Management's Analysis

The goal of the present management report is to provide a better understanding of our activities and should be read while referring to our audited consolidated financial statements and the accompanying notes. In addition to containing an analysis of the year ended March 31, 2004, this report addresses any material element to be considered between March 31, 2004 and June 8, 2004, the date on which this report was approved by the Board of Directors of Saputo Inc. (the "Company" or "Saputo"). Additional information about the Company, including the Annual Information Form for the year ended March 31, 2004, can be obtained on SEDAR at www.sedar.com.

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 that 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.

Global Overview

Already firmly established in North America, Saputo has also been operating in Argentina since November 2003. Our operations are carried out in 43 plants and numerous distribution centers employing approximately 7,500 employees. Saputo manufactures almost all of the products it commercializes.

Saputo is active in two sectors: dairy products, which accounts for 95.3% of consolidated revenues, and grocery products, with 4.7% of consolidated revenues.

Our Canadian and Other Dairy Products Sector consists of the Dairy Products Division (Canada) and the Dairy Products Division (Argentina). Our US Dairy Products Sector consists of the Cheese Division (USA). Saputo's dairy products are available in all segments of the food market: retail, foodservice and industrial. Saputo is the largest dairy processor in Canada, among the top five in the United States and the third largest in Argentina.

The **retail** segment, which accounts for 51.9% of the revenues of our Dairy Products Sector, consists of sales made to supermarket chains, independent retailers, warehouse clubs and specialty cheese boutiques. In supermarkets, our products are located in the dairy product aisle and at deli counters. Throughout the retail segment, our products are marketed under our own brand names as well as under private labels.

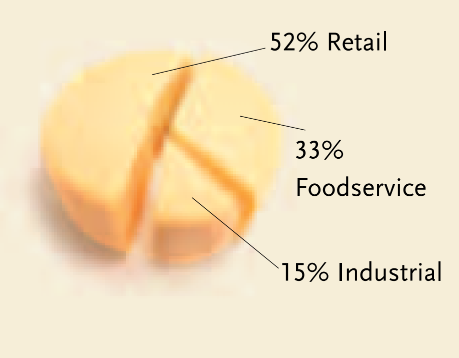
The **foodservice** segment, which accounts for 33.4% of the revenues of our Dairy Products Sector, consists of sales made to distributors of both specialty cheeses and complete product lines as well as to restaurants and hotels. In this segment, we market our products under our own brand names and under various private labels. In Canada, through our own distribution network, we also offer non-dairy products manufactured by third parties. We also produce dairy blends for fast-food chains.

The **industrial** segment, which accounts for 14.7% of the revenues of our Dairy Products Sector, consists of sales made to processors who use our products as ingredients to manufacture their products. We supply cheese to Canadian manufacturers of frozen pizzas and other frozen foods. In the United States, we supply cheese to numerous large food manufacturers.

We also produce by-products such as lactose, whey powder and whey protein from our Canadian and US cheese manufacturing activities. Through our Canadian industrial segment, we sell cheese, lactose, whey powder, ice cream mixes and whey protein to a vast array of clients in Canada, Europe, South America, Asia and Africa. From our operations in Argentina, we supply numerous clients located in over 30 countries, primarily with milk powder and cheese.

With a Canada-wide presence, our 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, independent retailers, and warehouse clubs. The Bakery Division also has a small-scale presence in northeastern United States. Saputo is the largest producer of snack cakes in Canada and a leader in Québec's cereal bar market.

Revenues (%) per market segment
Dairy Products Sector



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

Financial Orientation

Saputo has earned a prominent position in the dairy processing industry in Canada, the United States, and now in Argentina. Establishing strong foundations is the basis of our business model and of our growth in the manufacturing, commercial and financial aspects of our business. In fact, our Company's development has always been designed around organic growth, that is, fully developing our assets before making any acquisitions.

Relying on a systematic approach, we constantly strive to grow our activities such that they create value for our employees and shareholders. Our disciplined and thorough approach has proven profitable and remains a cornerstone of our fundamental values. Furthermore, our financial strategy centers around establishing and then building upon strong financial performance, thereby giving us the financial flexibility so essential for growth.

Financial commitments are rigorously managed, as our goal is to keep debt levels below shareholders' equity at all times. In the context of acquisitions, however, our debt may be higher for a short period of time.

En route to becoming a world class dairy processor, Saputo will continue to apply this same financial rigor and phase-by-phase growth by reinvesting the results of its financial performance.

Elements to Consider when Reading Management's Analysis for Fiscal 2004

During fiscal 2004, we experienced excellent financial performance:

- Net earnings of $212.4 million, a 22.3% increase
- Earnings before interest, income taxes, depreciation and amortization (EBITDA)[1] of $403.3 million, up 14.3%
- Revenues of $3.570 billion, up 5.1%
- Cash flows generated by operations of $287.6 million, up 28.7%

Essentially, 2004's performance is the result of sustained improvements in sales volume as well as operational efficiency throughout the year. However, the results for 2004 were affected by certain elements, notably the rise of the Canadian dollar, certain rationalization costs, as well as cheese prices in the United States.

Specifically, the appreciation of the Canadian dollar in fiscal 2004 reduced net earnings by $9.2 million, EBITDA by $23.8 million and revenues by some $182 million.

During the year, rationalization costs reduced net earnings by $5.6 million.

Also during the year, the selling price per pound of cheese in the United States escalated from US$1.09 as at March 31, 2003 to US$2.09 as at March 31, 2004. The relationship between the average selling price per pound of cheese and the cost of our raw material, milk, was also favourable. In fact, these factors had a positive effect of approximately $36.9 million on EBITDA and of approximately $138 million on revenues.

Overall, our Canadian and Other Dairy Products Sector experienced increased sales volumes. Our US Dairy Products Sector saw sales volume rise by 5.9%, representing approximately $72 million in additional revenues. During the year, we acquired three companies. Molfino Hermanos S.A. in Argentina, acquired on November 28, 2003, had a more pronounced impact on the Company's revenues, with revenues of approximately $44 million.

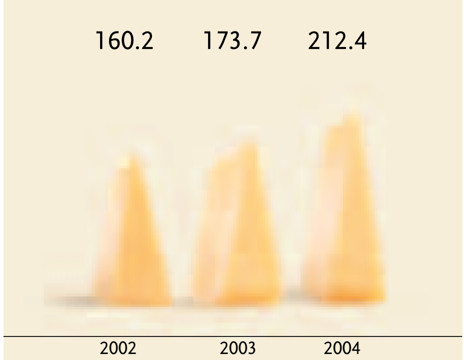
(1) **Measurement of results not in accordance with generally accepted accounting principles**
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation and amortization. EBITDA is not a measurement of performance as defined by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

Selected Consolidated Financial Information

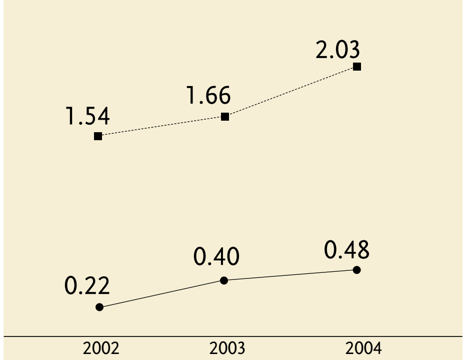
Years ended March 31 (audited)
(in thousands of dollars, except per share amounts and ratios)

