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, which are prepared in accordance with Canadian Generally Accepted Accounting Principles. In addition to containing an analysis of the year ended March 31, 2005, this report addresses any material element to be considered between March 31, 2005 and June 6, 2005, 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, 2005, 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

Fiscal 2005 marked Saputo's first full year of operations as a major player in both the North and South American dairy industry. Saputo's operations are carried out in 46 plants and numerous distribution centres across Canada, United States, and Argentina. Saputo is proud to employ approximately 8,500 employees whose efforts and dedication have enabled the Company to excel.

Saputo is active in two sectors: dairy products, which accounts for 95.9% of consolidated revenues, and grocery products, with 4.1% of consolidated revenues. Saputo manufactures almost all of the products it commercializes.

Our Dairy Products Sector consists of the following: Canadian and Other Dairy Products Sector and US Dairy Products Sector. The Canadian and Other Dairy Products Sector consists of our Dairy Products Division (Canada) and our Dairy Products Division (Argentina). The US Dairy Products Sector consists of our 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 accounts for 51% of total revenues within the Dairy Products Sector. Sales are made to supermarket chains, independent retailers, warehouse clubs and specialty cheese boutiques under our own brand names as well as under private labels. Products manufactured and sold in this segment include dairy products as well as non-dairy products such as non-dairy creamers, juices and drinks.

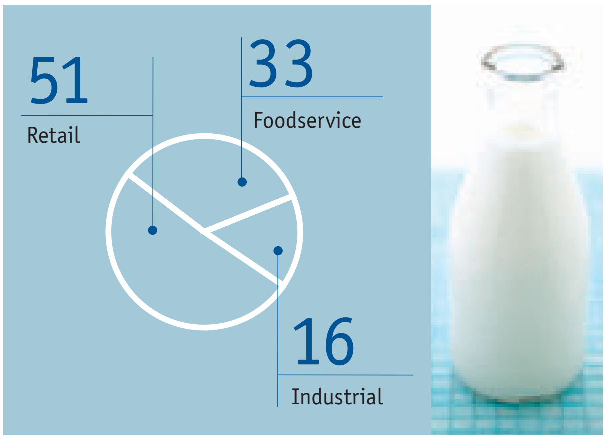
The **foodservice** segment accounts for 33% of total revenues within the Dairy Products Sector. Sales are made to distributors of both specialty cheeses and complete product lines as well as to restaurants and hotels under our own brand names and under various private labels. Through our Canadian distribution network, we also offer non-dairy products manufactured by third parties. We also produce dairy blends for fast-food chains.

The **industrial** segment accounts for 16% of total revenues within the Dairy Products Sector. Sales are made to food processors that use our products as ingredients to manufacture their products. In Canada, we supply cheese to frozen pizza manufacturers while in the United States, we supply cheese to numerous large food manufacturers.

Our Canadian and US cheese manufacturing facilities also produce by-products such as lactose, whey powder and whey protein. Through our Canadian industrial segment, we sell cheese, lactose, whey powder, ice cream mixes and whey protein to numerous international clients. Our Argentina facilities also supply many international clients primarily with milk powder and cheese.

Our Grocery Products Sector consists of our Bakery Division which manufactures and markets snack cakes, tarts and cereal bars. Our products are sold almost exclusively in the Canadian retail segment, through supermarket chains, independent retailers, and warehouse clubs. On a smaller scale, the Bakery Division is also present in the northeastern United States. Saputo is the largest snack cake manufacturer in Canada and a leader in Québec's cereal bar market.

Revenues (%) per market segment
Dairy Products Sector



Financial Orientation

Over the years, Saputo has been synonymous with financial stability and performance growth. This is due to the strong foundations instilled in every facility in Canada, United States, and more recently, Argentina. Our sound business model has enabled the Company to grow both organically and through acquisitions, while maintaining profit margins.

Our goal of creating value for our employees and shareholders remains our most important objective. Our discipline and thorough approach has enabled us to achieve this goal. This approach is present in all facets of our business. From manufacturing to sales activities, Saputo employees' belief in this approach is the cornerstone to the Company's success.

The Company continually monitors and questions financial results in order to ensure that optimal results are achieved. The strong financial stability of the Company is a result of such actions. In fiscal 2005, Saputo fully repaid the long-term debt relating to the Dairyworld acquisition (February 2001). Our balance sheet is stronger than ever.

Our goal of becoming a world-class dairy processor remains intact. Whether it be via organic growth or future acquisitions, Saputo will continue to apply the same principles and methodologies that have proven to be successful.

Elements to Consider when Reading Management's Analysis for Fiscal 2005

During fiscal 2005, we experienced solid financial performance:

- Net earnings totalled $232.1 million, up 9.3%
- Earnings before interest, income taxes, depreciation and amortization (EBITDA)[1] totalled $407.8 million, up 1.1%
- Revenues reached $3.883 billion, up 8.8%
- Cash flows generated by operations of $276.5 million, slightly lower compared to last fiscal year

The improved performance in fiscal 2005 is the result of increased volumes and savings achieved from rationalization activities undertaken in prior fiscal years in our Dairy Products Division (Canada), as well as the inclusion of a full year of results from our operations in Argentina compared to only 18 weeks in the previous fiscal year.

The continued rise of the Canadian dollar affected fiscal 2005 results. During fiscal 2005, the appreciation of the Canadian dollar eroded approximately $3 million in net earnings, $8 million in EBITDA, and $70 million in revenues.

In the United States, we were affected by a less favourable relationship between the average block market[2] per pound of cheese and the cost of milk as raw material. The higher average block market per pound of cheese in the United States had a positive effect of approximately $148 million on revenues. The overall average block market per pound of cheese of US$1.67 this fiscal year was higher compared to US$1.39 last fiscal year. This benefited the EBITDA this fiscal year by providing a better basis of absorption for our fixed costs, while a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material was observed this fiscal year compared to last fiscal year. With regards to inventories, we started the fiscal year with a block market per pound of cheese at US$2.09 and ended the year at US$1.62, causing an unfavourable impact on the realization of inventories. These combined factors had a negative impact of $29.7 million on EBITDA.

The Company also benefited from a one-time tax reduction to adjust future tax balances, due to a reduction in US tax rates, thus increasing net earnings by $3.5 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.

[2] "Average block market" is the average daily price of a 40 pound block of Cheddar cheese traded on the Chicago Mercantile Exchange (CME), used as the base price for the cheese.

Selected Consolidated Financial Information

Years ended March 31 (in thousands of dollars, except per share amounts and ratios)		2005	2004	2003
Statement of earnings data				
Revenues	Dairy Products Sector			
	Canada and Other	$ 2,415,541	$ 2,161,852	$ 2,017,383
	United States	1,308,735	1,240,954	1,212,810
		3,724,276	3,402,806	3,230,193
	Grocery Products Sector	158,793	167,384	167,919
		$ 3,883,069	$ 3,570,190	$ 3,398,112
Cost of sales, selling and administrative expenses				
	Dairy Products Sector			
	Canada and Other	$ 2,171,380	$ 1,951,997	$ 1,817,822
	United States	1,171,692	1,080,067	1,092,741
		3,343,072	3,032,064	2,910,563
	Grocery Products Sector	132,238	134,869	134,754
		$ 3,475,310	$ 3,166,933	$ 3,045,317
EBITDA	Dairy Products Sector			
	Canada and Other	$ 244,161	$ 209,855	$ 199,561
	United States	137,043	160,887	120,069
		381,204	370,742	319,630
	Grocery Products Sector	26,555	32,515	33,165
		$ 407,759	$ 403,257	$ 352,795
	EBITDA margin (%)	*10.5%*	*11.3%*	*10.4%*
Depreciation of fixed assets				
	Dairy Products Sector			
	Canada and Other	29,743	29,854	29,697
	United States	31,175	31,550	35,704
		60,918	61,404	65,401
	Grocery Products Sector	5,147	4,634	5,488
		66,065	66,038	70,889
Operating income				
	Dairy Products Sector			
	Canada and Other	214,418	180,001	169,864
	United States	105,868	129,337	84,365
		320,286	309,338	254,229
	Grocery Products Sector	21,408	27,881	27,677
		341,694	337,219	281,906
Interest on long-term debt		28,026	34,792	43,672
Other interest, net of interest income		1,064	1,218	(1,351)
Earnings before income taxes		312,604	301,209	239,585
Income taxes		80,459	88,844	65,857
Net earnings		$ 232,145	$ 212,365	$ 173,728
Net earnings margin (%)		*6.0%*	*5.9%*	*5.1%*
Net earnings per share		$ 2.23	$ 2.05	$ 1.68
Diluted net earnings per share		$ 2.20	$ 2.03	$ 1.66
Dividends declared per share		$ 0.60	$ 0.48	$ 0.40
Balance sheet data				
Total assets		$ 2,133,072	$ 2,069,548	$ 1,970,686
Long-term debt (including current portion)		$ 302,521	$ 371,911	$ 521,135
Shareholders' equity		$ 1,315,850	$ 1,156,829	$ 1,016,504
Statement of cash flows data				
Cash flows generated by operations		$ 276,485	$ 287,572	$ 223,532
Amount of additions to fixed assets, net of proceeds on disposal		$ 76,345	$ 84,520	$ 66,531

