Interim Report

2nd Quarter

Fiscal 2002

SAPUTO

Message to the shareholders and analysis of operating results and financial position

We are pleased to present the results for the second quarter of fiscal 2002, ended September 30, 2001, for which the Company reported excellent financial performance.

Net earnings rose to $41.5 million or $0.81 (basic) per share, a 32.6% increase over the $31.3 million or $0.61 (basic) per share figures posted for the corresponding quarter the previous fiscal year. This increase in earnings reflected the positive impact of the integration and enhancements initiated at Dairyworld since its acquisition in February 2001. The upward trend in the price per pound of cheese in the United States also positively impacted second quarter net earnings compared with last year. Since the beginning of the fiscal year, net earnings have risen by $19.9 million to reach $81.7 million, a 32.3% increase over the corresponding period in 2001.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) totalled $91 million, a 35.8% increase over the $67 million figure posted in the second quarter of the previous year. Dairyworld, acquired on February 5, 2001, accounted for more than 84% of this $24 million increase in EBITDA. The EBITDA margin for the quarter ended September 30, 2001 was 10.1%, lower compared to 13.3% for the same period the previous year. This decrease in EBITDA margin owed primarily to Dairyworld operations which, despite undergoing an intensive integration process, do not generate margins comparable to those generated by other Canadian operations in the Dairy Products sector. Margins at Dairyworld are, however, definitely progressing well. Moreover, the better part of the integration process should be completed by the end of the current fiscal year.

The Company's revenues for the quarter ended September 30, 2001 climbed from $503.5 million to $897.7 million, a 78.3% increase over the same period the previous year. Dairyworld contributed nearly

$345 million to the Company's revenues during this period.

CASH AND FINANCIAL RESOURCES

Since the outset of the 2002 fiscal year, cash generated before changes in non-cash working capital items totalled $122.7 million or $2.39 (basic) per share, a 31.4% increase over the 93.4 million or $1.82 (basic) per share figure posted for the corresponding period the previous year. The Company has used this significant cash inflow to reimburse $40 million in long-term debt, $30 million of which was paid back during the quarter ended September 30, 2001. Since the beginning of the current fiscal year, $29.4 million has been earmarked for additional capital expenditures, including $17.5 million this past quarter. During the second quarter, in addition to the amounts initially provided for additional capital expenditures, the Company invested approximately $6 million towards the integration process of Dairyworld. The Company increased the capital expenditure budget from the original $52 million figure to $60 million. Of this amount, other sums may be necessary towards the integration process of Dairyworld.

INFORMATION BY SECTOR

Dairy Products (Canada)

Revenues for the second quarter of the 2002 fiscal year totalled $498 million, a 227% increase compared with the $152.3 million figure posted during the same quarter of the previous year. This increase in revenues owed almost entirely to the contribution of Dairyworld in the amount of $344.7 million. EBITDA climbed from $20.1 million to $43.7 million, a 117% increase over the 2001 fiscal year; Dairyworld activities accounted for 86% of this increase. EBITDA margin stood at 8.8% for the quarter ended September 30, 2001 compared with 13.2% for the same period the previous year. The decline in overall Canadian margin is attributable primarily to the 5.9% margin generated by Dairyworld during the quarter. Dairyworld has, however, demonstrated significant progress since it was purchased. EBITDA margin which stood at 4.3% at the time of acquisition indeed rose from 5.2% for the quarter ended June 30, 2001 to 5.9% for the second quarter. This improvement was in keeping with the integration process currently under way. Other Canadian activities in the Dairy Products sector generated EBITDA in the order of

$23.5 million during the quarter ended September 30, 2001, representing a 15.3% margin compared with 14.2% during the same period the previous year.

Dairy Products (United States)

Revenues for the second quarter of the 2002 fiscal year reached $354.7 million, a $66.5 million or 23.1% increase compared with the $288.2 million recorded the previous year. This rise owed primarily to the increase in the average selling price per pound of cheese in the United States, which increased by more than US $0.40 compared with prices in effect the previous year. This translates into a favourable impact to revenues in the amount of $54 million. The result of the weaker Canadian dollar compared with the American dollar also had a positive impact, although not as significant, of approximately $12 million on revenues.

