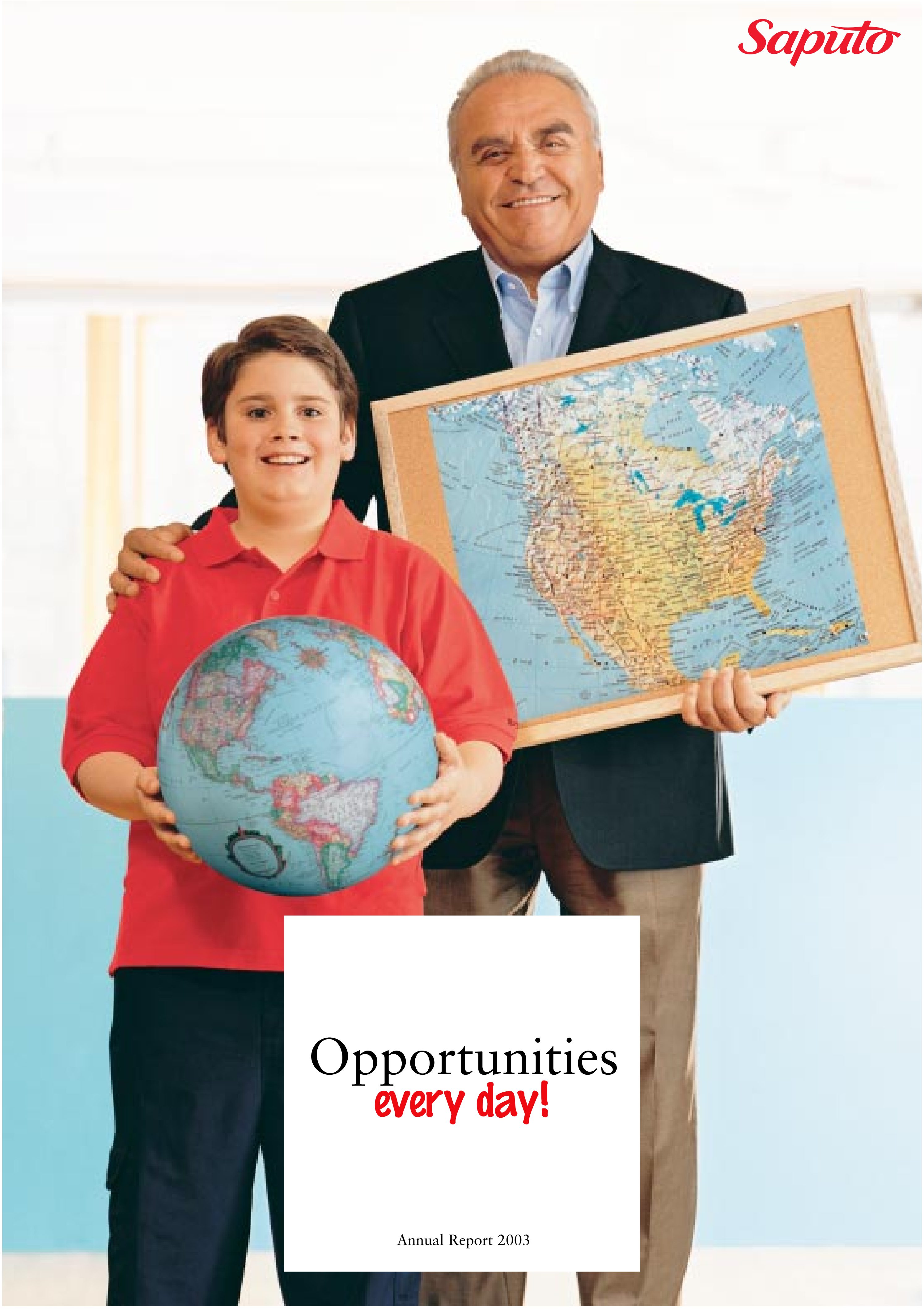
Saputo

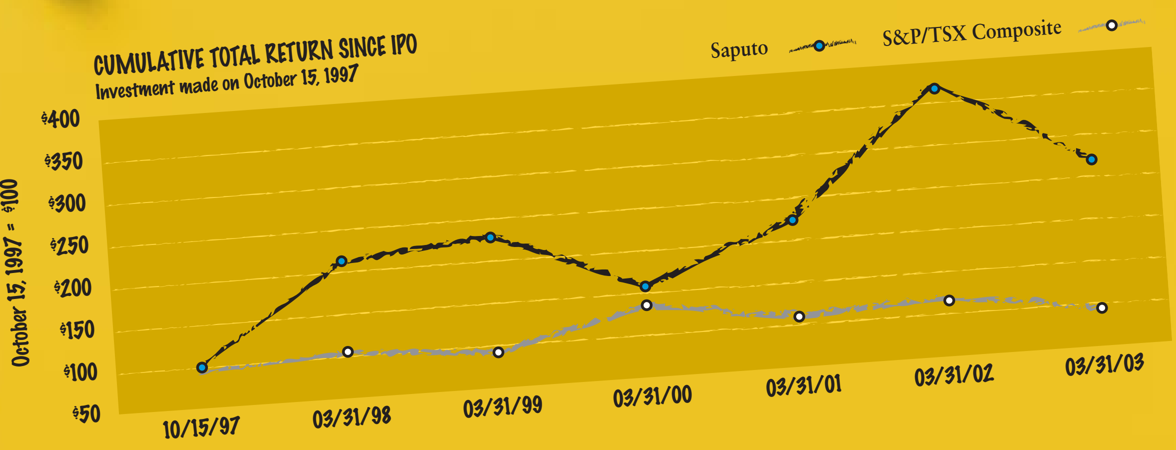


Opportunities every day!

Annual Report 2003

All amounts in this report are in Canadian dollars, unless otherwise stated.

[1] **Measurement of results not in accordance with generally accepted accounting principles**
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation, amortization and stock based compensation. EBITDA is not a measurement of performance as defined by generally accepted accounting principles in Canada, and consequently may not be comparable to similar measurements presented by other companies.



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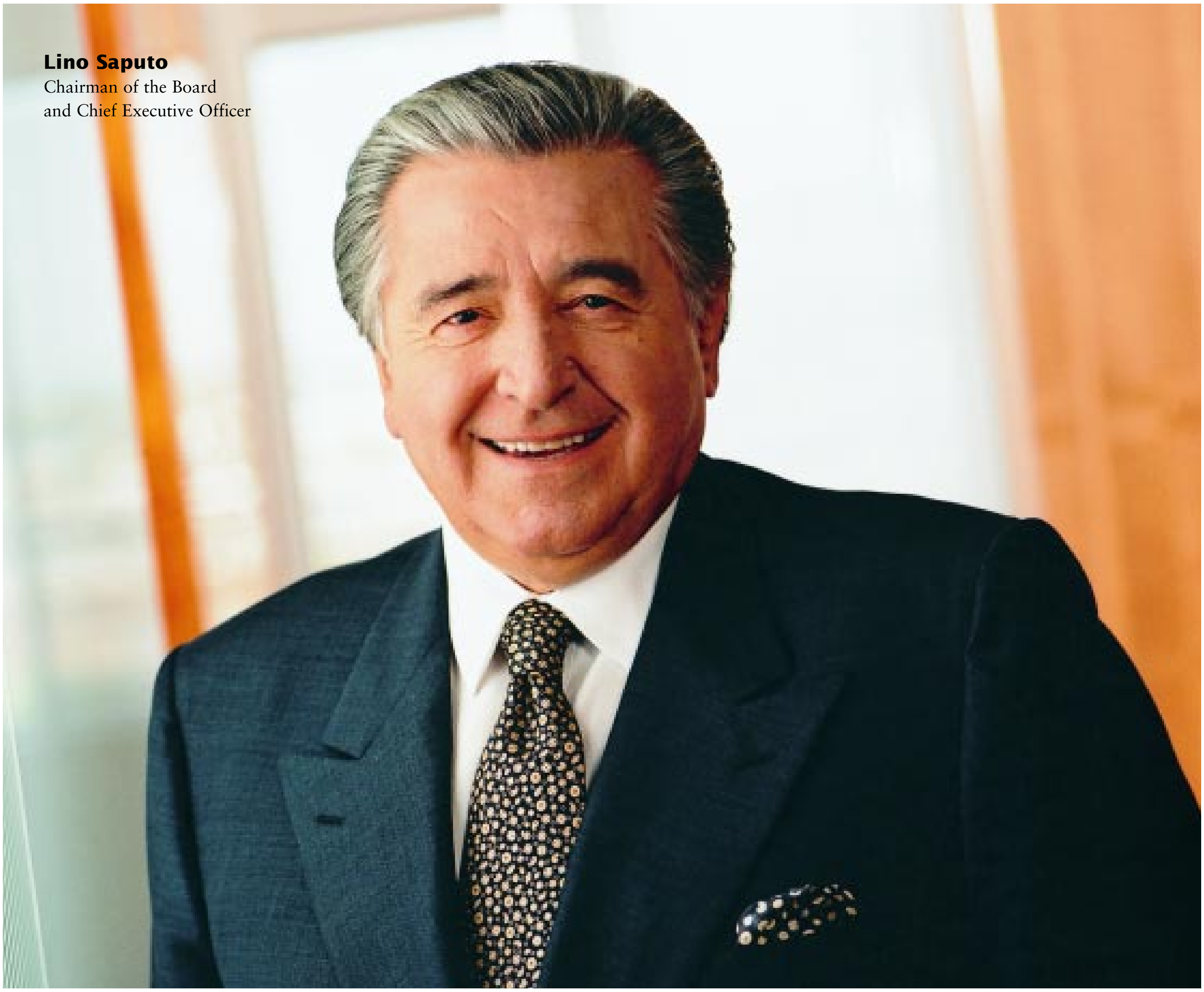
Cover (from left to right): Philip Geddes and Gerardo De Lucia

Highlights

Every day, in 47 plants and in our distribution centres, Saputo's 7,000 employees proudly manufacture, market and distribute a wide range of products that find their way daily on store shelves, in restaurants and in prepared meals. Active in the dairy and grocery product sectors, the Company markets its products under such brand names as *Saputo, Stella, Frigo, Dragone, Armstrong, Caron, Cayer, Treasure Cave, Dairyland, Baxter, Nutrilait* and *Vachon*. A dynamic world-class company, Saputo Inc. is the largest dairy processor in Canada and one of the leading cheese manufacturers in North America. Saputo Inc. is a public company and its shares are listed on the Toronto Stock Exchange under the symbol SAP.

As at March 31

(in thousands of dollars, except per share amounts and ratios)	**2003**	2002	2001
Revenues			
Dairy Products Sector			
Canada	**$ 2,017,383**	$ 1,987,486	$ 803,970
United States	**$ 1,212,810**	$ 1,282,555	$ 1,106,039
	$ 3,230,193	$ 3,270,041	$ 1,910,009
Grocery Products Sector	**$ 167,919**	$ 187,371	$ 251,662
	$ 3,398,112	$ 3,457,412	$ 2,161,671
Earnings before interest, income taxes, depreciation, amortization and stock based compensation (EBITDA)			
Dairy Products Sector			
Canada	**$ 200,621**	$ 183,054	$ 96,912
United States	**$ 120,484**	$ 133,996	$ 131,555
	$ 321,105	$ 317,050	$ 228,467
Grocery Products Sector	**$ 33,165**	$ 35,372	$ 42,507
	$ 354,270	$ 352,422	$ 270,974
Net earnings	**$ 173,728**	$ 160,161	$ 110,241
Cash flow generated by operations, before changes in non-cash operating working capital items	**$ 250,123**	$ 244,535	$ 190,090
Working capital	**$ 269,326**	$ 258,908	$ 242,878
Total assets	**$ 1,970,686**	$ 2,046,675	$ 2,012,979
Long-term debt, including current portion	**$ 521,135**	$ 675,125	$ 795,896
Shareholders' equity	**$ 1,016,504**	$ 900,588	$ 747,901
Per share			
Net earnings			
Basic	**$ 1.68**	$ 1.56	$ 1.08
Diluted	**$ 1.66**	$ 1.54	$ 1.07
Book value	**$ 9.83**	$ 8.73	$ 7.30
Financial ratios			
Interest bearing debt / Shareholders' equity	**0.53**	0.78	1.07
Return on average shareholders' equity	**18.1%**	19.4%	16.0%



Lino Saputo
Chairman of the Board
and Chief Executive Officer

Message to Shareholders

Opportunities every day!