Saputo's **consolidated revenues** totalled $3.883 billion, an increase of $313.0 million or 8.8% compared to $3.570 billion posted in fiscal 2004. The increase is attributed to our Dairy Products Division (Canada), as a result of increased sales volumes and higher selling prices, along with the inclusion of a full year of activity from our Dairy Products Division (Argentina) compared to only 18 weeks in fiscal 2004. These two factors contributed approximately $254 million of additional revenues in fiscal 2005. Our US Dairy Products Sector benefited from a US$0.28 higher average block market per pound of cheese, increasing revenues by approximately $148 million compared to last fiscal year. However, the appreciation of the Canadian dollar eroded about $70 million in revenues. Furthermore, a 3% decrease in sales volumes in our US Dairy Products Sector negatively affected revenues. The Grocery Products Sector revenues were approximately $9 million or 5.1% lower compared to fiscal 2004.

Earnings before interest, income taxes, depreciation and amortization amounted to $407.8 million, an increase of $4.5 million compared to $403.3 million in fiscal 2004. The increase is attributed to our Canadian and Other Dairy Products Sector. Increased sales volumes and the benefit of the rationalization activities undertaken in fiscal 2004 from our Dairy Products Division (Canada) combined with the benefit from a full year of results from our Dairy Products Division (Argentina) contributed approximately $34 million in additional EBITDA. Our US Dairy Products Sector EBITDA decreased by approximately $24 million in fiscal 2005. The overall average block market per pound of cheese of US$1.67 this fiscal year was higher compared to US$1.39 last fiscal year. This benefited the EBITDA this fiscal year by providing a better basis of absorption for our fixed costs, while a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material was observed this fiscal year compared to fiscal 2004. With regards to inventories, we started the fiscal year with a block market per pound of cheese at US$2.09 and ended the year at US$1.62, causing an unfavourable impact on the realization of inventories. These combined factors had a negative impact of $29.7 million on EBITDA. The appreciation of the Canadian dollar also eroded approximately $8 million of EBITDA in fiscal 2005. These factors offset an increase of approximately $12 million in our US Dairy Products Sector EBITDA generated by continued improvements in our manufacturing processes, price increases implemented on fixed price items and better product mix within the retail segment. The EBITDA for our Grocery Products Sector decreased by $5.9 million in fiscal 2005 caused by the reduced revenues, additional pension charges as well as increased ingredient and labour costs.

EBITDA margin decreased from 11.3% in fiscal 2004 to 10.5% in fiscal 2005, mainly as a result of reduced margins in our US Dairy Products Sector. The US Dairy Products Sector was affected negatively in terms of the relationship between the average block market per pound of cheese and the cost of milk as raw material, which decreased by US$0.063 per pound of cheese this fiscal year compared to fiscal 2004.

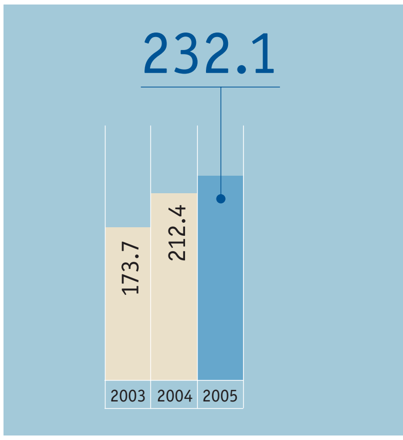
Depreciation expense totalled $66.1 million, stable compared to $66.0 million for the last fiscal year. The increase attributed to the inclusion of a full year depreciation from our Argentina operations was offset by a decrease in our Cheese Division (USA) depreciation caused by the appreciation of the Canadian dollar.

Net interest expense decreased to $29.1 million in fiscal 2005 from $36.0 million in fiscal 2004. The reduction is attributed to the decrease in interest on long-term debt following repayments made. The appreciation of the Canadian dollar also reduced the interest expense on our US dollar debt.

Income taxes totalled $80.5 million for an effective tax rate of 25.7%, compared to 29.5% in fiscal 2004. The following two factors explain the change in the effective tax rate. Firstly, a greater portion of our taxable earnings was generated in Canada, which is subject to lower tax rates than the United States. Secondly, the Company benefited from a one-time tax reduction to adjust future tax balances, due to a reduction in US tax rates, thus reducing income taxes by $3.5 million.

For the year ended March 31, 2005, **net earnings** amounted to $232.1 million, a 9.3% increase over $212.4 million in fiscal 2004. The appreciation of the Canadian dollar eroded net earnings by approximately $3 million, while the one-time tax adjustment added $3.5 million to net earnings. Excluding these two factors, net earnings would have risen by 9.0% compared to fiscal 2004.

Net earnings
(in millions of dollars)



Diluted net earnings per share
Dividends declared per share
(in dollars)

INFORMATION BY SECTOR

Canadian and Other Dairy Products Sector

The sector consists of our Dairy Products Division (Canada) and our Dairy Products Division (Argentina).

Revenues (Canadian and Other Dairy Products Sector)

Revenues of the Canadian and Other Dairy Products Sector amounted to $2.416 billion, an increase of $254 million or 11.7% over the $2.162 billion in revenues for the previous fiscal year. Of the $254 million increase in revenues in fiscal 2005, approximately 58% or $148 million stems from our Dairy Products Division (Canada), representing a 7% increase over last fiscal year. The remainder of approximately $106 million is attributed to our Dairy Products Division (Argentina), which contributed a full year to the revenues in fiscal 2005 compared to only 18 weeks in fiscal 2004.

Relating to the $148 million increase in revenues from our Dairy Products Division (Canada), approximately $49 million relate to higher selling prices as a result of the increase in the cost of milk as raw material. The rest is mainly related to volume growth in our cheese, yogurt, cream and juice categories compared to the previous fiscal year.

Saputo is the leader in cheese production in Canada, with about 38% of all the natural cheese manufactured in the country. On the fluid milk side, Saputo's production accounts for approximately 20% of the Canadian total, while in Argentina the Company ranks third among dairy processors.

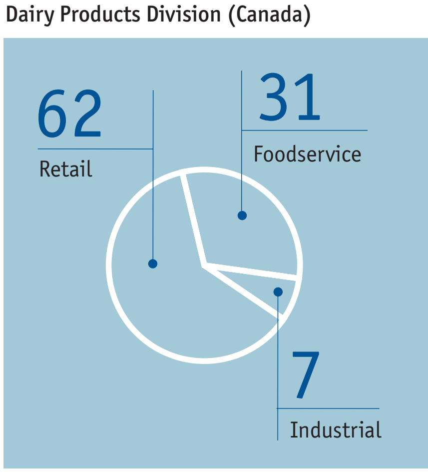
As for our **Canadian cheese activities,** our volumes showed a good increase for fiscal 2005, driven by sales of specialty cheeses that continued to grow. This fiscal year the specialty cheese sales volumes rose by almost 10%. We are paying special attention to this category by focusing on promotions and by continuing to support our brands. We believe that consumer interest for these specialty products will continue and we are dedicating our energies and resources in such a way as to capitalize on opportunities in the current market.

