A LEGACY OF

Tradition

1998 ANNUAL REPORT

SAPUTO GROUP INC.

CORPORATE *Profile*

Saputo Group Inc. is a cheese producer with a well-established reputation and an increasing prominence in the North American marketplace. The Company's main product is mozzarella, with corporate expertise extending to the production of other Italian specialty cheeses, more traditional American cheeses and value-added products derived from the residual solids of cheesemaking such as lactose, whey protein and butter. In Canada, Saputo also distributes fine imported cheeses and a broad assortment of other non-dairy products that complement its domestic cheese offerings.

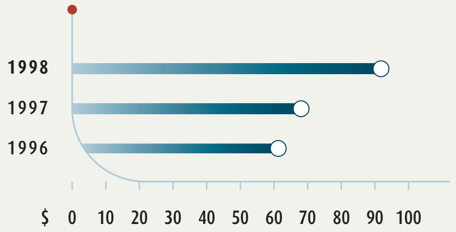
Contents

FINANCIAL *Highlights*

(in thousands of $)	1998	1997	1996
Revenues	**$ 817,255**	$ 450,512	$ 409,025
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ 95,427**	$ 71,667	$ 64,884
Net earnings	**$ 45,745**	$ 40,998	$ 37,273
Working capital	**$ 115,935**	$ 43,122	$ 33,744
Cash flow generated by operations, before changes in non-cash operating working capital items	**$ 63,972**	$ 49,114	$ 44,983
Total assets	**$ 896,662**	$ 175,767	$ 168,494
Long-term debt, excluding current portion	**$ 330,271**	$ —	$ —
Shareholders' equity	**$ 369,893**	$ 114,190	$ 105,772
Per share			
Earnings per share			
Basic	**$ 1.23**	$ 1.37	$ 1.24
Fully diluted	**$ 0.93**		
Cash flow generated by operations, before changes in non-cash operating working capital items	**$ 1.72**	$ 1.64	$ 1.50

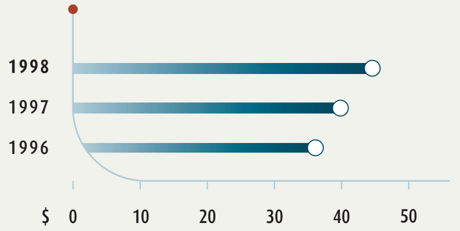
EBITDA

[in millions of dollars]



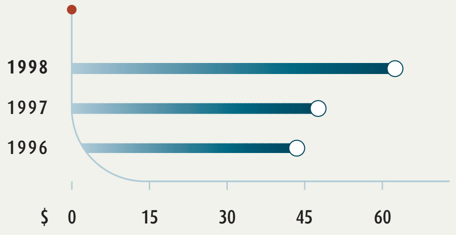
Net earnings

[in millions of dollars]



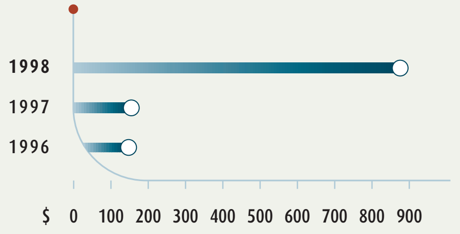
Cash flow generated by operations

[in millions of dollars]



Total assets

[in millions of dollars]



MESSAGE TO *Shareholders*

It is with great satisfaction and pride that we present to you our first annual report detailing the operations of Saputo Group Inc. for the fiscal year ended March 31, 1998.

To describe the past year simply as one of change would be to understate the importance of our achievements during this period. Indeed, by placing the Company at the centre of a fundamental drive towards consolidation, we propelled ourselves to the forefront of the North American dairy industry.

It must not be forgotten, however, that behind the successes of the past year lie more than 43 years of unstinted labour — first by the Saputo family, and then by an ever-growing number of individuals who believed in the virtues of hard work, dedication and loyalty. Our Company was built on these values by employees who continue to apply them daily in the accomplishment of their respective duties. Without the efforts of each and the common tradition they have established, we would most certainly not be where we are today.

It is our intention to remain true to these values, and to build an increasingly stronger, dairy-focused organization.

Financial Results

Net earnings for the year totalled $45.7 million, or $1.23 per share, up 11.5% over the 1997 figure of $41 million. Saputo revenues for the fiscal year ended March 31, 1998 stood at $817.3 million, an increase of 81.4% over the $450.5 million reported in 1997. A full 84.3% of this rise in corporate revenues stemmed from acquisitions completed during the year, most notably that of US-based Stella Holdings, Inc. (Stella).

Highlights of the Year

On May 9, 1997, Saputo Group Inc. launched an unsolicited bid for Ault Foods Limited. The bid proved unsuccessful when a European dairy company presented a counteroffer that was substantially higher than our evaluation of Ault.

On October 15, 1997 Saputo, with a view to enhancing corporate preparedness for the challenges of an increasingly globalized dairy industry, completed an initial public offering of 9,470,500 common shares priced at $17 each. Gross proceeds from the offering totalled $161 million.

Then, in a transaction concluded on December 5, 1997, Saputo acquired Stella, for a total consideration of $580 million. Partial financing for this acquisition was secured December 10, 1997 through the issue of 9,000,000 special warrants priced at $25 each for total gross proceeds of $225 million. All of the warrants were exercised prior to March 31, 1998, resulting in the issuance of 9,000,000 common shares.

With an exclusive focus on cheese, a similar product mix and closely matched market segments, Stella represented a natural next step in the development of our Company. Stella's fifth place ranking as a producer of natural cheese in the United States has enabled us to become one of the leading dairy processors in North America. This acquisition confirmed Saputo's role as an industry consolidator.

On January 30, 1998, Saputo acquired the remaining 66.6% of the shares of Froma-Dar Inc., a regional Québec cheese manufacturer and distributor in which our Company already owned a 33.4% equity interest. This transaction allowed Saputo to further consolidate its distribution network in Québec.

On March 30, 1998, Saputo announced a transaction with Avonmore Waterford Group plc for the acquisition of Avonmore Cheese Inc. and Waterford Food Products, Inc., two US-based producers of specialty cheeses and value added products. This acquisition was completed on May 1, 1998.

During the 1999 fiscal year, we will complete the successful integration of our recently acquired US operations into the Saputo corporate fold. We fully intend, however, to also remain alert to development opportunities in both Canada and the United States.

Lino Saputo **Camillo Lisio**

Corporate Strengths

Thanks to the daily efforts of a highly dedicated group of talented men and women who share our Company's values and traditions, Saputo has grown from a modest family-based enterprise to become one of the continent's leading producers and marketers of cheese.

Our commitment to quality and our cost-effective operating skills have given Saputo a very strong competitive advantage in our industry and has enabled us to consistently enhance overall Group financial performance.

Canadian Industry Context

Despite mounting pressure, the Canadian dairy industry continues to operate in a highly regulated environment that may, however, be modified in the not-too-distant future. In October 1997, the United States launched a challenge to Canada's dairy policy before the World Trade Organization (WTO). In December 1997, New Zealand initiated a similar challenge. Both countries contend that Canada's two-tier pricing system — one for the domestic market, the other for the international market —is not consistent with Canada's obligations under the terms of the General Agreement on Tariffs and Trade (GATT) which Canada signed in 1994.

A WTO panel has been set up to hear both cases jointly, and a preliminary decision is expected towards the end of 1998. Should the panel rule in favour of the United States and New Zealand, Canada's supply managed dairy system risks being dismantled as it would potentially allow the entry into Canada of dairy products originating from countries with lower domestic milk prices.

In addition, a new round of WTO agricultural trade negotiations is set to begin in 1999. The objective of this new round of discussions is to lower some prohibitively high tariffs which act as deterrents to a more liberal agricultural trading system.

We are of the opinion that whatever the outcome of the above-mentioned international issues, Saputo Group Inc. will not be adversely affected. With a strong presence in both Canada and the United States, our Company will be able to take advantage of any developments arising from these initiatives.

Future Outlook

To ensure Saputo's success as a public company and in order to be better positioned to reap the benefits of future growth opportunities, we implemented a number of organizational changes towards the end of the 1998 fiscal year. These changes are designed to provide greater depth to our pool of human resources, and to build an even stronger succession.

During the 1998 fiscal year, Saputo broadened the scope of corporate activities considerably in order to achieve greater prominence in the North American marketplace. Our demonstrated ability to readily adapt to the challenges of our industry augurs well for Saputo's continued growth and development. Provided we remain true to our established tradition, the combined strength of our human and financial resources points to enhanced profitability and a promising future as a publicly traded, world-class dairy company.

