



We are presenting the results for the first quarter of fiscal 2010, which ended on June 30, 2009.

- Net earnings for the quarter ended June 30, 2009 totalled \$84.8 million, an increase of \$1.8 million or 2.2% compared to \$83.0 million for the same quarter last fiscal year.
- Earnings before interest, income taxes, depreciation and amortization (EBITDA<sup>1</sup>) amounted to \$158.5 million, an increase of \$8.2 million or 5.4% in comparison to \$150.3 million for the same quarter last fiscal year.
- Revenues for the quarter ended June 30, 2009 amounted to \$1.446 billion, an increase of \$84.0 million or 6.2% in comparison to the \$1.362 billion for the corresponding quarter last fiscal year.
- Basic and diluted EPS for the quarter ended June 30, 2009 was \$0.41, as compared to \$0.40 for the corresponding quarter last fiscal year.

*(in millions of dollars except per share amounts)*  
*(unaudited)*

	For the 13-week periods ended		
	June 30, 2009	June 30, 2008	March 31, 2009
Revenues	\$ 1,446.4	\$ 1,361.9	\$ 1,460.4
EBITDA	158.5	150.3	141.9
Net earnings	84.8	83.0	69.2
Earnings per share			
Basic	\$ 0.41	\$ 0.40	\$ 0.33
Diluted	\$ 0.41	\$ 0.40	\$ 0.33

- The acquired activities of Neilson Dairy (Neilson) completed on December 1, 2008, contributed for a full quarter to the results, positively impacting revenues and EBITDA as compared to the first quarter of fiscal 2009.
- In the United States (US), the average block market<sup>2</sup> per pound of cheese declined by US\$0.79 compared to the same period last fiscal year, placing downward pressure on our revenues and EBITDA.
- The Board of Directors reviewed the dividend policy and increased the quarterly dividend from \$0.14 per share to \$0.145 per share, representing a 3.6% increase. A dividend payable on September 18, 2009 to common shareholders of record on September 7, 2009 was approved accordingly.

<sup>1</sup> 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.

<sup>2</sup> "Average block market" is the average daily price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME), used as the base price for cheese.

# Management's Analysis

The goal of the management report is to analyse the results of and the financial position for the quarter ended June 30, 2009. It should be read while referring to our consolidated financial statements and accompanying notes for the three-month periods ended June 30, 2009 and 2008. Saputo's accounting policies are in accordance with Canadian Generally Accepted Accounting Principles (GAAP) of the Canadian Institute of Chartered Accountants (CICA). All dollar amounts are in Canadian dollars unless otherwise indicated. This report takes into account material elements between June 30, 2009, and August 4, 2009, the date of this report, on which it was approved by the Board of Directors of Saputo Inc. (Company or Saputo). Additional information about the Company, including the annual report and the annual information form for the year ended March 31, 2009 can be obtained on Sedar at [www.sedar.com](http://www.sedar.com).

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report, including the "Outlook" section, contains forward-looking statements within the meaning of securities laws. These statements are based, among others, on our current assumptions, expectations, estimates, objectives, plans and intentions regarding projected revenues and expenses, the economic and industry environments in which we operate or which could affect our activities, our ability to attract and retain clients and consumers as well as our operating costs, raw materials and energy supplies which are subject to a number of risks and uncertainties. Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed throughout this MD&A and in our most recently filed Annual Report which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Forward-looking information contained in this report, including the "Outlook" section, is based on management's current estimates, expectations and assumptions, which management believes are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Except as required by law, we do not undertake to update these forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf.

## OPERATING RESULTS

**Consolidated revenues** for the quarter ended June 30, 2009 amounted to \$1.446 billion, an increase of \$84.0 million or 6.2% in comparison to the \$1.362 billion for the corresponding quarter last fiscal year. The increase was mainly due to the contribution to revenues from our Canadian Dairy Products Division as a result of the inclusion of Neilson. In our US Dairy Products Division, the weakening of the Canadian dollar compared to the US dollar contributed favourably to the revenues, while a lower average block market per pound of cheese in the US had a negative effect on revenues for the quarter.

**Consolidated earnings before interest, income taxes, depreciation and amortization (EBITDA)** for the first quarter of fiscal 2010 amounted to \$158.5 million, an increase of \$8.2 million or 5.4% in comparison to \$150.3 million for the same quarter last fiscal year. The EBITDA increase is mainly explained by the inclusion of Neilson in our Canada, Europe and Argentina (CEA) Dairy Products Sector. This increase was partially offset by lower profitability in our Argentinean Division and by the decrease in the average block market per pound of cheese in the US, causing an unfavourable absorption of fixed costs and negatively impacting the realization of inventories.

## OTHER CONSOLIDATED RESULTS ITEMS

**Depreciation and amortization** for the first quarter of fiscal 2010 totalled \$28.4 million, an increase of \$6.0 million compared to the same quarter last fiscal year. The increase is due mainly to the additional depreciation charge in our CEA Dairy Products Sector as a result of the inclusion of Neilson. Capital investments undertaken by all divisions in the prior fiscal year also contributed to increase depreciation expense in the current quarter.

**Net interest expense** increased by \$1.2 million to \$8.0 million for the quarter ended June 30, 2009 in comparison to the corresponding quarter of last fiscal year. The increase is mainly due to higher debt as compared to the corresponding quarter last fiscal year to fund the acquisition of Neilson.