		2004	2003	2002
Statements of earnings data				
Revenues	Dairy Products Sector			
	Canada and Other	$ 2,161,852	$ 2,017,383	$ 1,987,486
	United States	1,240,954	1,212,810	1,282,555
		3,402,806	3,230,193	3,270,041
	Grocery Products Sector	167,384	167,919	187,371
		$ 3,570,190	$ 3,398,112	$ 3,457,412
Cost of sales, selling and administrative expenses				
	Dairy Products Sector			
	Canada and Other	$ 1,951,997	$ 1,817,822	$ 1,804,432
	United States	1,080,067	1,092,741	1,148,559
		3,032,064	2,910,563	2,952,991
	Grocery Products Sector	134,869	134,754	151,999
		$ 3,166,933	$ 3,045,317	$ 3,104,990
EBITDA	Dairy Products Sector			
	Canada and Other	$ 209,855	$ 199,561	$ 183,054
	United States	160,887	120,069	133,996
		370,742	319,630	317,050
	Grocery Products Sector	32,515	33,165	35,372
		403,257	352,795	352,422
	EBITDA margin (%)	*11.3%*	*10.4%*	*10.2%*
Depreciation of fixed assets				
	Dairy Products Sector			
	Canada and Other	29,854	29,697	27,970
	United States	31,550	35,704	33,607
		61,404	65,401	61,577
	Grocery Products Sector	4,634	5,488	6,510
		66,038	70,889	68,087
Operating income				
	Dairy products Sector			
	Canada and Other	180,001	169,864	155,084
	United States	129,337	84,365	100,389
		309,338	254,229	255,473
	Grocery Products Sector	27,881	27,677	28,862
		337,219	281,906	284,335
Interest on long-term debt		34,792	43,672	53,379
Other interest, net of interest income		1,218	(1,351)	(801)
Earnings before income taxes		301,209	239,585	231,757
Income taxes		88,844	65,857	71,596
Net earnings		$ 212,365	$ 173,728	$ 160,161
Net earnings margin (%)		*5,9%*	*5,1%*	*4,6%*
Net earnings per share		$ 2.05	$ 1.68	$ 1.56
Diluted net earnings per share		$ 2.03	$ 1.66	$ 1.54
Dividends declared per share		$ 0.48	$ 0.40	$ 0.22
Balance sheets data				
Total assets		$ 2,069,548	$ 1,970,686	$ 2,046,675
Long-term debt (including current portion)		$ 371,911	$ 521,135	$ 675,125
Shareholders' equity		$ 1,156,829	$ 1,016,504	$ 900,588
Statements of cash flows data				
Cash flows generated by operations		$ 287,572	$ 223,532	$ 199,606
Amount of additions to fixed assets, net of proceeds on disposal		$ 84,520	$ 66,531	$ 59,735

Net earnings
(in millions of dollars)



Net earnings per share (in dollars)
Dividends declared per share (in dollars)



Saputo's **consolidated revenues** amounted to $3.570 billion in 2004, up 5.1% compared to $3.398 billion posted in 2003.

Although the Company's sales volume grew in Canada—and even more so in the United States where sales volumes rose nearly 5.9%, the rise of the Canadian dollar in 2004 as compared to 2003 created a shortfall in revenues of nearly $182 million. The average selling price per pound of cheese on the US market, 21% higher than in 2003, increased revenues by about $138 million. In addition, the recent acquisition in Argentina contributed approximately $44 million to revenues between November 28, 2003 and March 31, 2004.

Earnings before interest, income taxes, depreciation and amortization stood at $403.3 million, a 14.3% increase compared to $352.8 million in 2003. EBITDA margins increased from 10.4% last year to 11.3% this year. The strong cheese market price condition in the United States in 2004 drove up EBITDA by approximately $36.9 million. Major increases in sales volume in the United States, combined with our improved operational efficiency, helped grow EBITDA in our US Dairy Products Sector by about $27.7 million. However, the rise of the Canadian dollar unfavourably affected EBITDA by about $23.8 million. In Canada, sales growth as well as our improved operations strengthened EBITDA by about $10 million, despite the fact that the dairy by-product market, combined with the appreciation of the Canadian dollar, had an unfavourable impact of about $2 million on dairy by-product exports. The Company incurred, throughout the year, some $7.8 million in rationalization costs when it closed certain manufacturing facilities. The Bakery Division's EBITDA remained relatively stable.

Depreciation expense totalled $66.0 million, down $4.9 million from the last fiscal year. This expense in 2004 includes a write-down of fixed assets of approximately $1 million following the shutdown of plants during the year. The decline in this expense is mainly attributable to the rise in the Canadian dollar compared to the same period last year.

Net interest expense amounted to $36.0 million, down $6.3 million compared to last year. Nearly half of this decline is attributed to the reduction of interest resulting from ongoing payments of long-term debt. The other portion of this decline owes to the effect the rise of the Canadian dollar has had on interest charges for debt in US dollars.

Income taxes were $88.8 million, for an effective tax rate of 29.5% compared to 27.5% in 2003. The higher rate is mainly attributable to the fact that, in 2004, a greater portion of our taxable earnings were generated in the United States, which were subject to higher tax rates than those in Canada.

For the year ended March 31, 2004, **net earnings** totalled $212.4 million, a 22.3% increase over 2003's net earnings of $173.7 million. A higher Canadian dollar, compared to last year, eroded net earnings by $9.2 million for the year, and rationalization expenses consumed another $5.6 million. Excluding these two factors, net earnings would have risen by 30.8% compared to fiscal 2003.

Information by Sector

Canadian and Other Dairy Products Sector

This sector is made up of our Dairy Products Division (Canada) and our Dairy Products Division (Argentina).

Revenues (Canadian and Other Dairy Products Sector)

Revenues from this sector closed out the year at $2.162 billion, a 7.2% increase over the $2.017 billion posted for the previous year. The Company produced approximately 35% of all natural cheese and 20% of all fluid milk produced in Canada. The Company is the third largest dairy processor in Argentina.

The $145 million increase in revenues in 2004 owes to the following factors: nearly $60 million was attributable to fluid milk activities in Canada, which rose 6.7% over the previous year; nearly $41 million was attributable to cheese activities in Canada, a 3.6% increase over the previous year; and approximately $44 million was attributable to our Dairy Products Division (Argentina), which contributed to revenues for 18 weeks in 2004 after being acquired on November 28, 2003.

The **Canadian cheese activities** were able to benefit from cheese exports for a nine-month period in fiscal 2003. However, these exports were no longer possible as of January 1, 2003 following a decision by the appeals panel of the World Trade Organization (WTO), and this resulted in a drop in revenues of approximately $24 million. Despite the aforementioned, cheese volumes still grew by about 1% during fiscal 2004. Overall, Canadian cheese activities generated additional revenues of approximately $35 million owing to increased prices as a result of an increase in the cost of milk as raw material.

As in fiscal 2003, we continued our brand-promotion efforts by, among other initiatives, publishing new issues of *Cucina etc.* magazine. *Cucina etc.*, a cooking and lifestyle magazine, includes recipes that feature our products. In addition, at the end of the year, we launched a television campaign to promote *Saputo* brand products.

In October 2003, we launched our string cheese product under the brand *Cheese Heads,* leveraging the popularity of this product in the United States. Still in an introductory phase in 2004, it had little impact on revenues.

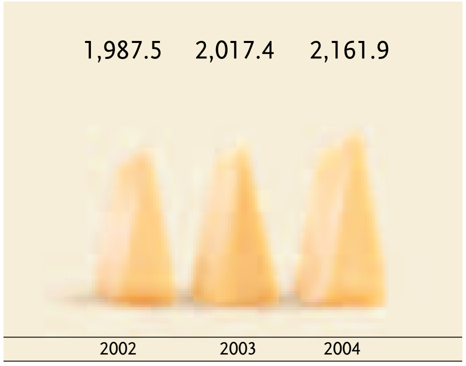
During fiscal 2004, we noticed that consumers are showing much greater interest in specialty cheeses. This category is enjoying steady growth but remains small in this sector.

Our sales in the **retail** segment also increased due to rising demand for private label products, consistent with consumer trends observed in the marketplace. The retail segment now accounts for 48.5% of the sales in our Canadian cheese activities, compared to 46% in the previous year.

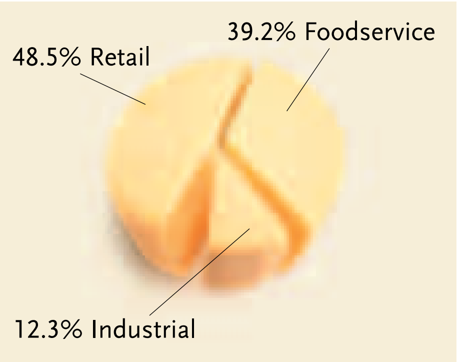
The **foodservice** segment also experienced greater sales in fiscal 2004, owing primarily to the addition of new clients and to higher prices caused by rising costs for milk as raw material. We continued to have a predominant presence in this segment, which generates 39.2% of our sales in the Canadian cheese activities, compared to 37% in the previous year.

The **industrial** segment accounts for 12.3% of sales from Canadian cheese activities, compared to 17% in the previous year. Overall, this segment's sales dropped in fiscal 2004 compared to fiscal 2003, the main reason being an absence of cheese exports. Fiscal 2003, however, included nine months of cheese exports. There was also a slight drop in sales volume nationally, but it was largely offset by increased sales in both the retail and foodservice segments.