Signature
Lino Saputo

Lino Saputo
Chairman of the Board and
Chief Executive Officer

Signature
Camillo Lisio

Camillo Lisio
President and
Chief Operating Officer

June 17, 1998

THE

Saputo Family

OF FINE PRODUCTS

THE SOURCE OF OUR *Tradition*

Founded in 1954 by Lino Saputo, Saputo's Chairman of the Board and Chief Executive Officer, and his parents Giuseppe and Maria, the Company's business began very modestly as a small, Italian cheese operation. Under the care and guidance of master cheesemaker Giuseppe Saputo, the fledgling Company produced barely 10 kilograms of mozzarella per day out of rented premises. Customers were almost exclusively part of the then growing Italian community of Greater Montréal.

Despite a few initial setbacks and disappointments, the Company gradually integrated other family members into the business. By 1957, the family's dedication and hard work had enabled Saputo to build its first major production facility. It was a fortuitous event, as completion of the plant coincided with the sudden and dramatic rise of Italian pizza as a popular food among North American consumers.

For Saputo, the late 1950s and early 1960s were a period of rapid expansion, as the Company began servicing new markets to meet an ever-growing demand for mozzarella. By the end of the 1960s, the Company was firmly established in Québec, Ontario and the Atlantic provinces. The need to service new markets properly and efficiently provided the basis for the development of Saputo's own distribution network in Canada.

Lino Saputo, 1950

As the popularity of pizza continued into the 1970s, Saputo's reputation for product quality grew with it. It became evident, however, that the Montréal facility would not be able to satisfy rising demand, so several acquisitions were made to meet production needs. At the same time, the Company strengthened its national distribution network.

The 1980s gave rise to a period of extremely rapid expansion for Saputo, following the acquisition of several Canadian cheese producers and distributors. These key acquisitions were complemented by two major strategic undertakings: direct entry into the US market, with the purchase of two production facilities in 1988, and the completion, in 1989, of a modern industrial complex located in Saint-Léonard, in the Greater Montréal area, to house the Company's head office, national distribution centre, regional sales office and a technologically advanced production facility. This new complex replaced the initial Montréal plant built in 1957.

From left: Daniel Bruneau, Lena Li, Candy Squires

Growth in the early 1990s proved less significant. This was due largely to two factors: the gradual establishment in Canada of plant quotas, and the uncertainty in the Canadian dairy industry as a result of ongoing international trade negotiations.

As the 1990s unfolded, it became clear that Canada's dairy system was headed towards an impasse, and that the family structure of the Company might prove inadequate in the face of the challenges that lay ahead. If Saputo was to hold its own as a long-term player in the dairy industry, the Company needed to broaden the geographic distribution of its asset base. We also had to achieve the critical mass necessary to become a company of international stature. This ultimately led Saputo to become a publicly traded company, and to go forward with the acquisition of Stella in December 1997.

Today Saputo Group Inc. employs over 3,100 employees in facilities located across North America and produces approximately 270 million kilograms of cheese products annually.

From left: Terry Schultz, Karen Newman, Scott Simmons, Joseph-F. Emmanuel

From left: Vincenzo Avellino, Denis Maltais, Cedric Stevens

From left:
Lucie Lasalle,
Elka Emilceau,
Nicole Robert

MANUFACTURING...

Craftsmanship and Technology

Founded on the principles of Old World workmanship, Saputo Group Inc. has progressed by applying advanced technology to the Company's many manufacturing processes. At the same time we kept faith with our deep-rooted tradition. Cheesemaking remains an art at Saputo. Even with a highly automated, technologically sophisticated production process, product consistency and quality require the steady hand, keen judgement and passion for perfection of our master cheesemakers, who ultimately imprint the mastery of their craft on all our products.

Our cheesemakers consider themselves privileged to be a part of this great tradition, a tradition they will proudly pass on to the skilled Saputo craftspeople who will follow in their footsteps.

Alberto Meo, master cheesemaker

Manufacturing Facilities

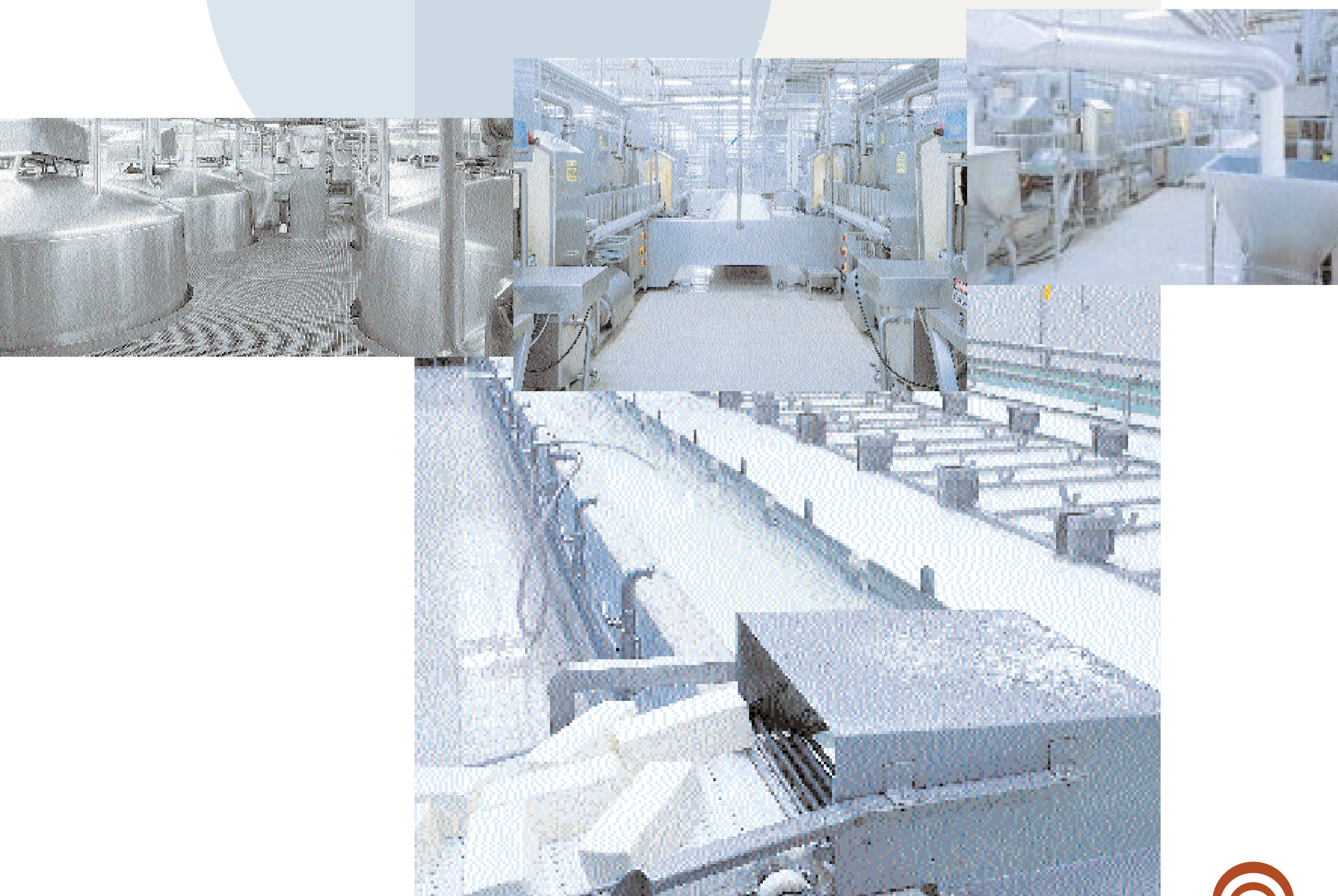
At the end of the 1998 fiscal year, Saputo Group Inc. operated 21 plants. The Avonmore/Waterford acquisition, which closed on May 1, 1998 has since added six more facilities to the Company's asset base. Of these 27 plants, 20 are located throughout the United States: 12 in Wisconsin, two in Vermont, two in California, one each in Indiana, South Dakota, Illinois and Maryland. The remaining seven plants are located in Canada: five in Québec, one in Ontario and one in Manitoba. Saputo's facilities currently process over 50 million litres of milk per week.

KEY TO OUR *Success*

In the dairy industry, the key to success is the ability to operate efficiently. A multitude of variables contribute to plant performance, not the least of which are cutting-edge processing techniques that make it possible to maximize cheese yield per litre of milk. Of equal importance is the capacity to recuperate and to lend added value to the residual solids in the cheesemaking process.