**Income taxes** for the first quarter of fiscal 2010 totalled \$37.2 million, reflecting an effective tax rate of 30.5% compared to 31.5% for the same quarter last fiscal year. Our income tax rates vary and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates.

**Net earnings** reached \$84.8 million for the quarter ended June 30, 2009 compared to \$83.0 million for the same quarter last fiscal year. These reflect the various factors analyzed in this report.

## SELECTED QUARTERLY FINANCIAL INFORMATION

*(in millions of dollars except per share amounts)*

Fiscal years	2010		2009		2008			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$ 1,446.4	\$ 1,460.4	\$ 1,517.5	\$ 1,453.5	\$ 1,361.9	\$ 1,266.1	\$ 1,277.0	\$ 1,289.0
EBITDA	158.5	141.9	125.7	129.9	150.3	137.5	137.0	124.1
Net earnings	84.8	69.2	57.8	69.0	83.0	75.2	82.0	62.5
Earnings per share								
Basic	\$ 0.41	\$ 0.33	\$ 0.28	\$ 0.34	\$ 0.40	\$ 0.37	\$ 0.40	\$ 0.30
Diluted	\$ 0.41	\$ 0.33	\$ 0.28	\$ 0.33	\$ 0.40	\$ 0.36	\$ 0.39	\$ 0.30

### *Selected factors positively (negatively) affecting EBITDA<sup>1</sup>*

*(in millions of dollars)*

Fiscal years	2010		2009	
	Q1	Q4	Q3	Q2
Market factors <sup>2</sup>	(30.0)	(27.0)	(12.9)	(8.0)
US currency exchange	6.0	7.0	7.0	–
Inventory write-down	–	(2.4)	(18.5)	–
Plant closure costs	–	–	(2.0)	–

<sup>1</sup> as compared to same quarter of previous fiscal year.

<sup>2</sup> Market factors include the market pricing impact related to sales of dairy ingredients, the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories as well as the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material.

## CASH AND FINANCIAL RESOURCES

For the three-month period ended June 30, 2009, **cash generated by operating activities before changes in non-cash working capital items** amounted to \$118.6 million, an increase of \$8.2 million in comparison to the \$110.4 million for the corresponding quarter last fiscal year. Non-cash working capital items used \$16.3 million for the first quarter of fiscal 2010, compared to a usage of \$38.4 million for the corresponding quarter of fiscal 2009. The usage of cash for the period can be explained mainly by an increase in income taxes payments for amounts related to year-end taxes payable. Last year's usage is explained by income tax payments for amounts due at the end of last fiscal year, in addition to an increase in inventory in our Dairy Products Division (Canada).

**Investing activities** were mainly comprised of additions to fixed assets of \$26.3 million for the three-month period ended June 30, 2009.

**Financing activities** for the first quarter of fiscal 2010 consisted of a repayment of bank loans of \$65.7 million and the reimbursement of \$340 million of long-term bank credit facilities with the proceeds from the issuance of \$330 million long-term unsecured senior notes. Additionally, the Company issued shares for a cash consideration of \$2.6 million as part of the stock option plan.

As at June 30, 2009, the Company had working capital of \$205.0 million, an increase from the \$166.7 million as at March 31, 2009. This is mainly related to the decrease in short-term liabilities stemming from their repayment with cash from operations during the first quarter of fiscal 2010.

As at June 30, 2009, our net interest bearing debt-to-equity ratio stood at 0.32, in comparison to 0.36 as at March 31, 2009, mainly resulting from the decrease in indebtedness due to the payments with available cash from operations.

As at June 30, 2009, the Company had available bank credit facilities of approximately \$674 million, \$71.4 million of which were drawn. Should the need arise, the Company could make additional financing arrangements to pursue growth through acquisitions.

## BALANCE SHEET

With regards to balance sheet items as at June 30, 2009, compared to those as at March 31, 2009, the strengthening of the Canadian dollar versus the US dollar since March 31, 2009 resulted in the conversion of the balance sheets of foreign subsidiaries at lower rates, thus decreasing the Canadian dollar value of balance sheet items. In addition, the lower average block market per pound of cheese has caused a decrease in our Dairy Products Division (USA) working capital items as at June 30, 2009 in comparison to March 31, 2009. The Company's total assets stood at \$3.376 billion as at June 30, 2009 compared to \$3.499 billion as at March 31, 2009.

## 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 series must be determined at the time of their creation.

	Authorized	July 29, 2009	Issued as at June 30, 2009	March 31, 2009
Common shares	Unlimited	206,980,405	206,934,445	207,087,283
Preferred shares	Unlimited	-	-	-
Stock options		11,055,041	11,103,862	9,128,841

In the first quarter of fiscal 2010, the Company purchased 329,400 common shares at prices ranging from \$24.10 to \$24.50 per share as part of the normal course issuer bid effective November 13, 2008 and expiring on November 12, 2009. Under this normal course issuer bid, the Company is authorized to purchase, for cancellation purposes, up to 10,340,377 of its common shares. Prior to this quarter's purchases, the Company had not purchased any common shares under the current normal course issuer bid.

## CONTRACTUAL OBLIGATIONS

The Company completed during the first quarter of fiscal 2010 a \$330 million debt financing, composed of \$110 million Canadian denominated unsecured Senior Notes, issued at an interest rate of 5.34% for a term of five years maturing on June 22, 2014, and \$220 million of Canadian denominated unsecured Senior Notes issued at an interest rate of 5.82% for a term of seven years maturing on June 22, 2016. The proceeds of this financing were used to pay down part of the Company's existing credit facilities and for general corporate purposes.

