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.

"Camillo Lisio"
(signed)

Camillo Lisio
President and Chief Operating Officer

"Louis-Philippe Carrière"
(signed)

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

Auditor's REPORT

To the Shareholders of Saputo Group Inc.

We have audited the consolidated balance sheets of Saputo Group Inc. as at March 31, 1999 and 1998 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, 1999 and 1998 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.

"Deloitte & Touche"
(signed)

Chartered Accountants
Laval, Quebec
May 12, 1999

Consolidated STATEMENTS OF EARNINGS

Years ended March 31 *(in thousands of dollars, except per share amounts)*	1999	1998
Revenue	**$1,915,637**	$ 817,255
Cost of sales, selling and administrative expenses	**1,724,550**	721,828
Earnings before the undernoted expenses	**191,087**	95,427
Depreciation and amortization of fixed assets	**27,051**	13,068
Amortization of goodwill	**7,877**	2,635
Earnings before interest and income taxes	**156,159**	79,724
Interest on long-term debt	**28,589**	8,435
Other interest, net of interest income	**5,307**	491
Earnings before income taxes	**122,263**	70,798
Income taxes *(Note 7)*	**43,170**	25,053
Net earnings	**$ 79,093**	$ 45,745
Earnings per share *(Note 8)*		
Basic	**$ 1.63**	$ 1.23
Fully diluted	**$ 1.59**	$ 0.93

Consolidated STATEMENTS OF RETAINED EARNINGS

Years ended March 31 *(in thousands of dollars)*	1999	1998
Retained earnings, beginning of year	**$ 22,223**	$ 98,943
Net earnings	**79,093**	45,745
Dividends	**(11,661)**	(30,460)
Other distributions to shareholders	**-**	(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 on December 18, 1997	**-**	55,915
Retained earnings, end of year	**$ 89,655**	$ 22,223

Consolidated BALANCE SHEETS

As at March 31 *(in thousands of dollars)*	1999	1998
ASSETS		
Current assets		
Cash	**$ -**	$ 12,320
Receivables	**152,997**	129,161
Inventories	**222,873**	162,358
Prepaid expenses and other assets	**5,408**	4,984
	381,278	308,823
Fixed assets *(Note 2)*	**403,888**	333,894
Goodwill, unamortized portion (cost of $293,441)	**281,708**	248,111
Other assets	**5,175**	5,834
	$1,072,049	$ 896,662
LIABILITIES		
Current liabilities		
Bank indebtedness *(Note 3)*	**$ 69,514**	$ 22,009
Accounts payable and accrued liabilities	**159,540**	139,310
Income taxes	**4,620**	506
Current portion of long-term debt	**49,145**	31,063
	282,819	192,888
Long-term debt *(Note 4)*	**328,639**	330,271
Deferred income taxes	**10,658**	3,610
	622,116	526,769
SHAREHOLDERS' EQUITY		
Share capital *(Note 5)*	**349,488**	347,789
Retained earnings	**89,655**	22,223
Foreign currency translation adjustment	**10,790**	(119)
	449,933	369,893
	$1,072,049	$ 896,662

On behalf of the board

"Lino Saputo"
(signed)

Lino Saputo, Director

"Camillo Lisio"
(signed)

Camillo Lisio, Director

Consolidated STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended March 31 *(in thousands of dollars)*	1999	1998
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net earnings	**$ 79,093**	$ 45,745
Items not affecting cash		
Depreciation and amortization	**34,928**	15,912
Loss on disposal and write-off of fixed assets	**69**	214
Deferred income taxes	**14,244**	2,101
	128,334	63,972
Changes in non-cash operating working capital items	**(29,763)**	(15,325)
	98,571	48,647
Investing		
Business acquisitions *(Note 6)*	**(65,518)**	(589,875)
Cash (bank indebtedness) of the acquired businesses	**989**	(3,084)
Net additions to fixed assets	**(62,624)**	(22,107)
Other assets	**659**	(3,888)
Foreign currency translation adjustment	**(32,821)**	509
Disposal of investments	**-**	2,345
Advances to companies controlled by shareholders	**-**	20,944
	(159,315)	(595,156)
Financing		
Issuance of share capital and warrants	**1,699**	388,446
Increase in long-term debt	**50,014**	354,950
Repayment of long-term debt	**(56,987)**	(7,498)
Dividends	**(11,661)**	(30,460)
Expenses relating to the issuance of share capital and warrants	**-**	(13,200)
Other distributions to shareholders	**-**	(140,000)
Advances from a shareholder corporation	**-**	(3,775)
Foreign currency translation adjustment	**17,854**	-
	919	548,463
(Decrease) increase in cash	**(59,825)**	1,954
Bank indebtedness, beginning of year	**(9,689)**	(11,643)
Bank indebtedness, net of cash, end of year	**$ 69,514**	$ 9,689