The acquisition of Avonmore/Waterford on May 1, 1998, added two whey processing facilities to Saputo's operations, giving the Company greater flexibility in the handling of its by-products.

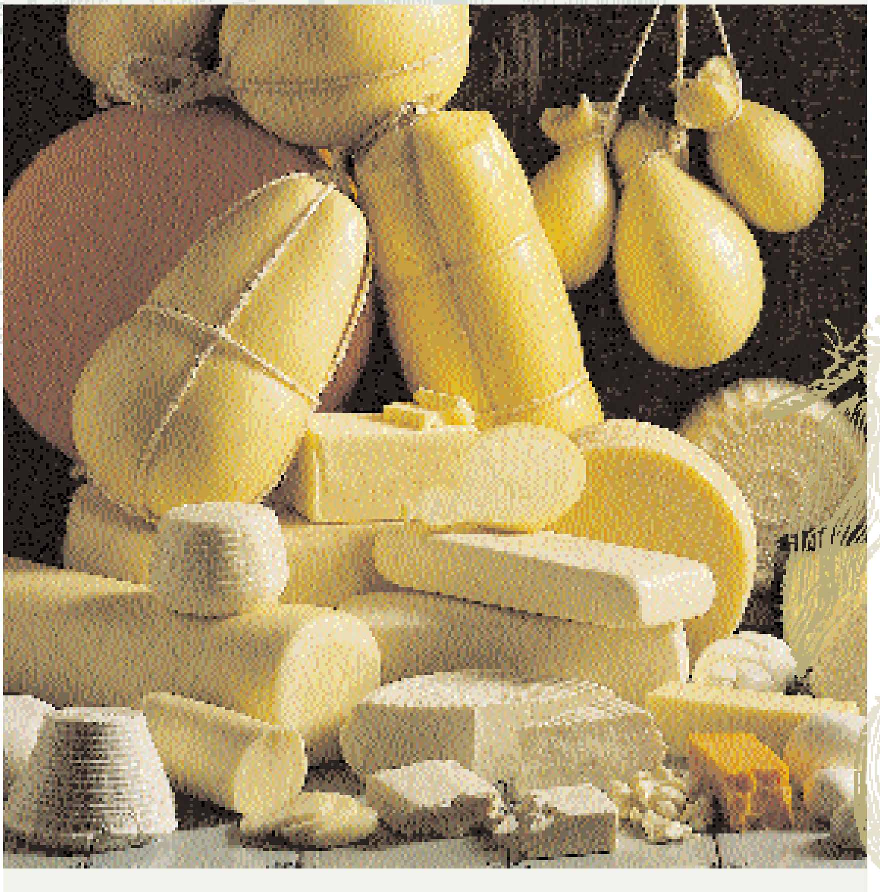
Our Company has never ceased to invest in technology and process development. Our Canadian plants are regularly updated to optimize efficiency and quality. Stella's facilities are also modern and well equiped considering the appreciable capital expenditures incurred by their previous owners. With the continued commitment and dedication of the men and women in place, Stella's operations should soon reach the same high level of efficiency as our Canadian plants.



PRODUCT *Quality*

Saputo's rapid and impressive growth could not have been achieved without the high quality of our products and the unrelenting commitment of our employees. At Saputo, quality is not the domain of an exclusive group of individuals. It is everyone's concern. Every staff member is encouraged to assume quality control responsibility in the performance of his or her day-to-day activities.

Our approach to quality calls for teamwork and increased involvement in the issues at hand by those directly implicated in the manufacture of our products. This translates into uncompromising quality, greater efficiency, lower manufacturing costs and enhanced profitability. These four elements have always been — and will continue to be — the cornerstone of our development.



SALES AND DISTRIBUTION...

Experience and knowledge

In Canada, Saputo differs significantly from other large dairy processors in that we operate our own distribution and sales network. Established in the 1960s and 1970s in response to the increased demand for our mozzarella in the food service sector, the primary purpose of the network is to promote the sale of the cheese we manufacture. However, we also take advantage of our distribution system to market other products bought from third-party suppliers and designed to serve the requirements of restaurant owners across the country.

Part of Saputo's original rationale for having its own sales and distribution network was a desire to give our customers the finest possible service through personal attention to their product needs. This facilitated and personalized the rapport that we were able to establish with our customers.

Saputo's focus on clients and our ability to respond to their needs form the basic principle upon which we established our Company's sales and distribution function. This is a tradition we cherish to this day.

Lori Easton

SALES AND PRODUCTS IN *Canada*

In Canada, Saputo operates a network comprising 13 sales and distribution centres located in major cities across the country. Our direct distribution network employs 96 representatives, 45 drivers, and includes 75 refrigerated trucks and trailers, 22,440 cubic metres of refrigerated space, and 7,995 cubic metres of freezer space.

During the 1998 fiscal year, Canadian sales totalled $454.9 million. Products are sold through four basic market segments: food service which represented 50.9% of sales, retail which amounted to 25.6%, industrial which totalled 11.6% of sales, and international which made up 11.9% of aggregate sales.

Saputo remains our leading brand. However, products are also sold under other brand names such as **Stella, Napoli, El Greco, Jolina, Caron** and **Froma-Dar**, to name just a few. In the Québec retail market, the **Saputo** brand has gained considerable awareness in the deli and dairy sections of supermarkets as well as in warehouse clubs and independent stores.

Imported cheeses are also at the heart of the Company's growth strategy at the retail level. The acquisition of Fromages Caron Inc., in 1996, has enhanced Saputo's presence in this market segment.

In Québec, Saputo also operates a fluid milk and ice cream plant, purchased in 1997. Although the operation is small relative to the overall size of the Company, we view this operation as an opportunity to develop expertise in a different segment of the dairy processing industry.

SALES AND PRODUCTS IN THE *United States*

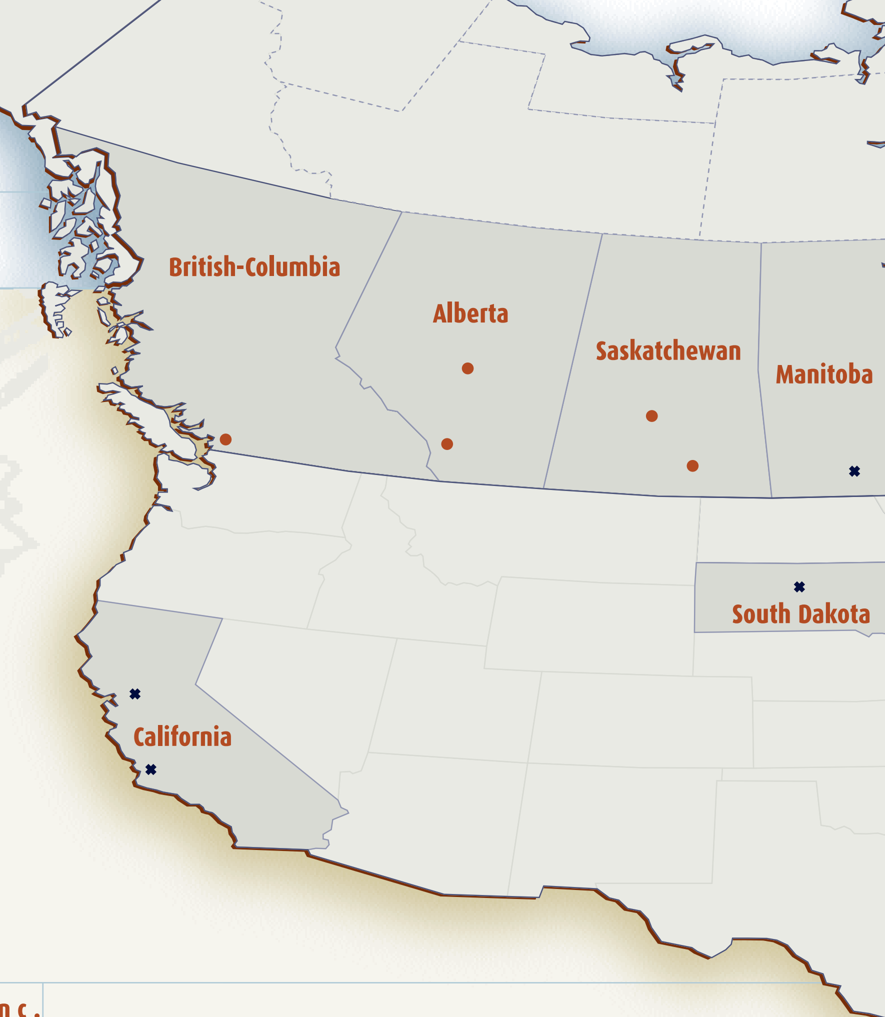
The acquisition of Stella was completed on December 5, 1997. Accordingly, our consolidated financial statements include four months of Stella's operations. During this period, the latter generated $296.4 million in sales.

