

I N T E R I M R E P O R T

1st quarter

F O R T H E T H R E E M O N T H S
E N D E D J U N E 3 0 , 1 9 9 8



S A P U T O G R O U P I N C .

MESSAGE TO THE

Shareholders

Revenues for the first quarter ending June 30, 1998 are posted at \$ 406.1million, an increase of 245.3 % over the same quarter in 1997. Certainly the main factor contributing to this increase was the acquisition of Stella Holdings Inc., a Saputo Group company acquired in December 1997, and which contributed 78.4 % of this increase. Results for this quarter also include those of the Avonmore Group for a two-month period.

Acquisition of Saputo Cheese USA, formerly Avonmore Cheese Inc. and Waterford FoodProducts Inc., was finalized on May 1, 1998 for a total amount of US \$ 37.2million (C \$ 53 million). This addition of Saputo Cheese USA contributed in a positive manner to our Company's overall revenues, cash flow and net earnings in the first quarter.

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached \$ 43.3 million in the first quarter, an increase of 131.6% over \$ 18.7 million for the same quarter of 1997. In terms of percentages, EBITDA represented a margin of 10.7% compared to 15.9% in 1997. This narrowing can be explained in part by the significant effect of Stella's operations upon the group as a whole. American operations, though presently on a narrower EBITDA margin than Canadian operations, experienced a net increase during the first quarter.

First-quarter net earnings totalled \$ 15.9 million, an increase of 48.6% over the \$ 10.7 million in 1997. The net profit margin went - from 9.1% in 1997 to 3.9 % in 1998. Stella's operations contributed largely to the increase in net earnings. We expect that this contribution will continue to increase over the following quarters of the 1999 fiscal year.

Net cash flow generated by operations before changes in non-cash operating working capital items rose to \$ 31.0 million, an increase of 144.1% over the \$ 12.7 million posted in 1997.

At present the company is continuing to pursue its course of action towards solutions to the Year 2000 issue, and we do not anticipate any major financial or operational impact. All phases of the Y2K compliance program should be completed before March 31, 1999.

The acquisition of Saputo Cheese USA, together with Saputo's already well-established position in both Canada and the United States, are enabling our company to consolidate its position as one of North America's leading cheese producers. We intend to continue to increase our profitability with full integration of our recent American acquisitions into our operations. The synergy resulting from this integration could only have positive effects.

Signature
Lino Saputo

Lino Saputo

Chairman of the Board
and Chief Executive Officer

Signature
Camillo Lisio

Camillo Lisio

President and
Chief Operating Officer

August 28, 1998

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

(in thousands of dollars
except for earnings per share)

For the three months
ended June 30

	1998	1997
Revenue	\$ 406 110	\$ 117 577
Cost of sales, selling and administrative expenses	362 857	98 887
Earnings before the undernoted expenses	43 253	18 690
Depreciation and amortization of fixed assets	7 147	1 921
Amortization of goodwill	1 553	75
Earnings before interest and income taxes	34 553	16 694
Interest on long term debt	8 236	-
Other interest, net of interest income	402	(46)
Earnings before income taxes	25 915	16 740
Income taxes	10 005	6 059
Net earnings	\$ 15 910	\$ 10 681
Earnings per share		
Basic (1)	\$ 0.33	\$ 0.36
Fully diluted (2)	\$ 0.32	

(1) Basic earnings per share have been calculated using 48 567 260 common shares outstanding (30 000 000 in 1997).

(2) Fully diluted earnings per share have been calculated using 49 331 705 shares, being 48 567 260 common shares currently outstanding and 764 445 common shares that may be issued under the Company's share option plan.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(unaudited)

For the three months
ended June 30

(in thousands of dollars)

	1998	1997
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net earnings	\$ 15 910	\$ 10 681
Items not affecting cash		
Depreciation and amortization	8 700	1 996
Deferred income taxes	6 441	23
Gain on disposal of fixed assets	(11)	-
	31 040	12 700
Changes in non-cash operating working capital items	(13 658)	(3 127)
	17 382	9 573
Investing		
Business acquisition	(53 223)	-
Cash of acquired businesses	2 039	-
Additions to fixed assets	(10 580)	(4 242)
Proceeds from disposal of fixed assets	91	-
Disposal of investments	-	108
Other assets - net change	(405)	167
Advances to companies controlled by shareholders	-	10 932
Foreign currency translation adjustment	(1 681)	40
	(63 759)	7 005
Financing		
Increase in long-term debt	50 014	-
Repayment of long-term debt	(9 163)	-
Advances from a shareholder corporation	-	425
Dividends	-	(15 500)
	40 851	(15 075)
(Decrease) increase in cash	(5 526)	1 503
Bank indebtedness, beginning of period	(9 689)	(11 643)
Bank indebtedness, end of period	\$ 15 215	\$ 10 140

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands of dollars)

As at June 30

	1998	1997
ASSETS		
Current assets		
Receivables	\$ 159 919	\$ 34 759
Inventories	197 891	33 626
Prepaid expenses and other assets	3 054	2 636
Advances to companies controlled by shareholders, bearing interest at bank prime rate	-	9 983
	360 864	81 004
Investments, at cost	-	2 238
Fixed assets	381 882	78 322
Goodwill, unamortized portion	255 310	1 218
Other assets	6 015	1 122
	\$ 1 004 071	\$ 163 904
LIABILITIES		
Current liabilities		
Bank indebtedness	\$ 15 215	\$ 10 140
Accounts payable and accrued liabilities	165 846	29 377
Income taxes	92	897
Current portion of long-term debt	51 000	-
Advances from a shareholder corporation, bearing interest at bank prime rate	-	4 200
	232 153	44 614
Long-term debt	370 205	-
Deferred income taxes	10 248	9 988
	612 606	54 602
SHAREHOLDERS' EQUITY		
Share capital	347 789	15 224
Retained earnings	38 133	94 124
Foreign currency translation adjustment	5 543	(46)
	391 465	109 302
	\$ 1 004 071	\$ 163 904