Saputo Inc. continues to demonstrate solid financial results in spite of numerous constraints, especially within the US dairy industry. Net earnings reached $173.7 million, an increase of 8.4% over fiscal 2002.

We have proactively applied new accounting standards, and our fiscal 2003 net earnings take into account an expense of $1.3 million relative to stock based compensation. If it were not for that element, net earnings would have risen by 9.2% over fiscal 2002. This increase is valuable given market conditions but is nevertheless below our expectations for Saputo standards. Revenues for fiscal 2003 totalled $3.398 billion.

During the 2003 fiscal year, the US market was difficult with regard to the average selling price per pound of cheese and its negative effect on inventory pricing between March 31, 2002, and March 31, 2003. In Canada, per capita consumption of cheese remained stable. At the world level, prices of dairy by-products were very low.

In an industry like ours, it is vital to operate as efficiently as possible. Therein lies one of our strengths and the secret to our success, year after year, in creating value and in delivering solid results, even in difficult market situations. Our results are to a large extent linked to our status as a low-cost manufacturer as well as to a continuous striving for improvement that leads us to take advantage of any and all opportunities in our path.

We rely on a qualified and devoted work force that has a strong sense of belonging to the Company. In their own way, all of our 7,000 employees are agents for change who day after day are asked to identify and, above all, to make the most of the opportunities they face. This attitude leads to tight cost control, improvements to processes and innovations, all of which contributes to the success of the Company.

We count on more than 48 years' experience in the manufacture, distribution and sale of quality dairy products. The expertise derived from such experience has enabled us over the years to develop our own technologies through which we are able to respond in a very precise way to the needs of our customers.

We exercise very tight control over all of our costs, and we do so at every level of the production, sales and services chain. Our activities overall are built on the principle of business units and profit centres, which enables all managerial staff and employees to contribute directly to the Company's success.

Revisiting 2003 fiscal year's outlook

We mentioned, during fiscal 2003, that there have always been two primary modes of growth for Saputo: organically and through acquisitions.

At the Cheese Division (Canada), we carried on with the integration of Dairyworld into Saputo's values and know-how, and we are pleased with the results to date. To sustain growth in cheese consumption, we have continued to offer our retail, foodservice and industrial customers a range of cheeses that matches their expectations and that enables them to make greater use of cheese for their specific needs. We launched new products and were more active in running a variety of promotions aimed at demonstrating new opportunities for consumption of our cheeses.

To do list - Fiscal 2003

- Dairyworld integration ✓
- Milk Division - focus on performance ✓
- Increase US volumes ✓
- Bakery Division - transfer of the Aurora production ✓

Furthermore, we undertook a rationalization of our plants in order to make more efficient use of our production capacities.

During the 2003 fiscal year, the Milk Division focused its attention on improving its performance in all areas, especially in our Ontario and Québec operations, where we are now poised to take advantage of the growth opportunities offered. We also have made investments in technology and plant operation performance, thereby reducing supply chain costs. We continue to invest in our human resources, and are commited to train floor employees, frontline supervisors and managers, as well as to install and reinforce Saputo values.

We had mentioned that in the United States we were setting increased sales volume goals. Those goals had first been set at a 13% increase over fiscal 2002. We did not attain that objective. We are nevertheless pleased to announce that despite the difficult year that we and the industry generally have just weathered, we have increased our sales volume by 9.5%. Of that increase, 4.0% comes from the plant in Whitehall, Pennsylvania, acquired in March 2002, and the other 5.5% from internal growth, a percentage that is ahead of the 4.1% growth enjoyed by the US cheese production. Integration of the Whitehall plant went very smoothly, and led to a regional reorganization of the production of certain products and the shutdown of a production facility located in Wisconsin.

In light of the weakness of the average selling price per pound of cheese in the United States, we introduced, in October 2002, a floor price for our specialty cheeses situated at the same level as the US Government's support price.

In the Bakery Division, we closed the Aurora, Ontario plant and transferred that facility's production to the plant located in Sainte-Marie de Beauce, Québec, while proceeding to outsource transport activities. The division made investments in the robotization and automation of certain of its activities. In the fall, we also began, on a small scale, the delivery of a selection of our snack cakes to the United States.

In terms of acquisitions, we concentrated our efforts in the US cheese industry, while also keeping an eye out in Canada with regard to both cheese and fluid milk. Even if we have not materialized any acquisitions during fiscal 2003, we remain convinced that interesting opportunities are available for the coming fiscal year. We remain disciplined, never losing sight of the evaluation criteria that underlie our success, namely that an acquisition must be of a strategic nature, must add value, and must be achievable at a fair price.

In December 2002, the Appellate Body of the World Trade Organization (WTO) handed down its final decision in which it maintains that the Canadian system for the supply of milk to be used in products for the export market does not comply with the commitments assumed by Canada with the WTO. In order to comply with this decision, Canadian dairy processors are required to export their products at prices that make the exporting of dairy products from Canada non-competitive. The export of by-products like lactose and whey is not affected by the decision. Exports of cheese represent less than 1% of our revenues. Still, although this final decision has only a negligible impact on the revenues of the Company, we will be re-evaluating our Canadian facilities with a view to making the most efficient use of them.

Vision and strategy

Over the coming years, the dairy industry will need to focus on creating innovative dairy products that match the changing nutritional needs of consumers. While milk and cheese have been, and will continue to be, mainstays of Canadian consumers' diets, advances in technology will increasingly allow us to utilize wholesome milk products as a means to deliver a broad range of nutritional, lifestyle and health needs. A critical component to the industry achieving innovation and consumer satisfaction lies in cooperation between and objectives shared by all levels of the industry.

We have mentioned frequently that the Canadian dairy market does not present many possibilities for organic growth. Cheese consumption is stable, notwithstanding cheese sales growth in the retail segment. We believe that the development of new value-added products may sustain the growth and development of new or existing categories of milk products or dairy beverages. We are already present in that segment with some of our products in the Milk Division, but much remains to be done through innovation.

To do list - Fiscal 2004

- Value-added dairy products
- Organic growth
- Efficiency
- Cheese and milk acquisitions in Canada

In our Canadian Dairy Products Sector, beyond the development of new products or new niches, our guarantee of success continues to lie in ensuring our efficiency. Possibilities for organic growth being quite limited, we must be highly active in the daily management of our activities that encompass all levels of the organization. During the 2004 fiscal year, our evaluation will focus, among other things, on the efficiency of our operational structure and on maximizing the use of our production capacities.

The Company's origins are in the manufacture of cheese, and for this reason our attention has always primarily been focused, as is the case today, on seeking out acquisitions in the cheese industry. However, with a market share of approximately 20% in fluid milk, we are open to considering eventual acquisitions in Canada, in milk and in dairy beverages.

The United States remains the place where the potential for acquisitions is greatest. The US industry is coming off a rather difficult year and remains relatively fragmented. There is room for consolidation, and we will be watchful. We are going to continue our strategic organic growth, for which we could easily increase capacity with a minor investment, if necessary.

To do list - Fiscal 2004

- US cheese acquisitions
- Bakery Division
  - business development in Canada
  - continue the US market penetration
- Explore international acquisitions/partnerships

In the Bakery Division, we will continue to work on improving efficiency while further developing our business in all regions of Canada. It is important to remain efficient in an environment where competition is increasing and where we are exposed to price fluctuations in raw materials. We will continue in our efforts to gradually penetrate the US market.

Our goal of becoming a world-class cheese company remains unchanged, and to achieve it, we must be in a market where the raw material is accessible at competitive international prices. We have therefore initiated a search for acquisitions and partnerships that would take us beyond North America. Our intention here remains the same: to broaden our horizons in order to better serve our customer base, and in such a way as to be competitive on a worldwide basis.

Corporate governance

The Company believes in the importance of sound corporate governance, while taking into consideration the presence of its significant shareholder. In that context, the Company introduced certain modifications to its corporate governance practices, to be more in line with guidelines from the Toronto Stock Exchange. Among other things, the Company modified the composition of its Audit Committee so that it be made up solely of unrelated directors, and also added two unrelated directors to its Board of Directors. The Board of Directors is now composed of equal numbers of related and unrelated directors. It is the Company's intention, moreover, to arrive at a majority of unrelated directors on its Board. The Company also adopted a communications policy confirming its disclosure practices and adopted a policy on the services that external auditors and other accounting firms may provide to the Company.

Acknowledgments

I would like to take this opportunity to thank our customers, our consumers, our suppliers and our shareholders for their continued support. I also wish to thank the members of our Board of Directors for their support and their wise counsel throughout the 2003 fiscal year. In closing, I wish to thank our employees, who continuously contribute to the growth of our Company through their ability to take advantage of opportunities…every day!

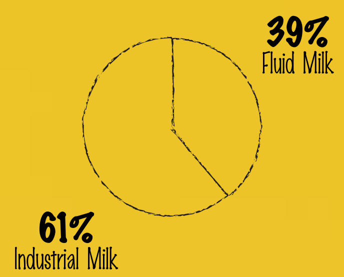
(signed)

Lino Saputo

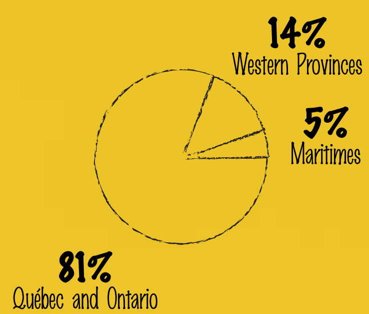
Chairman of the Board
and Chief Executive Officer
June 10, 2003

Dairy Industry at a Glance

Utilization of milk production in Canada in 2001/2002[1]



Dairy farms[1]



Canada

The Canadian dairy industry operates within a highly regulated environment. The Canadian Dairy Commission (CDC), a crown corporation, has been mandated by the federal government to implement Canada's National Dairy Policy, which is based on shared jurisdictional powers between the federal and provincial governments. Fluid milk is regulated provincially, while industrial milk is regulated federally. "Fluid milk" refers to table milk or cream intended for consumption in fluid forms, whereas "industrial milk" is used for the manufacturing of all other dairy products, such as cheese, butter, ice cream and yogurt.

The Canadian dairy industry operates within a supply management system. The key goal of supply management is to ensure a fair return for dairy farmers while maintaining the production of sufficient volumes of industrial milk to satisfy the domestic Canadian consumer demand for dairy products as well as certain planned exports. This is essentially achieved by setting the support price that the dairy processors can receive for butter and skimmed milk powder sold to the CDC to clear market surpluses and by controlling the supply of industrial milk.

Every dairy year (which runs from August 1 to July 31), the CDC calculates the national industrial milk production quantum based on anticipated domestic demand and certain planned exports. This quantum is then allocated according to the terms of the National Milk Marketing Plan, a federal/provincial agreement. This agreement stipulates, among other things, that Québec's and Ontario's shares of the national industrial milk production quantum (the "Market Sharing Quota") are approximately 46.6% and 31.5% respectively.

Once the industrial milk quantum is determined and allocated among the provinces, provincial marketing boards govern the production, pricing and marketing of milk within their own borders. Each provincial marketing board allocates the milk to dairy processors. Industrial milk is allocated according to a cascading system that classifies industrial milk into various classes of products to be manufactured. Priority of supply is given to the higher milk classes, which command a higher milk price.

Although there may be some provincial variations, quantities of milk in each class, other than fluid milk, are generally restricted in their growth. As a result, operating in a supply managed system means that a dairy processor of industrial milk can only achieve significant growth through acquisitions. Any attempt to grow internally is stymied by quotas that limit milk availibility to dairy plants.

The Canadian domestic market for dairy products is a mature market with limited growth opportunities in the main product categories. Overall growth has been static in both the fluid and industrial milk sectors for the past 15 years. Some future growth potential does exist, however, for increased dairy ingredients sales and functional foods.