The Company's contractual obligations consist of commitments and/or estimates to repay certain of its long-term debts as well as certain leases of premises, equipment and rolling stock. Note 8 describes the Company's commitment to repay long-term debt.

*(in thousands of dollars)*

	June 30, 2009			March 31, 2009		
	Long-term debt	Minimum lease	Total	Long-term debt	Minimum lease	Total
Less than 1 year	\$ 197,710	\$ 12,607	\$ 210,317	\$ 214,421	\$ 13,769	\$ 228,190
1-2 years	-	9,618	9,618	200,000	10,042	210,042
2-3 years	-	8,311	8,311	140,000	8,831	148,831
3-4 years	-	6,945	6,945	-	7,251	7,251
4-5 years	110,000	7,434	117,437	-	6,213	6,213
Subsequent years	278,150	11,796	289,946	63,065	11,360	74,425
	\$ 585,860	\$ 56,711	\$ 642,571	\$ 617,486	\$ 57,466	\$ 674,952

## **ACCOUNTING STANDARDS**

### **Goodwill and Intangible assets**

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, effective April 1, 2009 for the Company. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this section had no impact on the consolidated financial statements of the Company.

### **International Financial Reporting Standards (IFRS)**

In February 2008, the Accounting Standards Board (AcSB) announced January 1, 2011 as the changeover date for publicly-listed companies with December 31<sup>st</sup> year ends to adopt IFRS, replacing Canada's own GAAP. The changeover date applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company's IFRS adoption date of April 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended March 31, 2011 and an opening IFRS balance sheet as of April 1, 2010.

In order to ensure seamless transition to IFRS, the Company has divided its convergence plan into the following phases:

Phase 1: Identification and Analysis

Phase 2: Impact Analysis & Development Phase

Phase 3: Implementation Phase

The Company is currently in the identification and analysis phase of its convergence plan and is progressing according to schedule. The effects of any Canadian GAAP to IFRS divergences noted during the Company's Phase 1 have not been quantified as of the date of the end of the first quarter of fiscal 2010.

Progress of the convergence plan described above shall continue to be updated in future publications based on the requirements found in Canadian Securities Administrators Staff Notice 52-320.

The Company is expecting to enter into Phase 2 in the current fiscal year. During Phase 2, the Company will begin to identify GAAP to IFRS divergences that are significant and shall involve appropriate internal resources from relevant Corporate Departments.

## **FOLLOW-UP ON CERTAIN SPECIFIC ITEMS OF THE ANALYSIS**

For an analysis of off-balance sheet arrangements, guarantees, related party transactions, accounting standards, critical accounting policies and use of accounting estimates as well as risks and uncertainties, we encourage you to consult the comments provided in the 2009 annual report on pages 31 to 36 of the management's analysis, since there were no notable changes during the first quarter of fiscal 2010.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to Management in a timely manner so that information required to be disclosed under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Chief Executive Officer and the Chief Financial Officer, together with Management, have concluded after having conducted an evaluation and to the best of their knowledge that, as of June 30, 2009, no change in the Company's internal control over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

## INFORMATION BY SECTOR

### CEA Dairy Products Sector

*(in millions of dollars)*

Fiscal years	2010				2009			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$ 945.7	\$ 904.3	\$ 854.1	\$ 810.1	\$ 755.0	\$ 746.2	\$ 754.8	\$ 743.2
EBITDA	112.5	98.3	86.7	94.9	99.0	94.2	95.6	84.6

### *Selected factors positively (negatively) affecting EBITDA<sup>1</sup>*

*(in millions of dollars)*

Fiscal years	2010		2009	
	Q1	Q4	Q3	Q2
Market factors <sup>2</sup>	(2.0)	(4.0)	(6.0)	(6.0)
Inventory write-down	-	(1.0)	(7.4)	-

<sup>1</sup> as compared to same quarter of previous fiscal year.

<sup>2</sup> Market factors include the international market pricing impact related to sales of dairy ingredients.

### Revenues

For the quarter ended June 30, 2009, revenues for the CEA Dairy Products Sector amounted to \$945.7 million, an increase of 25.3%, or \$190.7 million, compared to \$755.0 million for the same period last fiscal year. This increase is mainly due to the inclusion of the revenues from Neilson, which contributed for the full 13 weeks in the quarter's revenues. Higher selling prices in Canada in accordance with the increase in the cost of milk as raw material also contributed to the increase in revenues. Finally, additional sales volumes, mainly from our export sales in our Argentinean Division and the Canadian Division fluid milk business, contributed to increased revenues. This increase was partially offset by lower selling prices from our Argentinean export sales. Revenues from our Dairy Products Division (Europe) decreased compared to the same quarter last fiscal year due to lower sales prices.

### EBITDA

For the quarter ended June 30, 2009, EBITDA for the CEA Dairy Products Sector totalled \$112.5 million, an increase of \$13.5 million or 13.6% compared to the \$99.0 million for the corresponding quarter last fiscal year. The increase in EBITDA is mainly attributed to our Canadian Dairy Division as a result of the inclusion of Neilson, a combination of additional sales volumes, particularly in the fluid milk business as well as a reduction of handling and delivery costs and other operational

efficiencies as compared to the same quarter last fiscal year. The dairy ingredient market continued to be unfavourable compared to the same quarter of last fiscal year decreasing EBITDA by approximately \$2 million. CEA Dairy Products Sector EBITDA for the quarter includes a \$1.5 million dividend from our portfolio investment.

