



THIRD QUARTER FISCAL 2001
Interim Report



Message to Shareholders



During this quarter, we had to contend with a substantial devaluation of our inventories due to the significant decrease in the average selling price per pound of cheese on the American market. In fact, it fell to its lowest level in ten years, to US\$1.08.

The ongoing improvement in our manufacturing processes and the synergies developed in the normal course of activities could not fully offset the negative impact of such a low average selling price per pound of cheese. During the period ended December 31, 2000, net earnings totalled \$22.4 million or \$0.44 (basic) per share, a 14.8% drop compared with the \$26.3 million or \$0.51 (basic) per share for the same quarter last year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) amounted to \$57.6 million, which was 12.2% less than the \$65.6 million recorded for the corresponding period in the previous fiscal year.

Revenues reached \$490.1 million for the quarter ended December 31, 2000, which was 1.5% less than the \$497.4 million attained a year earlier. The fact that the average selling price of cheese on the American market was more than 11% lower than during the same period in 1999 was the main reason for this drop in revenues.

The undisputed highlight of our third quarter was the acquisition of Dairyworld Foods, which was completed on February 5, 2001. With this transaction, we have taken a strategic step towards our objective of becoming a world-scale food company. It also enables us to diversify our product range in our main business sector. This acquisition propels us to the forefront of the Canadian dairy industry.

CASH AND FINANCIAL RESOURCES

Cash generated before changes in non-cash working capital items since the beginning of fiscal 2001 amounted to \$134.5 million or \$2.63 (basic) per share, a 6.5% increase compared with the \$126.3 million or \$2.55 (basic) per share for the corresponding period last year.

The Company used this major inflow of funds to repay \$91.1 million of its long-term debt. The accelerated payment of the long-term debt clearly reflects the Company's healthy financial position. Indeed, the Company's long-term debt repayment is \$61.1 million higher than its commitments. We look forward to pursuing this course of action in the final quarter of the current fiscal year. Most of the remaining funds generated from operations went to additional capital expenditure projects of \$26.2 million and the payment of \$12.3 million in dividends.

INFORMATION BY SECTOR

DAIRY PRODUCTS - CANADA

Revenues for the third quarter of fiscal 2001 amounted to \$153.1 million, which was 12.7% higher than the \$135.8 million of the third quarter of fiscal 2000. This increase was mainly due to the revenues of Cayer-JCB Group Inc., a company acquired on February 28, 2000.

EBITDA for the three-month period ended December 31, 2000, amounted to \$22.7 million, with a 14.8% margin, 0.1% higher than the 14.7% generated last year. Two main factors explain this slight increase in the EBITDA margin. The first was the improvement in our manufacturing processes, which compensated for the negative impact of the EBITDA margin in our international sales. The second was the ongoing integration plan for Cayer-JCB Group Inc. The operations of this acquisition are complementary with our existing dairy operations. This improved the effectiveness of its integration into our corporate fold and increased our EBITDA margin.

DAIRY PRODUCTS - UNITED STATES

For the third quarter ended December 31, 2000, revenues amounted to \$276.6 million, which was \$19.8 million lower than the \$296.4 million recorded last year. The main reason for this reduction in revenues was the 11.5% drop in the average selling price per pound of cheese compared with the same period a year ago, representing a \$17.1 million variance.

EBITDA for the third quarter of fiscal 2001 amounted to \$26.3 million, which was \$10.4 million or 28.3% lower than the \$36.7 million of the third quarter of fiscal 2000. The EBITDA margin was reduced by 2.9%, going from 12.4% last year to 9.5% this year.

Two main factors explain this lower EBITDA, both of them linked to the average selling price per pound of cheese, which is beyond the Company's control.

Firstly, the low average selling price per pound of cheese has made it necessary to reassess our inventories at a lower value compared with the value at March 31, 2000. The impact of this re-evaluation accounts for nearly 62% of the reduction in EBITDA, or \$6.4 million for this quarter alone. The cumulative negative effect of this re-evaluation since the beginning of the current fiscal year is \$3.5 million.