Saputo does not operate its own distribution network in the United States. For the most part, sales are conducted through independent brokers and third-party distributors. The only exception to this rule is industrial/ingredient sales which are handled directly by a specialized sales staff able to respond to client product specifications.

In addition to the food service sector which represented 35.4% of sales, the Company serves two other market segments: industrial/ingredient, which comprised 32.6% of sales; and retail, which amounted to 32.0% of sales.

In the United States, **Stella** is the Company's leading brand. Numerous other brands are also marketed, some of which have attained dominance in their respective regions. **Dragone, Frigo, Cheese Heads, Gardenia, Jolina** and **Lorraine** are only a few of the Company's brands in the United States. The recent acquisition of Avonmore/Waterford added **Falbo** and **Lugano** to our brand lineup.

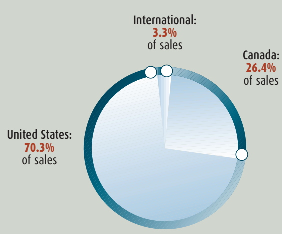
SAPUTO
at a glance



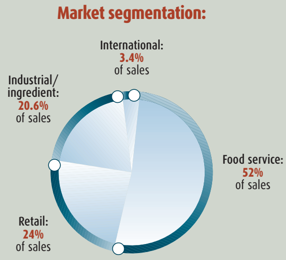
Overview of Saputo Group Inc.

Revenues:	$ 1.750 billion annually
Employees:	over 3,100
Manufacturing facilities:	27
Sales and distribution centres:	13

Geographic segmentation:



Market segmentation:



Including Saputo Cheese USA (formely Avonmore Cheese Inc and Waterford Food Products, Inc.)

Saputo Cheese Limited & Saputo Foods Limited

Description: Production and distribution of dairy and other food products

Market segments: Retail, food service, industrial/ingredient, international

Region of activity: North America, Europe, South America, Africa and Asia

Manufacturing facilities: 5

Distribution facilities: 13

Cheeses:

Aged Cheddar, American Mozzarella, Bocconcini, Brick, Cacino, Caciocavallo, Cheddar, Cheese Curds, Colby, Edam, Farmer, Feta, Friulano, Italian Mozzarella, Monterey Jack, Munster, Parmesan Blends, Pastorella, Process Cheese, Provolone, Ricotta, String Cheese, Trecce, Tuma – IQF Process

Value-added products:

Butter, Dairy Blends, Lactose, Popcorn Whey, Whey Protein, Whey Powder

Caron – Froma-Dar

Description: Production of cheese curds and cheddar, distribution of fine imported cheeses

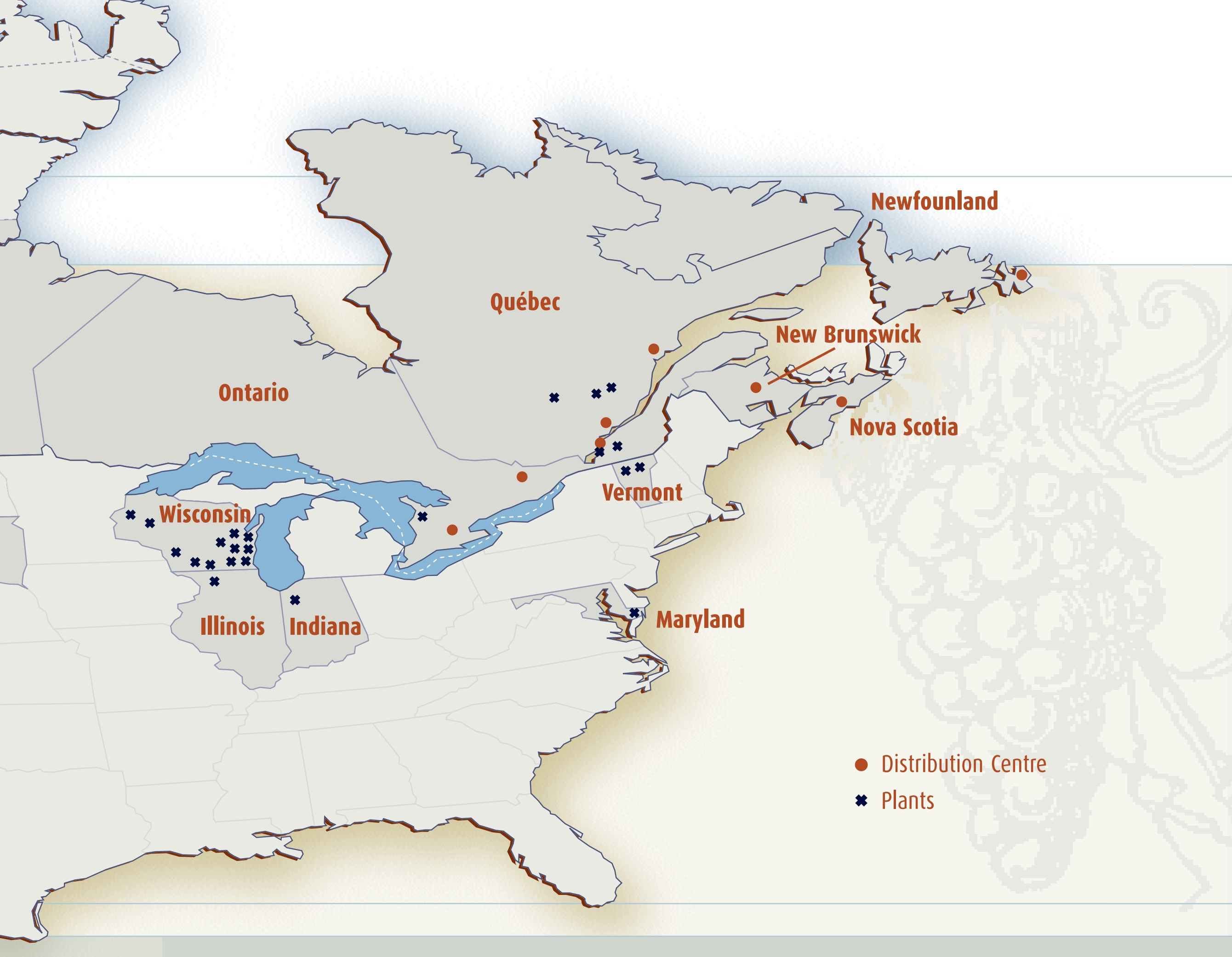
Market segments: Retail and food service

Region of activity: Québec and Ontario

Manufacturing facilities: 1

Cheeses:

Cheddar, Cheese Curds



Crémerie des Trois-Rivières, Limitée

Description: Production and distribution of fluid milk, ice cream and frozen novelties

Market segments: Retail, food service

Region of activity: Québec

Manufacturing facilities: 1

Products:

Fluid Milk, Ice Cream, Frozen Novelties

Saputo Holdings, Inc. (formerly Jolina Holdings, Inc.)

Role: Holding company for Jefferson Cheese Manufacturing Inc., Saputo Foods USA, Inc. (formerly Jolina Foods USA, Inc), Richmond Cheese Company and Saputo Cheese USA (formerly Avonmore Cheese Inc. and Waterford Food Products, Inc.)

Description: Production and sale of dairy products

Market segments: Retail, food service, industrial/ingredient

Region of activity: United States

Manufacturing facilities: 8

Cheeses:

Italian Mozzarella, Provolone, Ricotta, Swiss Cheese

Value-added products

Buttermilk Products, Canned Egg Nog, Canned Milk Powders, Concentrated Permeate, Spray Dried Ingredients, Sweetened Condensed Milk, Whole Milk Powder, Whey Protein Concentrate

Stella

Description:
Production and sale of dairy products

Market segments: Retail, food service, industrial/ingredient

Region of activity: United States

Manufacturing facilities: 12

Cheeses:

Asiago, Blue, Feta, Fontinella, Gorgonzola, Lorraine, Italian Mozzarella, Parmesan, Provolone, Ricotta, Romano, String Cheese

Other product:

Imitation Cheese

FOCUS *for 1999*

Our focus for the coming year is to consolidate our position in the United States by applying our experience and knowledge to the recently acquired US operations. Since bringing Stella into the corporate fold in December 1997, comprehensive analysis of all sectors of the company has been conducted, with an action plan drawn up and readied for implementation. A team of seasoned individuals has been mobilized to carry out the integration process.