For the quarter ended June 30, 2009, our Dairy Products Division (Europe) showed a slight increase in EBITDA compared to the same quarter last fiscal year as a result of improved profitability from our German operations due to better efficiencies and higher volumes. This increase was partially offset by lower profitability from our United Kingdom (UK) operations as a result of the combination of high milk price as raw material, low selling prices as well as lower sales volumes.

Our Dairy Products Division (Argentina) EBITDA was negatively affected, as compared to the same quarter last fiscal year, mainly due to low selling prices in the export market, while prices for milk as raw material remained high.

### USA Dairy Products Sector

*(in millions of dollars)*

Fiscal years	2010			2009			2008	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$ 458.6	\$ 517.0	\$ 621.6	\$ 601.5	\$ 564.5	\$ 481.8	\$ 480.2	\$ 502.8
EBITDA	41.3	39.1	35.7	31.1	46.0	40.2	37.2	34.1

### *Selected factors positively (negatively) affecting EBITDA<sup>1</sup>*

*(in millions of dollars)*

Fiscal years	2010		2009	
	Q1	Q4	Q3	Q2
Market factors <sup>2</sup>	(28.0)	(23.0)	(6.9)	(2.0)
US currency exchange	6.0	7.0	7.0	-
Inventory write-down	-	(1.4)	(11.1)	-
Plant closure costs	-	-	(2.0)	-

<sup>1</sup> as compared to same quarter of previous fiscal year.

<sup>2</sup> Market factors include the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories as well as the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material as well as market pricing impact related to sales of dairy ingredients.



### ***Other pertinent information***

*(in US dollars except for average exchange rate)*

Fiscal years	2010		2009		
	Q1	Q4	Q3	Q2	Q1
Average block market per pound of cheese	\$ 1.189	\$ 1.203	\$ 1.788	\$ 1.864	\$ 1.978
Closing block price <sup>1</sup> per pound of cheese	\$ 1.115	\$ 1.290	\$ 1.133	\$ 1.805	\$ 1.925
Whey powder market price <sup>2</sup> per pound	\$ 0.270	\$ 0.160	\$ 0.160	\$ 0.260	\$ 0.280
Spread <sup>3</sup>	\$ 0.176	\$ 0.196	\$ 0.198	\$ 0.146	\$ 0.168
US average exchange rate to Canadian dollar <sup>4</sup>	1.172	1.254	1.205	1.043	1.011

<sup>1</sup> Closing block price is the price of a 40 pound block of Cheddar traded on the Chicago Mercantile Exchange (CME) on the last business day of each quarter.

<sup>2</sup> Whey powder market price is based on Dairy Market News published information.

<sup>3</sup> Spread is the average block price per pound of cheese less the result of the average cost per hundredweight of Class III and/or Class IV milk price divided by 10.

<sup>4</sup> Based on Bank of Canada published information.

### **Revenues**

Revenues for the USA Dairy Products Sector totalled \$458.6 million for the quarter ended June 30, 2009 a decrease of \$105.9 million from the \$564.5 million for the corresponding quarter last fiscal year. The decrease is due mainly to a significantly lower average block market per pound of cheese. An average block market per pound of cheese of US\$1.19 for the current quarter, US\$0.79 lower than the average block market per pound of cheese for the same quarter last fiscal year, decreased revenues by approximately \$155 million. A less favorable dairy ingredient market as well as lower sales volumes lowered our revenues in this quarter in comparison to the same quarter last fiscal year by approximately \$14 million. The weakening of the Canadian dollar increased revenues by approximately \$63 million.

### **EBITDA**

For the quarter ended June 30, 2009, the EBITDA totalled \$41.3 million, a decrease of \$4.7 million in comparison to the \$46.0 million for the same quarter last fiscal year. The average block market per pound of cheese decreased from US\$1.98 for the first quarter of last fiscal year to US\$1.19 for the first quarter of fiscal 2010. This decrease created a negative effect on the absorption of fixed costs. The average block market per pound of cheese also decreased steadily throughout the first quarter of fiscal 2010, closing at below support levels. This downward trend negatively affected the realization of our inventories. A less favorable dairy ingredient market in comparison to the same quarter last fiscal year also decreased EBITDA. The relationship between the average block market per pound of cheese and the cost of milk as raw material was more favorable in the current quarter in comparison to the same period last fiscal year. These market factors combined had a negative impact of approximately \$28 million on EBITDA. Despite these negative market factors, the Division improved EBITDA by implementing pricing initiatives to combat the block price falling below the support level and improving efficiencies through initiatives that were undertaken in prior and current fiscal years. In addition, the Division benefited from lower ingredient costs offsetting increased promotional expenses. Finally, changes in the Class III product-price formula enacted by the US Department of Agriculture (USDA) in the third quarter of fiscal 2009 also improved EBITDA. All these above factors increased EBITDA by approximately \$17 million. The weakening of the Canadian dollar increased EBITDA by approximately \$6 million.

## Grocery Products Sector

(in millions of dollars)

Fiscal years	2010		2009			2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$ 42.2	\$ 39.0	\$ 41.7	\$ 42.0	\$ 42.4	\$ 38.1	\$ 42.0	\$ 42.9
EBITDA	4.6	4.5	3.2	4.0	5.3	3.1	4.2	5.4

### Revenues

Revenues for the Grocery Products Sector totalled \$42.2 million for the quarter, a \$0.2 million decrease compared to the same quarter last fiscal year. The Sector recorded higher sales volumes and had a better product mix resulting in increased revenues. This increase was offset by additional brand support related to the introduction of new products. Finally, our market share increased slightly as a result of our marketing efforts.