A few facts:

- There were 1.137 million cows on 18,673 dairy farms that produced 76 million hectolitres of milk in the 2001/2002 dairy year and the average dairy farm had about 61 cows.[1]
- The three largest primary processors own 36% of the plants and process 71% of the milk.[1]
- In 2001, the Canadian primary dairy industry encompassed 292 plants.[1]

Canadian Statistics

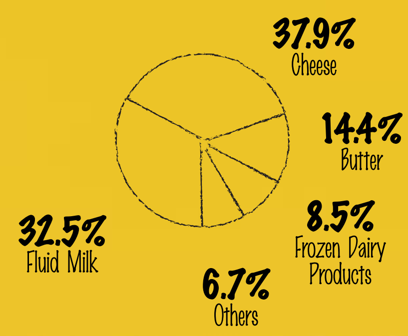
Dairy year	Total cheese production (including cottage cheese)[1] (in millions of kg)	Total milk sold to processors[1] (in millions of hectolitres)
2001/2002	351.1	76.0
2000/2001	355.9	75.1
1999/2000	358.9	74.9
1998/1999	350.2	75.3
1997/1998	353.1	73.9
	Cheese consumption[1] (kg per capita)	**Fluid milk consumption**[1] (litres per capita)
2001	11.09	87.01
2000	11.58	88.01
1999	11.52	87.58
1998	11.43	88.50
1997	11.80	89.03

United States

Government intervention and market forces combine in the determination of wholesale milk prices in the United States. Government intervention consists of three main elements: a price support program, federal and state milk marketing orders, and direct payments. The State of California has opted out of the USDA Market Order System and administers its own state order.

As a way of supporting the farm price of milk, the government commits itself to purchasing unlimited quantities of butter, skim milk powder and cheese at Commodity Credit Corporation (CCC) prices under the Dairy Price Support Program.

Utilization of milk production in the United States in 2002[2]



A few facts:

- Milk is produced in 50 states. The trend in milk production has moved West and toward larger operations. Over 40% of the US milk is now produced by herds of 500 cows or more. California alone produces 20.6% of the US milk supply.[3]
- There were 9.1 million cows on 91,990 dairy farms that produced 746.1 million of hectolitres of milk in 2002.[3]
- The average farm has 99 cows.[3]
- In 2002, the US cheese industry encompassed 403 plants.[2]

US Statistics

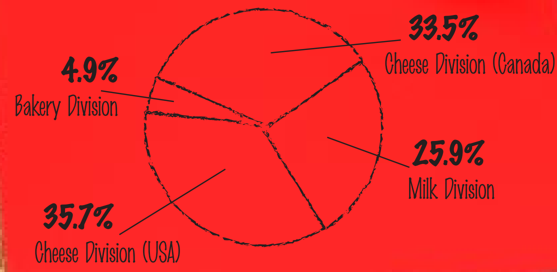
	Natural cheese production[2,3] (in millions of kg)	Milk production[2] (in millions of hectolitres)
2001	3,746.1	727.4
2000	3,745.8	736.5
1999	3,602.0	715.2
1998	3,398.3	691.6
1997	3,324.9	686.1
	Natural cheese consumption[4] (kg per capita)	**Fluid milk consumption**[5] (litres per capita)
2001	13.32	83.3
2000	13.42	84.9
1999	13.14	86.5
1998	12.59	86.9
1997	12.49	88.3

ANNOTATIONS

1 Canadian Dairy Information Centre - Sources: Agriculture and Agri-Food Canada, Canadian Dairy Commission, Statistics Canada
2 Source: USDA, *Dairy Products 2002 Summary*
3 Source: USDA, *NASS Milk Production*, February 2003
4 Source: IDFA, *Cheese Facts*, 2002 Edition
5 Source: IDFA, *Milk Facts*, 2002 Edition

Saputo at a Glance

Revenues (%) per division

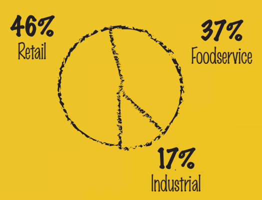


Dairy Products Sector

Canada

Cheese Division

Revenues (%) per market segment:



Types of products
Mozzarella, cheddar, blue, bocconcini, brick, brie, butter, caciocavallo, camembert, colby, evaporated milk, farmer, feta, friulano, goat cheese, havarti, lactose, monterey jack, munster, parmesan, pastorella, powdered milk, provolone, ricotta, romano, string cheese, swiss, trecce, tuma, whey protein

Sales
- Leader in pizzeria market
- Wide range of specialty cheeses

Distribution
- DSD (direct-to-store delivery) services
- 3 major distribution centres: Saint-Léonard (QC), Woodbridge (ON) and Calgary (AB)
- 11 regional distribution centres

Operations
- Produces 35% of all natural cheese in Canada
- 30% excess production capacity

Supply
- More than 1.0 billion litres of milk processed annually
- 32% of milk supply comes from Québec, 13% from Ontario and 55% from the Western Provinces

Milk Division

Revenues (%) per market segment:

Types of products
Fluid milk, cream, sour cream, cottage cheese, yogurt, juices and drinks, margarine, dips, flavoured coffee creamers

Sales
- More than fluid milk, sales are extended to a diversified line of dairy and non-dairy products

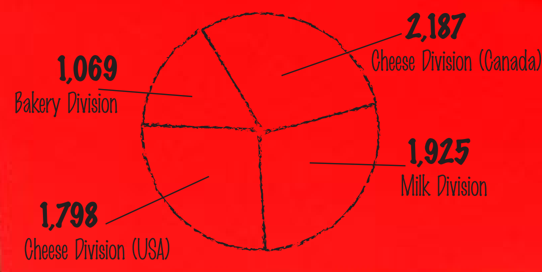
Distribution
- DSD (direct-to-store delivery) services in all regions of Canada
- The largest dairy-product distribution infrastructure in Canada

Operations
- Processes 20% of all fluid milk in Canada
- 40% excess production capacity

Supply
- More than 600 million litres of milk processed annually
- 8% of milk supply comes from the Maritimes, 3% from Québec, 8% from Ontario and 81% from the Western Provinces

Number of plants per division

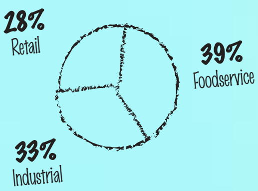
Number of employees per division



United States

Cheese Division

Sales volumes (%)
per market segment:



Types of products
Mozzarella, string cheese, asiago, blue, dried and condensed whey, eggnog, feta, fontinella, gorgonzola, kasseri, parmesan, provolone, ricotta, romano, swiss, sweetened condensed milk, whey protein concentrate

Sales
- Extended product mix and well-balanced sales segmentation

Distribution
- Independent national and regional distributors
- 3 distribution centres: East, Midwest, West

Operations
- Produces 6% of all natural cheese in the United States
- 7% excess production capacity

Supply
- More than 1.9 billion litres of milk processed annually
- 30% of milk supplies comes from the East, 43% from the Midwest and 27% from the West

Grocery Products Sector

Bakery Division

Revenues
per market segment:

Types of products
- Snack cakes, tarts, cereal bars

Sales
- Leading manufacturer of snack-cake products in Canada and one of the leaders in the cereal bar market in Québec

Distribution
- DSD (direct-to-store delivery) services

Operations
- Dominant market share in all regions of Canada
- 30% excess production capacity

Supply
- Ingredients are bought in a supply-demand market that determines their prices
- 95% of our supply is done in Canada

Jean-Pierre Dufour, Suzette Duguay-Samson, Richard Lesage, Luc Robillard, Claude Grenache

Opportunity

in the Cheese Division (Canada)

Italy has enjoyed fresh mozzarella for many years. And although it has been brought into Canada, the nature of the product, with its brief shelf life and short-lived freshness, is an obstacle to its being imported and means consumers must do without a product of consistent quality.

Result

Mozzarina Mediterraneo is the latest arrival in our line of fresh cheeses, the newest addition to what we offer in the way of Italian specialty cheeses. A team composed of marketing and production employees has created a fresh mozzarella that is even milkier and creamier – a delight for consumers and restaurateurs, who can now dish up a *Caprese* salad as authentic as the Italian variety with this product unique to Saputo, produced here by our master cheese makers, who took their inspiration from the manufacturing techniques of master cheese makers in Italy.

Pat Thom, Gabe Tonin, Rupert Reed, Russell Westcott

Opportunity

in the Milk Division

Milk Division's marketing and R&D teams work continuously to respond to consumers' need by studying markets and initiating trends. In the late 1990s, the team recognized a huge first-step opportunity in the flavoured milk segment and brought to market a plastic re-closable single-serve flavoured milk under the brand *Milk 2 Go*. In 2000s, we had to find a way to capitalize on the success of the *Milk 2 Go* product line.

Result

In fiscal 2003, the marketing and R&D teams took the opportunity to improve packaging graphics, added four exciting new flavours and increased distribution base across the country. The new flavour offerings and expanded distribution created excitement for consumers, resulting in incremental sales.

Phill Lefeber, Brian Skamra, Joseph Konen

Opportunity

in the Cheese Division (USA)

Since 1936, at the Fond du Lac (Wisconsin) facility, the blue cheese was brined for three days in non-circulating tanks. The tanks were stacked four high and required the employees to lift and stack the cheese one tank at a time. In 1999, a new serpentine system was installed but space constraints limited capacity of the system. In fiscal 2003, at the initiative of three employees at the plant, a project was designed to fit into the space vacated by the old brine tanks utilizing a used brine system from an idle plant. They created and built a system to pump the brine from the serpentine system to and from the new upstairs brine system.

Result

This new system resulted in savings through waste treatment, ingredient, labour and overhead cost reductions and plant capacity increased. Quality testing was reduced from 100 to three tanks, while product quality and consistency improved. Employees benefited of enormous ergonomic, safety and working condition improvements, therefore reducing employee turnover.

Céline Grenon, Nova Guertin, Bruno Fortier

Opportunity

in the Bakery Division

The transfer of tart-manufacturing activities from the plant in Aurora, Ontario to the one in Sainte-Marie de Beauce, Québec presented a considerable operational challenge for the Division: a complex line of products from both flavour and recipe standpoints, know-how going back many years, and above all, a number of different packaging sizes.

Result

Through the initiative of the team created for the project, the operation gave birth to a greatly simplified and completely transformed line of tarts: emphasis on the *Granny's* brand name, new packaging visuals, rationalization of close to two-thirds of the line, elimination of duplication in sizes – and all the while keeping the flavour offering intact for the consumer and allowing for an increase in productivity.

Management's Analysis

The goal of the present management report is to provide a better understanding of our activities, and it should be read while referring to our audited consolidated financial statements and accompanying notes.

This disclosure document contains management's analysis on forward-looking statements. Caution should be used in the interpretation of management's analysis and statements, since management often makes reference to objectives and strategies, which contain a certain element of risk and uncertainty. Due to the nature of our business, the risks and uncertainties associated with it could cause the results to differ materially from those stated in such forward-looking statements. We disclaim any intention or obligation to update or revise forward-looking statements based on any new information or event that may occur.

Global overview

Solidly established across North America, Saputo operates 47 plants as well as its distribution centres with nearly 7,000 employees.

Our employees comprise our most important asset. Our approach in the matter of human resources is to build quality employer-employee relationships that translate into a dynamic environment open to exchanges. Additionaly, our family and entrepreneurial approach results in a positive climate, which in turn makes for minimal turnover in personnel. This work environment encourages all our employees to contribute to the success of our Company on a daily basis. Presenting new ideas for improvement and efficiencies as they occur remains highly contributive in reaching results that are beneficial to everyone.

We are active in two sectors of the food industry: dairy and grocery products.

Our **Canadian Dairy Products Sector** encompasses the activities of the Company's Cheese Division (Canada) and Milk Division. The Company's **US Dairy Products Sector** consists of the Cheese Division (USA). Our dairy products can be found in all segments of the food market: retail, foodservice and industrial.

The **retail** segment includes supermarket chains, independent retailers, warehouse clubs and specialty cheese boutiques. In grocery stores, our products are sold in the dairy case and deli cheese counter sections. In Canada and in the United States, we also offer specialty cheeses to our retail-segment customers. We provide our customers in this sector with dairy products under our own brand names as well as under private labels.

The **foodservice** segment comprises distributors of both specialty and complete product lines, as well as restaurants and hotels. We offer our customers in this segment dairy products under our own brand names as well as under private labels. In Canada, we also supply other non-dairy products manufactured by third parties through our own distribution network. We also produce dairy blends for fast-food chains and retain an important market share of this category in Canada.

Our **industrial** segment comprises processors that use our products as ingredients in the preparation of other food products. We supply cheese to the majority of frozen-pizza producers in Canada as well as to processors of frozen food, and supply several large food-product producers in the United States. Saputo's technical experts work closely with customers to adapt new products to their specific needs.

We also produce by-products from our Canadian and US cheese manufacturing activities such as lactose, whey powder and whey protein. We sell, through our Canadian industrial segment, cheese, lactose, whey powder, ice cream mixes and whey protein to a vast array of clients in Canada, Europe, South America, Asia and Africa.