More specifically, a decision has been made to group all of Stella's administrative functions at the Lincolnshire, Illinois office, resulting in the closing of the Green Bay office towards the fall of 1998. At the plant level, a series of measures have been, and will be taken, that should result in a more efficient use of our asset base through plant and production rationalization.

In Canada, it is our intention to maintain our leadership position and to take advantage of any growth possibilities that may emerge from ongoing discussions among industry stakeholders (governments, producers, processors and consumers) aimed at building a more responsive, market-driven dairy system.

From left:
Louis-Philippe Carrière, Camillo Lisio, Lino Saputo Jr., Lino Saputo, Pierre Leroux, Dino Dello Sbarba

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

Overview

Saputo successfully pursued corporate growth objectives in the 1998 fiscal year through a number of new developments. These included the acquisition of Crémerie des Trois-Rivières on July 31, 1997, the initial public offering on October 15, 1997, the acquisition of Stella on December 5, 1997, the issue of Special Warrants on December 10, 1997, and lastly, the acquisition of Froma-Dar on January 30, 1998.

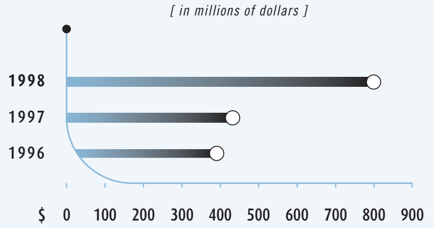
For the year ended March 31, 1998, the financial statements of Saputo Group Inc. reflect all of the above-mentioned transactions as at their respective dates. The transactions completed in 1998 allowed the Company to position itself to sustain growth with a better distribution of its revenues, both geographically and by market segments, yet still maintaining its historically predominant mozzarella focus. Company sales have almost doubled while net earnings of Saputo Group Inc. have increased by 11.5% when compared with 1997 fiscal year results.

Results

Sales for the year ended March 31, 1998, totalled $817.3 million, up 81.4% over the 1997 figure of $450.5 million. A full 84.3% of this increase is attributable to acquisitions completed during the year, most notably that of Stella which represented an additional $296.4 million in sales over a period of 16 weeks. Sales, excluding the aforementioned acquisitions rose by $57.5 million, resulting in a 12.7% rise compared with 1997. This growth is attributable to a surge in activity by the international division, and to an increase in sales of imported cheeses and other non dairy products.

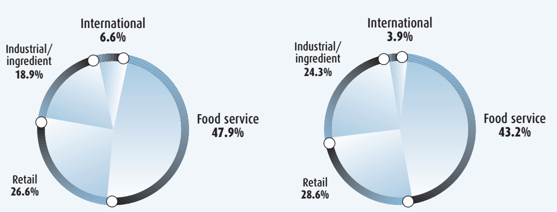
Sales

[in millions of dollars]



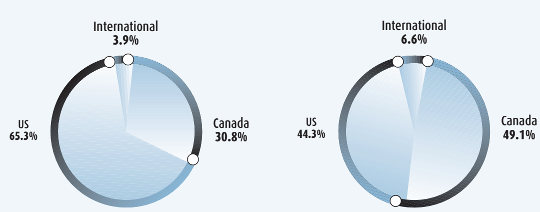
Sales by market segments

[Year ended March 31, 1998] *[Three months ended March 31, 1998]*



Sales by geographic segments

[Three months ended March 31, 1998] *[Year ended March 31, 1998]*

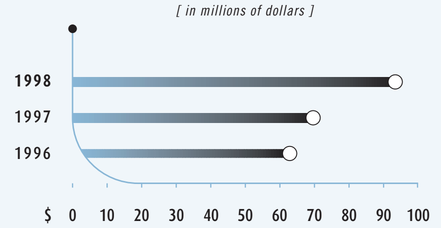


The acquisition of Stella considerably altered the breakdown of sales by market and geographic segments. The majority of Company sales is now generated in the United States and specialty cheeses now contribute a greater share to corporate revenues.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) amounted to $95.4 million in 1998, up 33.1% over the EBITDA figure of $71.7 million in 1997. In terms of percentages, the EBITDA margin represented 11.7% in 1998 compared with 15.9% in 1997. This decrease is mainly due to the operations of Stella, which exerted downward pressure on the Company's margin. Canadian operations contributed a 15.6% EBITDA margin in 1998, compared with 16.8% in 1997. Even though Canadian sales during 1998 increased by 17.5%, the decrease in margin is the result of lower margin sales generated by fluid milk activities, the international sales division and the sale of other products. In the United States segment, the EBITDA margin decreased from 10.6% in 1997 to 6.7% in 1998. Stella generated an EBITDA margin of 5.8% during the 16-week period of operation since the acquisition on December 5, 1997. These results were consistent with expectations. On the other hand, the combined operations of Jefferson Cheese and Richmond Cheese generated an EBITDA margin of 10.8% in 1998 compared to 10.6% in 1997, due to improvements in plant efficiency.

EBITDA

[in millions of dollars]



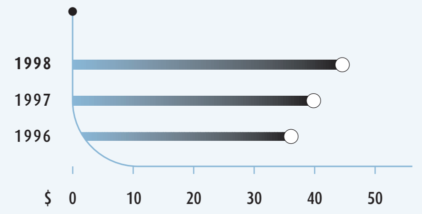
Depreciation and amortization of fixed assets rose by $5.7 million owing to the acquisitions completed during the year. The $2.2 million increase in the **amortization of goodwill** in 1998 is related essentially to goodwill arising from the Stella acquisition, which is amortized over a period of 40 years.

Interest expenses rose from $0.2 million in 1997 to $8.9 million in 1998 mainly as a result of the long-term debt financing obtained for the acquisition of Stella on December 5, 1997.

Net earnings for the year ended March 31, 1998 totalled $45.7 million, representing an increase of 11.5% over the $41.0 million in net earnings posted for 1997. This increase in net earnings is largely attributable to a better overall performance by the Company's Canadian, Jefferson and Richmond operations, when compared to the 1997 fiscal year. Given the short period of time that elapsed since the acquisition of Stella, the latter impacted only minimally on net earnings for the year.

Net earnings

[in millions of dollars]

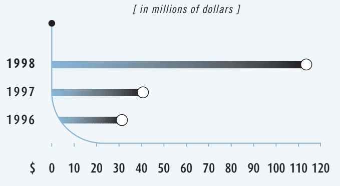


Financial Position

A number of developments altered the financial position of Saputo Group Inc. in 1998. These included an initial public offering, a major acquisition, a second public offering and the securing of long-term debt financing arrangements.

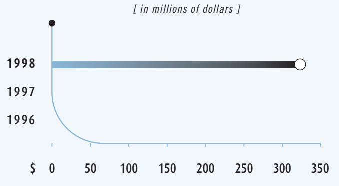
Working Capital

[in millions of dollars]



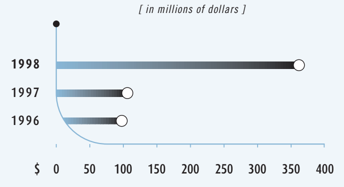
Long-term Debt

[in millions of dollars]



Shareholders' Equity

[in millions of dollars]



Total corporate assets rose to $896.7 million as at March 31, 1998 from $175.8 million in 1997. Working capital rose to $115.9 million in 1998 from $43.1 million in 1997. Goodwill at the same date totalled $248.1 million due mainly to the acquisition of Stella, which was acquired for a total consideration of $580 million, of which $246.5 million represented goodwill. Long-term financing obtained for the acquisition of Stella amounted to $355 million as at March 31, 1998. In addition, the Company has secured operating credit facilities amounting to $150 million, of which approximately $22 million was drawn as at March 31, 1998.

Shareholders' equity as at March 31, 1998 stood at $369.9 million compared with $114.2 million in 1997, an increase which resulted mainly from the public offerings completed during the year.