### EBITDA

EBITDA for the Grocery Products Sector amounted to \$4.6 million, a \$0.7 million decrease or 13.2% compared to the same quarter last fiscal year. EBITDA margin decreased from 12.4% in the first quarter of fiscal 2009 to 10.9% this quarter. The positive effect on EBITDA from higher sales volumes and better product mix was offset by additional costs relating to brand support.

## OUTLOOK

In our Dairy Products Division (Canada), we are currently integrating the Neilson operations acquired last December. We are also implementing various initiatives to maximize the opportunity and visibility that our partnership with the 2010 Vancouver Olympic and Paralympic Winter Games offers. The ongoing analysis of our cost structure remains a priority covering manufacturing processes, distribution activities, warehousing and handling.

In our Dairy Products Division (Europe), we continue to take cost cutting measures in an effort to streamline operations. In addition, we continue to focus on operational efficiencies in order to be competitive in this volatile market. In the UK, we offered lower milk prices to producers to better reflect the low selling prices for cheese in the market which resulted in decreased milk supply. Therefore, we recently reduced our workforce. We will monitor the situation in the upcoming quarters.

The Dairy Products Division (Argentina) continues to face depressed selling prices on the export market with still relatively high milk prices as raw material. We anticipate that this situation will improve in the upcoming quarters.

On July 20, 2009, the USA Dairy Products Sector completed the acquisition of the activities of F&A Dairy of California, which manufactures, sells, and distributes mozzarella, provolone and whey products from its facility in Newman, California. We will evaluate this operation with the aim of improving operational efficiencies and identifying possible synergies within our West Coast facilities. We will continue to focus on opportunities to improve operational results.

In the Bakery Division, we are working on two new lines of products geared towards lunch boxes and the frozen category to be launched in the fall. We are currently reviewing different aspects of our Bakery Division, such as low volume sku's and the standardization of packaging and ingredients.

In all of our divisions, we will continue to work on product innovation and to support our existing brands to improve our presence in the market.

We believe that we have a strong balance sheet to face the current economic context. We intend to maintain our sound approach and continue to maximize our efficiencies. Our goal remains to pursue growth internally and through acquisitions.

(signed)

**Lino Saputo**

Chairman of the Board

August 4, 2009

(signed)

**Lino A. Saputo, Jr.**

President and

Chief Executive Officer

**NOTICE**

The consolidated financial statements of Saputo Inc. for the three-month periods ended June 30, 2009 and 2008 have not been reviewed by an external auditor.

**CONSOLIDATED STATEMENTS OF EARNINGS**

*(in thousands of dollars, except per share amounts)*

*(unaudited)*

For the three-month periods  
ended June 30

	2009	2008
<b>Revenues</b>	<b>\$ 1,446,434</b>	\$ 1,361,910
Cost of sales, selling and administrative expenses	1,287,978	1,211,593
<b>Earnings before interest, depreciation, amortization and income taxes</b>	<b>158,456</b>	150,317
Depreciation and amortization (Note 5)	28,350	22,395
<b>Operating income</b>	<b>130,106</b>	127,922
Interest on long-term debt	6,513	4,597
Other interest, net	1,531	2,188
<b>Earnings before income taxes</b>	<b>122,062</b>	121,137
Income taxes	37,241	38,174
<b>Net earnings</b>	<b>\$ 84,821</b>	\$ 82,963
<b>Earnings per share (Note 10)</b>		
Net earnings		
Basic	<b>\$ 0.41</b>	\$ 0.40
Diluted	<b>\$ 0.41</b>	\$ 0.40

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
*(in thousands of dollars, except for common shares)*
*(unaudited)*
**For the three-month period ended June 30, 2009**

	Share capital						Total Shareholders' Equity
	Retained Earnings	Accumulated Other Comprehen- sive Income	Common Shares (in thousands)	Amount	Contributed Surplus		
<b>Balance at beginning of period</b>	\$ 1,373,856	\$ 16,219	207,087	\$ 555,529	\$ 26,744	\$ 1,972,348	
Comprehensive income:							
Net income	84,821	-	-	-	-	84,821	
Net change in currency translation of financial statements of self-sustaining foreign operations	-	(73,718)	-	-	-	(73,718)	
Losses on derivative financial instruments designated as cash flow hedges, net of tax	-	1,263	-	-	-	1,263	
Total comprehensive income						12,366	
Dividends declared	(28,971)	-	-	-	-	(28,971)	
Stock based compensation (Note 11)	-	-	-	-	1,898	1,898	
Shares issued under stock option plans	-	-	177	2,618	-	2,618	
Amount transferred from contributed surplus to share capital upon exercise of options	-	-	-	704	(704)	-	
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	-	26	26	
Shares redeemed and cancelled	(7,084)	-	(329)	(890)	-	(7,974)	
<b>Balance at end of period<sup>1</sup></b>	<b>\$ 1,422,622</b>	<b>\$ (56,236)</b>	<b>206,935</b>	<b>\$ 557,961</b>	<b>\$ 27,964</b>	<b>\$ 1,952,311</b>	