Active across Canada, Saputo's **Grocery Products Sector** manufactures and markets snack cakes, tarts and cereal bars through the Bakery Division. Its products are sold almost exclusively in the Canadian retail segment, primarily in supermarket chains, at independent retailers and at warehouse clubs, and recently on a small scale in the Northeastern United States.

The Company's **consolidated revenues** for the fiscal year ended March 31, 2003, were $3.398 billion, compared to $3.457 billion for the previous fiscal year. The average selling price per pound of cheese on the US market was 21% lower for fiscal 2003 as compared to last year, creating a shortfall in revenues of approximately $158 million. Also, our Bakery Division operated exclusively in a snack cake environment in fiscal 2003, unlike last year, when there were 15 weeks of operations in the cookie, fine bread and soup categories. These operations were transferred to Dare Foods in July 2001.

Overall, on a comparable basis, revenues would be 3.5% higher in fiscal 2003 as compared to last year, reflecting increases in the four divisions of the Company.

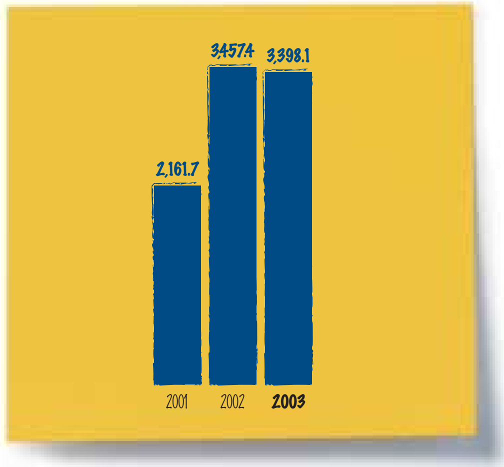
During fiscal 2003, **earnings before interest, income taxes, depreciation, amortization and stock based compensation (EBITDA)**[1] amounted to $354.3 million. Up 0.5% over the $352.4 million posted for fiscal 2002.

Fiscal 2003 was marked by a world dairy-product market that was volatile and depressed. World sales prices of whey protein concentrate suffered a decrease of almost 34% compared to fiscal 2002, while the market for lactose was down nearly 19% in fiscal 2003. Those market conditions created a shortfall of approximately $2.5 million in the Canadian Dairy Products Sector EBITDA, as well as a shortfall of approximately $4 million in the US Dairy Products Sector EBITDA. At the same time, the world economy had a rough ride, certainly affecting our expenses in such matters as energy costs for our manufacturing processes, distribution and delivery, as well as insurance costs.

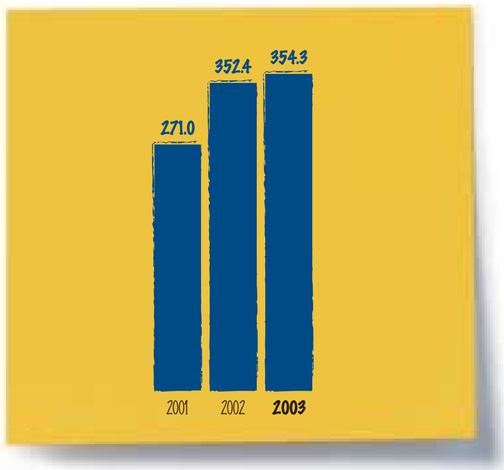
The Canadian Dairy Products Sector enjoyed a growth of 9.6% in its EBITDA, continuing its integration process of Dairyworld, even though it had to face a shortfall on EBITDA created by the depressed dairy by-product selling prices. As far as the US Dairy Products Sector is concerned, despite a growth in our sales volumes of close to 9.5% in fiscal 2003 over last year, our EBITDA decreased by $13.5 million. The US market experienced an average selling price per pound of cheese that was 21% lower than in fiscal 2002, creating a direct negative effect on the absorption capacity of fixed charges, as well as producing negative effects on the pricing of inventories between March 31, 2002 and March 31, 2003. Combined with depressed dairy by-products selling prices, this situation created a shortfall of potential EBITDA of almost $19 million in comparison to fiscal 2002. The snack cake category of the Grocery Products Sector generated relatively stable EBITDA.

Overall, actions taken throughout fiscal 2003, whether in integration, rationalization or innovations, have contributed to the real growth, thus lessening the negative impact of the various other market factors.

Revenues
(in millions of dollars)



EBITDA
(in millions of dollars)



[1] **Measurement of results not in accordance with generally accepted accounting principles**
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation, amortization and stock based compensation. EBITDA is not a measurement of performance as defined by generally accepted accounting principles in Canada, and consequently may not be comparable to similar measurements presented by other companies.

Canadian Dairy Products Sector

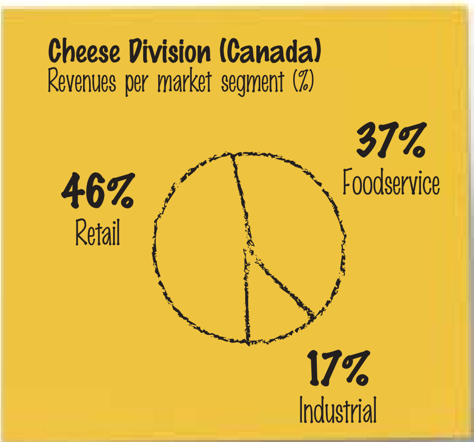
Our Canadian Dairy Products Sector is composed of the Cheese Division (Canada) and the Milk Division.

Our **Cheese Division (Canada)** operates in a fairly consolidated industry. The natural-cheese production in Canada as a whole amounts to roughly 350 million kilograms. The division, which represents 33.5% of our revenues, manufactures and markets a wide range of cheeses, from mozzarella and cheddar to specialty cheeses. The division also markets milk by-products such as lactose, whey powder and whey protein. The products are marketed under brand names such as *Saputo, Armstrong, Caron, Cayer, Stringers, Bari* and *Stella* to all segments of the food industry, namely retail, foodservice and industrial.

Saputo is the leading cheese producer in Canada, accounting for approximately 35% of all domestically produced natural cheeses. The largest producer and marketer of mozzarella in Canada, Saputo ranks at or near the top in producing cheddar and other varieties of specialty cheeses. We also sell and distribute a vast assortment of imported cheeses to the retail segment and complementary items to independent pizzerias. The Cheese Division (Canada) employs 2,187 people in 18 plants and 14 distribution centres spread out over nine of the 10 Canadian provinces.

Our **Milk Division** accounts for 25.9% of our revenues. With 1,925 employees and 14 plants located all across Canada, the division manufactures and markets mainly fluid milk, but also a full range of dairy products, including cream, yogurt, sour cream and cottage cheese. Our dairy product line is complemented by various non-dairy products, including flavoured coffee creamers, juices and drinks. Products in this division are marketed under the brand names *Dairyland* in Western Canada and Ontario, *Nutrilait* in Québec, and *Baxter* in the Maritimes.

Revenues (Canadian Dairy Products Sector)



Dairy Products Sector's revenues for the fiscal year ended March 31, 2003 totalled $2.017 billion, an increase of 1.5% over the $1.987 billion posted last year. Essentially the increase in revenues was generated by the Milk Division. In Canada, the regulated system limits the possibilities of growth to acquisitions and consumption increase.

The **Cheese Division (Canada)** recorded $1.139 billion in revenues for fiscal 2003, compared with $1.142 billion last year. The decrease in revenues is mainly driven by a decline in cheese export sales and by the dairy by-products market price decrease on a worldwide scale, despite the fact that generally all the cheese selling prices increased due to the yearly raw material (milk) price increase.

In Canada, per capita consumption remained stable during fiscal 2003. In the **retail** segment, which accounts for 46% of the Cheese Division (Canada) sales, we increased our volumes and revenues on branded and speciality cheeses as well as on private label products.

Our business continued to grow with current national customers. We also supported our customers in achieving their objectives for their private labels with new product introductions and with ongoing attention to existing products in terms of quality and service.

Our *Saputo* brand is predominant in Québec, whereas our *Armstrong* brand is predominant in Western Canada. The rather restricted possibilities for growth in these markets encourage us to stimulate per capita cheese consumption in the country, in order to bring it up at least to the US level.

To bolster our position as a supplier capable of responding to all the needs of our customers in terms of cheese, we took several steps, including the expansion of our *Saputo* branded programs in Western Canada and the introduction of new cheeses such as seasoned feta and *Mozzarina,* which is a fresh mozzarella offered in a 250g pouch that rivals similar imported Italian products. We also launched several other speciality cheeses – a double crème brie under the brand *Bonaparte,* a goat camembert named *Chèvre d'art* – and revamped several other soft cheeses. We also added to our specialty cheese line value-added products in interleaved sliced format designed for convenience. These initiatives enabled us to increase the geographical and store presence of our full product line.

In Ontario we invested in an integrated promotion program that includes advertising in specialized TV programs tied to the launch of our first issue of *Cucina*, an upscale 68-page recipe and lifestyle quarterly magazine, including many recipes using our products. The magazine was also launched in the Québec market. In addition, we revamped and modernized our *Saputo* brand logo and ran extensive research in cheese positioning as a prelude to a total revamping of *Saputo* packaging, launched in April 2003. An overhaul of the internet site was designed with a consumer focus in mind.

Fiscal 2003 marked the 100th anniversary of the *Armstrong* brand in Canada, and we promoted the event through the launch of an extra-old white cheddar supported by a major "Great Taste Pursuit" promotion all across Western Canada in both the foodservice and retail segments.

Revenues from the **foodservice** segment, which accounts for 37% of the Cheese Division (Canada) sales, enjoyed a slight increase over fiscal 2002, which can be accounted for by a rise in prices related to the yearly milk price increase and by an increase in volumes with certain major customers. We also broadened our customer base in this segment. We listened to our customers and responded to their needs with new recipes, formats and/or cost-reduction ideas to make them more efficient. With this in mind, we continued to realign our production to be more responsive to market needs. We also strengthened our relations with our major distributors to provide full coverage in all "food away from home" segments.

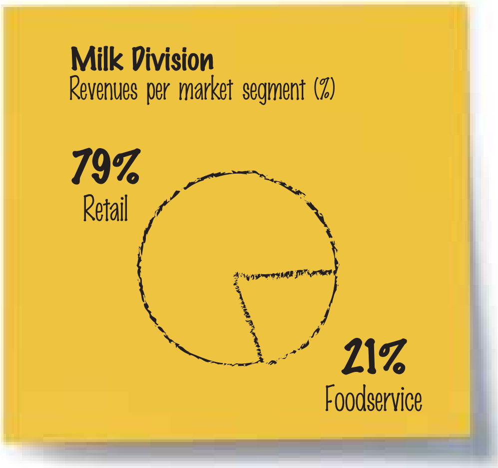
The **industrial** segment is comprised of Canadian industrial and export sales. This segment accounts for 17% of the Cheese Division (Canada) sales, and we observed during fiscal 2003 a decrease in volumes and revenues created mainly by the drop in cheese exports related to the WTO decision as well as the decrease in by-product prices on the international market.

In the Canadian industrial segment, we have been able not only to maintain market share but also to expand our customer base. While there has been downward pressure with respect to pricing, we have increased our sales, keeping pace with the growth in this industry by supplying cheese ingredients to the largest frozen-food processors in Canada. The rising trend towards prepared meals, as consumers embrace convenience, is driving the increase in frozen pizzas, lasagnas, and various other meals, many of which use cheese.

During fiscal 2003, we maintained our customer base abroad and strove to manage the difficult balance between supply of milk for export and customer demands. Unfortunately, in December 2002, the decision from the WTO Appellate Body maintained that the Canadian system for the supply of milk to be used in products for the export market does not comply with the commitments assumed by Canada with the WTO. In order to comply with this decision, Canadian dairy processors are required to export their products at prices that make the exporting of dairy products from Canada non-competitive, causing us to scale down our exports to nil in the fourth quarter. We are continuing to look at ways to serve our customers through our operations in the United States or through milk imports in Canada for re-export.

The exports of by-products such as lactose and whey are not affected by the WTO decision. We continued with a steady supply of lactose, whey proteins, whey powder and other dairy derivatives to the local and international markets, and were more involved in the supply of these ingredients to the food industry in general. The price of by-products is determined by the international market. The decrease in the prices for whey protein concentrate, and for by-products in general, caused by the excess milk in the worldwide dairy system from fiscal 2002 levels, had a downward effect on our revenues in comparison with last year.