Cash and Financial Resources

Cash generated by operations, before changes in non-cash working capital items, rose from $49.1 million in 1997 to $64 million in 1998. This increase resulted directly from the improvement in earnings before interest, income taxes, depreciation and amortization. During the year, $22.3 million was invested in fixed assets. In Canada, $12.7 million was earmarked for a number of important projects. These included the acquisition of a new building located in Saint-Laurent, a suburb of Montréal, that now houses Fromages Caron and the Froma-Dar sales operations, the modernization of the fleet and equipment in the fluid milk division in Trois-Rivières, the expansion of the Saint-Hyacinthe plant and miscellaneous improvements to the Saint-Léonard facility in the Greater Montréal area. In the United States, $6.8 million in capital expenditures was incured for Stella's operations in order to complete certain projects initiated prior to the acquisition and $2.8 million was allocated to the Jefferson facility in Maryland.

To increase plant efficiency, Saputo intends to incur $17.9 million in capital expenditures in fiscal 1999, of which approximately $6.7 million in Canada and $11.2 million in the United States.

We believe that in the foreseeable future, our internal growth, capital expenditures and future acquisitions will be financed by funds from operations and by existing and additional credit facilities, if required.

Outlook

The 1998 fiscal year does not reflect the full impact of the Stella acquisition as consolidated results cover a period of only 16 weeks of joint operations. Nor does it reflect potential synergies that will result from the integration. Notwithstanding the short period of time since the acquisition, a number of analyses aimed at improving profitability, have already been conducted and completed.

This has resulted in the decision to concentrate all of Stella's administrative operations in the Lincolnshire, Illinois office and the subsequent closing of the Green Bay, Wisconsin office, which is scheduled towards the fall of 1998. The amalgamation of all administrative functions under one roof, combined with the integration of Stella's information systems, will contribute to Company efficiency, as will the ongoing analysis of possible plant and production rationalization.

In Canada, it is our intention to maintain our leadership position and to take advantage of any growth opportunities that may emerge.

Year 2000 compliance

For certain companies, the arrival of the Year 2000 may affect some computer programs, machinery and equipment which have date-sensitive software. This may result in system failures or miscalculations causing disruptions of operations, including among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

To assess the consequences of the arrival of Year 2000 on its operations, the Company has implemented a program under which an inventory of its software, equipment and machinery has been taken and inquiries were made with vendors of date-sensitive equipment and machinery to determine their commitment to achieving Year 2000 compliance.

The Company's overall assessment of its operations at this time indicates that the dawn of the new millennium should not have a material financial or operational impact. The Company has determined that the only matters to be addressed are the modification or replacement of certain minor software, equipment and machinery. The Company will use both internal and external resources to reprogram or replace and test its software, equipment and machinery for Year 2000 compliance and expects to complete all steps of its program before March 31, 1999. The Company is currently assessing the readiness of the Avonmore/Waterford operations acquired on May 1, 1998.

The Company is presently communicating with its major suppliers and customers to determine the extent to which it is vulnerable to their failure to remedy their own Year 2000 situation. There can be no guarantee that the systems of other companies on which the Company's systems rely will be converted in a timely manner, or that failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

The Company expects the Year 2000 program to cost less than $1 million, which will be amortized over a period of 3 years. Costs and time frames are based on current estimates by management.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation and presentation of the consolidated financial statements and the financial information presented in this annual report.

This responsibility includes the selection of accounting policies and practices and making judgements and estimates necessary to prepare the consolidated financial statements in accordance with generally accepted accounting principles.

Management has also prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee which is comprised solely of directors who are not employees of the Company. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Committee. The consolidated financial statements have been audited by the external auditors, Deloitte & Touche, whose report follows.

Signature
Camillo Lisio

Camillo Lisio
President and Chief Operating Officer

Signature
Louis-Philippe Carrière

Louis-Philippe Carrière, CA
Executive Vice-President,
Finance and Administration, and Secretary

AUDITORS' REPORT

To the Shareholders of Saputo Group Inc.

We have audited the consolidated balance sheets of Saputo Group Inc. as at March 31, 1998 and 1997 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Signature
Deloitte & Touche

Chartered Accountants
Laval, Quebec
May 8, 1998

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended March 31

(in thousands of dollars, except per share amounts)

	1998	1997
Revenue	**$ 817,255**	$ 450,512
Cost of sales, selling and administrative expenses	**721,828**	378,845
Earnings before the undernoted expenses	**95,427**	71,667
Depreciation and amortization of fixed assets	**13,068**	7,383
Amortization of goodwill	**2,635**	413
Earnings before interest and income taxes	**79,724**	63,871
Interest on long-term debt	**8,435**	—
Other interest, net of interest income	**491**	231
Earnings before income taxes	**70,798**	63,640
Income taxes *(Note 8)*	**25,053**	22,642
Net earnings	**$ 45,745**	$ 40,998
Earnings per share *(Note 9)*		
Basic	**$ 1.23**	$ 1.37
Fully diluted	**$ 0.93**	

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended March 31

(in thousands of dollars)

	1998	1997
Retained earnings, beginning of year	**$ 98,943**	$ 90,945
Net earnings	**45,745**	40,998
Dividends	**(30,460)**	(33,000)
Other distributions to shareholders *(Note 10)*	**(140,000)**	—
Expenses relating to the issuance of share capital and warrants, net of income taxes	**(7,920)**	—
Reduction of the stated capital of the common shares *(Note 6)*	**55,915**	—
Retained earnings, end of year	**$ 22,223**	$ 98,943

CONSOLIDATED BALANCE SHEETS

As at March 31

(in thousands of dollars)

	1998	1997
ASSETS		
Current assets		
Cash	$ 12,320	$ —
Receivables	129,161	34,593
Inventories	162,358	36,221
Prepaid expenses and other assets	4,984	2,972
Advances to companies controlled by shareholders, bearing interest at bank prime rate	—	20,944
	308,823	94,730
Investments, at cost	—	2,345
Fixed assets *(Note 3)*	333,894	76,086
Goodwill, unamortized portion (cost of $254,130)	248,111	1,293
Other assets	5,834	1,313
	$ 896,662	$ 175,767
LIABILITIES		
Current liabilities		
Bank indebtedness *(Note 4)*	$ 22,009	$ 11,643
Accounts payable and accrued liabilities	139,310	32,223
Income taxes	506	3,967
Current portion of long-term debt	31,063	—
Advances from a shareholder corporation, bearing interest at bank prime rate	—	3,775
	192,888	51,608
Long-term debt *(Note 5)*	330,271	—
Deferred income taxes	3,610	9,969
	526,769	61,577
SHAREHOLDERS' EQUITY		
Share capital *(Note 6)*	347,789	15,258
Retained earnings	22,223	98,943
Foreign currency translation adjustment	(119)	(11)
	369,893	114,190
	$ 896,662	$ 175,767

On behalf of the board

Signature
Lino Saputo

Lino Saputo, Director

Signature
Camillo Lisio

Camillo Lisio, Director

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended March 31

(in thousands of dollars)

	1998	1997
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net earnings	**$ 45,745**	$ 40,998
Items not affecting cash		
Depreciation and amortization	**15,912**	7,796
Loss on disposal and write-off of fixed assets	**214**	175
Deferred income taxes	**2,101**	88
Share of net earnings of a company subject to significant influence	**—**	57
	63,972	49,114
Changes in non-cash operating working capital items	**(15,325)**	385
	48,647	49,499
Investing		
Business acquisitions *(Note 7)*	**(589,875)**	(2,062)
Bank indebtedness of the acquired businesses	**(3,084)**	(575)
Additions to fixed assets	**(22,346)**	(5,687)
Proceeds from disposal of fixed assets	**239**	1,445
Other assets — net change	**(3,888)**	8
Foreign currency translation adjustment	**509**	62
Additions to investments	**—**	(2,288)
Disposal of investments	**2,345**	560
Advances to companies controlled by shareholders	**20,944**	(9,560)
	(595,156)	(18,097)
Financing		
Issuance of share capital and warrants	**388,446**	—
Expenses relating to the issuance of share capital and warrants	**(13,200)**	—
Increase in long-term debt	**354,950**	—
Repayment of long-term debt	**(7,498)**	—
Advances from a shareholder corporation	**(3,775)**	(15,120)
Dividends	**(30,460)**	(33,000)
Other distributions to shareholders *(Note 10)*	**(140,000)**	—
	548,463	(48,120)
Increase (decrease) in cash	**1,954**	(16,718)
(Bank indebtedness) cash, beginning of year	**(11,643)**	5,075
Bank indebtedness, net of cash, end of year	**$ 9,689**	$ 11,643

Years ended March 31

(in thousands of dollars)

1. CORPORATE REORGANIZATION

On August 26, 1997, the Company acquired from a major shareholder of Saputo Group Inc. control over all of the issued common shares of Saputo Holdings, Inc. (formerly "Jolina Holdings, Inc."). This acquisition was paid by the issuance of 3,000,000 common shares of Saputo Group Inc. and by a cash consideration of $14,000,010. Saputo Holdings, Inc. owns subsidiaries which are cheese producers operating in the United States.