**For the three-month period ended June 30, 2008**

	Share capital						Total Shareholders' Equity
	Retained Earnings	Accumulated Other Comprehen- sive Income	Common Shares (in thousands)	Amount	Contributed Surplus		
<b>Balance at beginning of period</b>	\$ 1,206,568	\$ (146,414)	205,963	\$ 536,921	\$ 22,085	\$ 1,619,160	
Comprehensive income:							
Net income	82,963	-	-	-	-	82,963	
Net change in currency translation of financial statements of self-sustaining foreign operations	-	3,060	-	-	-	3,060	
Total comprehensive income						86,023	
Dividends declared	(24,772)	-	-	-	-	(24,772)	
Stock based compensation (Note 11)	-	-	-	-	1,831	1,831	
Shares issued under stock option plans	-	-	469	6,972	-	6,972	
Amount transferred from contributed surplus to share capital upon exercise of options	-	-	-	1,170	(1,170)	-	
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	-	386	386	
<b>Balance at end of period<sup>2</sup></b>	<b>\$ 1,264,759</b>	<b>\$ (143,354)</b>	<b>206,432</b>	<b>\$ 545,063</b>	<b>\$ 23,132</b>	<b>\$ 1,689,600</b>	

<sup>1</sup> Retained Earnings and Accumulated Other Comprehensive Income total is \$1,366,386.

<sup>2</sup> Retained Earnings and Accumulated Other Comprehensive Income total is \$1,121,405.

**CONSOLIDATED BALANCE SHEETS**
*(in thousands of dollars)*

	June 30, 2009 <i>(unaudited)</i>	March 31, 2009 <i>(audited)</i>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 36,650	\$ 43,884
Receivables	412,078	427,227
Inventories (Note 4)	573,976	583,594
Income taxes	8,859	9,585
Future income taxes	22,332	23,881
Prepaid expenses and other assets	28,426	37,501
	1,082,321	1,125,672
<b>Portfolio investment</b>	41,343	41,343
<b>Fixed assets (Note 5)</b>	1,098,569	1,149,662
<b>Goodwill</b>	735,210	760,283
<b>Trademarks and other intangibles</b>	323,922	327,516
<b>Other assets (Note 6)</b>	87,953	88,326
<b>Future income taxes</b>	7,044	6,301
	\$ 3,376,362	\$ 3,499,103
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank loans (Note 7)	\$ 71,442	\$ 139,399
Accounts payable and accrued liabilities	473,599	484,866
Dividend payable	28,971	-
Share purchase payable	7,974	-
Income taxes	92,251	113,910
Future income taxes	5,336	6,348
Current portion of long-term debt (Note 8)	197,710	214,421
	877,283	958,944
<b>Long-term debt (Note 8)</b>	388,150	403,065
<b>Other liabilities</b>	15,518	22,180
<b>Future income taxes</b>	143,100	142,566
	1,424,051	1,526,755
<b>SHAREHOLDERS' EQUITY</b>	1,952,311	1,972,348
	\$ 3,376,362	\$ 3,499,103

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(in thousands of dollars)*

*(unaudited)*

For the three-month periods  
ended June 30

	2009	2008
<b>Cash flows related to the following activities:</b>		
<b>Operating</b>		
Net earnings	\$ 84,821	\$ 82,963
Items not affecting cash and cash equivalents		
Stock based compensation	1,898	1,831
Depreciation and amortization	28,350	22,395
Gain on disposal of fixed assets	(97)	(3,058)
Future income taxes	4,227	6,445
Deferred share units	574	360
Funding of employee plans in excess of costs	(1,190)	(503)
	<b>118,583</b>	<b>110,433</b>
Changes in non-cash operating working capital items	<b>(16,309)</b>	<b>(38,447)</b>
	<b>102,274</b>	<b>71,986</b>
<b>Investing</b>		
Business acquisition (Note 12)	-	(160,603)
Additions to fixed assets	(26,277)	(24,802)
Proceeds on disposal of fixed assets	97	4,129
Other liabilities	(6,321)	(1,089)
	<b>(32,501)</b>	<b>(182,365)</b>
<b>Financing</b>		
Bank loans	(65,697)	(35,992)
Proceeds from long-term debt	330,000	-
Repayment of long-term debt	(340,000)	-
Issuance of share capital	2,618	6,972
	<b>(73,079)</b>	<b>(29,020)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(3,306)</b>	<b>(139,399)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(3,928)</b>	<b>1,010</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>43,884</b>	<b>165,710</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 36,650</b>	<b>\$ 27,321</b>
<b>Supplemental information</b>		
Interest paid	\$ 12,391	\$ 10,590
Income taxes paid	\$ 53,042	\$ 53,342

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(tabular amounts are in thousands of dollars except information on options and shares)*

*(unaudited)*

### 1 — Significant Accounting Policies

#### *Basis of presentation*

The unaudited consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and applied in the same manner as the most recently audited financial statements. These financial statements do not include all the information and notes required according to GAAP for annual financial statements, and should therefore be read in conjunction with the audited consolidated financial statements and the notes included in the Company's annual report for the year ended March 31, 2009.

#### *New accounting policies*

During the quarter, the Company adopted Section 3064 of the CICA Handbook, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and development costs. The Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including intangible assets developed internally. The adoption of this Section has no impact on the consolidated financial statements or on the carrying value of the goodwill and intangible assets.