The **Milk Division** accounted for $878.0 million in revenues, an increase of 3.8% compared with $845.5 million in fiscal 2002.



Revenues increased slightly, partly caused by the yearly raw-milk price increase, which was transferred as an increase in the selling price. Although the Canadian milk market is basically flat, through a marketing and distribution focus we have driven market share growth in key categories, including yogurt, cream, sour cream and non-dairy creamer. As for fluid milk, we maintained our market share in Western Canada, in Ontario and in the Maritimes, and increased our market share in Québec.

We introduced more higher-margin products in the yogurt and premium milk categories, and globally introduced eight new products to complement our offering. Our marketing group focused on building brand equity and sales growth by investing in higher-margin brand-sustainable products – as for example in the launch of a *Classic Vanilla* line of yogurts – with annual volume and market share increases. We also increased the investment in the *International Delight*[1] line of non-dairy creamers, with growth year over year in excess of 20%, remaining a leader in that fast-growing category. The expansion of the single-serve *Milk 2 Go* product line resulted in a significant increase in sales volumes and margins. We made improvements to the packaging (spout cap, plastic bottle) for our milk lineup in Central Canada and the Maritimes. The R&D team now reports to our marketing group with dedicated resources to drive innovation in new product development and to reduce our current cost of goods. We also developed an online order system for our customers linked to us through the Internet.

We began the process of building an improved Ontario and Québec sales and operations team poised to meet the needs of planned growth in Central Canada and able to meet the growth requirements of large national customers.

Fiscal 2003 saw the sales and distribution team adapt to the significant changes in the national foodservice segment. We were able to establish long-term arrangements with new customers. We introduced longer-shelf-life products in one-way shipping containers specifically targeted to foodservice distributors. We expanded our route coverage in the Maritimes, as well as introducing a more diversified product line.

EBITDA (Canadian Dairy Products Sector)

Earnings before interest, income taxes, depreciation, amortization and stock based compensation totalled $200.6 million at March 31, 2003, compared to the $183.1 million reported in fiscal 2002 – an increase of $17.5 million, or 9.6%. EBITDA margin for this sector climbed from 9.2% last year to 9.9% during fiscal 2003. This increase can be accounted for by the optimization of operations during the process of integrating Dairyworld, acquired in 2001, despite the fact that energy and insurance costs have risen.

With the aim of increasing operational efficiency, our **Cheese Division (Canada)** decided to shut down three plants: Souris, Manitoba; Yorkton, Saskatchewan; and Oakville, Ontario, and to transfer production to other facilities. The first two ceased operations in the third and fourth quarters respectively, while the Oakville plant, which has started to transfer its operations to our Tavistock, Ontario, plant, will close definitely in the third quarter of fiscal 2004. We began a major expansion project in the Tavistock plant that should be completed in the course of 2004, and that will increase efficiency and warehousing operations, as well as cutting, packaging and by-products processing. We also consolidated all our distribution, selling and administration operations from various Ontario locations in our Woodbridge distribution centre, where we increased space by over 30%. We also invested in our Saskatoon plant to improve efficiency in by-product treatment. During fiscal 2003, absorbed rationalization costs were approximately $1.1 million, for a savings of approximately $0.2 million. To complete the rationalization project initiated in 2003, we intend to spend approximately $2 million over the course

[1] Trademark used under license

of fiscal 2004, which should translate into savings of approximately $7 million for that period and of approximately $8 million per year thereafter.

We are well under way towards ensuring compatibility with the industry cost-savings initiative by investing in proper information technology such as the Electronic Commerce Council of Canada (ECCnet), the majority of our production lines now being equipped accordingly.

In terms of supply, we experienced a period of milk surplus during the first months of fiscal 2003, followed by a shortage of 6% to 8% in Eastern Canada during the second quarter. That shortage obliged us to multiply inventory movements between our plants and our distribution centres to be able to serve adequately our customers, which entailed additional inventory and distribution costs. These variations are the exception. Provincial milk marketing agencies are aware of the situation and are working on means to prevent such irregularities from recurring.

As always, we continue to invest in maintaining the quality of our infrastructures at every level of our business.

As mentioned in the revenues section, the **Milk Division** was able to improve its profitability through the introduction of higher-margin products. Also, the Milk Division's sales and distribution team was able to meet the needs of a consolidating retail and foodservice customer environment by continuing the process of cost reduction through: the continued conversion of company routes to an owner-operated distributor system; changes to our fleet infrastructure, reducing the number of vehicles and increasing the average load capacity per vehicle; improvements to the customer drop size and the creation of a minimum pick size by stock-keeping unit (SKU) at the warehouse level. The division also further automated bottling operations in order to lower unit costs.

Our continuous investments in plant and personnel put us in an excellent position to respond to market opportunities. More specifically, we have increased our investment in marketing and R&D, and integrated these functions so that we can capitalize on market opportunities in a timely manner. We increased investment in the training and development of all staff, from floor workers to senior management.

Perspectives (Canadian Dairy Products Sector)

We are going to complete the rationalization plan initiated in fiscal 2003, which should translate into significant savings, as discussed in the EBITDA section.

We plan to carry on investing in maintaining the quality of our equipment and fixed assets. We will increase our investment in developmental programs for our employees, as they constitute our most valuable asset.

The WTO decision limits export capabilities out of Canada for our **Cheese Division (Canada)**, which adversely affects our ability to develop new cheese product markets from Canada and forces us, as an industry, to better manage any surplus production. We will therefore review our production capacity, production currently being at 30% of available capacity, and strive for maximum efficiency in serving the Canadian market. We are forced to look at new and innovative ways of consolidating our businesses.

We will increase our marketing support for our core brands, *Saputo* and *Armstrong,* in order to expand awareness of our high-quality products within the category. We will also bolster our efforts in the development of functional milk by-products in order to maximize the use of all milk solids received at our plants.

We will continue to play an important role within every aspect of the highly regulated dairy industry – through governmental organizations and associations at both the provincial and federal levels – all for the benefit of a strong Canadian dairy industry and keeping in mind the interests of customers.

In fiscal 2004, our **Milk Division** will be entering another phase of its evolution towards becoming the only truly national dairy company in Canada. We intend to focus on growth in Central Canada, in both the Ontario and Québec markets. We intend to expand our market share in Nova Scotia and to improve overall profitability by more efficient gross margins maintenance and by creating significant cost reductions in the areas of distribution and sales. At the same time that we are organically increasing our fluid-milk volume in Québec and Ontario, we intend to pursue a significant share of the cultured-product segment, which includes products such as yogurt, in certain regions of Canada, primarily through existing retailers' own distribution systems. We believe that the development of new value-added products should sustain the growth and development of new or existing categories of milk products or of dairy beverages. Centralization of certain services of the division should generate some cost reductions and improve the services.

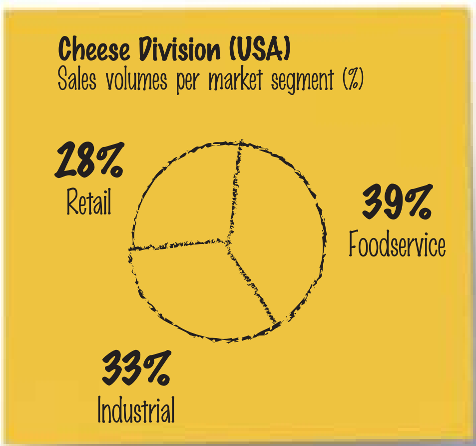
US Dairy Products Sector

Approximately 6% of all natural cheese produced in the United States is provided by our Cheese Division (USA)'s 14 plants and three distribution centres, which are spread out over seven states. We have a dedicated sales force located all across the country. Familiar brands like *Stella, Frigo, Frigo Cheese Heads, Saputo, Treasure Cave, Dragone, Lorraine, Gardenia* and *Lugano*, among others, are marketed in the retail, foodservice and industrial segments. Our 1,798 dedicated employees contribute to distinguishing Saputo from the competition. The Cheese Division (USA) represents 35.7% of the total Company revenue.

The US cheese market accounts for approximately 3.90 billion kg per year, which includes mozzarella, cheddar and specialty cheeses, and with 403 manufacturing facilities in the country, the industry remains quite segmented. Despite this fact, the Cheese Division (USA) plays a leading role. We believe that our unique combination of scale, geographic spread, rich product mix and well-balanced sales segmentation is unmatched in the US industry. We manufacture and market 9.7% of the total mozzarella as well as 7.3% of the specialty cheeses produced in the United States.

Revenues (US Dairy Products Sector)

Revenues amounted to $1.213 billion, down $70.0 million or 5.4% compared to fiscal 2002. Fiscal 2002 revenues were $1.283 billion. Considering the fact that the average selling price per pound of cheese was US$0.30 lower in fiscal 2003 compared to last year, the US$1.15 average in fiscal 2003 affected our revenues in the United States by approximately $158 million. A stronger Canadian dollar had a negative impact on revenues of approximately $4 million. If we were to compare fiscal 2003 and fiscal 2002 using the same selling price and the same currency exchange rate, revenues in the United States would have been up 7.2%, partially reflecting our volume growth in fiscal 2003.



Total cheese production for the entire US market increased by 4.1% in 2002, while milk production grew by 2.6%. Commercial prices were among the lowest in the last 20 years, and about 21% below the previous fiscal year. At the same time, retail prices for dairy products did not reflect the decline, and consumption was relatively flat nationally. Despite these adverse conditions, the Cheese Division (USA) achieved a 9.5% increase in volume. Approximately 4% of that increase derives from the Whitehall plant acquired at the end of March 2002, the rest of the growth coming from internal efforts. The majority of the product categories in which we manufacture increased in fiscal 2003 compared to last year.

With brand names consumers respect like *Frigo, Stella, Dragone* and *Frigo Cheese Heads*, the most popular string cheese in the United States with a 23.8%[1] market share, the **retail** segment represents 28% of our total volume of sales in the United States. The segment is up 9.4% over fiscal 2002. This segment is dominated by

[1] Information Resources Inc. – March 30, 2003 (52 weeks)

strong brands at the consumer level. Point-of-sale promotion and brand support often help in stimulating sales. In July, to further maximize the penetration and sales of *Frigo Cheese Heads*, production commenced for the *Frigo Cheese Heads* Spongebob Squarepants promotion. About 8 million packages were produced, and September marked our biggest ever back-to-school season. In January we launched our new string variety pack and started production for our Marvel Superhero promotion. Over 100 million of the one-ounce inner cheese packages were produced throughout the promotion period. Several other new products were introduced during fiscal 2003, including *Frigo Parmazest!* grated Italian topping.

The **foodservice** segment represents 39% of our total sales volume in the United States, and the volume of that segment is up 13.1%. We observe growing opportunities for specialty cheeses, with growth in pizza consumption. More pizzerias are using or adding cheese blends to their meals; specialty cheeses such as blue, gorgonzola, asiago and feta are found on salads, burgers, steaks and sandwiches; and restaurants are offering cheese plates.

At the end of fiscal 2002, we launched a new product called *Saputo Premium*, geared to the independent pizza trade and mom and pop establishments. Our strategy was successful, and we enjoyed significant growth with independent distributors. We increased our business with broad-line distributors as well. We achieved this while developing our business with both our existing customer base and with new customers. We were able to meet the precise needs of large and national customers. We feel that consolidation among customers and within our industry has benefited us and will likely continue to benefit us as the emphasis shifts to quality suppliers with national capabilities, situations on which we can benefit.

The **industrial** segment represents 33% of our total sales volume in the United States and is up 5.4% over fiscal 2002. In this segment we have strengthened existing relationships as well as developed new business. We made significant gains throughout fiscal 2003, most notably in the ricotta category for prepared meals and in provolone for slicing in sandwich shops.

Our ingredient products include both those associated with cheese manufacturing, typically whey derivatives, and a wide variety of others including sweetened condensed milk and eggnog. Volumes and prices varied by product type within the category. The situation on the world market affected the price of by-products, bringing them to historically low levels. We continue to manage this area of the business with a strong focus on value-added products. We furthermore have to remain at the forefront of all new developments in this segment while ensuring our efficiency. The post-year-end investment of approximately $3 million in Gallo Protein 2003, LLC should help us further maximize by-products coming from our cheese operations.