Revenues
Canadian and Other Dairy Products Sector
(in millions of dollars)

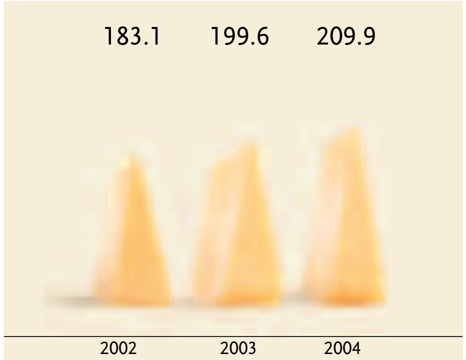


Revenues (%) per segment
Canadian cheese activities



Revenues (%) per segment
Canadian fluid milk activities

EBITDA
Canadian and Other Dairy Products Sector
(in millions of dollars)



Our **Canadian fluid milk activities** saw excellent growth in sales during fiscal 2004, generating $60 million in additional sales, up 6.7% over fiscal 2003. Throughout the year, significant effort was made to promote growth in specialized niches such as yogurt, sour cream, *Milk 2 Go* and *Lait's Go* flavoured milks, and flavoured coffee creamers, leading to growth in sales across all Canadian fluid milk activities of approximately 4%. This occurred despite the fact that fluid milk consumption remained stable on the Canadian market in 2004. Approximately $18 million of the increase in Canadian fluid milk activity revenue is attributable to higher selling prices caused by higher costs for milk as raw material.

The distribution of revenues remained unchanged, as the retail segment held 80% and the foodservice segment held 20%.

In addition, during fiscal 2004 we increased our market shares by nearly 1% in both Québec and Ontario. This expansion is partially due to the growth of clients of our Canadian fluid milk activities. In the Maritimes, several marketing initiatives were carried out to support the launch of new functional milk products such as *Calcium Extra, Protein Extra* and *Lactose Free*. We are relying on our *Baxter* and *Dairyland Plus* brands to grow our market share in this region.

We also started to produce fruit drinks under the *Sunny Delight*[1] license and market them throughout Canada. Since these activities began at the very end of the fiscal year, they had little impact on fiscal 2004 revenues.

The dairy products market in Canada remained stable and competitive throughout the year. In fact, the market displayed no trends that would warrant to manage differently with respect to client bases or pricing.

EBITDA (Canadian and Other Dairy Products Sector)

Earnings before interest, income taxes, depreciation and amortization (EBITDA) amounted to $209.9 million as at March 31, 2004, up 5.2% compared to the $199.6 million posted in fiscal 2003. The EBITDA margin slipped from 9.9% in 2003 to 9.7% in 2004.

During fiscal 2004, we implemented a series of rationalization measures in order to achieve greater operational efficiency. The measures led to the closure of cheese plants in Cookstown and Oakville (phase 2), Ontario, the closure of fluid milk plants in Calgary, Alberta, and Armstrong, British Columbia, and the sale of our manufacturing operation on Annacis Island in British Columbia. All these measures are aimed at improving our operational efficiency. The Company incurred a rationalization expense of $7.8 million. These measures had little effect on the EBITDA for fiscal 2004, as most of the rationalizations were finalized at the end of the year. However, these measures will translate into significant savings during fiscal year 2005 and thereafter.

During fiscal 2004, the milk by-products market combined with the rising Canadian dollar negatively affected the Company by an amount of approximately $2 million. Excluding the rationalization factors and the price of by-products, our EBITDA would have stood at $219.7 million, resulting in an EBITDA margin of 10.2% and representing $20.1 million in additional EBITDA over the previous year.

The Canadian and Other Dairy Products Sector performed well in 2004. The primary drivers of this performance were the rationalization measures undertaken during fiscal 2003 in our Canadian cheese activities, which were directly reflected in the increased EBITDA posted for fiscal 2004. We benefited from annual savings of approximately $7 million, an amount in line with our projections. Our specialty cheeses, which generate higher margins, also experienced increased sales volume during the year.

(1) Trademark used under license.

In our Canadian fluid milk activities, sales increased markedly during the year for products such as yogurt, flavoured milk, flavoured coffee creamers and sour cream—four specialized product categories that are more profitable. These product categories were supported by marketing efforts that required additional expenses of approximately $2.7 million.

The nearly 1% increase in market share in both Québec and Ontario, provinces in which we have less market strength, was also a contributing factor to fiscal 2004 performance. Several administrative moves aimed at consolidating services related to our Canadian fluid milk activities resulted in savings of approximately $1 million during the year.

As for our operations in Argentina, they have contributed to revenues since their acquisition, but have had little impact on EBITDA.

During the year, we made fixed asset investments, some of which were related to the rationalization of manufacturing units and others that were related to automation. Automation initiatives included automated bottle-casing and new bottling lines for flavoured milks, flavoured coffee creamers and fruit drinks, the latter being subject to licensing agreements concerning production and distribution. Owing to the rationalizations, between the beginning and end of fiscal 2004, our excess production capacity went from 30% to 20% in our Canadian cheese activities and from 40% to 32% in our Canadian fluid milk activities.

In addition, investments in our Tavistock plant over the previous two years enabled us to have a fully integrated operation in Ontario while increasing our capacity to transform by-products.

Outlook (Canadian and Other Dairy Products Sector)

The rising consumer interest in specialty cheeses should continue in line with the trend observed in 2004. We intend using our current market position to promote our specialty products and, as a result, draw more use from our manufacturing capacity.

The revitalization of certain brands through television commercials such as those that began airing in Québec at the start of fiscal 2005 will be spread nationally.

As for our Canadian fluid milk activities, EBITDA should benefit from annual savings derived from the rationalization measures implemented in 2004, savings evaluated at approximately $9 million annually. New, innovative products will be marketed to satisfy consumer needs. For example, the packages of certain product categories will be redesigned to enhance their visual appeal and functionality. Also, we will continue the program related to the implementation of milk vending machines as well as our efforts to grow our market share of fluid milk in both Québec and Ontario, provinces where we have limited presence. Furthermore, fiscal 2005 will benefit from a full year of Canada-wide licensed production and commercialization of *Sunny Delight*[1] beverages, which were introduced at the end of 2004.

We will continue to make investments in fixed assets that need to be replaced as well as in new technologies and automation projects. Our main challenge will be to fully integrate, by the end of this coming fiscal year, the former Milk and Cheese (Canada) divisions into a single operating unit. The entire organizational framework is already in place. Through this merger, we will be able to adopt a more global approach to our client base, and we will conduct several studies focused primarily on ways to better serve our clients. Whether it is the manner by which we transport merchandise or how we deliver customer service, improvements will be made.

Argentina, a country in which we have been operating since November 2003, represents an entirely new market for Saputo. Our acquisition in this country is unlike any of our prior acquisitions, where we were already active in the market and wanted to integrate the acquired operations into our own. In Argentina, we are looking to improve activities in order to establish a solid foundation from which we can draw long-term benefits and opportunities. In addition to having a corporate team that provides support, four members of our Canadian and US operations already hold key positions. They are working in conjunction with the local team, assisting with administration, manufacturing and sales operations, in order to improve efficiency and promote the corporate culture. Several moves will be made over the coming year. For one, we will be implementing our information systems so as to harmonize management tools. We will gain greater understanding of the markets, clients, products and methods, and adapt our methodologies accordingly. Finally, we will invest some $13 million to implement the technologies and methods that have driven our success. As such, fiscal 2005 in Argentina will be a year of transition and adaptation to be well positioned for the future.

(1) Trademark used under license.

US Dairy Products Sector

Our Cheese Division (USA), which comprises of our US Dairy Products Sector, demonstrated sound performance in fiscal 2004. The division experienced excellent sales growth as well as more favourable market conditions than those of fiscal 2003. We manufacture approximately 6% of all the natural cheese produced in the United States.

Over fiscal 2004, we continued to exhibit a good balance of revenues from our three market segments. Our retail and foodservice segment generated increased sales volumes during 2004, whereas the industrial segment experienced a decline.

Revenues (US Dairy Products Sector)

Fiscal 2004 revenues totalled $1.241 billion, an increase of $28 million or 2.3% over the $1.213 billion in revenues experienced in 2003. The Cheese Division (USA) saw sales volume grow 5.9%, which had a positive impact on revenues of approximately $72 million. The average selling price per pound of cheese during fiscal 2004 was US$1.39, a US$0.24 increase over the average US$1.15 in 2003. This increase had a positive impact of some $138 million on the revenues we generated in the United States. The appreciation of the Canadian dollar throughout the year negatively affected revenues by approximately $182 million.