Our sales in the **retail** segment grew at the same pace as our overall volumes, notably in Québec with our specialty and string cheeses. The retail segment accounts for 48% of the revenues in our Canadian cheese activities, the same as the previous fiscal year.

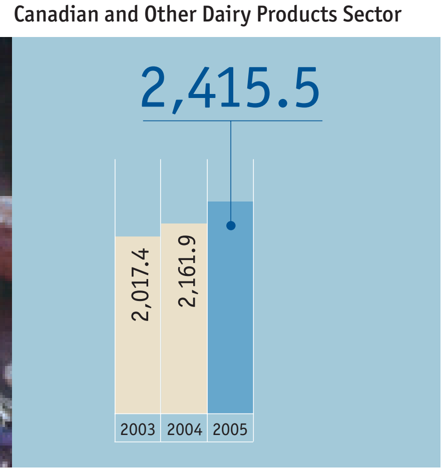
Our cheese marketing activities focused on building strong national brands, and driving sales of higher margin specialty cheeses. In Canada, our flagship cheese brands include *Saputo, Cheese Heads, Armstrong, Cayer* and *Caron*. All of these brands received significant advertising and promotional support in fiscal 2005. This included the use of television, print and radio advertising at both the regional and national levels. One of our most successful television campaigns aired in the first quarter in the Québec market, and reinforced *Saputo* as a leader of Italian cheeses. We also utilized a wide variety of promotional vehicles to support our cheese brands, including in-pack promotions, demos, coupons and promotions customized for specific grocery banners. We launched a number of new cheese products in fiscal 2005, focusing on Italian, Canadian and French specialty cheeses. Our specialty products continue to be recognized for outstanding quality. For example, *Cayer Bleubry* was the *Blue Cheese Category Champion* at the *2004 Canadian Cheese Grand Prix*. Moreover, eight of our cheeses finished first in their respective categories at the *British Empire Cheese Competition* held in Ontario in November 2004.

We maintained our predominance in the **foodservice** segment. Sales growth in the segment is the result of the addition of new clients during the course of the fiscal year and higher selling prices caused by the increase in the cost of milk as raw material. This segment accounts for 39% of the revenues in the Canadian cheese activities, same as the previous fiscal year. In fiscal 2005, we increased our specialty cheese market share in this segment. We are pursuing opportunities in specialty cheeses through our national accounts.

Revenues (%) **per market segment**
Dairy Products Division (Canada)



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



At close to 13% of revenues from our Canadian cheese activities, our **industrial** segment consists of cheese and by-product sales. The increase in our revenues is attributed to more favourable prices on the international by-product market and to the additional sales of skim milk powder, since we serve as a processor of last resort for all excess milk in the three most western Canadian provinces.

Our **Canadian fluid milk activities** enjoyed a slight volume increase over fiscal 2004. The bulk of the increase in revenues is derived from the production and commercialization of *Sunny Delight*[3] drinks under license for the total Canadian market. This commercialization began in the final quarter of last fiscal year, and we therefore benefited from a full year's contribution to revenues in fiscal 2005.

Our fluid milk and cream market share has remained relatively stable in the Canadian provinces, with the exception of Québec and Ontario, where we are continuing to increase our presence. Breakdown of our revenues remains stable between the retail segment (80%) and the foodservice segment (20%).

Our milk marketing resources are deployed in order to maximize our profitability. More precisely, our value-added products such as our yogurts, non-dairy creamers, functional milks and flavoured milks received significant advertising and promotional support. Some examples of such products include *Milk 2 Go / Lait's Go, Dairyland Plus / Nutrilait Plus, Dairyland* yogurts and *International Delight*[3] non-dairy creamers.

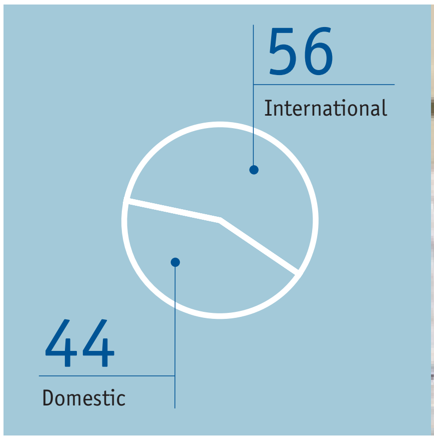
We continue to focus on product innovation to enhance our reputation as a market leader and to drive incremental revenue and profit. For example, *Dairyland Cottage Cheese Combos* was launched in the first quarter of fiscal 2005 and is the first and only flavoured single-serve cottage cheese available in Canada. Similarly, *Dairyland Li'l Ones Yogurt,* launched in the fourth quarter of fiscal 2005, is the first Canadian yogurt specifically formulated for babies and toddlers.

In fiscal 2005, we continued with our vending-machine program, with over 500 machines in service across Canada. We intend to pursue the growth potential and increase the number of vending-machines throughout Canada into appropriate locations.

The dairy products market in Canada is both stable and competitive. No trend was observed in the market that would necessitate alternate ways of managing either our prices, rebates or discounts.

In **Argentina,** our activities continue to develop at an interesting pace. Revenues from these activities for fiscal 2005 amounted to $150.3 million, surpassing the revenue trend for the division at the acquisition date. Strong product demand from the international market has allowed us to grow our export revenues throughout the fiscal year. Our domestic market also benefited from strong local conditions. These factors were the major contributors allowing the division to achieve the fiscal 2005 revenues.

Revenues (%) **per geographic segment**
Dairy Products Division (Argentina)



EBITDA (Canadian and Other Dairy Products Sector)

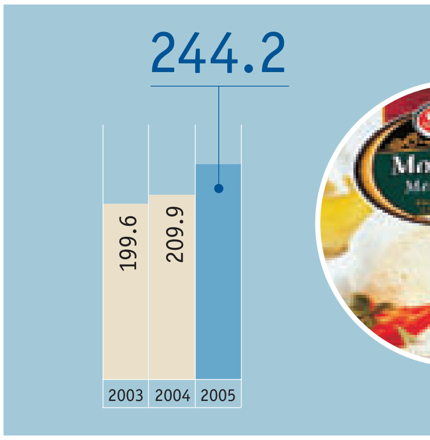
At March 31, 2005, our earnings before interest, income taxes, depreciation and amortization (EBITDA) totalled $244.2 million, as compared to $209.9 million a year earlier, an increase of $34.3 million or 16.3%. The EBITDA margin in this sector climbed from 9.7% in the previous fiscal year to 10.1% in fiscal 2005. Our Argentina activities throughout the fiscal year have continued to improve their EBITDA margins, although inferior to comparable Canadian activities. Included in our EBITDA for fiscal 2005 is a $2.6 million gain on disposal of fixed assets held for sale.

The increase in the EBITDA is attributed to several factors. In fiscal 2005, we worked on further consolidating our manufacturing operations in response to the rationalization measures implemented during fiscal 2004. Important changes were implemented so that we would be in a position to secure the savings that were anticipated from those rationalization measures. These savings began to materialize in the second quarter, and amounted to roughly $5 million for fiscal 2005. We have improved our operational efficiencies and expect to generate annual savings of approximately $7 million. Fiscal 2004 EBITDA included rationalization expenses of $7.8 million. In addition, the increase in our cheese volumes contributed to the EBITDA. Furthermore, serving as a processor of last resort for all excess milk in the three most western Canadian provinces, we had access to milk surpluses that enabled us to increase our sales volumes of skim milk powder, which contributed to the results but do not generate the same EBITDA margins as our cheese revenues. Also our EBITDA benefited from a full year's contribution of *Sunny Delight*[3] drinks, which began commercialization in the final quarter of last fiscal year. Finally, during fiscal 2005 the market for by-products, although volatile, had a favourable impact of $1.3 million compared with fiscal 2004.