This acquisition was recorded at the carrying amount and the financial statements for the year ended March 31, 1997 have been restated to present the financial statements as they would appear had Saputo Group Inc. always owned this company.

The net assets of this company, included in the balance sheet of Saputo Group Inc. as at March 31, 1997 are the following:

Total assets, at their carrying amount	$	29,469
Total liabilities, at their carrying amount		6,304
Net assets	$	23,165

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and take into account the following significant accounting policies:

Consolidated financial statements

The consolidated financial statements include the accounts of Saputo Group Inc. and all its subsidiaries.

All intercompany transactions and accounts have been eliminated.

Inventories

Finished goods and goods in process are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of cost and replacement value, cost being determined under the first-in, first-out method.

Fixed assets

Fixed assets are stated at cost and are depreciated and amortized using the straight-line method over their estimated useful lives or by using the following methods:

Buildings	20 or 40 years
Furniture, machinery and equipment	3 to 15 years
Rolling stock	5 years or based on kilometers travelled
Leasehold improvements	terms of leases

Goodwill

Goodwill is recorded at cost and amortized under the straight-line method over a maximum period of forty years. Management reviews goodwill on a continuous basis to determine whether there has been a permanent impairment of its value by comparing the carrying amount with future undiscounted operating income.

Deferred income taxes

The Company uses the tax allocation method. In accordance with this accounting method, the current tax expense may differ from the accounting tax expense as a result of the timing differences that arise in reporting certain expenses or revenues for financial statement and income tax purposes. The differences are recorded as deferred income taxes and are basically due to depreciation and amortization of fixed assets.

Foreign currency translation

The balance sheet accounts of the self-sustaining companies operating in the United States were translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts were translated into Canadian dollars using average exchange rates in effect during the fiscal years. Differences resulting from this translation are deferred in a foreign currency translation adjustment account in shareholders' equity.

Foreign currency accounts of Canadian companies were translated into Canadian dollars using the exchange rate at the end of the year for current assets and liabilities and the prevailing exchange rates at the time of transactions for income and expenses. Gains or losses resulting from this translation are included in earnings.

3. FIXED ASSETS

	1998			1997
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Land	**$ 13,904**	**$ —**	**$ 13,904**	$ 6,734
Buildings	**121,645**	**9,671**	**111,974**	28,287
Furniture, machinery and equipment	**258,683**	**53,997**	**204,686**	39,316
Rolling stock	**5,664**	**2,686**	**2,978**	1,382
Leasehold improvements	**583**	**231**	**352**	367
	$ 400,479	**$ 66,585**	**$ 333,894**	$ 76,086

4. BANK INDEBTEDNESS

Bank indebtedness includes bank loans of US $15,501,000. One of the bank loans in the amount of US $1,600,000 (US $610,000 in 1997) is secured by the receivables of an American subsidiary.

The loan agreement of the other bank loan in the amount of US $13,901,000 provides for certain financial covenants which, if not complied with, could give rise to an obligation for an American subsidiary to pledge its assets as security for the bank loan.

5. LONG-TERM DEBT

	1998	1997
Term bank loans (US $250,000,000) bearing interest at fluctuating rates based on LIBOR rate plus 0.5% to a maximum of 1.75%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. One of the term loans in the amount of $239,950,000 (US $169,000,000) is repayable in quarterly principal instalments of Cdn $10,000,000 starting in July 1998 and the other term loan in the amount of $115,000,000 (US $81,000,000) is repayable when the last quarterly instalment of Cdn $10,000,000 becomes due. The loan agreement provides for certain financial covenants which, if not complied with, could give rise to an obligation to grant security on all present and future assets of the Company	**$ 354,950**	$ —
Unsecured bonds, repayable in annual variable instalments, bearing interest at rates from 2.75% to 6.2%, due in 2004 (US $2,965,000)	**4,210**	—

5. LONG-TERM DEBT (continued)

	1998	1997
Bank loans, bearing interest at bank's prime rate plus 1/4 of 1%, secured by fixed assets, repayable in monthly principal instalments of approximately $22,000, due from 1998 to 2009	**$ 1,447**	$ —
Loan, bearing interest at lender's prime rate, secured by fixed assets, due in 2002	**525**	—
Other loans, secured by fixed assets	**202**	—
	361,334	—
Current portion	**31,063**	—
	$ 330,271	$ —

Principal payments required in each of the next five years are as follows:

1999	$ 31,063
2000	40,928
2001	40,958
2002	40,697
2003	40,696
	$ 194,342

6. SHARE CAPITAL

Authorized

The authorized share capital of the Company now consists of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares may be issued in one or more series, the terms and privileges of each series to be determined at the time of creation of each such series.

		1998	1997
Issued			
48,567,260	common shares	**$ 347,789**	$ —
253,000,000	class A shares, voting and participating	—	2
165,000,000	class C shares	—	13
74,000,000	class D shares	—	3,011
14,000,000	class E shares	—	1
Common shares of Saputo Holdings, Inc.		—	12,231
		$ 347,789	$ 15,258

On August 25, 1997, the authorized share capital of Saputo Group Inc. was modified and the class A, C, D and E shares were converted into 27,000,000 common shares. On August 26, 1997, the Company also acquired from a major shareholder of Saputo Group Inc. control over all of the issued shares of Saputo Holdings, Inc. (formerly "Jolina Holdings, Inc.").

The acquisition was paid by the issuance of 3,000,000 common shares of Saputo Group Inc. for an amount of $12,259,000 and by a cash consideration of $14,000,010.

The class C, D and E shares were non-voting and were entitled to a non-cumulative dividend of a maximum of 3/5 of 1%. These shares were redeemable for a total consideration of $253,000,000.

Pursuant to an initial public offering, the Company issued 9,470,500 common shares on October 15, 1997 at a price of $17 per share for gross proceeds of $160,998,500.

On December 10, 1997, the Company received gross proceeds of $225,000,000 from the issuance and sale of 9,000,000 special warrants at a price of $25 per warrant. Each warrant entitled the holder to acquire one common share of the Company without additional payment. As at March 31, 1998, all warrants have been exercised.

The stated capital of the common shares was reduced by $55,915,000 on December 18, 1997. This resulted in a corresponding increase in retained earnings.

On January 30, 1998, the Company issued 96,760 common shares for an amount of $2,419,000, in partial consideration for the acquisition of the shares of Froma-Dar Inc. *(Note 7)*.

Share option plan

In connection with the initial public offering, the Company established a share option plan to allow for the purchase of common shares by full-time employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan will not exceed 3,000,000 common shares.

Options to purchase 469,809 common shares at a price of $17 per share were granted on October 15, 1997 and options to purchase 299,850 common shares at a price of $36.85 were granted on April 1st, 1998. The options expire ten years from the date of the grant. None of these options has yet been exercised.

7. BUSINESS ACQUISITIONS

Year ended March 31, 1997

On August 4, 1996, the Company acquired, for a cash consideration of $2,062,000, all of the issued shares of Fromages Caron Inc., a Canadian cheese importer and wholesaler. The acquisition was recorded using the purchase method of accounting. The operating results of Fromages Caron Inc. from the acquisition date are included in the consolidated statements of earnings of the Company. Goodwill resulting from this acquisition is amortized under the straight-line method over a period of ten years.

Net assets acquired are the following:

Tangible assets	$ 2,926
Goodwill	600
Total assets	3,526
Liabilities assumed	1,464
Net assets acquired	$ 2,062

Year ended March 31, 1998

On July 31, 1997, the Company acquired from 167876 Canada Inc., a company controlled by shareholders of Saputo Group Inc., all of the issued shares of Crémerie des Trois-Rivières, Limitée for a cash consideration of $4,290,000, which is the amount invested by 167876 Canada Inc. for this acquisition on March 3, 1997. This acquisition was accounted for by the Company at the carrying amount of the assets and liabilities of this company recorded in the books of 167876 Canada Inc. Crémerie des Trois-Rivières, Limitée produces and distributes fluid milk and ice cream products in Canada. The operating results of Crémerie des Trois-Rivières, Limitée from the acquisition date are included in the consolidated statements of earnings of the Company.