The increase in sales volume for fiscal 2004 owes to two factors. First, dynamic growth in some product categories and the addition of new clients represent 71% of this increase. Second, the acquisition of the business associated with the blue cheese brands *Treasure Cave* and *Nauvoo* accounts for the remainder of the increase.

We offer products in three market segments: retail, foodservice and industrial. Our pricing, rebating and discounting practices in all three market segments were unchanged throughout the year, except for the following. Usually, our prices are based on the average selling price per pound of cheese as determined by the Chicago Mercantile Exchange (CME). For certain products in the industrial segment, the selling price of our products is now more closely tied to the cost of the milk as raw material.

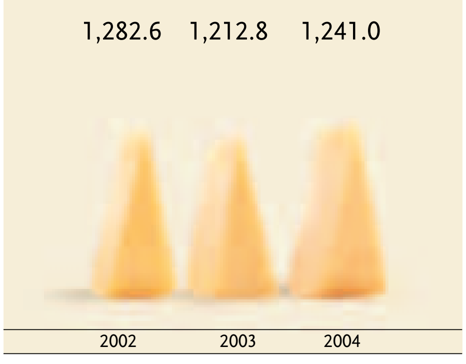
The **retail** segment accounts for 30% of our total sales volume in the United States. It grew 12.9% during 2004 due to contributions by firmly established brands such as *Frigo, Stella, Dragone, Frigo Cheese Heads* and our new brand, *Treasure Cave.* Our cheese products in snack formats are leaders in this segment. Such products include our string cheese, which continues to enjoy great success. Volumes increased approximately 26% in 2004, which matched growth for the entire category. The increase originates primarily from our branded products. Consumption of string cheese increased 25% during fiscal 2004, and *Frigo Cheese Heads* remains the most popular string cheese brand in the United States.

Greater sales in the retail segment is directly attributable to intensive point-of-sale promotions, greater support of our brands vis-à-vis consumers and a trend toward healthier diets. This trend gathered steam in the fourth quarter following the abundant media attention surrounding low-carbohydrate diets. As a result, the snack cheese category grew 36% in the fourth quarter of 2004 compared to the same period a year earlier, and we have exceeded this growth.

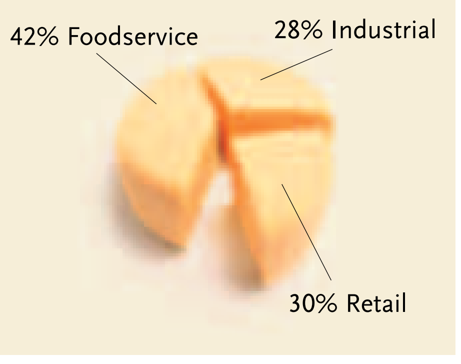
Other products that contributed to the growth of the retail segment include *Frigo Cheese Heads Mini Bars,* which were introduced during first quarter of fiscal 2004, and our ricotta product offering, which was relaunched during the third quarter of the same year. Combined, they accounted for approximately 6% of the increase in retail sales. Furthermore, the acquisition of activities related to the blue cheese brands *Treasure Cave* and *Nauvoo* helped strengthen our leadership position in this category.

The **foodservice** segment accounts for 42% of our total sales volume in the United States. Our sales volume grew 13.1% in 2004 compared to fiscal 2003 due to the addition of new clients and to efforts deployed in 2003 for our specialty cheeses. Pizza consumption remained strong, and we increased market penetration of our specialty cheeses within our client base in order to respond to consumers' increasing demand for cheeses on the menu. This helped us increase the volume of sales for most of our cheese categories during fiscal 2004. We were also able to strengthen our position among restaurateurs who offer other varieties of cheese as a result of the addition of new blue cheese activities, acquired in May 2003. These initiatives, which began last year, have proved beneficial, notably with our broadline distributors.

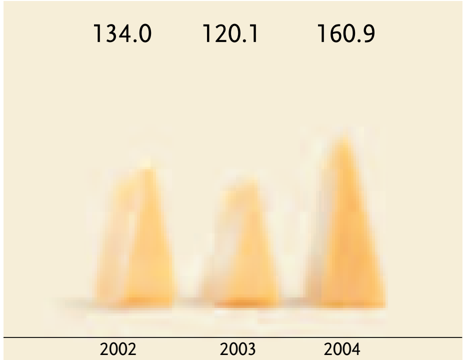
Revenues
US Dairy Products Sector
(in millions of dollars)



Sales volumes (%) per segment
US Dairy Products Sector



EBITDA
US Dairy Products Sector
(in millions of dollars)



We continued to focus efforts on our line of *Saputo Premium* cheeses, which are high-end products aimed at independent pizzerias and "mom and pop" establishments. We will continue in this direction with an objective of offering quality products to distributors and pizzerias, such that they may benefit from our services and expertise.

During fiscal 2004, we noticed some changes in the market place. Some competitors drove their production capacity above demand, the effect of which was downward pressure on prices, especially in the mozzarella category. Despite this competition, we managed to increase our sales volume in the foodservice segment. We will pursue growth opportunities by continuing to offer products that satisfy our clients' needs in terms of performance, quality and price.

The **industrial** segment represents 28% of our total sales volume in the United States. During 2004, sales volume for this segment declined 8.8% over 2003, mainly because we streamlined some less-profitable volumes. On the other hand, we continued to profit from gains made in the ricotta category for prepared meals, as our ricotta sales rose approximately 20% in 2004. We will continue to focus on growing this segment by forging long-term relationships with clients who appreciate the value of a functional, service-oriented and fairly priced product. By acquiring the business associated with the *Treasure Cave* brand, we were able to grow sales of blue cheese and serve new clients who produce salad dressings.

Products in the industrial segment also include whey by-products, sweetened condensed milk and eggnog. Prices of by-products on the international market continued to fall slightly during fiscal 2004. In the first quarter of 2004, however, we strengthened our position in the area of whey by-products through our interest in Gallo Protein 2003, LLC, which has helped add value to our whey by-products in California. In order to remain efficient, we will continue to focus our efforts on developing products and improving our technology.

EBITDA (US Dairy Products Sector)

During fiscal 2004, earnings before interest, income taxes, depreciation and amortization totalled $160.9 million, a $40.8 million or 34% increase over the $120.1 million posted in 2003. The 5.9% growth in sales volume for fiscal 2004, combined with our operational efficiency, earnings drawn from the added value of our whey by-products through our partnership in Gallo Protein 2003, LLC, and the contribution of the business associated with the *Treasure Cave* brand, had a positive impact on EBITDA of approximately $27.7 million. In addition, favourable market conditions in 2004 had a positive effect of $36.9 million on EBITDA. However, the appreciation of the Canadian dollar resulted in a $23.8 million shortfall in EBITDA.

The average selling price per pound of cheese for fiscal 2004 was US$1.39, a US$0.24 increase over the average of US$1.15 in 2003. This had a favourable impact on the absorption of fixed costs. In addition, the increase had a positive effect on the sales of inventory produced at lower costs for fiscal 2004. Over the past year, the relationship between the average selling price per pound of cheese and the cost of milk as raw material also proved advantageous. The slight decline in by-product prices during the year had virtually no effect on EBITDA.

The increase in volumes for fiscal 2004 allowed our manufacturing plants to further absorb their overhead, rendering them more efficient.

Outlook (US Dairy Products Sector)

Saputo is proud to produce quality cheeses at the best possible price. Having posted sales growth of around 5.9%, the Cheese Division (USA) once again demonstrated the appeal its products hold for consumers. With our steadfast determination to satisfy consumer needs, we will work relentlessly in the coming year in order to continue producing quality products, improving them, and developing new ones, both for the benefit of our clients and for consumers of our products. In terms of innovation, in the first quarter 2005, we will be launching our shaved parmesan product, which will be aimed at retail and food-service clients. In addition, because consumers are increasingly conscientious about healthy eating habits, we have recently launched a light string cheese product and will continue to promote these types of products throughout the following year.

Given the increased volumes and new product launches, we must ensure that we maintain sufficient manufacturing capacity. At the end of fiscal 2003, we were running at 93% capacity. At the end of fiscal 2004, given the increase in sales volumes, we launched a project designed to expand total capacity by approximately 12%. The project should be completed midway through 2005. Of the estimated $10 million needed to complete the project, $5.8 million have already been disbursed. We are currently running at 94% capacity. If necessary, the Company could add manufacturing capacity to its plants.