Despite the delay in the realization of savings relative to certain rationalization measures, the Canadian and Other Dairy Products Sector performed well. The progress made in sales volumes of our cheeses, juices, yogurts and flavoured milks enabled the sector to

[3] Trademarks used under license.

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



strongly position the Company in the Canadian market. We believe there are other opportunities for growth in the market, especially in Québec and in Ontario, where we have a relatively small presence.

Furthermore, the merger of the former Cheese and Milk divisions (Canada) into a single operating unit, enabled us to identify certain opportunities that should generate additional savings both in administrative terms and at the logistics, transportation and distribution levels. We are currently working on taking full advantage of every targeted opportunity.

Outlook (Canadian and Other Dairy Products Sector)

The consumer excitement over specialty cheeses observed in fiscals 2004 and 2005 prompted us to redefine the positioning of those products in our operations. We plan to take advantage of that consumer enthusiasm by increasing our marketing support through redefining our packaging and brand names among other things. Our manufacturing processes being stable, reliable and efficient, we believe that we are in a position to expand the Company through this developing niche.

The recent acquisition of the activities of Fromage Côté S.A and Distributions Kingsey Inc. will complement our specialty cheese business and provide opportunities for growth. The acquisition will add approximately $110 million to revenues. The purchase price was $52.9 million on a debt-free basis. We will, in the coming fiscal year, prepare an action plan covering all aspects of this operation.

As for our Canadian fluid milk activities, we will be concentrating on developing our customer base, with our juice, yogurt and flavoured milk products generating more favourable EBITDA margins. At the same time, our manufacturing efficiency remains a priority and we will continue to be a low-cost processor. We are also carrying on with our vending-machine program as well as with our efforts to increase our market share in Québec and in Ontario.

During fiscal 2005, certain fixed asset investments were completed in our Dairy Products Division (Canada) in relation to plant capacity. These capital investments started in fiscal 2004. Taking into consideration that sales volumes have increased both in the cheese and fluid milk activities, our excess production capacity went from 20% to 18% in our Canadian cheese activities and from 32% to 31% in our fluid milk activities.

For our Argentina activities, great progress has been made this current fiscal year. We were successful in integrating the Saputo systems and values. Capital investments have been made with the installation of new technologies and equipment that will allow us to extend our product offering and improve our profitability. We are committed in the following fiscal year to continue the capital investments required to make this division a success. We plan to add $30 million of capital investments for our Argentina operations in fiscal 2006. This will allow the Company to manage its by-products and take full advantage of the opportunities, on both the international and domestic markets.

US Dairy Products Sector

Our Cheese Division (USA) performed well under difficult conditions in fiscal 2005. Although the division experienced a more favourable average block market per pound of cheese, it was negatively affected by the relationship between the average block market per pound of cheese and the cost of milk as raw material.

In fiscal 2005, we were able to maintain a good balance among our three market segments: retail, foodservice and industrial.

Revenues (US Dairy Products Sector)

Fiscal 2005 revenues totalled $1.309 billion, an increase of $68 million or 5.5% over the $1.241 billion in revenues attained in fiscal 2004. The higher average block market per pound of cheese this fiscal year had a positive impact of $148 million on the revenues we generated in the United States. The average block market per pound of cheese during fiscal 2005 was US$1.67, a US$0.28 increase over the average US$1.39 in fiscal 2004.

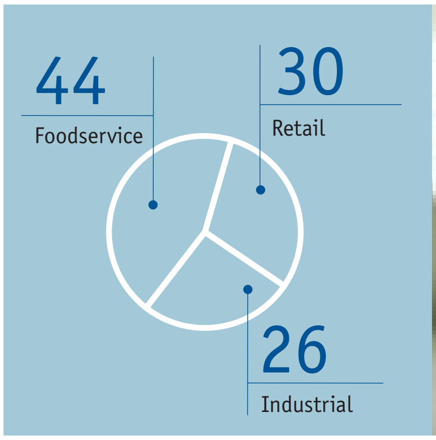
The high market at the end of fiscal 2004 along with early price increases implemented on fixed price items took their toll on overall volumes in fiscal 2005. Overall sales volumes declined by 3.0% for the fiscal year. Most of the decline took place within the fiscal 2005 second quarter following the effect of a high block market along with price increases. The majority of the volume decline was concentrated in commodity type cheeses where the industry struggled with over-capacity issues. Retail volumes suffered slightly in light of the higher prices during the fiscal year. On the other hand, volumes in the string cheese, hard cheese and other specialty cheese categories all experienced increases over the previous fiscal year.

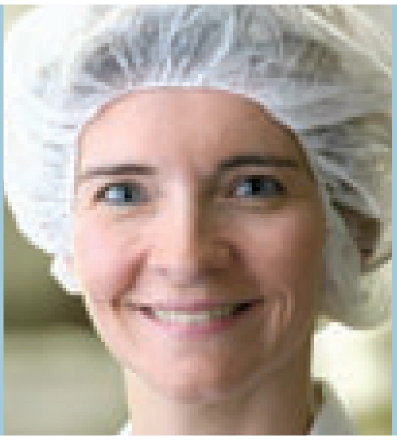
The appreciation of the Canadian dollar throughout the fiscal year negatively affected revenues by approximately $70 million.

We market our products in three market segments: retail, foodservice and industrial. Our pricing, rebating and discounting practices in all three segments were unchanged throughout the fiscal year.

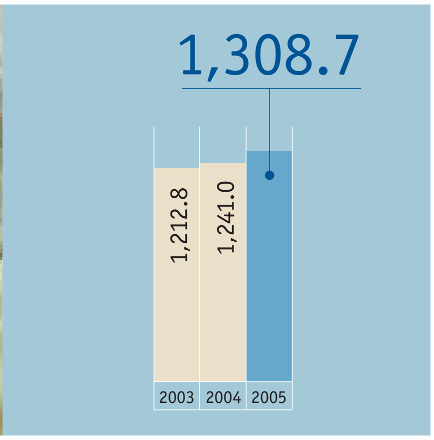
The **retail** segment accounts for 30% of our total sales volume in the United States, same as the previous fiscal year. In the last fiscal year, we concentrated our marketing efforts on supporting our brands with distinctive promotions to increase market share in several highly competitive retail cheese categories. *Frigo Cheese Heads* remains the number one brand of string cheese in the United States. This brand is supported with consumer promotion, utilizing on-pack offers, coupon distribution, and Web and print advertising. In the summer we offered the *Crayola Twistables*[4] crayon promotion and followed up in the fall with a *Simpsons*[5] promotion. Several new line extensions were introduced to take advantage of consumer trends within the cheese category such as *Frigo Cheese Heads Snack Sticks* containing mild Cheddar and Colby jack stick cheeses to complement our *Cheese Heads* line. *Stella Shaved Parmesan Deli Cups* were introduced in a format that helps satisfy consumers' desires for a restaurant-quality dining experience at home, as salads topped with shaved Parmesan have been featured on many restaurant menus. We also launched a line extension of flavoured fetas under the *Treasure Cave* brand including tomato and basil, garden herb and reduced fat. Feta cheese consumption continues to grow and new flavours broaden consumer trial and repeat purchasing. Our marketing efforts were recognized at the *International Dairy Foods Association 2005 Achieving Excellence Awards* by winning *Best Overall Promotion, Best Overall Website, Best New Cheese Product, Best Cheese Package Redesign,* and *Best Cheese Package Design*.

Sales volumes (%) **per market segment**
US Dairy Products Sector





Revenues (in millions of dollars)
US Dairy Products Sector



[4] *Crayola, Twistables,* chevron, and serpentine are registered trademarks, smile design is a trademark of Binney & Smith.
[5] *THE SIMPSONS*™ & ©2004 Twentieth Century Fox Film Corporation. All Rights Reserved.

The **foodservice** segment accounts for 44% of our total sales volume in the United States, a slight increase compared to last fiscal year. We experienced volume growth in this segment due to the quality of our products, the quality of our customer service, and the quality of our people at every level throughout the organization. During the fiscal year we concentrated on national accounts and were successful in landing new customers in that channel. At the same time, we worked hand in hand with our distributors to enhance their sales.