1. 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. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

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 years to 40 years
Furniture, machinery and equipment	3 years to 15 years
Rolling stock	5 years to 10 years or based on kilometers traveled
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 the average exchange rates in effect during the fiscal years. Canadian company debt relating to the financing of the acquisitions of the self-sustaining companies was also converted using the exchange rates at the balance sheet dates. The foreign currency translation adjustment account presented in shareholders' equity represents accumulated foreign currency gains or losses on the Company's net investments in self-sustaining companies operating in the United States. The change in the foreign currency translation account during the year ended March 31, 1999 resulted from the weakening of the Canadian dollar as compared to the US dollar.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the statement of earnings.

2. FIXED ASSETS

	1999 Cost	1999 Accumulated depreciation and amortization	1999 Net book value	1998 Net book value
Land	**$ 18,378**	**$ -**	**$ 18,378**	$ 13,904
Buildings	**133,307**	**16,213**	**117,094**	111,974
Furniture, machinery and equipment	**346,889**	**81,808**	**265,081**	204,686
Rolling stock	**6,081**	**2,758**	**3,323**	2,978
Leasehold improvements	**594**	**582**	**12**	352
	$ 505,249	**$ 101,361**	**$ 403,888**	$ 333,894

3. BANK INDEBTEDNESS

Bank indebtedness includes bank loans of US $38,110,000 and Cdn $4,185,000 (US $15,501,000 in 1998).

4. LONG-TERM DEBT

	1999	1998
Term bank loans (US $247,977,986) bearing interest at fluctuating rates based on LIBOR rate plus 0.5% to a maximum of 1.5%, 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 $256,535,207 (US $170,104,905) is repayable in quarterly principal instalments of Cdn $12,100,000 and the other term loan in the amount of $117,440,393 (US $77,873,081) is repayable on December 1, 2001 when the other loan becomes due	**$ 373,976**	$ 354,950
Unsecured bonds, repayable in annual variable instalments, bearing interest at rates from 2.75% to 6.2%, due in 2004 (US $2,505,000)	**3,778**	4,210
Other loans	**30**	2,174
	377,784	361,334
Current portion	**49,145**	31,063
	$ 328,639	$ 330,271

4. LONG-TERM DEBT (continued)

In June 1998, the Company entered into interest swap contracts at rates of 5.703% and 5.775% to hedge against exposure to increases in interest rates. As at March 31, 1999, these contracts cover 220 million of US dollar debt and have terms expiring through December 2003.

Estimated principal payments required in each on the next five years, assuming that the term bank loans will be refinanced when they become due, are as follows :

2000	$ 49,145
2001	49,204
2002	48,926
2003	48,956
2004	48,994
	$ 245,225

5. SHARE CAPITAL

Authorized

The authorized share capital of the Company 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 their creation.

	1999	**1998**
Issued		
48,630,998 common shares (48,567,260 in 1998)	**$ 349,488**	$ 347,789

26,750 common shares for an amount of $1,070,000 were issued during the year in partial consideration for the acquisition of two Canadian businesses. 36,988 common shares for an amount of $629,000 were also issued pursuant to the share option plan.

Share option plan

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. The options expire ten years from the date of the grant.

Options issued and outstanding as at the year-ends are as follows:

Granting fiscal year	**Exercise price**	**1999**	**1998**
1998	$ 17.00	**429,292**	469,809
1999	$ 32.25 to $ 37.50	**316,210**	-
		745,502	469,809

5. SHARE CAPITAL (continued)

Changes in the number of options are as follows:

	1999	1998
Balance at beginning of year	**469,809**	-
Options granted	**350,481**	469,809
Options exercised	**(36,988)**	-
Options cancelled	**(37,800)**	-
Balance at end of year	**745,502**	469,809

421,825 options to purchase common shares at a price of $39.40 were also granted in April 1999.

6. BUSINESS ACQUISITIONS

Year ended March 31, 1999

On May 1, 1998, the Company acquired for a cash consideration of $54,144,000 (US $37,836,000) all of the issued shares of Avonmore Cheese Inc. and Waterford Food Products, Inc., cheese and by-product producers operating in the United States.

On September 1, 1998, the Company acquired all of the issued shares of Riverside Cheese and Butter Inc. for a total consideration of $6,387,000, payable by the issuance of 17,500 common shares at $40 per share for an amount of $700,000 and a cash consideration of $5,687,144. On September 16, 1998, the Company also acquired the assets of Bari Cheese Ltd. for a total consideration of $4,987,000, payable by the issuance of 9,250 common shares at $40 per share for an amount of $370,000 and a cash consideration of $4,617,000. These two businesses are Canadian cheese producers.