Saputo offers consumers dairy products that are the foundation of a balanced diet. Any change in economic conditions could influence consumers to change their eating habits. Thanks to our revenue streams, which are well balanced among three market segments, we are strongly positioned to adapt to such economic changes.

A significant rise in the Canadian dollar negatively affected our results for fiscal 2004. It is extremely difficult to predict fluctuations in US or Canadian currencies, as exchange rates can be affected by many factors.

The Cheese Division (USA) operates in an industry prone to frequent and often dramatic fluctuations in prices. Base prices are set according to daily transactions conducted at the CME. The CME acts as an auction market for certain commodity products where brokers represent buyers and sellers. Cheese is bought and sold on a daily basis, whereas butter is traded three days a week. The prices established at the end of a session serve as the reference price for most cheese and butter sales made in the United States. The stability of market prices depends on the capacity of supply to meet demand. Minor imbalances can often create major changes in price. Numerous factors such as climate, government policies, the price of feed, livestock health problems, economic conditions and consumption trends can therefore greatly influence dairy prices. History has shown that the dairy market can be more difficult to predict than the stock market, interest rates or exchange rates. During fiscal 2004, the CME's market for cheddar cheese blocks ranged from US$1.09 and US$2.09. Future fluctuations in cheese prices will therefore have either a negative or favourable effect on the Cheese Division (USA) results. Our continued success will depend on our ability to quickly and favourably react to changing market conditions as they arise.

Grocery Products Sector

The Grocery Products Sector, which consists of the Bakery Division, represents 4.7% of the Company's revenues.

Revenues (Grocery Products Sector)

Revenues for the Grocery Products Sector totalled $167.4 million for the fiscal year ended March 31, 2004, virtually the same level as the $167.9 million in revenues achieved in the previous fiscal year. Sales volumes in fiscal 2004 were up approximately 1%.

There was no material change in overall sales levels, either on a regional or brand basis. New products were introduced for the Christmas and Easter seasons, such as *Jos.Louis* and *May West* Easter eggs. Other products, such as carrot cake and Queen Elizabeth cake, became permanent additions to the line of products.

At year-end we also added a new *"Full Choco" Jos.Louis,* advertised in a televised promotional campaign targeting the teenage market.

The division maintained its dominant market share despite increasing competition.

With respect to the US market, there was no noticeable change in sales over the fiscal year. Product introductions in this market remain small-scale, carried out on a step-by-step basis, and in well-identified regions.

It is important to note that in fiscal 2004 we took a close look at Bakery Division operations with a view to taking a position on shaping future endeavours. During this period, few major initiatives were taken, and this accounts for the stability of revenues.

EBITDA (Grocery Products Sector)

EBITDA closed at $32.5 million on March 31, 2004, down slightly by $0.7 million from March 31, 2003. The EBITDA margin dropped from 19.8% in 2003 to 19.4% in 2004.

Compared to the same period last year, we faced some manufacturing cost increases during fiscal 2004. These increases were in raw materials and packaging as well as in salaries, and did not translate into increased selling prices of our products on a national scale. On the other hand, certain cost reductions should be noted, in terms of marketing and employee benefits, as a result of non-recurring expenses compared to the previous fiscal year. In addition, the capitalization of fixed assets, carried out throughout fiscal 2003 and fiscal 2004, has enabled us to improve our manufacturing efficiency by implementing the robotization of certain operations. Overall, all of these items essentially had almost no impact on EBITDA.

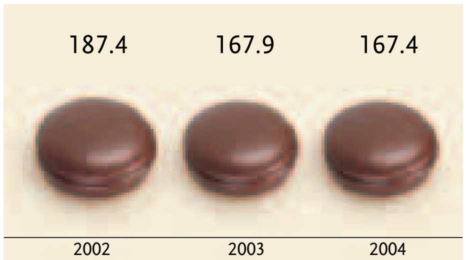
Outlook (Grocery Products Sector)

Fiscal 2004 was a time in which we reassessed the future of the Bakery Division. After having weighed various alternatives, we decided, last February, to maintain our commitment with respect to the division. Our analysis enabled us to confirm this division's growth potential.

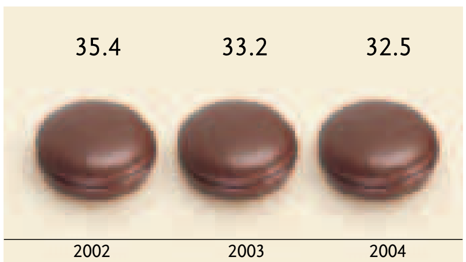
With our decision to continue pursuing the activities of the Bakery Division, last February we announced controlled and targeted investments totalling approximately $20 million over a three-year period, investments that should be supported by the additional profitability generated during this period. These investments, which will begin at the end of fiscal 2005, should enable greater geographical penetration. In the interim, we will also explore alternatives in other market segments, such as the foodservice and industrial. Well positioned in the pastry market niche, we will mount a concerted effort to maximize utilization of manufacturing capacity that is underused by close to 30%. Through capital investments, we will continue certain manufacturing robotization programs. The outlook for fiscal 2005 does not suggest increased costs for ingredients and packaging. To recover certain cost increases incurred in fiscal 2004, we will assess, as required, the need to increase the selling prices of our products. In fiscal 2005, we forecast additional expenses of approximately $2 million related to the pension plan.

Although our products fall within the indulgence category, we are aware of the current consumer trends toward products with lower fat and trans-fat content, and are therefore focusing research and development on these areas in an effort to fully realize the potential of some of our brands and adequately meet consumer demand.

Revenues
Grocery Products Sector
(in millions of dollars)



EBITDA
Grocery Products Sector
(in millions of dollars)



Liquidity

Cash generated before changes in non-cash working capital items totalled $301.3 million for fiscal 2004, up 20% compared to $250.1 million in fiscal 2003. This increase is mainly attributable to the increase in net earnings for the year.

During fiscal 2004, non-cash operating working capital items used $13.7 million of the cash flows, compared to $26.6 million in 2003. This decline is primarily attributable to certain factors, including the appreciation of the Canadian dollar and the increase in the average selling price per pound of cheese in the US Dairy Products Sector in 2004.

In **investing activities,** the Company contributed $100.0 million to business acquisitions. Our last acquisition in Argentina, Molfino Hermanos S.A., was a $59.9 million investment. Last May, in the United States, we completed the acquisition of a 51% interest in Gallo Protein 2003, LLC, a company that manufactures and markets certain by-products, and we also completed the acquisition of the blue cheese business associated with the *Treasure Cave* and *Nauvoo* brands, all for $40.1 million.

The Company also added $90.4 million in fixed assets, of which nearly 74% went into the replacement of fixed assets. The remaining funds were used to implement new packaging lines and new technologies, as well as to expand and increase certain manufacturing capacities. We also disposed of unused fixed assets for an amount of $5.9 million following certain rationalizations. The largest amount was related to the sale of our manufacturing operation on Annacis Island, British Columbia.

The portfolio investment was reduced by $2.0 million following the receipt of dividends in excess of the Company's share in accumulated earnings.

As for **financing activities,** we repaid $110.1 million of long-term debt. Although the Company had strong cash-flow performance from operations during fiscal 2004, we used $63.9 million in bank loans to cover partially our investing activities.

We paid out $47.7 million in dividends during the last fiscal year.

Financial Resources

The Company's working capital stood at $297.2 million at March 31, 2004, compared to $269.3 million at the end of the previous fiscal year. Over the course of fiscal 2004, our interest-bearing debt-to-equity ratio improved, and is at 0.39 as at March 31, 2004 compared to 0.53 as at March 31, 2003.

The Company is in excellent financial condition. We do not foresee any additional working capital requirements and, over the next fiscal year, we intend to repay, at a minimum, the current portion of the long-term debt of $44.0 million, all in accordance with our contractual commitments. We also intend to repay amounts of bank loans, for a total of $82.4 million.

For fiscal 2005, we foresee making approximately $80 million in additions to fixed assets, with $53 million earmarked for new technologies and for added manufacturing capacity. The remainder will be devoted to replacing certain fixed assets. Of these capital investments, nearly $13 million relates to our activities in Argentina, newly acquired last November. In addition, we expect a fixed-asset depreciation expense in the amount of nearly $68 million. Saputo will finance additions made to fixed assets in fiscal 2005 from cash flows resulting from operations. As at March 31, 2004, the Company had no important commitments related to fixed-asset acquisitions.