The **industrial** segment represents 26% of our total sales volume in the United States, a slight decrease compared to last fiscal year. Market volatility and excess production capacity in the industry inhibited our ability to meet our volume growth targets for this segment. The price-sensitive, large industrial customer typical to this segment is an attractive target for companies looking to fill idle capacity quickly. In the short run, we do not sacrifice profitability for the sake of market share. In the longer term however, we work to develop more effective formulations that meet larger customers' expectations for product performance and price. Products in the industrial segment also include whey by-products, sweetened condensed milk and eggnog. Prices of by-products in the international market rebounded in fiscal 2005.

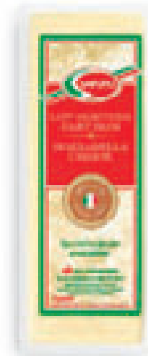
EBITDA (US Dairy Products Sector)

During fiscal 2005, earnings before interest, income taxes, depreciation and amortization totalled $137.0 million, a $23.9 million or 14.9% decrease compared to $160.9 million posted in fiscal 2004. Fiscal 2005 was a volatile year. The overall average block market per pound of cheese of US$1.67 this fiscal year was higher compared to US$1.39 last fiscal year. This benefited the EBITDA this fiscal year by providing a better basis of absorption for our fixed costs, while a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material was observed this fiscal year compared to last fiscal year. Fiscal 2004 started with a block market per pound of cheese of US$1.08 and ended with US$2.09, setting the stage for major declines from that peak and extreme volatility in fiscal 2005 which ended the year at US$1.62. The margin is compressed in a declining market because the milk cost follows the block market on a delayed basis. In theory, these are timing differences which balance out over time. There is no guarantee however, that the balancing will occur within any particular fiscal year. Moreover, the balancing depends on volume remaining relatively constant throughout the period. With regards to inventories, we started the fiscal year with a block market per pound of cheese at US$2.09 and ended the year at US$1.62, causing an unfavourable impact on the realization of inventories. These combined factors had a negative impact of $29.7 million on EBITDA. Prices of by-products on the international markets rebounded in fiscal 2005, generating a positive impact on EBITDA of $1.4 million. However, the appreciation of the Canadian dollar created a shortfall in EBITDA of $7.6 million. These factors offset an increase of approximately $12 million in our EBITDA generated by continued improvements in our manufacturing processes, price increases implemented on fixed price items and better product mix within the retail segment.

Outlook (US Dairy Products Sector)

US Dairy Product Sector continues to produce quality products that meet the needs of our clientele. During the past fiscal year, we are particularly proud to have increased our sales in specialty and branded products such as string cheeses, Parmesan cheeses, Asiago cheese and others. This is a testimony to the continuous quality of products and services provided by Saputo people from plant floor right up to the customer's location. We are looking forward to the upcoming fiscal year with optimism as we are poised to launch several new products to complement our *Frigo Cheese Heads* line, our specialty *Stella* hard and blue cheeses. We also embrace the new fiscal year with a mandate to be innovative at every level. First at the operations level as we will apply innovative processes and techniques to diminish the impact of raw material and overhead cost increases, then at the marketing level with innovative promotions, product creation and packaging, and

EBITDA (in millions of dollars)
US Dairy Products Sector

at the sales level to enhance service to our clients and finally, internally, to continually improve the training of our employees.

The recent acquisition of the activities of Schneider Cheese, Inc. in May 2005 will further increase our presence in the string cheese category. These assets will complement our current cheese-making activities in the United States. The acquisition will add approximately US$40 million to revenues. The purchase price was US$24.4 million on a debt-free basis. During fiscal 2006, we will prepare an action plan covering all aspects of this operation in order to bring added-value to its activities.

During fiscal 2005, we completed projects that increased our capacity in certain manufacturing locations and enhanced the production capabilities of our specialty plants for greater efficiency and quality so that we can remain competitive despite rising energy, ingredients and other manufacturing costs. In the upcoming fiscal year, we will continue to evaluate our operations and will accordingly invest in projects that will enhance our profitability and better serve the needs of our clients. We are currently running at 90% capacity after having completed the investment projects. If necessary, we could add additional manufacturing capacity to our plants with minimal capital investments.

Once again in fiscal 2005, the fluctuations in the pricing of dairy products on the Chicago Mercantile Exchange (CME) significantly affected the results of our Cheese Division (USA). As mentioned in prior fiscal years, 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 CME market for Cheddar cheese blocks began fiscal 2005 at US$2.09, ranged from a low of US$1.36 to a high of US$2.20 during fiscal 2005, and closed at US$1.62 at March 31, 2005. These fluctuations in the cheese block market have had a significant effect on the results of our Cheese Division (USA). To remain successful, we must continually monitor the cheese block market and react accordingly. We are sensitive to the situation and we will actively search for permanent solutions that could provide more stability.

For a second consecutive fiscal year, the appreciation of the Canadian dollar negatively affected our results in fiscal 2005. It is extremely difficult to predict fluctuations in the US or Canadian currencies as exchange rates can be affected by many factors.

Grocery Products Sector

The Grocery Products Sector consists of the Bakery Division and accounts for 4.1% of the Company's revenues.

Revenues (Grocery Products Sector)

Revenues from the Grocery Products Sector totalled $158.8 million for the fiscal year ended March 31, 2005, down $8.6 million in comparison with the previous fiscal year. During fiscal 2005, sales volumes also fell by 4.9% in comparison with the previous fiscal year.

The decrease in volume is attributable to several factors. In the third quarter of fiscal 2005, we took over the distribution network in the Maritimes, which was previously operated by a third party. Although a positive step, it had a slight downward effect on our revenues due to the transition period. In addition, the arrival of Easter in April 2004 and March 2005 this fiscal year, has negatively affected our revenues twice, since this is traditionally a slower period for us. Finally, on February 7, 2005, we increased the base selling price for our economy- and family-size products, which affected some of our volumes.

Throughout the fiscal year, we were active in supporting our brand names. The category in which we operate requires innovation and new features on a regular and a seasonal basis. New products were introduced for the Christmas and Easter holiday periods, namely *Brownies Dominoël, Ah Caramel! Black Forest, Mini 1/2 Moon Strawberry-Vanilla* and the *Ah Caramel! Easter Eggs*. Other items targeting younger consumers, like *Dynamite* brand cakes, were introduced as permanent products.

With the aim of offering our customers the products they seek, we introduced at the end of fiscal 2005 the new trans-fat-free *Hop&Go!* line, backed by an advertising campaign on television and magazines which started at the beginning of fiscal 2006. Our leader brands *Jos. Louis, Ah Caramel!, 1/2 Moon* and *Brownies* are now offered either in a trans-fat-reduced or trans-fat-free formula.

In Canada, despite an increasingly competitive market, the division was able to retain its market share.

With regards to the US market, there was no material fluctuation in sales during the fiscal year. The introduction of our products to this market remains a small-scale undertaking, proceeding a step at a time and in well defined areas.

EBITDA (Grocery Products Sector)

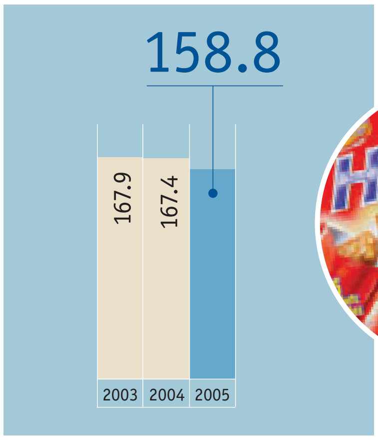
EBITDA for the fiscal year ended March 31, 2005, amounted to $26.6 million, a drop of $5.9 million from that of the previous fiscal year. The EBITDA profit margin dipped from 19.4% in fiscal 2004 to 16.7% in fiscal 2005. Several elements account for these declines. Firstly, the drop in revenues in fiscal 2005 compared to fiscal 2004, as mentioned in the revenues section above, created a reduction in EBITDA. Secondly, compared to the same period last fiscal year, we were subject to certain manufacturing cost increases during fiscal 2005, including increases in raw material and packaging costs, as well as labour costs. Moreover, as mentioned in our fiscal 2004 annual report, the division incurred additional expenses during fiscal 2005 related to the pension plan of approximately $2.3 million as compared to fiscal 2004. Throughout fiscal 2004 and fiscal 2005, fixed-asset investments have enabled us to improve our production efficiency by switching to the use of robotization in certain operations. These increased efficiencies, however, were not sufficient to preserve our EBITDA margin.

