	**4,080**	4,090
	$ 2,020,551	$ 2,046,675
Liabilities		
Current liabilities		
Bank loans	**$ 2,150**	$ 28,907
Accounts payable and accrued liabilities	**313,985**	305,752
Income taxes	**1,532**	17,393
Current portion of long-term debt	**107,500**	102,555
	425,167	454,607
Long-term debt	**493,646**	572,570
Employee future benefits	**13,397**	12,947
Future income taxes	**116,244**	105,963
	1,048,454	1,146,087
Shareholders' Equity		
Share capital (Note 5)	**463,585**	459,822
Retained earnings	**477,057**	409,648
Contributed surplus resulting from the recording of the stock-based compensation	**1,470**	—
Foreign currency translation adjustment	**29,985**	31,118
	972,097	900,588
	$ 2,020,551	$ 2,046,675

Notes
to the Consolidated Financial Statements
(in thousands of dollars)

1. Accounting Policies
The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and applied in the same manner as the most recently audited financial statements, with the exception of the recording of the stock-based compensation expense on a prospective basis since April 1, 2002. The unaudited consolidated financial statements do not include all the information and notes required according to generally accepted accounting principles for annual financial statements, and should therefore be read with the audited consolidated financial statements and the notes included in the Company's annual report for the year ended March 31, 2002.

2. 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 in Canadian dollars using the average monthly exchange rates in effect during the fiscal years. 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 has no impact on the results from operations.

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 resulting from this translation are included in the statement of earnings with "Cost of sales, selling and administrative expenses" and is represented by the following amounts:

	For the three-month periods ended September 30		**For the six-month periods ended September 30**	
	2002	2001	**2002**	2001
Foreign exchange gain	**$ 191**	$ 36	**$ 98**	$ 10

3. Other Assets

	September 30 2002	March 31 2002
Employee pension net benefit asset	**$ 27,746**	$ 26,561
Other	**15,800**	15,298
	$ 43,546	$ 41,859

4. Earnings per Share

The weighted average number of common shares outstanding for the three-month period ended September 30, 2002 is 103,389,462 (102,723,892 in 2001). For the six-month period ended September 30, 2002, this number is 103,335,771 (102,635,714 in 2001).

The weighted average number of common shares outstanding, including the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan is 104,624,321 (103,290,382 in 2001).

In 2001, the computations of basic and diluted earnings per share were adjusted retroactively as a result of the stock dividend declared to shareholders of record on November 23, 2001 which has the same effect as a two for one stock split.

5. 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.

	September 30 2002	March 31 2002
Issued		
103,405,553 common shares (103,184,447 at March 31, 2002)	**$ 463,585**	$ 459,822

221,106 common shares for an amount of $3,763,000 were issued during the six-month period ended September 30, 2002 pursuant to the share option plan.

Share Option Plan

During the six-month period ended September 30, 2002, the Company granted 934,965 options.

	Number of options	**Weighted average exercise price**
Balance, March 31, 2002	**3,258,967**	**$ 16.69**
Options granted on April 1, 2002	**934,965**	**$ 30.35**
Options exercised	**(221,106)**	**$ 17.02**
Options cancelled	**(93,932)**	**$ 19.55**
Balance, September 30, 2002	**3,878,894**	**$ 19.89**

5. Share Capital (cont'd)

Stock-Based Compensation

The Company adopted the new Canadian Institute of Chartered Accountants accounting recommendations for stock-based compensation on April 1, 2002. These recommendations propose the fair value method to record stock options granted to employees. During the quarter ended September 30, 2002, the Company therefore used the fair value method accounting for stock-based compensation.

The Company recorded a $735,000 ($860,000 before income taxes) and a $1,470,000 ($1,720,000 before income taxes) expense related to options granted for the three-month and six-month periods ended September 30, 2002 respectively.

The effect of the expense on basic earnings per share and fully diluted earnings per share is $0.007 for the three-month period ended September 30, 2002 and $0.014 for the six-month period ended on the same date.

The fair value of share purchase options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate:	5%
Expected life of options:	10 years
Volatility:	20%
Dividend rate:	1.3%

6. Comparative Figures

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