These acquisitions were recorded using the purchase method of accounting. Goodwill resulting from the acquisition of Riverside Cheese and Butter Inc. is amortized under the straight-line method over a period of forty years.

Net assets acquired were the following as at the dates of acquisition:

	Avonmore Cheese Inc. and Waterford Food Products, Inc.	Riverside Cheese and Butter Inc.	Bari Cheese Ltd.	Total
Tangible assets	**$ 81,996**	**$ 4,028**	**$ 4,987**	**$ 91,011**
Goodwill	**-**	**4,576**	**-**	**4,576**
Total assets	**81,996**	**8,604**	**4,987**	**95,587**
Liabilities assumed	**27,852**	**2,217**	**-**	**30,069**
Net assets acquired	**$ 54,144**	**$ 6,387**	**$ 4,987**	**$ 65,518**

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

6. BUSINESS ACQUISITIONS (continued)

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.

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.

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.

The acquisitions of Stella Holdings, Inc. and Froma-Dar Inc. were recorded using the purchase method of accounting. Goodwill resulting from these acquisitions is amortized under the straight-line method over a period of forty years.

The allocation of the purchase price of Stella Holdings, Inc. was finalized during the year ended March 31, 1999. Pursuant to this allocation, the value assigned to goodwill was increased by $21,760,000 and the value assigned to tangible assets was reduced by the same amount.

Net assets acquired were the following as at the acquisition dates:

	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**

7. INCOME TAXES

The provision for income taxes is comprised of the following:

	1999	**1998**
Provision using basic income tax rates	**$ 48,908**	$ 28,261
Increase (decrease) resulting from:		
Manufacturing and processing tax credits	**(5,757)**	(3,738)
Goodwill amortization and other items	**19**	530
	$ 43,170	$ 25,053

8. EARNINGS PER SHARE

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during each fiscal year.

Fully diluted earnings per share for the year ended March 31, 1999 have been calculated using 49,798,325 common shares, being the sum of the number of common shares outstanding as at March 31, 1999 (48,630,998 shares) and the shares that may be issued following the exercise of options granted under the Company's share option plan (1,167,327 shares).

Fully diluted earnings per share for the year ended March 31, 1998 have been calculated using 49,336,919 common shares, being the sum of the number of common shares outstanding and the shares that may be issued following the exercise of options granted under the Company's share option plan.

9. RELATED PARTY TRANSACTIONS

Management fees charged by a shareholder corporation amounted to $694,000 for the year ended March 31, 1999 ($1,318,000 in 1998).

10. COMMITMENTS RELATED TO LEASES

The Company carries some of its operations in premises leased until the year 2004 and has also entered into lease agreements for equipment. The minimum annual lease payments required are as follows:

2000	**$ 2,532**
2001	**2,086**
2002	**999**
2003	**71**
2004	**38**
	$ 5,726

11. FINANCIAL INSTRUMENTS

The fair value of 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.

12. SEGMENTED INFORMATION

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

	1999			1998		
	Canada	**United States**	**Total**	**Canada**	**United States**	**Total**
Revenue	**$521,146**	**$1,394,491**	**$1,915,637**	$454,907	$362,348	$817,255
Earnings before depreciation and amortization, interest and income taxes	**$ 77,744**	**$ 113,343**	**$ 191,087**	$ 71,079	$ 24,348	$ 95,427
Depreciation and amortization	**8,831**	**26,097**	**34,928**	7,311	8,392	15,703
Operating income – Earnings before interest and income taxes	**$ 68,913**	**$ 87,246**	**156,159**	$ 63,768	$ 15,956	79,724
Interest			**33,896**			8,926
Income taxes			**43,170**			25,053
Net earnings			**$ 79,093**			$ 45,745
Net additions to fixed assets	**$ 11,797**	**$ 50,827**	**$ 62,624**	$ 12,583	$ 9,524	$ 22,107
Total assets	**$181,050**	**$ 890,999**	**$1,072,049**	$156,497	$740,165	$896,662
Fixed assets at net book value	**$ 88,259**	**$ 315,629**	**$ 403,888**	$ 79,628	$254,266	$333,894

13. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

ANNUAL SHAREHOLDER MEETING

Tuesday August 3, 1999, at 11:00
Salon Laval, Hotel Sheraton
2440 autoroute des Laurentides, Laval, Québec

INVESTOR RELATIONS

Lynda Leith
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STOCK EXCHANGES

Montréal, Toronto
Symbol: SAP

TRANSFER AGENT

General Trust
1100 University Street, Suite 900, Montréal, Québec H3B 2G7 Canada
Telephone: (514) **871-7171** 1 800 341-1419
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.

SI vous désirez vous procurer une copie de ce rapport en français, veuillez communiquer avec notre service des Relations avec les investisseurs au (514) 328-3381.

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