The Company currently has at its disposal bank credit facilities of $241 million, $82.4 million of which are drawn. We can ensure growth primarily through significant cash flows generated by the Company and a currently undrawn bank credit facility of approximately $159 million. Should the need arise, the Company can make additional financing arrangements to pursue growth through acquisitions.

Balance Sheet

Compared to March 31, 2003, the main balance sheet items have varied as a result of certain factors such as the appreciation of the Canadian dollar, various business acquisitions made over the course of fiscal 2004, as well as the change in the selling price per pound of cheese in the US. The conversion rate of our US operation's balance sheet items in US currency was CND$1.3113 per US dollar as at March 31, 2004, compared to CND$1.4678 per US dollar as at March 31, 2003, effectively reducing the value of the affected balance sheet items. The conversion rate of our Argentinian operation's balance sheet items in Argentine pesos was CND$0.4570 per ARS as at March 31, 2004, compared to CND$0.4361 per ARS as at November 28, 2003, that is, at the time of acquisition. This increased the value of the affected balance sheet items. The various acquisitions made have otherwise added value to the receivables, inventories, fixed assets, goodwill, trademarks and accounts payable. The higher selling price per pound of cheese as at March 31, 2004 compared to March 31, 2003 accordingly increased the value of our receivables, inventories and accounts payable. From an operations perspective, as at March 31, 2004, our inventory levels were approximately $16 million higher than levels for the previous fiscal year. We also reduced the value of our portfolio investment by $2.0 million by applying dividends received in excess of the Company's share in accumulated earnings. The change in foreign currency translation adjustment listed under shareholders' equity is determined on the basis of the change in foreign exchange rates. The Company's total assets stood at $2.070 billion as at March 31, 2004, compared to $1.971 billion as at March 31, 2003.

Share Capital Information

Share capital authorized by the Company is comprised of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares can be issued in one or more series, and the terms and privileges of each class must be determined at the time of their creation.

	Authorized	Issued as at March 31, 2004	Issued as at June 1, 2004
Common shares	Unlimited	103,777,730	103,970,432
Preferred shares	Unlimited	None	None
Stock options issued and outstanding		4,745,580	5,494,605

Off-Balance Sheet Arrangements

For all of its operations, the Company has certain off-balance sheet arrangements, consisting primarily of leasing certain premises as well as certain lease agreements for equipment and rolling stock. These agreements are recorded as operating leases. Future minimum leases as at March 31, 2004 totalled $46.1 million.

The Company does not use derivative financial instruments for speculation. Saputo uses certain derivative instruments in specific situations. In the normal course of business, our Canadian operation imports certain products and our management of foreign exchange risk occasionally leads us to conclude certain foreign currency purchases in euros, of which the total amount as at March 31, 2004 was 500,000 euros.

Furthermore, in order to properly manage risks related to interest rate fluctuations, the Company uses interest rate swaps. As at March 31, 2004, the Company was party to an interest rate swap at a rate of 5.08%, covering an amount of $34.7 million of long-term debt. As at March 31, 2004, an amount of $556,000 would be required to settle this contract.

The Company periodically enters into forward contracts to protect itself against price fluctuations on certain commodities when it has secured a commitment to sell a finished product. As at March 31, 2004, the market value of these contracts is $2.6 million.

The Company's exposure to the financial instruments used is not affected by changing economic conditions, since these instruments are generally held until maturity.

Notes 15 and 16 to the consolidated financial statements describe the Company's off-balance sheet arrangements.

Guarantees

From time to time, the Company enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or disposals, agreements which by nature may provide for indemnification to third parties. These indemnification provisions may be in connection with breach of representations and guarantees and for future claims for certain liabilities, including liabilities related to tax and environmental issues. The terms of these indemnification provisions vary in duration.

Note 15 to the consolidated financial statements discusses the Company's guarantees.

Contractual Obligations

The Company's contractual obligations consist of commitments to repay its long-term debt as well as certain leases of premises, equipment and rolling stock.

Note 7 describes the Company's commitment to repay long-term debt, and Note 15 describes its lease commitments.

(in thousands of dollars)	Long-term debt	Minimum lease	TOTAL
2005	43,969	16,585	60,554
2006	50	8,941	8,991
2007	39,389	7,471	46,860
2008	17	5,093	5,110
2009	–	4,392	4,392
Subsequent years	288,486	3,600	292,086
Total	371,911	46,082	417,993

Related Party Transactions

In the normal course of business, the Company receives and provides goods and services from and to companies subject to significant influence by its principal shareholder. These goods and services of an immaterial amount are compensated by a counterpart equal to the fair market value.

Accounting Standards

Applied Standards

Stock Based Compensation and Other Stock Based Payments

In compliance with the recommendation of the Canadian Institute of Chartered Accountants (CICA) to use the fair value based method, the Company, effective April 1, 2002, has prospectively recorded stock based compensation in its results.

Impairment of Long-Lived Assets

Section 3063 of the CICA Handbook, *Impairment of Long-Lived Assets,* establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets by profit-oriented enterprises.

An impairment is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition.

The Company has already adopted these new standards on a prospective basis since fiscal 2003.

Disclosure of Guarantees

The CICA Accounting Guideline AcG-14, *Disclosure of Guarantees,* requires entities to disclose information on given guarantees, regardless of the likelihood of the Company having to make payments under these guarantees.

This Guideline applies to interim and annual periods beginning on or after January 1, 2003. The Company has already applied this Guideline since fiscal 2003.

Disposal of Long-Lived Assets and Discontinued Operations

Section 3475 of the CICA Handbook, *Disposal of Long-Lived Assets and Discontinued Operations,* established standards for the recognition, measurement, presentation and disclosure of long-lived assets. It also establishes standards for the presentation and disclosure of discontinued operations, whether or not they include long-lived assets.

The requirements apply to disposal activities initiated, following the Company's commitment to pursue a plan, effective May 1, 2003. The Company prospectively adopted these new recommendations effective in fiscal 2004.

Future Standards

Asset Retirement Obligations

Section 3110 of the CICA Handbook, *Asset Retirement Obligations,* requires the recognition of liabilities for legal obligations, whether they are of a legal, prescribed, contractual or other nature, and normally when these obligations arise. The liability's fair value is initially measured and the related costs are capitalized in the carrying amount of the fixed asset in question. The asset retirement cost is amortized in the income statement using a systematic and rational method. This recommendation should not have a significant impact on the Company's future results. Section 3110 applies to fiscal years beginning on or after January 1, 2004.

Hedging Relationships

The CICA Accounting Guideline AcG-13, *Hedging Relationships,* specifies the circumstances in which hedge accounting is appropriate, and it examines in particular the identification, documentation, designation and effectiveness of hedge accounting, as well as the discontinuance of hedge accounting.

The Guideline applies to hedging relationships in effect in fiscal years beginning on or after July 1, 2003. Earlier application is encouraged.

The Company estimates that the application of this new standard will not have a significant effect on its financial statements.

Critical Accounting Policies and Use of Accounting Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates. These estimates are established on the basis of previous years and management's best judgment. Management continually reviews these estimates. Actual results may differ from those estimates. The following section establishes the main estimates used in preparing the consolidated financial statements of Saputo Inc.

Fixed Assets

In order to allocate the cost of fixed assets over their useful lives, estimates of the duration of their useful lives must be carried out. The cost of each fixed asset will then be attributed over the duration of its useful life and amortized year after year on this basis.

Portfolio Investment

The portfolio investment is recorded at cost. The Company carries out an annual valuation to ensure that the fair value of the investment is not lower than the carrying amount. To calculate an estimated fair value, the Company uses the company's EBITDA by applying to it a multiple based on comparable industry standards. If the portfolio investment undergoes a decline in value that is permanent, its carrying amount would be written down to account for this decline in value.

Goodwill

The new standards require that goodwill no longer be amortized, and that an impairment test be performed annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. To determine any decline in value, each of the respective accounting units are required to undergo an assessment. The Company's assessments are based on multiples for Saputo and for the industry. These multiples are applied to EBITDA and net assets. The Company applies this method consistently.

Stock Based Compensation

The Company uses the fair value based method to expense stock based compensation. With this method, the Company records a compensation cost over the vesting period of the options granted. The expected useful life of options used for calculating the fair value of options is based on management's experience and judgment. The expected useful life has not changed since last fiscal year.