EBITDA for the second quarter totalled $38.8 million, a 7.5% increase over the $36.1 million figure posted during the same period the previous year. EBITDA margin declined from 12.5% in 2001 to 10.9% during the last quarter. For the quarter ended September 30, 2001, despite the combined positive effect of the variation in the average price per pound of cheese on revenues and the devaluation of the Canadian dollar, EBITDA margin would have stood at 13.4% compared with 12.5% for the same period the preceding year.

During the quarter ended September 30, 2001, the Company benefited from the increase in the price of cheese over the preceding year, which translated into a $3.4 million improvement in EBITDA. This favourable impact has increased the EBITDA by nearly $8.4 million since the beginning of the 2002 fiscal year compared with 2001.

Grocery Products

The partnership agreement entered into with Dare Foods on July 15, 2001 whereby the latter acquired the cookies, fine breads and soups operations of the Company's Grocery Products sector is reflected in the financial statements of the second quarter of fiscal 2002.

Revenues for this sector totalled $45 million during the quarter ended September 30,

2001. During this quarter, the cookies, fine breads and soups operations contributed to the results of the sector for a period of only two weeks. This short contribution accounted largely for the $18 million decline in revenues and the $2.4 million decrease in EBITDA compared with the same period the preceding year. EBITDA stood at $8.5 million for the second quarter of the 2002 fiscal year, whereas EBITDA margin climbed to 18.9% compared with 17.3% for the same period in 2001. The agreement ratified with Dare Foods aims to improve the overall profitability of the Grocery Products sector and enable the Company to focus on the development of the snack cakes category.

DIVIDENDS

The Board of Directors of the Company declared today a 100% stock dividend on the common shares which will be paid on November 30, 2001 to common shareholders of record on November 23, 2001. This dividend, which is subject to obtaining all necessary regulatory approvals, has the same effect as a two-for-one stock split and will double the number of common shares outstanding.

Concurrently, the Board of Directors declared a quarterly dividend of $0.055 per share payable on November 30, 2001 to common shareholders of record as at November 23, 2001. This dividend represents a dividend of $0.11 per share prior to the stock split, which is the quarterly dividend paid by the Company in accordance with its dividend policy. This dividend relates to the second quarter ended September 30, 2001.

The Company's common shares, which currently trade on the Toronto Stock Exchange under the symbol "SAP", will begin trading on a split basis as of November 21, 2001.

In conclusion, consistent with our initial objectives, we continue to devote efforts to the enhancement and integration of Canadian activities in the Dairy Products sector, as well as to the organizational development of our other divisions.

LINO SAPUTO
Chairman of the Board and Chief Executive Officer
November 6, 2001

Consolidated statements of **earnings** *(unaudited)*

(in thousands of dollars, except per share amounts)	For the three-month periods ended September 30 2001	2000	For the six-month periods ended September 30 2001	2000
REVENUES	**$ 897,743**	$ 503,508	**$1,774,149**	$ 983,457
Cost of sales, selling and administrative expenses	**806,713**	436,478	**1,592,010**	849,668
EARNINGS BEFORE INTEREST, DEPRECIATION, AMORTIZATION AND INCOME TAXES	**91,030**	67,030	**182,139**	133,789
Depreciation of fixed assets	**17,085**	12,052	**35,342**	24,444
OPERATING INCOME	**73,945**	54,978	**146,797**	109,345
Interest on long-term debt	**13,907**	9,446	**28,198**	19,353
Other interest	**(235)**	(274)	**(573)**	(331)
EARNINGS BEFORE INCOME TAXES AND AMORTIZATION OF GOODWILL	**60,273**	45,806	**119,172**	90,323
Income taxes	**18,815**	14,529	**37,437**	28,556
EARNINGS BEFORE AMORTIZATION OF GOODWILL	**41,458**	31,277	**81,735**	61,767
Amortization of goodwill ***	**—**	3,177	**—**	6,357
NET EARNINGS	**$ 41,458**	$ 28,100	**$ 81,735**	$ 55,410
PER SHARE				
Net earnings *(earnings before amortization of goodwill in 2000)*				
Basic	**$ 0.81**	$ 0.61	**$ 1.59**	$ 1.20
Diluted	**$ 0.80**	$ 0.61	**$ 1.58**	$ 1.20

*** The Company adopted the new Canadian Institute of Chartered Accountants accounting recommendations on amortization of goodwill. Goodwill ceased to be amortized in accordance with these recommendations since April 1, 2001. Had the application of the new recommendations been permitted during the period of six months ended September 30, 2000, net earnings would have been respectively $31,277,000 and $61,767,000.