Outlook (Grocery Products Sector)

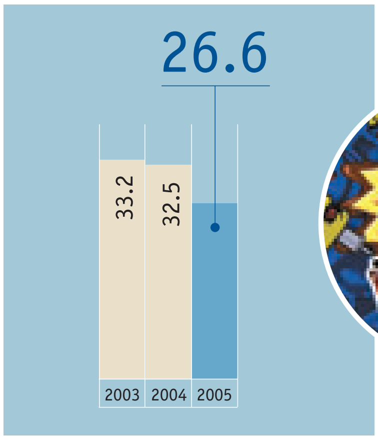
Fiscal 2005 has turned out to be a highly constructive year, enabling the Bakery Division to identify the various market growth potentials in Canada.

In order to offset the impact of various cost increases, we announced an increase in the base price of our family- and economy-size products. Even if in the short term, this price increase had an effect on our sales volumes, we are confident that the sales volumes will resume to normal levels. We already practice

Revenues (in millions of dollars)
Grocery Products Sector



EBITDA (in millions of dollars)
Grocery Products Sector



daily raw-material supply management, and we are subject to, like any manufacturer, increases in raw-material costs such as packaging and labour costs. Contrary to past practices, the revision of our selling prices will take place annually to ensure that the division can continue to grow.

We took over our Maritime distribution network to have greater control of market penetration, which incidentally will be receiving in fiscal 2006 additional marketing investments to support the re-launching of our *Hop&Go!* brand.

The snack cake, cereal bar and tart categories experienced somewhat difficult times in fiscal 2005 with the emergence of the trans-fat concern. In our position as leader, we were quick to introduce different products that responded to this new reality. We will be increasing our efforts in the upcoming fiscal year to expand our product offering at this level. The efforts from our research and development activities will support the division in order to market products that will meet consumer demands.

As a way of expanding our business, we developed over fiscal 2005 certain products for the in-store bakery and foodservice segments, and we will over fiscal 2006 present our products to the market. We believe growth possibilities in those segments are realistic.

In the United States, we are exploring other avenues to sell our products through co-packing arrangements for whom we would manufacture products for US customers.

The result of these initiatives will enable us to make better use of the excess capacity of our plant, which totals about 31%. Fixed-asset investments anticipated for fiscal 2006 will be in support of our development efforts.

Even though we operate in an industry referred to as one of indulgence, we remain convinced that consumers will continue to treat themselves. Our responsibility as leader in the snack-cake category in Canada will be to contribute to the growth of the entire category while never losing sight of consumer concerns regarding healthy eating.

As mentioned in our fiscal 2004 annual report, we took the decision to retain the Bakery Division and to invest approximately $20 million over the next three years for the development and the redeployment of its brands. In fiscal 2005, we took further steps to consolidate our position and strengthen the division through different initiatives. Fiscal 2006 will be the first of the three-year plan for which the investments will be covered by additional profitability generated within the same three years.

LIQUIDITY

Cash generated by operating activities before changes in non-cash working capital items totalled $305.3 million for fiscal 2005, slightly higher compared to the $301.3 million for fiscal 2004. During fiscal 2005, non-cash operating working capital items used $28.8 million, compared to a usage of $13.7 million in fiscal 2004. The increased usage is the result of increased inventory values at our Dairy Products Division (Canada) and our Cheese Division (USA). The increase in our Canadian operations is attributed to an increase of approximately 8% in the cost of milk as raw material. Our Cheese Division (USA) inventory increase is attributed to a combination of higher inventory volumes and the increased inventory cost in line with the higher average block market per pound of cheese in fiscal 2005.

In **investing activities,** the Company added $81.8 million in fixed assets, of which nearly 35% went into the replacement of fixed assets. The remaining funds were used to implement new technologies, as well as to expand and increase certain manufacturing capacities. The total of fixed asset spending compares favourably to our original budget of $80 million. The Company also disposed of unused assets in fiscal 2005 for total proceeds of $5.4 million, mostly in our Dairy Products Division (Canada).

As for **financing activities,** the Company repaid approximately $44 million of long-term debt. With this long-term debt repayment, the Company fully repaid the Canadian long-term debt under its initial contractual obligations of February 2001 governing loans issued as part of the acquisition of Dairyworld. The Company also repaid $68.8 million of bank loans.

For fiscal 2005, the Company issued shares for a cash consideration of $13.5 million as part of the Stock Option Plan, and paid out $59.5 million in dividends.

FINANCIAL RESOURCES

At March 31, 2005, the Company's working capital stood at $452.6 million, an increase of $155.4 million over the $297.2 million at the end of the previous fiscal year. The increase is attributed mostly to the complete repayment of the current portion of long-term debt and the significant reduction of outstanding bank loans as well as the increased cash positions as at March 31, 2005, resulting from the strong cash flows generated by the Company in fiscal 2005. Our interest bearing debt-to-equity ratio has also improved significantly, from 0.39 as at March 31, 2004 to 0.21 as at March 31, 2005.

The Company's financial condition continues to improve. As operations continue to generate positive cash flows, we do not foresee any additional working capital requirements.

For fiscal 2006, we foresee making about $100 million in additions to fixed assets, with approximately $60 million earmarked for new technology and added manufacturing capacity. The remainder will be devoted to replacing certain fixed assets. The increase in fixed asset additions is due to the continuing investment in our Argentina operations along with strategic investments planned for our Dairy Products Division (Canada). The Company expects fixed-asset depreciation expense in the amount of approximately $70 million. All funds required for the additions to fixed assets will be generated from Company operations. As at March 31, 2005, the Company had no significant commitments related to fixed-asset acquisitions.

The Company currently has at its disposal bank credit facilities of $234 million, $15.1 million of which are drawn. The Company also has $41.5 million of cash on hand. Should the need arise, the Company can make additional financing arrangements to pursue growth through acquisitions.

BALANCE SHEET

In comparison to March 31, 2004, the main balance sheet items at March 31, 2005 varied due to the appreciation of the Canadian dollar versus both the US dollar and the Argentina peso. The conversion rate of our US operation's balance sheet items in US currency was CND$1.2096 per US dollar as at March 31, 2005, compared to CND$1.3113 per US dollar as at March 31, 2004. The conversion rate of our Argentina operation's balance sheet items in Argentina pesos was CND$0.4135 per Argentina peso as at March 31, 2005, compared to CND$0.4570 per Argentina peso as at March 31, 2004. The increased Canadian dollar results in lower values recorded for the balance sheet items of our foreign operations. From an operations perspective, as at March 31, 2005, our inventory levels were approximately $32 million higher than levels from the previous fiscal year. The inventory increase is attributed to our Dairy Products Division (Canada), resulting principally from an increase of approximately 8% in the cost of milk as raw material, and our Cheese Division (USA), due to a combination of higher inventory volumes and the increased inventory cost in line with the higher average block market per pound of cheese in fiscal 2005. In fiscal 2006, our objective is to reduce our inventory by approximately $35 million. As at March 31, 2005, the amount of current portion of long-term debt has been eliminated following repayments made throughout the fiscal year. Income taxes payable increased from $26.0 million at March 31, 2004 to $67.4 million at March 31, 2005. The increase is the result of tax planning initiatives undertaken by the Company that deferred various tax payments. 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 $2.133 billion as at March 31, 2005, compared to $2.070 billion as at March 31, 2004.

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, 2005	Issued as at June 1, 2005
Common shares	Unlimited	104,527,282	104,625,499
Preferred shares	Unlimited	None	None
Stock options		4,797,915	5,551,832

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 lease payments as at March 31, 2005 totalled $38.9 million.