Pension Plans

The Company offers and participates in defined contribution pension plans of which close to 82% of its active employees are members. The net pension expenditure under these types of plans is generally equal to the contributions made by the employer. The Company also participates in defined benefit pension plans of which the remaining active employees are members. The cost of these pension benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using management's assumptions bearing on, among other things, the discount rate, expected return on plan assets, rates of compensation increase and the retirement age of employees. All of these estimates and assessments are formulated with the help of external consultants.

The discount rate is determined on the basis of the effective rates of return on high-quality long-term corporate bonds, as required by the adjusted standard, to account for the duration of plan liability. The rate was downwardly adjusted last year from 6.75% to 6.25%, effective December 31, 2003.

We established the expected average return on invested assets at 7.9% given the type and combination of these assets. This assumption is deemed reasonable and is supported by our external consultants.

The compensation growth rate was set at 3.5% over the long term, accounting for estimated future inflation rates.

The Company also offers a post-retirement medical benefit program. For the purposes of assessing costs related to this program, the hypothetical annual growth rate of medical costs was set at between 5.5% and 7% for fiscal 2005 and, based on the assumptions used, these rates should gradually decline to reach 5.3% in 2007 and subsequent years.

Any change in these assumptions or any plan experience that differs from the expected entails actuarial gains or losses with respect to expected results. If these gains or losses exceed 10% of the maximum of the asset or liability of the plans, they are amortized over the expected average remaining service life of the group of employees participating in the plans, in compliance with CICA recommendations.

The table below presents a sensitivity analysis of the key economic assumptions used to measure the impact on defined-benefit pension obligations, on other employee future benefit obligations 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. The sensitivity analysis should be read in conjunction with Note 14 of the Consolidated Financial Statements. The sensitivity of each key variable has been calculated independently of the others.

Pension plan assets are held by several independent trusts, and the average composition of the overall portfolio as at December 31, 2003 was 2% in cash and short-term investments, 44% in bonds and 54% in shares of Canadian, US and foreign companies. In the long term, we do not expect any major change to this asset allocation.

For defined-benefit plans, actuarial valuations were performed in December 2002 and 2003, covering all obligations with respect to this type of plan. In light of these valuations, a solvency deficiency of $20 million was posted on December 31, 2003. This deficiency is primarily due to an increase in plan liabilities resulting from a sharp decline in the discount rate prescribed by provincial legislation on pension plans, and from insufficient asset returns at the time of the evaluation. In accordance with this provincial legislation, an additional contribution is required for the next five years to pay off this deficiency. An additional payment of $4.6 million was made in fiscal 2004. The additional payment required for fiscal 2005 will be $5.9 million, that is, $1.3 million more than the previous year.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery or settlement period for temporary differences. The projection of future taxable income is based on management's best estimates and may vary from actual taxable income. On an annual basis, the Company assesses its need to establish a valuation allowance for its deferred income tax assets. Canadian, US and international tax rules and regulations are subject to interpretation and require judgment on the part of the Company that may be challenged by the taxation authorities. The Company believes that it has adequately provided for future tax obligations that may result from current facts and circumstances. Temporary differences and income tax rates could change due to fiscal budget changes and/or changes in income tax laws.

Sensitivity Analysis
Pension Plans and Other Employee Future Benefits

(in thousands of dollars)	Pension plans: Accrued benefit obligations	Pension plans: Net expense	Other employee future benefits: Accrued benefit obligations	Other employee future benefits: Net expense
Anticipated rate of return on assets				
Effect of an increase of 1%	N/A	(1,712)	N/A	N/A
Effect of a decrease of 1%	N/A	1,712	N/A	N/A
Discount rate				
Effect of an increase of 1%	(16,063)	(926)	(2,036)	(822)
Effect of a decrease of 1%	17,838	1,305	2,498	424
Assumed growth rate of overall healthcare costs				
Effect of an increase of 1%	N/A	N/A	2,080	279
Effect of a decrease of 1%	N/A	N/A	(1,749)	(231)

Risks and Uncertainties

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 problems 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.

Supply of Raw Materials

Saputo purchases raw materials that may represent up to 85% of the cost of products. It processes raw materials into 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 Argentina and by-products on 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. Price fluctuations may affect the Company's results. The effect of such fluctuations on our results will depend on our ability to implement mechanisms to reduce them.

Competition

The food processing industry in North America is extremely 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, and this is also true of our activities in Argentina. Our performance will be dependent on our ability to continue to offer quality products at competitive prices, and this applies to all the countries in which we operate.

Consolidation of Clientele

During the last few years, we have seen important consolidation in the food industry in all market segments. Given that we serve these segments, the consolidation within the industry resulted in a decrease in the number of clients and an increase in the relative importance of some clients. Our ability to continue to service our clients in all the markets that we serve will depend on the quality of our products, services and the prices of our products.

Environment

Saputo's business and operations are subject to environmental laws and regulations. We believe that our operations are in compliance, in all material aspects, with such environmental laws and regulations, except as disclosed in our Annual Information Form dated June 8, 2004 for the year ended March 31, 2004. 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.

Consumer Trends

Demand for our products is subject to changes in consumer trends. These changes may affect the Company's earnings. In order to constantly adapt to these changes, the Company innovates and develops new products.

Financial Risk Exposures

Saputo has financial risk exposure to varying degrees relating to interest rates or to exchange rates related to United States and the Argentine currencies. While we use interest rate swaps to manage our interest rate exposure, we do not fully hedge against all these financial risk exposures, and there can be no assurance that such exposures will not affect our profitability. Approximately 35% of our sales are realized in the United States; therefore, we are exposed to currency exchange fluctuations. 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 utilized swaps for 78.6% of its long-term debt in Canadian currency. The debt in US currency is at a fixed rate throughout its term. Overall, 97% of the total long-term debt is protected from interest rate fluctuations.

Regulatory Considerations

The production and distribution of food products are subject to federal, state, provincial and local laws, rules, regulations and policies and to international trade agreements, all of which provide a framework for Saputo's operations. The impact of new laws and regulations, stricter enforcement or interpretations or changes to enacted laws and regulations will depend on our ability to adapt and comply. We are currently in compliance with all important government laws and regulations and maintain all important permits and licenses in connection with our operations.

Tariff Protection

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 amendments to 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 will be dependent on our ability to continue to offer quality products at competitive prices.

Sensitivity Analysis of Interest Rate and US Currency Fluctuations

The portion of the long-term debt covered by fixed interest rates equals 97%. The used portion of the bank credit facility is subject to interest rate fluctuations, and was not being protected as of March 31, 2004. A 1% change in the interest rate would lead to a change in net earnings of approximately $0.588 million, based on the $82.4 million in bank loans as of March 31, 2004.

Canadian-US currency fluctuations may also affect earnings. Appreciation of the Canadian dollar compared to the US dollar would have a negative impact on earnings. Conversely, a decrease in the Canadian dollar would have a positive impact on earnings. During the year ended March 31, 2004, the average US dollar conversion was based on CND$0.74 for US$1.00. A fluctuation of CND$0.01 would have resulted in a change of approximately $0.940 million in net earnings, $2.5 million in EBITDA and $19.36 million in revenues.

Measurement of Results Not in Accordance with Generally Accepted Accounting Principles

Earnings before interest, income taxes, depreciation and amortization (EBITDA) is not a measurement of performance as defined by Canadian generally accepted accounting principles, and consequently may not be comparable to similar measurements presented by other companies.

The Company assesses its financial performance based on its EBITDA.