Consolidated statements of retained **earnings** *(unaudited)*

(in thousands of dollars)	For the six-month periods ended September 30 2001	2000
RETAINED EARNINGS, BEGINNING OF PERIOD	**$ 271,087**	$ 177,746
Net earnings	**81,735**	55,410
Dividends	**(10,270)**	(7,681)
RETAINED EARNINGS, END OF PERIOD	**$ 342,552**	$ 225,475

Selected segmented **information** *(unaudited)*

(in thousands of dollars)	For the three-month periods ended September 30 2001	2000	For the six-month periods ended September 30 2001	2000
REVENUES				
Dairy products				
Canada	**$ 497,971**	$ 152,266	**$ 994,574**	$ 300,953
United States	**354,742**	288,222	**673,864**	554,677
	852,713	440,488	**1,668,438**	855,630
Grocery products	**45,030**	63,020	**105,711**	127,827
	$ 897,743	$ 503,508	**$1,774,149**	$ 983,457
EARNINGS BEFORE INTEREST, DEPRECIATION, AMORTIZATION AND INCOME TAXES				
Dairy products				
Canada	**$ 43,738**	$ 20,053	**$ 84,709**	$ 42,238
United States	**38,786**	36,072	**79,277**	70,387
	82,524	56,125	**163,986**	112,625
Grocery products	**8,506**	10,905	**18,153**	21,164
	$ 91,030	$ 67,030	**$ 182,139**	$ 133,789
DEPRECIATION OF FIXED ASSETS				
Dairy products				
Canada	**$ 7,153**	$ 2,906	**$ 14,562**	$ 5,865
United States	**8,392**	6,914	**16,770**	13,816
	15,545	9,820	**31,332**	19,681
Grocery products	**1,540**	2,232	**4,010**	4,763
	$ 17,085	$ 12,052	**$ 35,342**	$ 24,444
OPERATING INCOME				
Dairy products				
Canada	**$ 36,585**	$ 17,147	**$ 70,147**	$ 36,373
United States	**30,394**	29,158	**62,507**	56,571
	66,979	46,305	**132,654**	92,944
Grocery products	**6,966**	8,673	**14,143**	16,401
	$ 73,945	$ 54,978	**$ 146,797**	$ 109,345
Interest	**13,672**	9,172	**27,625**	19,022
EARNINGS BEFORE INCOME TAXES AND AMORTIZATION OF GOODWILL	**60,273**	45,806	**119,172**	90,323
Income taxes	**18,815**	14,529	**37,437**	28,556
EARNINGS BEFORE AMORTIZATION OF GOODWILL	**41,458**	31,277	**81,735**	61,767
Amortization of goodwill ***	**—**	3,177	**—**	6,357
NET EARNINGS	**$ 41,458**	$ 28,100	**$ 81,735**	$ 55,410

Consolidated statements of **cash flows** *(unaudited)*

(in thousands of dollars, except per share amounts)	For the three-month periods ended September 30		For the six-month periods ended September 30	
	2001	2000	**2001**	2000
Cash flows related to the following activities:				
OPERATING				
Net earnings	**$ 41,458**	$ 28,100	**$ 81,735**	$ 55,410
Items not affecting cash				
Depreciation and amortization	**17,085**	15,229	**35,342**	30,801
Future income taxes	**2,789**	3,136	**5,578**	7,167
	61,332	46,465	**122,655**	93,378
Currency (gain) loss on cash held in foreign currency	**(61)**	1	**3**	3
Changes in non-cash operating working capital items	**(2,884)**	36,748	**(31,521)**	15,976
	58,387	83,214	**91,137**	109,357
INVESTING				
Net additions to fixed assets	**(17,532)**	(9,494)	**(29,358)**	(16,007)
Other assets	**695**	(818)	**(6,104)**	(75)
Foreign currency translation adjustment	**(23,492)**	(10,118)	**(685)**	(22,422)
	(40,329)	(20,430)	**(36,147)**	(38,504)
FINANCING				
Bank loans	**9,031**	(1,315)	**(312)**	(2,585)
Repayment of long-term debt	**(30,000)**	(32,355)	**(40,000)**	(81,077)
Issuance of share capital	**1,130**	63	**3,456**	134
Employee future benefits	**312**	—	**576**	—
Dividends	**(10,270)**	(7,681)	**(10,270)**	(7,681)
Foreign currency translation adjustment	**16,907**	7,353	**738**	17,533
	(12,890)	(33,935)	**(45,812)**	(73,676)
INCREASE (DECREASE) IN CASH	**5,168**	(28,849)	**9,178**	(2,823)
CURRENCY GAIN (LOSS) ON CASH HELD IN FOREIGN CURRENCY	**61**	(1)	**(3)**	(3)
CASH (BANK OVERDRAFT), BEGINNING OF PERIOD	**10,240**	(27,364)	**6,294**	4,310
CASH, END OF PERIOD	**$ 15,469**	$ 1,484	**$ 15,469**	$ 1,484
SUPPLEMENTAL INFORMATION				
Interest paid	**$ 9,607**	$ 1,357	**$ 29,224**	$ 18,472
Income taxes paid	**$ 24,505**	$ 2,042	**$ 29,092**	$ 6,206
PER SHARE				
Net inflow of cash related to operations before changes in non-cash operating working capital items				
Basic	**$ 1.19**	$ 0.91	**$ 2.39**	$ 1.82
Diluted	**$ 1.19**	$ 0.90	**$ 2.37**	$ 1.81