DAIRY PRODUCTS - UNITED STATES (CONTINUED)

Secondly, the cost of manufacturing a pound of cheese is made up of two components: milk cost and other operating costs. The price of milk, which accounts for the larger part of our manufacturing costs, fluctuates with the selling price of cheese. This does not apply to the other operating costs. However, the proportion of these other costs within the total manufacturing cost will vary with the selling price per pound of cheese. The higher the price of cheese, the lower the proportion. The reverse is also true. The lower the price of cheese, the greater the proportion of these other expenses in the total manufacturing cost. During this quarter, the average selling price of cheese was approximately US\$1.08 per pound, which is US\$0.14 lower than the \$US1.22 for the same quarter last year. Accordingly, the other operating costs represented a larger proportion of our manufacturing costs this quarter and reduced EBITDA by \$3.5 million compared with the third quarter of the previous fiscal year. The cumulative impact since the beginning of the current fiscal year is less, but still negative, and amounted to \$1.0 million.

Excluding the negative effects of both these factors on the EBITDA for this quarter, the adjusted EBITDA would amount to \$36.2 million for a margin of 13.1%, compared with 12.4% for the same period a year earlier. At the end of the nine months ended December 31, 2000, the combined effect of these two factors, external to the Company's control, amounted to \$4.5 million, readjusting the EBITDA for this period to \$101.2 million or 12.2%, compared with \$102.5 million or 11.1% for the corresponding period last year.

GROCERY PRODUCTS

Revenues for the third quarter of fiscal 2001 totalled \$60.4 million. For the same period a year ago, revenues amounted to \$65.2 million. The \$4.8 million drop in revenues is explained by the fact that the Culinar calendar was aligned with Saputo at December 31, 1999. Accordingly, the Culinar results included the extra week required occasionally to cover the different fiscal periods. On the other hand, the EBITDA margin was 14.4%, which is 0.8% higher than the 13.6% recorded for the same quarter in the previous fiscal year.

ACCOUNTING POLICY

Adopting the accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) for income taxes, pensions and other future benefits had only a negligible effect on the results of the current fiscal year.

DIVIDEND

The Company's Board of Directors has declared a dividend of \$0.09 per common share payable on March 17, 2001 to shareholders of record at March 3, 2001. This dividend relates to the third quarter beginning October 1, 2000 and ended December 31, 2000.



Lino Saputo
*Chairman of the Board and
Chief Executive Officer*



Camillo Lisio
*President and
Chief Operating Officer*

February 21, 2001

Consolidated statements of earnings

(unaudited)

(In thousands of dollars,
except per share amounts)

	For the three-month periods ended December 31		For the nine-month periods ended December 31	
	2000	1999	2000	1999
REVENUE	\$ 490,135	\$ 497,391	\$ 1,473,592	\$ 1,407,353
Cost of sales, selling and administrative expenses	432,534	431,824	1,282,202	1,236,016
EARNINGS BEFORE INTEREST, DEPRECIATION, AMORTIZATION AND INCOME TAXES	57,601	65,567	191,390	171,337
Depreciation of fixed assets	11,960	10,777	36,404	27,556
OPERATING INCOME	45,641	54,790	154,986	143,781
Interest on long-term debt	9,233	9,800	28,586	22,773
Other interest, net of interest income	(680)	861	(1,011)	3,962
EARNINGS BEFORE INCOME TAXES AND AMORTIZATION OF GOODWILL	37,088	44,129	127,411	117,046
Income taxes	11,480	14,695	40,036	38,837
EARNINGS BEFORE AMORTIZATION OF GOODWILL	25,608	29,434	87,375	78,209
Amortization of goodwill	3,235	3,137	9,592	7,076
NET EARNINGS	\$ 22,373	\$ 26,297	\$ 77,783	\$ 71,133
PER SHARE				
EARNINGS BEFORE AMORTIZATION OF GOODWILL				
Basic	\$ 0.50	\$ 0.58	\$ 1.71	\$ 1.58
Fully diluted	\$ 0.48		\$ 1.65	
NET EARNINGS				
Basic	\$ 0.44	\$ 0.51	\$ 1.52	\$ 1.43
Fully diluted	\$ 0.42		\$ 1.47	
NET INFLOW OF CASH RELATED TO OPERATIONS BEFORE CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS				
Basic			\$ 2.63	\$ 2.55
Fully diluted			\$ 2.54	
Weighted average number of common shares outstanding	51,209,899	51,161,617	51,206,433	49,618,474
Number of common shares outstanding, including shares that may be issued following the exercise of options granted under the Company's share option plan	52,887,082		52,887,082	

Selected segmented information (unaudited)