	2004				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada and Other	United States	TOTAL	Products	TOTAL
Operating income	$180,001	$129,337	$309,338	$27,881	$337,219
Depreciation of fixed assets	29,854	31,550	61,404	4,634	66,038
EBITDA	$209,855	$160,887	$370,742	$32,515	$403,257

	2003				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada and Other	United States	TOTAL	Products	TOTAL
Operating income	$169,864	$84,365	$254,229	$27,677	$281,906
Depreciation of fixed assets	29,697	35,704	65,401	5,488	70,889
EBITDA	$199,561	$120,069	$319,630	$33,165	$352,795

2004 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 2004 (audited)
Statements of earnings data					
Revenues	$ 816,783	$ 915,540	$ 892,010	$ 945,857	$3,570,190
Cost of sales, selling and administrative expenses	726,118	804,658	796,949	839,208	3,166,933
Earnings before interest, income taxes, depreciation and amortization	90,665	110,882	95,061	106,649	403,257
Margin %	*11.1%*	*12.1%*	*10.7%*	*11.3%*	*11.3%*
Depreciation of fixed assets	16,542	16,436	16,252	16,808	66,038
Operating income	74,123	94,446	78,809	89,841	337,219
Interest on long-term debt	9,598	8,971	8,223	8,000	34,792
Other interest	15	416	272	515	1,218
Earnings before income taxes	64,510	85,059	70,314	81,326	301,209
Income taxes	18,450	26,858	20,276	23,260	88,844
Net earnings	$ 46,060	$ 58,201	$ 50,038	$ 58,066	$ 212,365
Net margin %	*5.6%*	*6.4%*	*5.6%*	*6.1%*	*5.9%*
Per share					
Net earnings					
Basic	$ 0.45	$ 0.56	$ 0.48	$ 0.56	$ 2.05
Diluted	$ 0.44	$ 0.56	$ 0.47	$ 0.56	$ 2.03

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

Summary of the Fourth Quarter Results Ended March 31, 2004

Revenues totalled $945.9 million, an increase of $138.8 million compared to the same period for fiscal 2003. The US Dairy Products Sector accounts for $48.0 million of the increase in revenues. The average selling price per pound of cheese on the US market was up by 27% compared to the same quarter for fiscal 2003, representing an increase of $49.0 million in revenues. US sales volumes for the fourth quarter were up by 15.2% compared to fiscal 2003, representing an increase of $45 million in revenues. Appreciation of the Canadian dollar this last quarter compared to the corresponding period in fiscal 2003, and represents roughly $46 million less revenues. The Canadian and Other Dairy Products Sector drove their revenues up $90.0 million compared to the same period last year. Of this amount, approximately $34 million in revenues comes from our latest acquisition in Argentina, which contributed to revenues during this fourth quarter.

Earnings before interest, income taxes, depreciation and amortization for the fourth quarter increased $18.0 million, closing at $106.6 million compared to $88.6 million in 2003. The increase stems essentially from the US Dairy Products Sector because of significantly higher volumes and the fact that the average selling price per pound of cheese was higher than in fiscal 2003. The Canadian and Other Dairy Products Sector and Grocery Products Sector demonstrated a relatively stable EBITDA compared to the same period one year earlier. However, the Canadian and Other Dairy Products Sector incurred rationalization expenses of $2.7 million related to plant closures.

Compared to the same period last year, depreciation of fixed assets remained relatively stable, and interest on long-term debt decreased by approximately $2 million with respect to repayments on long-term debt made throughout fiscal 2004. The effective tax rate was 28.6% compared to 21.1% for the previous year. A $4.1 million tax benefit was achieved through a transfer pricing agreement reached in the fourth quarter of fiscal 2003 and applicable to Canadian-US intercompany transactions. During the quarter ended March 31, 2004, the Company repaid $31.8 million in bank loans and long-term debt and added $21.5 million in fixed assets. For the same period, the Company paid out $12.4 million in dividends to its shareholders, and cash flows generated by operations amounted to $75.1 million, up 9.3% over the same period last year. Net earnings stood at $58.1 million, up 21.5% from the $47.8 million recorded for the same period one year earlier.

Quarterly Financial Information

During fiscal 2004, some specific circumstances affected the quarterly changes in revenues and earnings before interest, income taxes, depreciation and amortization compared to fiscal 2003.

First, the selling price per pound of cheese on the US market was higher during all quarters, except for the first quarter of 2004. The Canadian dollar was higher during all quarters of 2004 compared to the same periods in fiscal 2003. Sales volumes on the US market were higher during all quarters of 2004, except for the first quarter, compared to 2003. Our Canadian operations continued to grow gradually from quarter to quarter in 2004. Finally, last November's acquisition in Argentina contributed to revenues of the third and fourth quarters of 2004. Quarterly earnings directly reflect the effects of the previously mentioned items.

Analysis of Earnings for the Year Ended March 31, 2003 Compared to March 31, 2002

The Company's **consolidated revenues** for the 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 the previous 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 fiscal 2002, when it was active in the cookie, fine bread and soup categories for 15 weeks. These operations were transferred to Dare Foods in July 2001. Overall, on a comparable basis, revenues would have been 3.5% higher in fiscal 2003 as compared to the preceding year, reflecting increases in all the divisions of the Company.

During fiscal 2003, **earnings before interest, income taxes, depreciation and amortization (EBITDA)** amounted to $352.8 million, almost the same as 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 fell almost 34% compared to fiscal 2002, while the market for lactose was down nearly 19% in fiscal 2003. These market conditions created a shortfall of approximately $6.5 million in EBITDA. The Canadian Dairy Products Sector showed a 9.6% increase in its EBITDA. In the US Dairy Products Sector, the EBITDA decreased by $13.5 million, despite an increase of approximately 9.5% in sales volumes compared to the previous year. The average selling price per pound of cheese on the US market was 21% lower in fiscal 2003 compared to fiscal 2002. The snack cake category of the Grocery Sector generated a relatively stable EBITDA.

Depreciation expense totalled $70.9 million during the year ended March 31, 2003, compared to $68.1 million for the previous year. This increase primarily reflects the additional depreciation required on new fixed-asset acquisitions made during the year.

Interest expenses fell $10.3 million to $42.3 million for the year ended March 31, 2003, compared to an interest expense of $52.6 million for fiscal 2002. This decrease is mainly due to repayments of $133.9 million on long-term debt and bank loans, combined with the lower interest rates on the Company's Canadian debt throughout fiscal 2003.

Income taxes totalled $65.9 million, for an effective tax rate of 27.5% for the year ended March 31, 2003. For the same period in the previous 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 is due to the fact that a greater portion of the Company's taxable net earnings were generated in Canada and were subject to tax rates lower than in the United States.

Net earnings for the year ended March 31, 2003 totalled $173.7 million ($1.68 per share), up 8.4% over the $160.2 million ($1.56 per share) posted for the previous year. These net earnings take into account an amount of $1.3 million to reflect the Company's recording of stock based compensation.

Cash flows generated by operations totalled $223.5 million for the year ended March 31, 2003, a 12.0% increase over the previous year. This is consistent with the increase in net earnings during 2003 as compared to the previous year.

Outlook

Once again, 2004 posts excellent financial results, while at the same time showing an improved financial foundation. During the year, we made three acquisitions and our Dairy Products Sector generated substantial growth in sales volumes. This fiscal year also enabled the Company to take position with respect to the future of the Bakery Division and, for the very first time, to penetrate markets beyond North America as a manufacturer, bringing us a step closer to our goal of becoming a world class dairy processor.

Since becoming a public company in October 1997, we have made several acquisitions—some large-scale acquisitions, which have made a great impact, and other smaller-scale acquisitions, which are just as important for our development. Moreover, we believe in organic growth through building sales volumes, obtaining new clients and developing new market niches. We believe in increasing net earnings by constantly improving the way we do things—essentially, to continue to outdo ourselves.

Consequently, for the last seven years, we have demonstrated our ability to grow organically and through acquisitions. Each of these years posts a return on average equity of more than 18%, except for fiscal 2001 which experienced a 16% return, for an average of 18.5% over the last seven years.

Our outlook is very positive for fiscal 2005. However, there are circumstances over which we have no control, such as changes in foreign currencies that could have an impact when we translate earnings of our foreign self-sustaining operations into Canadian dollars. Changes in the average selling price per pound of cheese in the US could also have an impact, as was the case during fiscal 2004. These circumstances could have positive or negative effects on earnings.

The effects of these changes aside, fiscal 2005 leaves room for projecting positive sales growth in terms of dollars and volume. We also anticipate growth in EBITDA, net earnings and cash flows. This growth takes each division's objectives into account, but does not take into consideration the impact that future acquisitions could have on earnings.

Saputo will continue to judiciously invest in fixed assets and proceed rigorously to limit its additions to the annual depreciation amount. However, this amount may be exceeded during specific projects, among other things, following an acquisition.

We have a sound balance sheet, with $2.07 billion in assets and a debt bearing interest ratio at 0.39 of shareholders' equity. We have great financial flexibility. Current contractual commitments on bank loans and the senior notes would enable us, if new debts were contracted, to add almost $1 billion in additional debt for acquisitions.

We have all the assets from a financial perspective to enable us to become a world class dairy processor. To achieve this goal, we will continue to reinvest in our development. Our proactive approach with respect to acquisitions should be beneficial to attaining our objectives.