EBITDA (US Dairy Products Sector)

Earnings before interest, income taxes, depreciation, amortization and stock based compensation amounted to $120.5 million, a decrease of $13.5 million from the $134.0 million of fiscal 2002. Market price conditions in fiscal 2003 created a shortfall of approximately $19.0 million in EBITDA compared to fiscal 2002, offsetting the EBITDA generated through increase in sales volume in fiscal 2003. To minimize the impact on EBITDA, in October 2002, the Company partially implemented a minimum pricing formula for its specialty cheeses. This formula reflects the US Government's support price for cheese. We extended that minimum pricing formula to all of our cheeses beginning on April 1, 2003.

During fiscal 2003, the Company's Whitehall, Pennsylvania cheese facility (acquired in March 2002) was successfully integrated into the group. In August 2002, the Denmark, Wisconsin cheese manufacturing plant was closed and production was transferred to the Whitehall facility, contributing to increased efficiencies during fiscal 2003, despite a $0.4 million expense related to the closure of the Denmark facility. Our focus was on consolidating, reducing expenses and improving efficiencies while increasing volume. Unfortunately, major improvements achieved, combined with volume growth throughout the fiscal 2003, were offset by slim margins resulting from consistently low market prices and depressed by-product values.

The fact that the average selling price per pound of cheese was US$1.15 in fiscal 2003, US$0.30 below last year's average of US$1.45, reduced considerably the base of absorption of fixed costs, as well as producing negative effects on inventory pricing between March 31, 2002 and March 31, 2003. On the other hand, the relation between the average selling price per pound of cheese and the cost of milk was more favourable in fiscal 2003. Overall, these elements created a shortfall of approximately $15 million in our EBITDA. Depressed by-product values caused a shortfall of approximately $4 million in fiscal 2003.

Insurance and energy costs were higher in fiscal 2003, in light of the economic context of the market.

The appreciation of the Canadian dollar in fiscal 2003 had a negative impact of $0.5 million on EBITDA.

Our efforts during fiscal 2003 in terms of logistics centred around the relocation of production along with the realignment of the distribution to improve efficiencies, reduce distribution costs, and better serve our customers. The goal of overhead reduction was achieved at the same time volume was increasing. Highlights include savings from the renegotiation of certain leases and contracts.

We have added further measures to protect our products and customers to the ones already existing to address bio-terrorism concerns.

Perspectives (US Dairy Products Sector)

Since its founding, Saputo's focus has always been to produce the best-quality products at competitive costs, and the same holds true for the Cheese Division (USA). In fiscal 2003, in light of the depressed market situation, a minimum selling pricing formula was established last October for our specialty cheeses, closely linked to the government support price per pound of cheese in the US market, which is established at US$1.13. In April 2003, both the federal and California state governments implemented changes to manufacturing milk price formulas intended to provide additional relief to dairy farmers and California established a minimum milk price. From there we extended, as of April 2003, our minimum selling pricing formula policy to all cheese categories in such a way as to be able to minimize the market pricing impact, and to continue to grow with our customers over the long term.

We observe that consumer tastes are more sophisticated. Consumers are looking for extra convenience, added portability and ready-to-use/eat/serve products. Demand for specialty cheeses such as blue, feta, asiago and gorgonzola is growing and we are well-positioned to grasp these opportunities as we grow our specialty cheese offering.

More new products are planned for fiscal 2004. Different *Frigo Cheese Heads* formats, new exact weight items, different sizes of *Lorraine* loaves, low- and high-end premium mozzarella and upsized pack sizes for club stores are all in various stages of development. New and exciting marketing promotions are also in the works and we intend to capitalize on the recent acquisition of the blue cheese business associated with the *Treasure Cave* brand.

Capital investments made during fiscal 2003 were oriented towards new product development, packaging efficiency, and capacity increases in the rapidly growing California industry. The division is now well-positioned to perform in difficult conditions and to take full advantage when market conditions return to more traditional levels.

We are currently operating at 93% capacity. We are going to continue our strategic organic growth, on which we could easily obtain, if necessary, additional capacity with a minor investment. The division is continuing its active pursuit of strategic acquisitions. After a year in which potential opportunities were reviewed, the extended duration of adverse market conditions appears to be motivating industry players to consider other options. We intend to capitalize on this.

Just as the post-year-end investment in Gallo Protein 2003, LLC will help us further maximize the industrial segment, the post-year-end blue cheese business acquisition will extend our presence in that segment of the retail market.

Grocery Products Sector

The Grocery Products Sector, which consists of the Bakery Division, represents 4.9% of the Company's revenues. The division manufactures and markets a wide range of snack cakes, tarts and cereal bars under several solidly established brand names in Canada, such as *Vachon, Jos Louis, Ah Caramel!, Passion Flakie, Hop & Go!, May West* and *Granny's*. The division has a total of 1,069 employees and one plant. The Bakery Division distributes its products primarily by way of its direct-to-store delivery network consisting of company routes and independent distributors.

Through its Bakery Division, the Company is positioned in first place among manufacturers of snack cake products in Canada and as one of the leaders in the Québec cereal bars market.

Revenues (Grocery Products Sector)

Revenues for the sector went from $187.4 million at March 31, 2002 to $167.9 million for the fiscal year ended March 31, 2003. That decrease is attributable to the transfer, in July 2001, of our cookie, fine bread and soup manufacturing and marketing activities to Dare Foods. Those activities did not contribute to revenues for fiscal 2003, whereas they did for 15 weeks during fiscal 2002.

Notwithstanding the activities transferred to Dare Foods, revenues were up slightly during fiscal 2003, despite increased competition in all segments where we are present. The snack cake market in which our Bakery Division operates is an increasingly competitive market, one in which our *Vachon* brand holds a dominant position in Canada. Our products and our recognized brand names set us apart. Nationally, our 1.1% sales increase was primarily driven by our targeted merchandizing efforts, more effective penetration of certain distribution networks, the launch of seasonal products, and sampling programs.

The Bakery Division counts among other things on the development of innovative niche products to ensure its growth. During fiscal 2003, the relaunch program for the *Hop & Go!* line in the cereal bars segment, aimed at differentiating it from other types of products manufactured by the division, was a key element for growth in Québec.

The integrated promotional program included the relocation of the product within the store with attractive, specially identified display racks. Combined with merchandising activities with customers, in-store promotions, and advertising with Montréal Canadiens goaltender José Théodore – who became our *Vachon* spokesman in 2002 – the program elicited a positive response from retailers and contributed to expanded sales for the *Hop & Go!* line in Québec.

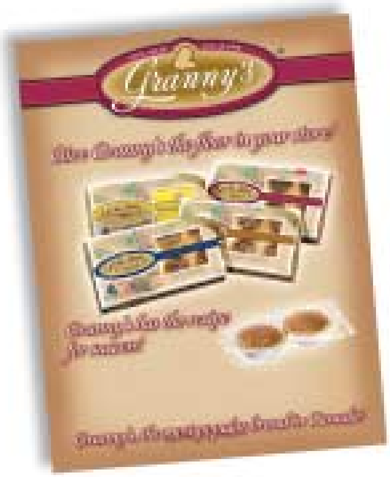
Penetration of the US market began in mid-September 2002 for *Vachon* products, and at the beginning of October 2002 for *Mr. Snacko* individual pack size. We took a step-by-step approach in entering this new market, enabling us to get a better feel for the market. We have already made some adjustments, both in terms of our product offering and the choice of our distributors. The latter must be able to adapt to the short shelf life of our products.

EBITDA (Grocery Products Sector)

EBITDA closed at $33.2 million at March 31, 2003 for an EBITDA margin of 19.8%, compared to $35.4 million and a margin of 18.9% at March 31, 2002. EBITDA remains almost at the same level as in fiscal 2002 if the lower EBITDA margin contribution of 15 weeks of our cookie, fine bread and soup manufacturing and marketing activities is subtracted from that year – activities turned over to Dare Foods in July 2001 in exchange for a 21% interest in that company. From our 21%

equity position in Dare Foods, we received a dividend that is included in our revenues, and we expect the value of our investment to appreciate over time.

During the 2003 fiscal year, we undertook several projects aimed at improving the operational efficiencies of the division. We transferred the manufacturing activities of the plant in Aurora, Ontario to our facility in Sainte-Marie de Beauce, Québec. Transfer of those activities necessitated a period of transition and breaking in that lasted some months. We took advantage of the transfer to increase the profitability of the tart business by completely reconfiguring the product portfolio. That step allows us to maximize our merchandising efforts by concentrating our product offering. Thus, we now offer our tarts in one family-size format and under only one brand name (*Granny's*). Such changes allowed us to rationalize considerably the tarts product line, the number of products dropping from 25 to 9, yet with no loss in the choice of flavours.



In addition to the closing of the Aurora plant, various other improvement projects were undertaken. We continued to work on reducing the importance of administrative costs and general expenses. We undertook a reorganization of the sales warehouses in Ontario in order to make distribution activities still more efficient. We also proceeded with an outsourcing of internal transport activities. These steps, combined with other projects, improved profitability by $1.3 million and enabled us to establish a stronger foundation that will benefit us in the future. Understanding that a large portion of our ingredients supply is subject to international price fluctuations, our ingredient and packaging cost increases were limited in 2003 due to existing arrangements with our suppliers.

Perspectives (Grocery Products Sector)

The Canadian growth should come from the Maritimes, Ontario and Western Canada, where we have lower household penetration. In the Québec market, where our presence is well established, we will make sure to maintain our positioning in the snack cake category through marketing initiatives. New product launches will play an integral part in the growth. We will boost our operational efficiency through process improvement, including robotization of certain production lines to help offsetting certain cost increases. Maximizing the use of our overall 30% excess manufacturing capacity remains an everyday priority.

For the 2004 fiscal year, we foresee cost increases in ingredients and packaging, which should be largely offset by cost-reduction initiatives undertaken in fiscal 2003.

We will gradually forge ahead with our development in the US market. Distribution is certainly an important challenge in terms of effective penetration of that market. We will continue with efforts aimed at strengthening our business base and at coming to terms for third parties manufacturing contracts.

Other consolidated results items

Depreciation expense totalled $70.9 million during the fiscal year ended March 31, 2003 compared with $68.1 million for the previous fiscal year. This increase primarily reflects the additional depreciation required on new fixed-asset acquisitions made. The greater part of the increase relates to certain expansions of facilities and new technologies.

Interest expense fell by $10.3 million to finish at $42.3 million for the fiscal year ended March 31, 2003 compared to an interest expense of $52.6 million last year. Accounting for the decrease are the repayment in the course of fiscal 2003 of $133.9 million in long-term debt and bank loans, combined with the lower interest rates on our Canadian debt throughout fiscal 2003, these averaging 4.55% compared to 5.32% last fiscal year.

Income taxes totalled $65.9 million, for an effective tax rate of 27.5% for the fiscal year ended March 31, 2003. For the same period last year, tax expenses were $71.6 million, for an effective tax rate of 30.9%. The decrease in the overall tax rate in fiscal 2003 derives from the fact that a greater proportion of our taxable earnings were generated in Canada and were subject to tax rates lower than in the United States. In addition, a transfer-pricing agreement was reached in the fourth quarter, resulting in a tax benefit in the amount of $4.1 million determined by the difference in income tax rates applicable to Canadian-US inter-company transactions.

Net earnings for the fiscal year ended March 31, 2003 totalled $173.7 million, up 8.4% over the $160.2 million from the previous fiscal year. This increase reflects the various explanatory elements presented above. These net earnings take into account an amount of $1.3 million to reflect the Company's recording of stock based compensation. Excluding that element, net earnings would have been $175 million, up 9.2% over fiscal 2002.

Cash and financial resources

Cash generated before changes in non-cash working capital items totalled $250.1 million for the fiscal year ended March 31, 2003, a slight increase over last year, consistent with the increase in net earnings combined with the decrease in future taxes during fiscal 2003 compared to last year. During the 2003 fiscal year, the non-cash operating working capital items used $26.6 million of the treasury, compared to $44.9 million last year, a decrease in use of $18.3 million. The use of funds for non-cash operating working capital items is mainly related to the US Dairy Products Sector decrease in the average price per pound of cheese compared to last year.