The Company does not use derivative financial instruments for speculation. Saputo uses certain derivative financial 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 make certain foreign currency purchases in euros, of which the total amount as at March 31, 2005 was 1,200,000 euros.

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, 2005, the fair value of these contracts is $0.9 million.

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

Notes 16 and 17 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 16 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 16 describes its lease commitments.

(in thousands of dollars)	Long-term debt	Minimum lease	TOTAL
2006	-	9,886	9,886
2007	36,388	8,322	44,710
2008	21	6,113	6,134
2009	-	5,066	5,066
2010	205,632	4,064	209,696
Subsequent years	60,480	5,424	65,904
Total	302,521	38,875	341,396

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

Disposal of Long-Lived Assets and Discontinued Operations

Section 3475 of the Canadian Institute of Chartered Accountants (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, which had no significant impact on the Company's consolidated financial statements.

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. The Company prospectively adopted these new recommendations effective April 1, 2004, which had no significant impact on the Company's consolidated financial statements.

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 Company prospectively adopted these new recommendations effective April 1, 2004, which had no significant impact on the Company's consolidated financial statements.

Employee Future Benefits

Section 3461 of the CICA Handbook, *Employee Future Benefits,* expanded the disclosure requirements for these plans on both annual and interim financial statements. The Company prospectively adopted these new recommendations effective April 1, 2004.

Accounting by a Customer for Certain Consideration Received from a Vendor

The CICA Emerging Issues Committee EIC-144, *Accounting by a Customer for Certain Consideration Received from a Vendor,* provides guidance on how a customer of a vendor's products should account for cash consideration received from a vendor. The Company retroactively adopted this new recommendation effective July 1, 2004, which had no significant impact on the Company's consolidated financial statements.

Consolidation of Variable Interest Entities

The CICA Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities,* requires enterprises to identify Variable Interest Entities in which they have an interest, to determine if they are the primary beneficiary of such entities, and, if so, to consolidate them. The Company prospectively adopted this new recommendation effective January 1, 2005, which had no impact on the Company's consolidated financial statements.

Future Standards

The CICA issued in April 2005 new accounting standards for recognition, measurement and disclosure of financial instruments, hedges and comprehensive income. The new requirements are all to be applied at the same time and are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company is presently assessing the impact of the new recommendations on the consolidated 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 fiscal 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 accounting 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. Should the calculated value be lower than the book value, a write-down would be taken. The Company has performed the impairment test, no write-down was necessary.

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.

Trademarks

Impairment testing has to be performed on all trademarks annually. Estimated future cash flows to be derived from the trademarks are discounted to the present using current market rates. The discounted cash flow is compared to the carrying value of the trademarks. Should the discounted cash flow be lower than the book value, a write-down would be taken. The Company has performed the impairment test, no write-down was necessary.

Sensitivity Analysis
Pension Plans and Other Employee Future Benefits

	Pension plans		Other employee future benefits	
(in thousands of dollars)	Accrued benefit obligations	Net expense	Accrued benefit obligations	Net expense
Anticipated rate of return on assets				
Effect of an increase of 1%	N/A	(1,697)	N/A	N/A
Effect of a decrease of 1%	N/A	1,697	N/A	N/A
Discount rate				
Effect of an increase of 1%	(18,434)	(1,669)	(2,274)	(563)
Effect of a decrease of 1%	20,699	1,893	2,783	395
Assumed growth rate of overall healthcare costs				
Effect of an increase of 1%	N/A	N/A	2,439	224
Effect of a decrease of 1%	N/A	N/A	(2,075)	(186)

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 fiscal year from 6.25% to 6%, effective December 31, 2004. We expect that this adjustment will increase our expense during fiscal 2006 by approximately $0.5 million.

We established the expected average return on invested assets at 7.9% given the type and combination of these assets. This rate has been revised to 7.3% for fiscal 2006. This assumption is deemed reasonable and is supported by our external consultants. We expect that this adjustment will increase our expense during fiscal 2006 by approximately $1 million.

The compensation growth rate was set at 3.5% over the long term, taking into consideration 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 7.0% for fiscal 2006 and, based on the assumptions used, these rates should gradually decline to reach 5.0% in fiscal 2010 and subsequent fiscal 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 above table 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 15 of the Consolidated Financial Statements. The sensitivity of each key variable has been calculated independently of the others.

The measurement date of pension plan assets and liabilities is December 31 of each fiscal year.

Pension plan assets are held by several independent trusts, and the average composition of the overall portfolio as at December 31, 2004 was 4% in cash and short-term investments, 47% in bonds and 49% in shares of Canadian, US and foreign companies. In the long term, we do not expect any major change to this asset allocation. In comparison to December 31, 2003, the average composition was 2% in cash and short-term investments, 44% in bonds and 54% in shares.

For defined-benefit plans, actuarial valuations were performed as at 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 $6.1 million was made in fiscal 2005 ($4.6 million for fiscal 2004). The additional payment required for fiscal 2006 will be $6 million. The next evaluation for certain pension plans is scheduled for December 2005.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are measured using enacted or substantially 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.

RISKS AND UNCERTAINTIES

Product Liability

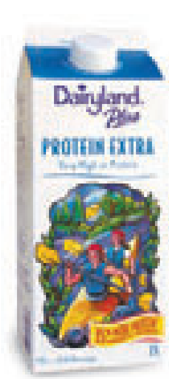
Saputo's operations are subject to certain dangers and risks of liability faced by all food processors, such as the potential contamination of ingredients or products by bacteria or other external agents that may accidentally be introduced into products or packaging. Saputo has quality control procedures 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 milk as raw material 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 and Argentina, Saputo competes in the dairy industry on a national basis with several regional and national competitors. 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 1, 2005 for the fiscal year ended March 31, 2005. 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 the foreign currency of our United States and Argentina operations. Approximately 34% and 4% of our sales are realized in the United States and Argentina, respectively. However, the cash flows from these operations act as a natural hedge against exchange risk. Cash flows from the United States also constitute a natural hedge against the exchange risk related to debt expressed in US dollars. At March 31, 2005, Saputo's long-term debt was made up of the US senior notes only, which are at a fixed rate throughout their term.

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.

Growth by Acquisitions

The Company intends to grow both organically and through acquisitions. Based on past experience, a significant portion of this growth will likely occur through acquisitions. The ability to properly evaluate the fair value of the businesses being acquired, to successfully integrate them into the Company's operations and realize the expected profit and returns are inherent risks related to acquisitions.

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.

CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer together with management, after evaluating the effectiveness of the Company's disclosure controls and procedures as of March 31, 2005, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

SENSITIVITY ANALYSIS OF INTEREST RATE AND THE US CURRENCY FLUCTUATIONS

The portion of the long-term debt covered by fixed interest rate equals 100%. The used portion of the bank credit facility is subject to interest rate fluctuations, and was not being protected as of March 31, 2005. A 1% change in the interest rate would lead to a change in net earnings of approximately $0.110 million, based on the $15.1 million in bank loans as of March 31, 2005.

Canadian-US currency fluctuations may 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 fiscal year ended March 31, 2005, the average US dollar conversion was based on CND$1.00 for US$0.78. A fluctuation of CND$0.01 would have resulted in a change of approximately $0.7 million in net earnings, $1.9 million in EBITDA and $17.9 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.

	2005				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada & Other	United States	TOTAL	Products	TOTAL
Operating income	$ 214,418	$ 105,868	$ 320,286	$ 21,408	$ 341,694
Depreciation of fixed assets	29,743	31,175	60,918	5,147	66,065
EBITDA	$ 244,161	$ 137,043	$ 381,204	$ 26,555	$ 407,759

	2004				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada & 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

The 2004 and 2005 quarterly financial information has not been reviewed by an external auditor.