On December 5, 1997, the Company acquired all of the issued shares of Stella Holdings, Inc., a cheese producer operating in the United States, for a cash consideration of US $403,923,000 (Cdn $574,580,000 as at December 5, 1997). Acquisition costs amounted to $5,855,000. This acquisition was recorded by the Company using the purchase method of accounting. The operating results of Stella Holdings, Inc. from the acquisition date are included in the consolidated statements of earnings of the Company. Goodwill resulting from this acquisition is amortized under the straight-line method over a period of forty years.

On July 31, 1997, the Company acquired from 167876 Canada Inc., a company controlled by shareholders of Saputo Group Inc., 33 1/3% of the issued shares of Froma-Dar Inc. for a cash consideration of $750,000, which was the carrying amount of this investment recorded in the books of 167876 Canada Inc.

On January 30, 1998, the Company acquired from unrelated parties, all the shares of Froma-Dar Inc. that it did not already own for a total consideration of $4,400,000, payable by the issuance of 96,760 shares of Saputo Group Inc. and by a cash consideration of $1,981,000. Froma-Dar Inc. is a Canadian cheese producer. This acquisition was recorded using the purchase method of accounting. The operating results of Froma-Dar Inc. from the acquisition date are included in the consolidated statements of earnings of Saputo Group Inc. Goodwill resulting from this acquisition is amortized under the straight-line method over a period of forty years.

Net assets acquired are the following:

	Crémerie des Trois-Rivières, Limitée	Stella Holdings, Inc.	Froma-Dar Inc.	Total
Tangible assets	$ 9,103	$ 437,215	$ 7,403	**$ 453,721**
Goodwill	—	246,493	3,287	**249,780**
Total assets	9,103	683,708	10,690	**703,501**
Liabilities assumed	4,813	103,273	5,540	**113,626**
Net assets acquired	$ 4,290	$ 580,435	$ 5,150	**$ 589,875**

8. INCOME TAXES

The provision for income taxes is comprised of the following:

	1998	1997
Provision using basic income tax rates	**$ 28,261**	$ 25,239
Increase (decrease) resulting from:		
Manufacturing and processing tax credits	**(3,738)**	(3,245)
Goodwill, non-deductible expenses and other adjustments	**530**	648
	$ 25,053	$ 22,642

9. EARNINGS PER SHARE

Basic earnings per share for the year ended March 31, 1997, have been calculated using 30,000,000 common shares outstanding, being the number of common shares outstanding after the conversion of the share capital and the acquisition of Saputo Holdings, Inc. *(Note 6)*.

Basic earnings per share for the year ended March 31, 1998, have been calculated using the weighted average number of common shares outstanding during the year.

Fully diluted earnings per share have been calculated using 49,336,919 common shares, being the sum of the number of common shares outstanding as at March 31, 1998 (48,567,260 shares) and the shares that may be issued following the exercise of options granted under the Company's share option plan (769,659 shares).

10. OTHER DISTRIBUTIONS TO SHAREHOLDERS

	1998	1997
Amount paid to a major shareholder in connection with the acquisition of Saputo Holdings, Inc. *(Note 1)*	**$ 14,000**	$ —
Redemption of class A preferred shares, issued following the declaration of a special stock dividend on August 25, 1997	**126,000**	—
	$ 140,000	$ —

11. RELATED PARTY TRANSACTIONS

	1998	1997
Management fees paid to a shareholder corporation	**$ 1,318**	$ 2,272
Interest on advances from a shareholder corporation	**$ 91**	$ 1,108
Interest on advances to companies controlled by shareholders	**$ 353**	$ 871

On August 22, 1997, the advances to companies controlled by shareholders were repaid and the advances from a shareholder corporation were also repaid.

Prior to August 31, 1997, a company controlled by the Chairman of the Board and Chief Executive Officer of Saputo Group Inc., Mr. Lino Saputo, provided management services in consideration for a management fee. On such date, such agreement was terminated, except for Mr. Lino Saputo and Mr. Joey Saputo, president of a wholly-owned subsidiary, as all other senior management personnel became employees of Saputo Group Inc.

12. COMMITMENTS RELATED TO LEASES

The Company carries some of its operations in premises leased until the year 2003 and has also entered into lease agreements for equipment. The minimum lease payments required are as follows:

1999	$ 2,583
2000	2,041
2001	1,764
2002	906
2003	31
	$ 7,325

13. FINANCIAL INSTRUMENTS

The fair value of cash, receivables, bank indebtedness, accounts payable and accrued liabilities corresponds to their carrying value due to their short-term maturity.

The fair value of long-term debt, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions, approximates the carrying value.

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The Company does not have any credit risk concentration.

Saputo Group Inc. manages its currency risks by occasionally entering into foreign currency contracts. Outstanding foreign currency contracts as at the balance sheet date are not material.

14. SEGMENTED INFORMATION

Saputo Group Inc. operates through facilities located in Canada and the United States. Information on the geographic segmentation is as follows:

	1998			1997		
	Canada	United States	Total	Canada	United States	Total
Revenue	**$ 454,907**	**$ 362,348**	**$ 817,255**	$ 387,298	$ 63,214	$ 450,512
Earnings before depreciation and amortization, interest and income taxes	**$ 71,079**	**$ 24,348**	**$ 95,427**	$ 64,963	$ 6,704	$ 71,667
Depreciation and amortization	**7,311**	**8,392**	**15,703**	7,006	790	7,796
Operating income Earnings before interest and income taxes	**$ 63,768**	**$ 15,956**	**79,724**	$ 57,957	$ 5,914	63,871
Interest			**8,926**			231
Income taxes			**25,053**			22,642
Net earnings			**$ 45,745**			$ 40,998
Additions to fixed assets	**$ 12,723**	**$ 9,623**	**$ 22,346**	$ 3,594	$ 2,093	$ 5,687
Total assets	**$ 156,497**	**$ 740,165**	**$ 896,662**	$ 146,298	$ 29,469	$ 175,767
Fixed assets at net book value	**$ 79,628**	**$ 254,266**	**$ 333,894**	$ 65,352	$ 10,734	$ 76,086

15. SUBSEQUENT EVENT

On May 1, 1998, the Company acquired all of the issued shares of Avonmore Cheese Inc. and Waterford Food Products, Inc. for respective cash considerations of US $7,000,000 and US $29,000,000. These companies are cheese and by-product producers operating in the United States.

These acquisitions will be accounted for by Saputo Group Inc. using the purchase method of accounting. The purchase prices will be allocated between the assets and the liabilities based on their respective fair values, once these fair values have been determined.

The purchase prices are subject to adjustments in accordance with the provisions of the purchase agreements.

These acquisitions will be financed by additional credit facilities.

SHAREHOLDER INFORMATION

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Internet Site: http://www.saputo.com
email: saputo@saputo.com

Stock Exchanges

Montréal, Toronto
Symbol: SAP

Annual Meeting

Friday, August 28, 1998 at 10:30 a.m.
Hotel Four Points Laval
2440 Laurentian Autoroute, Laval, Québec, Canada

Si vous désirez vous procurer une copie de ce rapport en français,
veuillez communiquer avec notre Service des Relations avec les investisseurs.
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Fax: (514) 871-7442

Independent Auditors

Deloitte & Touche
Laval, Québec

Dividend Policy

It is the policy of Saputo Group Inc. to declare quarterly cash dividends on the common shares in an amount of $0.06 per share, representing a yearly dividend of $0.24 per share. The balance of corporate earnings are reinvested to finance the growth of the Company's business.

The Board of Directors may review the Company's dividend policy from time to time based on financial position, operating results, capital requirements and such other factors as are deemed relevant by the Board, at its sole discretion.

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BOARD OF DIRECTORS

In the context of its initial public offering in 1997, the Company restructured its Board of Directors. These directors bring a wealth of business experience to the service of the Company.

André Bérard

Director since 1997

Chairman of the Board and Chief Executive Officer

National Bank of Canada

Carlo Bizzotto

Director since 1997

President

Développements du D'Arcy McGee Limitée

Pierre Bourgie

Director since 1997

President and Chief Executive Officer

Société Financière Bourgie Inc.

Camillo Lisio

Director since 1997

President and Chief Operating Officer

Saputo Group Inc.

Caterina Monticciolo, CA

Director since 1997

Controller

Placements Vigica Inc.

Lino Saputo

Director since 1992

Chairman of the Board and Chief Executive Officer

Saputo Group Inc.

Louis A. Tanguay

Director since 1997

President and Chief Operating Officer

Bell Canada International

BOARD OF DIRECTORS

From left: Carlo Bizzotto, Caterina Monticciolo, Pierre Bourgie, André Bérard, Lino Saputo, Louis A. Tanguay, Camillo Lisio

Saputo Group Inc.

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