#### *Effect of new accounting standards not yet implemented*

International Financial Reporting Standards (IFRS). In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company's transition date of April 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending March 31, 2011. The Company is currently in the identification and analysis phase of its convergence plan and is progressing according to schedule. The effects of any Canadian GAAP to IFRS divergences noted during the Company's Phase 1 have not been quantified as of the date of the end of the first quarter of fiscal 2010.

Section 1582, Business Combinations. This new Section, which replaces Section 1581, will be applicable to business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning April 1, 2011. Early adoption is permitted. This Section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

Section 1601 Consolidated financial statements. This new Section, which replaces Section 1600, will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after April 1, 2011. Early adoption is permitted. This Section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.



### 1 — Significant Accounting Policies (cont'd)

Section 1602, Non-Controlling interests. This new Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after April 1, 2011. Early adoption is permitted. This Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

### 2 — Foreign Currency Translation

The balance sheet accounts of the self-sustaining companies operating outside Canada are translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the periods. The unrealized gains (losses) on translation of the financial statements of self-sustaining foreign operations account presented in accumulated other comprehensive income (loss) represents accumulated foreign currency gains (losses) on the Company's net investments in companies operating outside Canada. The change in the unrealized gains (losses) on translation of the financial statements of self-sustaining foreign operations account for the period resulted mainly from the fluctuation in value of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of the Company and its subsidiaries are translated using the exchange rates at the balance sheet dates for monetary assets and liabilities and the prevailing exchange rates at the time of transactions for income and expenses. Non-monetary items are translated at the historical exchange rates. Gains or losses resulting from this translation are included in the cost of sales, selling and administrative expenses.

	For the three-month periods ended June 30	
	2009	2008
Foreign exchange gain	\$ 210	\$ 362

### 3 — Accumulated Other Comprehensive Income (Loss)

	June 30, 2009	March 31, 2009
Unrealized (losses) gains on currency translation of financial statements of foreign self-sustaining operations	\$ (56,236)	\$ 17,482
Losses on derivative financial instruments designated as cash flow hedges, net of tax	-	(1,263)
Accumulated other comprehensive income (loss)	\$ (56,236)	\$ 16,219

#### 4 — Inventories

	June 30, 2009	March 31, 2009
Finished goods	\$ 349,437	\$ 368,456
Raw materials, work in process and supplies	224,539	215,138
	<b>\$ 573,976</b>	<b>\$ 583,594</b>

The amount of inventories recognized as an expense for the three-month periods ended June 30, 2009 and 2008 are \$1,148,632,000 and \$1,089,581,000 respectively.

#### 5 — Fixed Assets

	June 30, 2009			March 31, 2009		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 41,215	\$ —	\$ 41,215	\$ 42,243	\$ —	\$ 42,243
Buildings	398,346	91,333	307,013	417,335	90,675	326,660
Furniture, machinery and equipment	1,278,475	535,396	743,079	1,321,468	548,676	772,792
Rolling stock	12,722	7,767	4,955	13,329	7,864	5,465
Held for sale	2,307	—	2,307	2,502	—	2,502
	<b>\$ 1,733,065</b>	<b>\$ 634,496</b>	<b>\$ 1,098,569</b>	<b>\$ 1,796,877</b>	<b>\$ 647,215</b>	<b>\$ 1,149,662</b>

During the three-month periods ended June 30, 2009 and 2008, the depreciation expense related to fixed assets totalled \$27,035,000 and \$22,168,000. No gain on disposal of fixed assets held for sale was recorded in the quarter ended June 30, 2009 (\$3,077,000 as of June 30, 2008). This was recorded in cost of sales, selling and administrative expenses. The assets held for sale relate mainly to land and buildings in the United States as a result of certain plant closures.

The net book value of fixed assets under construction, that are not being amortized, amounts to \$71,290,000 as at June 30, 2009 (\$67,707,000 as at March 31, 2009), and consists mainly of machinery and equipment.

#### 6 — Other Assets

	June 30, 2009	March 31, 2009
Net accrued pension plan asset	\$ 61,518	\$ 61,040
Taxes receivable	17,246	18,993
Other	9,189	8,293
	<b>\$ 87,953</b>	<b>\$ 88,326</b>

## 7 — Bank Loans

The Company has available bank credit facilities providing for unsecured bank loans as follows:

Credit Facilities	Maturity	Available for Use		Amount Drawn	
		Canadian Currency Equivalent	Base Currency	June 30, 2009	March 31, 2009
North America–US Currency	December 2012	151,190	130,000 USD	\$ 254	\$ –
North America–CDN Currency	December 2012	430,310	370,000 USD	25,000	390,000
Canada	May 2009	–	–	–	40,000
Argentina	Yearly	16,766	55,150 ARS	–	–
Argentina	Yearly	54,487	46,850 USD	39,325	47,927
Germany	Yearly	8,149	5,000 EUR	1,257	1,472
United Kingdom	Yearly	13,385	7,000 BPS	5,606	–
		674,287		71,442	479,399
Amount classified as long-term debt				–	(340,000)
				\$ 71,442	\$ 139,399

## 8 — Long-Term Debt

	June 30, 2009	March 31, 2009
Unsecured senior notes		
8.12%, issued in November 1999 and due in November 2009 (US\$170,000,000)	\$ 197,710	\$ 214,421
8.41%, issued in November 1999 and due in November 2014 (US\$50,000,000)	58,150	63,065
5.34%, issued in June 2009 and due in June 2014	110,000	–
5.82%, issued in June 2009 and due in June 2016	220,000	–
Bank loan – long-term portion (Note 7)	–	340,000
	585,860	617,486
Current portion	197,710	214,421
	\$ 388,150	\$ 403,065

Estimated principal repayments are as follows:

Less than 1 year	\$ 197,710	\$ 214,421
1–2 years	–	200,000
2–3 years	–	140,000
3–4 years	–	–
4–5 years	110,000	–
Subsequent years	278,150	63,065
	\$ 585,860	\$ 617,486

## 9 — Employee Pension and Other Benefit Plans

The Company provides benefit and defined contribution pension plans as well as other benefit plans such as health insurance, life insurance and dental plans to eligible employees and retired employees. Pension and other benefit plan obligations are affected by factors such as interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The costs are based on a measurement of the pension and other benefit plan obligations and the pension fund assets.