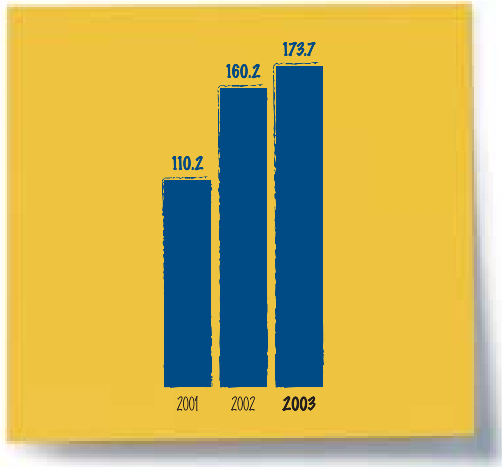
Investment activities consisted essentially of additions to fixed assets valued at $70.6 million, of which about 55% was involved in the replacement of fixed assets, the rest earmarked for new technologies and the expansion of certain of our sites as a result of rationalizations. Earlier and current rationalizations allowed for the disposal of sites and equipment for $4.1 million.

As for **financing activities,** strong cash flow performance enabled us to repay $133.9 million in long-term debt and bank loans, leaving an interest bearing debt-to-equity ratio of 0.53 with a total interest bearing debt of $540.0 million and shareholders' equity of $1.017 billion, compared to a ratio of 0.78 at March 31, 2002. During fiscal 2003, the Company paid out $36.7 million ($0.40 per share) in dividends compared to $21.6 million ($0.22 per share) last year.

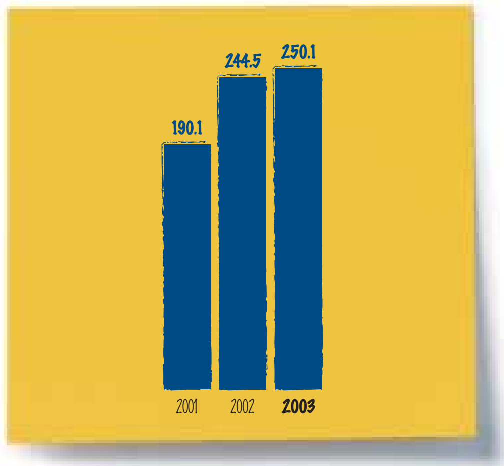
With a working capital of $269.3 million as at March 31, 2003 compared to $258.9 million last fiscal year, the Company does not foresee any additional working capital requirement. Over the course of fiscal 2003, interest bearing debt went from $699.2 million in fiscal 2002 to $540.0 million as at March 31, 2003, while shareholder's equity went from $900.6 million in fiscal 2002 to $1.017 billion.

The Company is in excellent financial health, with a debt-to-equity ratio well within its objective of keeping that ratio under 1.0. For fiscal 2004, we foresee adding $70 million in fixed-assets acquisitions, with nearly $42 million on replacement of fixed assets, the rest to be devoted to site expansions based on previously announced rationalizations, the addition of new lines of packaging and bottling, and new technologies. Fixed-asset depreciation expense should be approximately $72 million during the 2004 fiscal year. The Company intends to repay $110 million in the course of the 2004 fiscal year to honour its commitments to lending institutions. Note 8 of the consolidated financial statement represents the contractual commitment of the Company related to its long-term debt and Note 16 represents other leasing contractual commitments of the Company. The Company does not have any other off-balance sheet arrangements. Having at its disposal unused bank credit facilities of approximately $210 million and an important cash flow, the Company can easily pursue its growth objectives through acquisitions and, should the need arise, make additional financing arrangements while maintaining its debt-to-equity ratio objectives.

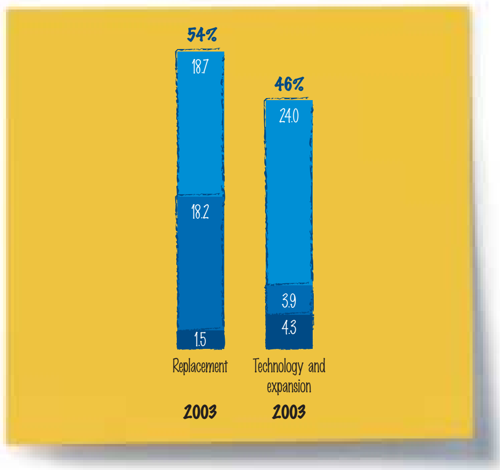
Net earnings
(in millions of dollars)



Cash flow generated by operations
(in millions of dollars)



Additions to fixed assets
(in millions of dollars)



■ Canadian Dairy Products Sector
■ US Dairy Products Sector
■ Grocery Products Sector

Financial instruments, risks and uncertainties

Financial risk exposures

Saputo has financial risk exposure to varying degrees relating to interest rates, commodity pricing and United States currency exchange. While we use interest rate swaps to manage our interest rate exposure, we do not fully hedge against all of these financial risk exposures and there can be no assurance that such financial risk exposures will not affect our profitability. We realize approximately 36% of our sales in the United States and are therefore exposed to currency exchange fluctuations. The cash flows from US operations constitute a natural hedge against the exchange risk related to debt expressed in US dollars.

To minimize the effect of interest rate fluctuations on the results of the Company, Saputo has recourse to swap contracts for 49.3% of its long-term debt in Canadian currency. The debt in US currency is at a fixed rate throughout its term. Overall, 85% of the total long-term debt is protected from interest rate variations.

Competition

The food processing industry in North America is highly competitive. Saputo participates in this industry primarily through its dairy operations. The Canadian dairy industry is highly competitive and is comprised of three major competitors, including Saputo. In the United States, Saputo competes in the dairy industry on a national basis with several regional and national competitors. Our performance in this industry, both in Canada and the United States, will be dependent on our ability to continue to offer quality products at competitive prices.

Supply of raw material

Saputo purchases raw materials that it processes in the form of finished edible products intended for resale to a broad range of consumers. Thus, variations in the price of foodstuffs can influence Company results upwards or downwards, and the effect of any increase of foodstuff prices on results depends on the ability of the Company to transfer those increases to its customers, and this in the context of a competitive market.

US and international markets

The price of our main raw material – milk – and the price of our cheese products in the United States and by-products on the international markets are based on market supply and demand forces. The prices are tied to numerous factors such as the health of the economy and supply and demand levels for dairy products in the industry. Variation in prices may affect the Company's results. The impact of such variations on our results will depend on our ability to implement mechanisms to reduce same.

Product liability

Saputo's operations are subject to certain dangers and risks of liability faced by all food processors, such as the potential contamination of ingredients or products by bacteria or other external agents that may accidentally be introduced into products or packaging. Saputo has quality control procedures in place within its operations to reduce such risks and has never experienced any material contamination problem with its products. However, the occurrence of such a problem could result in a costly product recall and serious damage to Saputo's reputation for product quality. We maintain product liability and other insurance coverage that we believe to be generally in accordance with the market practice in the industry.

Regulatory considerations

The production and distribution of all food products in Canada and the United States are subject to state, federal, provincial and local laws, rules, regulations and policies and to international trade agreements, all of which provide a framework for Saputo's operations. We believe that we are currently in compliance with all material governmental laws and regulations and maintain all material permits and licenses in relation to our operations. The impact of any new law or regulation or stricter enforcement or interpretation or changes to any existing law or regulation will depend on our ability to adapt and conform to same. Also, the present Canadian supply managed system imposes milk quotas on dairy processing companies. As a result, growth of substance in Canada can be achieved only through acquisitions.

Tariff protection

Canada's and the United States' dairy producing industries are still partially protected from imports by tariff-rate quotas which permit a specific volume of imports at a reduced or zero tariff and impose significant tariffs for greater quantities of imports. There is no guarantee that political decisions or international trade agreements will not, at some time in the future, result in the removal of tariff protection in the dairy market, resulting in increased competition. Our performance, both in Canada and in the United States, will be dependent on our ability to continue to offer quality products at competitive prices.

Environmental issues

Saputo's business and operations are subject to environmental laws and regulations. We believe that our operations are in compliance in all material respects with such environmental laws and regulations except as disclosed in our Annual Information Form dated June 10, 2003 for the year ended March 31, 2003. Any new environmental laws or regulations or more vigorous regulatory enforcement policies could have a material adverse effect on the financial position of Saputo and could require significant additional expenditures to achieve or maintain compliance.

Sensibility analysis of interest rate and US currency variation

Long-term debt is on a fixed interest rate basis for 85% of it. For the non-fixed interest portion, a 1% interest rate variation throughout fiscal 2004 would have a variation of approximately $0.350 million on the interest expense. The used portion of the bank credit facility is subject to interest rate fluctuations, not being protected as of March 31, 2003. A 1% variation in interest rate would lead to a variation in net earnings of approximately $0.140 million, based on the $18.8 million in bank indebtedness as of March 31, 2003.

Canadian-US currency variations may affect results. An appreciation of the Canadian dollar compared with the US dollar would result in a negative impact on results. Conversely, the decrease of the Canadian dollar would have a positive impact on results. In fiscal 2003, the average US dollar conversion was based on CND$0.64 for US$1.00. A change of CND$0.01 would have resulted in a variation of approximately $0.4 million in net earnings, $1.7 million in EBITDA and $17.0 million in revenues.

Accounting policies

Changes

Since April 1, 2002, the Company, in its results, has prospectively recorded stock based compensation in conformity with the recommendation of the Canadian Institute of Chartered Accountants (CICA) to use the fair-value method. The effect of that expense on net earnings is $1.3 million or $0.013 per share.

Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the 2003 fiscal year. Actual results could differ from these estimates.

The Company regularly revises the estimates and assumptions used on the basis of available information. Overall, the Company is of the opinion that the estimates used would have no material impact on the financial situation of the Company, except for changes to the assumptions and estimates of a long-term sensitive and prospective nature, such as income tax rates, accounting of pension plans and other employee future benefits, and accounting of stock based compensation, which are based on several prospective assumptions.

Pension plans and other benefit plans

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using assumptions bearing on among other things the discount rate, expected returns on plan assets, rates of compensation increase, retirement ages of employees, expected health-care costs and other post-retirement benefits.

Any change in these assumptions entails actuarial gains or losses, which if they exceed 10% of the maximum of the asset or liability of the plans at the start of the 2003 fiscal year, will be amortized over the expected average remaining service life of the group of employees participating in the plans, in conformity with CICA recommendations.

The table below presents a sensitivity analysis of the key economic assumptions used to measure the impact on accrued pension obligation, on other employee future benefits obligation, and on net expenditure. This sensitivity analysis must be used with caution, as its results are hypothetical and variations in each of the key assumptions could turn out not to be linear. That sensitivity analysis should be read in conjunction with Note 15 of the consolidated financial statements. The sensitivity of each key variable has been calculated independently of the others.

Sensitivity analysis
Pension plans and other benefit plans

		Pension plans		Other benefit plans	
		Accrued obligation	Net expenditure	Other obligation	Net expenditure
(in thousands of dollars)					
Anticipated rate of return on asset					
Effect of:	an increase of 1%	N/A	(1,665)	N/A	N/A
	a decrease of 1%	N/A	1,665	N/A	N/A
Discount rate					
Effect of:	an increase of 1%	(15,345)	(373)	(2,464)	(390)
	a decrease of 1%	18,291	1,346	3,072	453
Assumed growth rate of overall health-care cost					
Effect of:	an increase of 1%	N/A	N/A	2,606	349
	a decrease of 1%	N/A	N/A	(2,149)	(308)

Summary of the fourth quarter results ended March 31, 2003

Revenues totalled $807.1 million, compared to $833.6 million for the same period of fiscal 2002, amounting to a decrease of $26.5 million. In the US Dairy Products Sector, appreciation of the Canadian dollar in relation to US currency this last quarter compared to the corresponding period in fiscal 2002 represents roughly $15 million less in revenues. The average selling price per pound of cheese on the US market was down by about 11% during the quarter compared to fiscal 2002, representing about $17 million less in revenues. At December 31, 2002, our US sales volumes were up 11.1% for the nine-month period compared to the fiscal year before. For the final quarter, growth was 4.8%, bringing the increase for fiscal 2003 to 9.5%. The Canadian Dairy Products Sector and Grocery Products Sector enjoyed slight increases amounting to $4.1 million, or 0.8%.

Earnings before interest, income taxes, depreciation and amortization for the fourth quarter amounted to $88.6 million, compared to $92.5 million for the same period of fiscal 2002. The decrease stems essentially from the US Dairy Products Sector, where the average selling price per pound of cheese was lower than in fiscal 2002 and combined with the appreciation of the Canadian dollar. The Canadian Dairy Products Sector and Grocery Products Sector were relatively stable compared to fiscal 2002. The $88.6 million takes into account a positive adjustment of $1.1 million to the cumulative stock based compensation cost, resulting in a decrease of the expenses for the quarter.