2005 Quarterly Financial Information
Consolidated Statement of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2005 (audited)
Statement of earnings data					
Revenues	$ 1,018,900	$ 1,005,109	$ 942,235	$ 916,825	$ 3,883,069
Cost of sales, selling and administration expenses	911,882	904,209	845,711	813,508	3,475,310
Earnings before interest, income taxes, depreciation and amortization	107,018	100,900	96,524	103,317	407,759
Margin %	10.5%	10.0%	10.2%	11.3%	10.5%
Depreciation of fixed assets	17,043	16,689	16,138	16,195	66,065
Operating income	89,975	84,211	80,386	87,122	341,694
Interest on long-term debt	7,870	7,404	6,439	6,313	28,026
Other interest	467	426	170	1	1,064
Earnings before income taxes	81,638	76,381	73,777	80,808	312,604
Income taxes	23,348	20,513	15,507	21,091	80,459
Net earnings	$ 58,290	$ 55,868	$ 58,270	$ 59,717	$ 232,145
Net margin %	5.7%	5.6%	6.2%	6.5%	6.0%
Per share					
Net earnings					
Basic	$ 0.56	$ 0.54	$ 0.56	$ 0.57	$ 2.23
Diluted	$ 0.55	$ 0.53	$ 0.55	$ 0.57	$ 2.20

2004 Quarterly Financial Information
Consolidated Statement 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)
Statement of earnings data					
Revenues	$ 816,783	$ 915,540	$ 892,010	$ 945,857	$ 3,570,190
Cost of sales, selling and administration 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

SUMMARY OF THE FOURTH QUARTER RESULTS ENDED MARCH 31, 2005

Revenues for the quarter ended March 31, 2005 totalled $916.8 million, a decrease of 3.1% compared to $945.9 million for the same quarter last fiscal year. The decrease is attributed to our US Dairy Products Sector and our Grocery Products Sector. The main contributor to the decrease in revenues in the US Dairy Products Sector this quarter compared to the same quarter last fiscal year, was the appreciation of the Canadian dollar, which eroded approximately $24 million in revenues. This was partially offset by a higher average block market per pound of cheese, which increased revenues by $15 million. The Grocery Products Sector experienced reduced revenues of approximately $7 million due, among other things, to the Easter Holidays, which traditionally is a slow period for the division. The fourth quarter of fiscal 2005 included the Easter Holiday, which was not the case in fiscal 2004. In addition, on February 7, 2005, we increased the base selling price for our economy- and family-sized products, which affected some of our volumes. Revenues from our Canadian and Other Dairy Products Sector were slightly lower in comparison to the same period last fiscal year, mainly due to lower volumes in our Canadian cheese activities.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the fourth quarter of fiscal 2005 totalled $103.3 million, a $3.3 million decrease from the same period last fiscal year. EBITDA from our US Dairy Products Sector decreased by approximately $13 million compared to the corresponding period last fiscal year. The appreciation of the Canadian dollar along with an unfavourable relationship between the average block market per pound of cheese and the cost of milk as raw material were the driving factors behind the decrease. The Grocery Products Sector EBITDA decreased by approximately $2 million as a result of reduced revenues, and additional pension, raw material, packaging and labour costs. The EBITDA of our Canadian and Other Dairy Products Sector increased by approximately $12 million in comparison to the corresponding period last fiscal year. The increase is attributed to the benefits derived from rationalization activities undertaken in the prior fiscal year, for which fiscal 2004 fourth quarter included $2.7 million in rationalization expenses, increased sales volumes specifically in our specialty cheese category, more interesting margins achieved in our Argentina operations, and a gain on sales of assets held for sale in the amount of $2.6 million.

Compared to the same quarter last fiscal year, depreciation expense decreased by $0.6 million to $16.2 million. Interest expense decreased to $6.3 million compared to $8.5 million for the corresponding period last fiscal year, as a result of long-term debt repayments made throughout the year. The effective tax rate for the current quarter was 26.1% compared to 28.6% for the same quarter last fiscal year. The lower rate is the result of higher income being generated in jurisdictions with lower tax rates compared to the same quarter last fiscal year. During the quarter, the Company added $22.0 million in fixed assets and received proceeds of $4.6 million from the sale of certain fixed assets. The Company also repaid $19.5 million in bank loans, issued shares for a cash consideration of $2.7 million as part of the Stock Option Plan, and paid out $15.7 million in dividends to its shareholders. For the same period, the Company generated cash flows of $79.5 million from operations, similar to the cash generated from operations for the corresponding period last fiscal year. Net earnings reached $59.7 million, an increase of $1.6 million from the same quarter in fiscal 2004.

QUARTERLY FINANCIAL INFORMATION

During fiscal 2005, certain specific circumstances affected the quarterly changes in revenues and earnings before interest, income taxes, depreciation and amortization compared to fiscal 2004.

First, the average block market per pound of cheese on the US market was higher during all quarters, increasing both revenues and EBITDA. However, the relationship between the average block market per pound of cheese and the cost of milk as raw material was unfavourable for the last three quarters of fiscal 2005 in comparison to fiscal 2004, having a negative affect on EBITDA. The Canadian dollar was also stronger during all quarters of fiscal 2005 compared to the same periods in fiscal 2004, thus reducing both revenues and EBITDA throughout the fiscal year. Our Canadian operations continued to grow gradually from quarter to quarter in fiscal 2005. Fiscal 2005 also includes a full year of results from our Argentina operations compared to 18 weeks for fiscal 2004. Finally, our Grocery Products Sector incurred additional pension costs of approximately $0.5 million in each of the first three quarters of fiscal 2005 and $0.8 million in the fourth quarter of fiscal 2005. Quarterly earnings directly reflect the effects of the previously mentioned items.

ANALYSIS OF EARNINGS FOR THE YEAR ENDED MARCH 31, 2004 COMPARED TO MARCH 31, 2003

Saputo's **consolidated revenues** amounted to $3.570 billion in fiscal 2004, up 5.1% compared to $3.398 billion posted in fiscal 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 fiscal 2004 as compared to fiscal 2003 created a shortfall in revenues of nearly $182 million. The average block market per pound of cheese on the US market, 21% higher than in 2003, increased revenues by about $138 million. In addition, the 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 (EBITDA) stood at $403.3 million, a 14.3% increase compared to $352.8 million in fiscal 2003. EBITDA margins increased from 10.4% in fiscal 2003 to 11.3% in fiscal 2004. The strong cheese block market condition in the United States in fiscal 2004 drove up EBITDA by approximately $36.9 million. Major increases in sales volumes in the Unites 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 in fiscal 2004, 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 fiscal 2004, 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 in fiscal 2004, down $4.9 million from fiscal 2003. The expense in fiscal 2004 included a write-down of fixed assets of approximately $1 million following the shutdown of plants during the same fiscal year. The decline in this expense is mainly attributable to the rise in the Canadian dollar in fiscal 2004 compared to fiscal 2003.

Net interest expense amounted to $36.0 million in fiscal 2004, down $6.3 million compared to fiscal 2003. Nearly half of this decline is attributed to the reduction of interest resulting from ongoing payments of long-tern 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 in fiscal 2004, 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 fiscal 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 fiscal 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 fiscal 2003, eroded net earnings by $9.2 million for fiscal 2004, and rationalization expenses consumed another $5.6 million. Excluding these two factors, net earnings would have risen by 30.8% compared to fiscal 2003.

OUTLOOK

Although no business acquisitions were made during the fiscal year, we nonetheless realized growth, and we did so on several levels. It was essentially organic growth that enabled us to generate a return on equity of 18.8%. Our vision for our development embodies a number of components: organic growth, consolidation of our position in current markets, growth by acquisitions, and preparing our future by tailoring our plans accordingly.

Each of our divisions has set itself precise objectives for fiscal 2006, all of which should result in increased revenues, EBITDA, cash flow generated and consolidated net earnings. We are mainly relying on organic growth and improvement in our procedures and our efficiency to achieve continuous growth in our overall profitability.

During fiscal 2005, we started working on the acquisition of two businesses, which were announced during the early months of fiscal 2006. Certainly the Company's larger-scale growth will be by way of acquisitions, and we will continue to toil steadily in that direction. At all levels, our growth will not take place at the expense of our profitability.

Our financial position is excellent, and provides us with considerable flexibility in our future development for the 2006 fiscal year as well as for the coming years. Our destiny is ours alone to shape.