Total benefit costs for the three-month periods ended June 30 are as follows:

	For the three-month periods ended June 30	
	2009	2008
Pension plans	\$ 4,832	\$ 5,177
Other benefits plans	274	326
	<b>\$ 5,106</b>	<b>\$ 5,503</b>

## 10 — Earnings per Share

	For the three-month periods ended June 30	
	2009	2008
Net earnings	\$ 84,821	\$ 82,963
Weighted average number of common shares outstanding	207,029,240	206,253,867
Dilutive options	1,068,528	2,959,978
Weighted average dilutive number of common shares outstanding	<b>208,097,768</b>	<b>209,213,845</b>
Basic earnings per share	\$ 0,41	\$ 0,40
Diluted earnings per share	\$ 0,41	\$ 0,40

When calculating dilutive earnings per share, 3,156,149 options (1,625,752 in 2008) were excluded from the calculation because their exercise price is higher than the average market value.

## 11 — Stock option compensation

Changes in the number of outstanding options are as follows:

	June 30, 2009		June 30, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	9,128,841	\$ 16.93	8,893,428	\$ 16.52
Options granted	2,232,039	\$ 21.40	1,634,393	\$ 27.81
Options exercised	(176,562)	\$ 14.83	(468,965)	\$ 14.87
Options cancelled	(80,456)	\$ 18.90	(109,626)	\$ 18.69
Balance at end of period	11,103,862	\$ 17.00	9,949,230	\$ 16.59

The exercise price of the options granted in fiscal 2010 is \$21.40, which corresponds to the weighted average market price for the five trading days immediately preceding the date of grant (\$27.81 in 2009).

The fair value of options granted in fiscal 2010 was estimated at \$3.24 per option (\$4.98 in 2009), using the Black Scholes option pricing model with the following assumptions:

	June 30, 2009	March 31, 2009
Risk-free interest rate:	1.9%	3.0%
Expected life of options:	5 years	5 years
Volatility:	19%	19%
Dividend rate:	2.0%	1.7%

A compensation expense of \$1,898,000 (\$1,689,000 after income taxes) relating to stock options was recorded in the statement of earnings for the three-month period ended June 30, 2009 and \$1,831,000 (\$1,600,000 after income taxes) was recorded for the three-month period ended June 30, 2008.

## 12 — Business Acquisition

On April 1, 2008 the Company completed the acquisition of the cheese activities of Alto Dairy Cooperative in the United States.

		June 30, 2008
<b>Assets acquired</b>		
Receivables		\$ 31,709
Inventories		22,096
Prepaid expenses		262
Fixed assets		70,840
Goodwill		62,878
<b>Liabilities assumed</b>		
Accounts payable and accrued liabilities		27,182
		\$ 160,603
<b>Consideration</b>		
Cash paid		\$ 160,603

## 13 – Segmented Information

	For the three-month periods ended June 30	
	2009	2008
<b>Revenues</b>		
Dairy Products		
CEA <sup>1</sup>	\$ 945,650	\$ 755,004
USA	458,600	564,511
	<b>1,404,250</b>	<b>1,319,515</b>
Grocery Products	42,184	42,395
	<b>\$ 1,446,434</b>	<b>\$ 1,361,910</b>
<b>Earnings before interest, depreciation amortization and income taxes</b>		
Dairy Products		
CEA	\$ 112,511	\$ 99,044
USA	41,302	46,014
	<b>153,813</b>	<b>145,058</b>
Grocery Products	4,643	5,259
	<b>\$ 158,456</b>	<b>\$ 150,317</b>
<b>Depreciation and amortization</b>		
Dairy Products		
CEA	\$ 13,222	\$ 9,365
USA	13,038	11,163
	<b>26,260</b>	<b>20,528</b>
Grocery Products	2,090	1,867
	<b>\$ 28,350</b>	<b>\$ 22,395</b>
<b>Operating income</b>		
Dairy Products		
CEA	\$ 99,289	\$ 89,679
USA	28,264	34,851
	<b>127,553</b>	<b>124,530</b>
Grocery Products	2,553	3,392
	<b>\$ 130,106</b>	<b>\$ 127,922</b>
Interest	<b>8,044</b>	<b>6,785</b>
<b>Earnings before income taxes</b>	<b>122,062</b>	<b>121,137</b>
Income taxes	<b>37,241</b>	<b>38,174</b>
<b>Net earnings</b>	<b>\$ 84,821</b>	<b>\$ 82,963</b>

<sup>1</sup> Canada, Europe and Argentina

## 14 — Subsequent Events

On July 20, 2009 the Company completed the acquisition of the activities of F&A Dairy of California, Inc. for a cash consideration of \$49,250,000.