Consolidated **balance sheets**

(in thousands of dollars)	*(unaudited)* September 30, 2001	*(audited)* March 31, 2001
ASSETS		
CURRENT ASSETS		
Cash	**$ 15,469**	$ 6,294
Receivables	**287,644**	279,493
Inventories	**404,840**	376,447
Income taxes	**664**	2,866
Future income taxes	**20,956**	22,751
Prepaid expenses and other assets	**6,981**	10,628
	736,554	698,479
FIXED ASSETS	**644,210**	675,021
INVESTMENT, AT COST (NOTE 3)	**55,187**	—
GOODWILL, UNAMORTIZED PORTION (COST OF $606,535)	**568,553**	592,646
OTHER ASSETS	**40,074**	33,970
FUTURE INCOME TAXES	**12,267**	12,863
	$ 2,056,845	$ 2,012,979
LIABILITIES		
CURRENT LIABILITIES		
Bank loans	**$ 10,331**	$ 10,643
Accounts payable and accrued liabilities	**323,109**	320,426
Income taxes	**29,842**	29,457
Current portion of long-term debt	**105,000**	95,075
	468,282	455,601
LONG-TERM DEBT	**651,561**	700,821
EMPLOYEE FUTURE BENEFITS	**12,150**	11,574
FUTURE INCOME TAXES	**100,342**	97,082
	1,232,335	1,265,078
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (51,389,495 SHARES, 51,225,390 SHARES AS AT MARCH 31, 2001)	**454,503**	451,047
RETAINED EARNINGS	**342,552**	271,087
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**27,455**	25,767
	824,510	747,901
	$ 2,056,845	$ 2,012,979

Notes relating to the **consolidated financial statements**

NOTE 1 - ACCOUNTING POLICIES

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and applied in the same manner as the most recently audited financial statements. The unaudited consolidated financial statements do not include all the information and notes required according to generally accepted accounting principles for annual financial statements, and should therefore be read with the audited consolidated financial statements and the notes included in the Company's annual report for the year ended March 31, 2001.

NOTE 2 - CHANGE IN ACCOUNTING POLICY

As of March 31, 2001, the Company retroactively adopted the new recommendations of the CICA regarding the method used to calculate diluted earnings per share. In accordance with the new recommendations, the share treasury stock method is now used to determine the dilutive effect of share options.

Following this change, diluted earnings before amortization of goodwill per common share for the second quarter of 2001 have been restated, from $0.59 to $0.61. For the six-month period ended September 30, 2000, earnings per common share have been restated, from $1.17 to $1.20. This change in accounting policy had no effect on the current period.

The weighted average number of common shares outstanding for the three-month period ended September 30, 2001 is 51,361,946 (51,207,251 in 2000). For the six-month period ended September 30, 2001, this number is 51,317,857 (51,204,701 in 2000).

The weighted average number of common shares outstanding, including the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan is 51,645,191 (51,523,256 in 2000).

NOTE 3 - INVESTMENT

On July 15, 2001, the Company entered into a partnership agreement through its subsidiary Culinar pursuant to which Dare Foods Ltd acquired the cookies, fine breads and soups operations of the Company's Grocery Products sector. This transaction grants Saputo Inc. a share participation of 21% in Dare Foods Ltd.

This non-monetary transaction has been accounted for at the fair value of the assets disposed of.