(In thousands of dollars)	For the three-month periods ended December 31		For the nine-month periods ended December 31	
	2000	1999	2000	1999
REVENUE				
Dairy products				
Canada	\$ 153,080	\$ 135,790	\$ 454,033	\$ 400,412
United States	276,617	296,412	831,294	927,608
	429,697	432,202	1,285,327	1,328,020
Grocery products	60,438	65,189	188,265	79,333
	\$ 490,135	\$ 497,391	\$ 1,473,592	\$ 1,407,353
EARNINGS BEFORE INTEREST, DEPRECIATION, AMORTIZATION AND INCOME TAXES				
Dairy products				
Canada	\$ 22,652	\$ 20,013	\$ 64,890	\$ 58,444
United States	26,273	36,678	96,660	102,524
	48,925	56,691	161,550	160,968
Grocery products	8,676	8,876	29,840	10,369
	\$ 57,601	\$ 65,567	\$ 191,390	\$ 171,337
DEPRECIATION OF FIXED ASSETS				
Dairy products				
Canada	\$ 2,586	\$ 2,430	\$ 8,451	\$ 6,982
United States	7,142	6,108	20,958	17,857
	9,728	8,538	29,409	24,839
Grocery products	2,232	2,239	6,995	2,717
	\$ 11,960	\$ 10,777	\$ 36,404	\$ 27,556
OPERATING INCOME				
Dairy products				
Canada	\$ 20,066	\$ 17,583	\$ 56,439	\$ 51,462
United States	19,131	30,570	75,702	84,667
	39,197	48,153	132,141	136,129
Grocery products	6,444	6,637	22,845	7,652
	\$ 45,641	\$ 54,790	\$ 154,986	\$ 143,781
AMORTIZATION OF GOODWILL				
Dairy products				
Canada	\$ 207	\$ 168	\$ 601	\$ 467
United States	1,767	1,681	5,208	5,059
	1,974	1,849	5,809	5,526
Grocery products	1,261	1,288	3,783	1,550
	\$ 3,235	\$ 3,137	\$ 9,592	\$ 7,076

Consolidated statements of cash flows

(unaudited)

<i>(In thousands of dollars)</i>	For the nine-month periods ended December 31	
	2000	1999
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	\$ 77,783	\$ 71,133
Items not affecting cash		
Depreciation and amortization	45,996	34,632
Future income taxes	10,733	20,571
	134,512	126,336
Currency loss (gain) on cash held in foreign currency	3	(505)
Changes in non-cash operating working capital items	6,289	(23,770)
	140,804	102,061
INVESTING		
Business acquisitions		
Total purchase price	—	(283,500)
Issuance of share capital related to business acquisitions	—	99,995
Long-term debt related to business acquisitions	—	180,000
Cash of the acquired businesses	—	14,737
Business acquisitions - net	—	11,232
Net additions to fixed assets	(26,182)	(46,370)
Other assets	(1,264)	(1,524)
Foreign currency translation adjustment	(19,965)	24,791
	(47,411)	(11,871)
FINANCING		
Increase of long-term debt	—	96,287
Repayment of long-term debt	(91,072)	(106,805)
Bank loans	(2,685)	(47,803)
Issuance of share capital	166	506
Dividends	(12,291)	(8,907)
Foreign currency translation adjustment	15,675	(15,974)
	(90,207)	(82,696)
NET CHANGES IN CASH	3,186	7,494
CURRENCY (LOSS) GAIN ON CASH HELD IN FOREIGN CURRENCY	(3)	505
CASH (BANK OVERDRAFT), BEGINNING OF PERIOD	4,310	(7,855)
CASH, END OF PERIOD	\$ 7,493	\$ 144
SUPPLEMENTAL INFORMATION		
Income taxes paid	\$ 34,204	\$ 25,953
Interest paid	\$ 18,954	\$ 15,634

Consolidated balance sheets (unaudited)

<i>(In thousands of dollars)</i>	As at December 31	
	2000	1999
ASSETS		
CURRENT ASSETS	\$ 417,429	\$ 406,653
FIXED ASSETS	492,335	488,527
GOODWILL	474,320	473,696
FUTURE INCOME TAXES	10,725	11,882
OTHER ASSETS	11,037	10,439
	\$ 1,405,846	\$ 1,391,197
LIABILITIES		
CURRENT LIABILITIES	\$ 239,367	\$ 243,820
LONG-TERM DEBT	385,063	471,491
FUTURE INCOME TAXES	76,298	74,648
	700,728	789,959
SHAREHOLDERS' EQUITY	705,118	601,238
	\$ 1,405,846	\$ 1,391,197