Depreciation of fixed assets was consistent with other quarters of the 2003 fiscal year. The effective tax rate was 21.1%, lower than the last fiscal year and reflecting the different jurisdictions in which taxable profits originated, as well as a $4.1 million tax benefit in connection with a transfer pricing agreement reached in the fourth quarter, which takes into account the difference in income tax rates applicable to Canadian-US inter-company transactions. During the quarter ended March 31, 2003, the Company repaid $33.5 million in bank loans and long-term debt, paid out $10.3 million in dividends to its shareholders, and added $23.4 million in fixed assets. For the same period, cash flow generated by operations, before changes in non-cash operating working capital items amounted to $63.8 million. Net earnings stood at $47.8 million.

Quarterly financial information

During the course of fiscal 2003, revenues and earnings before interest, income taxes, depreciation and amortization varied due to three main elements: the improvement of the Canadian Dairy Products Sector through the continued integration process; the average selling price per pound of cheese on the US market, which continued its downward trend in fiscal 2003 and which explains the decline in both consolidated revenues and US Dairy Products Sector revenues and its earnings before interest, income taxes, depreciation and amortization compared to fiscal 2002. The results also reflect the fact that the Company adopted the new CICA accounting recommendations for stock based compensation, which was applied effective April 1, 2002. These recommendations propose the fair-value method to record stock options granted to employees. For the fiscal year ended March 31, 2003, the stock based compensation amounted to $1.5 million before income taxes compared to nil for fiscal 2002.

2003 Quarterly Financial Information
Consolidated Statements of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2003 (audited)
Statements of earnings data					
Revenues	$ 873,942	$ 861,763	$ 855,342	$ 807,065	$3,398,112
Cost of sales, selling and administrative expenses	785,429	774,155	767,296	718,437	3,045,317
Earnings before interest, income taxes, depreciation and amortization	88,513	87,608	88,046	88,628	352,795
Margin %	*10.1%*	*10.2%*	*10.3%*	*11.0%*	*10.4%*
Depreciation of fixed assets	17,611	17,743	17,796	17,739	70,889
Operating income	70,902	69,865	70,250	70,889	281,906
Interest on long-term debt	11,461	11,159	10,776	10,276	43,672
Other interest	(40)	(836)	(585)	110	(1,351)
Earnings before income taxes	59,481	59,542	60,059	60,503	239,585
Income taxes	18,158	17,433	17,523	12,743	65,857
Net earnings	$ 41,323	$ 42,109	$ 42,536	$ 47,760	$ 173,728
Net margin %	*4.7%*	*4.9%*	*5.0%*	*5.9%*	*5.1%*
Per share					
Net earnings					
Basic	$ 0.40	$ 0.41	$ 0.41	$ 0.46	$ 1.68
Diluted	$ 0.40	$ 0.40	$ 0.41	$ 0.45	$ 1.66

2002 Quarterly Financial Information
Consolidated Statements of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2002 (audited)
Statements of earnings data					
Revenues	$ 873,056	$ 893,443	$ 857,279	$ 833,634	$3,457,412
Cost of sales, selling and administrative expenses	781,947	802,413	779,517	741,113	3,104,990
Earnings before interest, income taxes, depreciation and amortization	91,109	91,030	77,762	92,521	352,422
Margin %	*10.4%*	*10.2%*	*9.1%*	*11.1%*	*10.2%*
Depreciation of fixed assets	18,257	17,085	16,974	15,771	68,087
Operating income	72,852	73,945	60,788	76,750	284,335
Interest on long-term debt	14,291	13,907	12,842	12,339	53,379
Other interest	(338)	(235)	(92)	(136)	(801)
Earnings before income taxes	58,899	60,273	48,038	64,547	231,757
Income taxes	18,622	18,815	12,943	21,216	71,596
Net earnings	$ 40,277	$ 41,458	$ 35,095	$ 43,331	$ 160,161
Net margin %	*4.6%*	*4.6%*	*4.1%*	*5.2%*	*4.6%*
Per share					
Net earnings					
Basic	$ 0.40	$ 0.40	$ 0.34	$ 0.42	$ 1.56
Diluted	$ 0.39	$ 0.40	$ 0.34	$ 0.41	$ 1.54

Outlook

The Company is well-positioned in each of its divisions through its leadership standing to pursue its efforts at growth. Increase in revenues is an obvious objective, be it organically or by way of acquisitions, but growth through efficiency and innovation, which contributes to increase profitability, remains the Company's top priority. That striving for peak efficiency is an essential element in our success, as it enables us to diminish the impact of negative side-effects that are to a large extent beyond our control.

Over the years the Company has built a sound and solid financial situation for itself, based on a financial strategy that contains a degree of caution – a strategy that allows for a maximum of opportunity for innovation and integration while ensuring minimal disruption of the normal and gradual stages of its development. Even in a difficult market environment, we have that ability to improve and to persevere in the building of our future.

Our divisions have established objectives that are specific to their markets and operations, guided by that overall vision of sustained growth. The Company's financial health is excellent, and it commits to spare no effort in achieving its goals.

Corporate Management

From left to right:
Lino Saputo, Chairman of the Board and Chief Executive Officer
Lino Saputo, Jr., President and Chief Operating Officer, Cheese Division (USA)
Dino Dello Sbarba, President and Chief Operating Officer, Cheese Division (Canada)
Daniel Boulais, President and Chief Operating Officer, Bakery Division
Pierre Leroux, Executive Vice President, Human Resources and Corporate Affairs
Louis-Philippe Carrière, Executive Vice President, Finance and Administration
Randy Williamson, President and Chief Operating Officer, Milk Division

Matthew-David Koufos-DiLullo, Florence Fernet, Simon Pradella, Joannie T. Faucher

Social Responsibility

Through its activities, Saputo is present in several communities in Canada and the United States. In those regions the Saputo presence means contribution for jobs and the economic life of the area, but it also means supporting many community and athletic activities.

Saputo has chosen to focus its sponsorship in two categories: sports and family activities. These speak to the importance of dairy products in a healthful diet, while enabling us to reach current consumers and to involve ourselves with the consumers of tomorrow.

In the sports category, the Company has an involvement in the recreational and amateur sectors as well as the professional. We take part in the development of soccer in Québec at different levels: as a sponsor of the Fédération québécoise de soccer-football, as well as for the Montreal Impact, a not-for-profit team in the professional soccer A-League playing both in Canada and the United States.

Saputo is also a sponsor of the Québec Foundation for Athletic Excellence, which through scholarships supports outstanding up-and-coming athletes from Québec and the rest of Canada. Through the Foundation, Saputo is the proud sponsor of three amateur athletes representing Canada around the world: Alexander Jeltkov, Audrey Lacroix and Giulio Zardo. Gymnast Alexander Jeltkov represented Canada at the 2002 Commonwealth Games in Manchester, England and won a bronze medal at the high bar. At the same games, Audrey Lacroix came in sixth and seventh place in the 100m and 200m butterfly. Giulio Zardo won a silver medal at the World Bobsleigh Championships in 2003. He, along with his partner, finished first in the World Cup 2002-2003 standings.

Saputo is a sponsor of the Rocketsports Racing team, which competes in the Champ Car series. Races in this series are staged in Canada, the United States, Europe, Australia and Japan. The team car is driven by Alex Tagliani, who hails from the Montréal area.

Operating as it does in the food industry and conscious of the importance of involving itself in the community, Saputo is providing support for a number of food banks in Canada as well as in the United States. The Company also supports other initiatives aimed at assisting children from underprivileged backgrounds, such as the Club des petits déjeuners du Québec.

Lastly, Saputo supports various universities by way of donations aimed at helping fund research programs or through scholarships. We intend concentrating our efforts in those universities where programs in agriculture or programs closely related to the dairy industry are offered.

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 judgments 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 unrelated directors. 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 Commitee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Commitee. The consolidated financial statements have been audited by the external auditors, Deloitte & Touche, whose report follows.

(signed)

Lino Saputo
Chairman of the Board
and Chief Executive Officer

(signed)

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

Auditors' Report to the Shareholders of Saputo Inc.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows 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 Canadian 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

Deloitte & Touche LLP
Chartered Accountants
Laval, Québec
May 16, 2003

Consolidated Statements of Earnings

Years ended March 31

(in thousands of dollars, except per share amounts)	2003	2002
Revenues	**$ 3,398,112**	$ 3,457,412
Cost of sales, selling and administrative expenses	**3,045,317**	3,104,990
Earnings before interest, depreciation and income taxes	**352,795**	352,422
Depreciation of fixed assets	**70,889**	68,087
Operating income	**281,906**	284,335
Interest on long-term debt	**43,672**	53,379
Other interest (Note 11)	**(1,351)**	(801)
Earnings before income taxes	**239,585**	231,757
Income taxes (Note 12)	**65,857**	71,596
Net earnings	**$ 173,728**	$ 160,161
Earnings per share (Note 13)		
Net earnings		
Basic	**$ 1.68**	$ 1.56
Diluted	**$ 1.66**	$ 1.54

Consolidated Statements of Retained Earnings

Years ended March 31

(in thousands of dollars)	2003	2002
Retained earnings, beginning of year	**$ 409,648**	$ 271,087
Net earnings	**173,728**	160,161
Dividends	**(36,709)**	(21,600)
Retained earnings, end of year	**$ 546,667**	$ 409,648

Consolidated Balance Sheets

As at March 31

(in thousands of dollars)	2003	2002
ASSETS		
Current assets		
Cash	$ –	$ 4,852
Receivables	239,366	272,895
Inventories	392,852	406,621
Income taxes	24,290	4,288
Future income taxes	12,854	13,781
Prepaid expenses and other assets	18,383	11,078
	687,745	713,515
Portfolio investment (Note 3)	55,991	55,991
Fixed assets (Note 4)	627,841	658,845
Goodwill (Note 5)	550,630	572,375
Other assets (Note 6)	39,618	41,859
Future income taxes	8,861	4,090
	$ 1,970,686	$ 2,046,675
LIABILITIES		
Current liabilities		
Bank overdraft	$ 1,236	$ –
Bank loans (Note 7)	17,592	28,907
Accounts payable and accrued liabilities	245,188	305,752
Income taxes	44,403	17,393
Current portion of long-term debt (Note 8)	110,000	102,555
	418,419	454,607
Long-term debt (Note 8)	411,135	572,570
Employee future benefits	13,937	12,947
Future income taxes	110,691	105,963
	954,182	1,146,087
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	464,331	459,822
Contributed surplus (Note 10)	1,475	–
Retained earnings	546,667	409,648
Foreign currency translation adjustment	4,031	31,118
	1,016,504	900,588
	$ 1,970,686	$ 2,046,675

On behalf of the Board

(signed)

Lino Saputo, Director

(signed)

Louis A. Tanguay, Director

Consolidated Statements of Cash Flows

Years ended March 31

(in thousands of dollars)	2003	2002
Cash flows related to the following activities:		
Operating		
Net earnings	$ 173,728	$ 160,161
Items not affecting cash		
Stock based compensation	1,475	–
Depreciation	70,889	68,087
Gain on disposal of fixed assets	(404)	(845)
Future income taxes	4,435	17,132
	250,123	244,535
Changes in non-cash operating working capital items	(26,591)	(44,929)
	223,532	199,606
Investing		
Plant acquisition (Note 14)	–	(16,410)
Additions to fixed assets	(70,591)	(63,180)
Proceeds on disposal of fixed assets	4,060	3,445
Other assets	3,614	(7,889)
	(62,917)	(84,034)
Financing		
Bank loans	(11,315)	18,264
Repayment of long-term debt	(122,565)	(125,050)
Issuance of share capital for a cash consideration	4,509	8,775
Employee future benefits	990	1,373
Dividends	(36,709)	(21,600)
	(165,090)	(118,238)
Decrease in cash	(4,475)	(2,666)
Effect of exchange rate changes	(1,613)	1,224
Cash, beginning of year	4,852	6,294
(Bank overdraft) cash, end of year	$ (1,236)	$ 4,852

Supplemental information

	2003	2002
Interest paid	$ 38,805	$ 51,630
Income taxes paid	$ 43,079	$ 68,795

Notes to the Consolidated Financial Statements

Years ended March 31

(in thousands of dollars)

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:

Use of estimates

In the course of the preparation of financial statements in conformity with generally accepted accounting principles, management must make estimates such as certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets, and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses for the period. Actual results could differ from these estimates.

Consolidated financial statements

The consolidated financial statements include the accounts of Saputo Inc. and all its subsidiaries (the "Company"). The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

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 using the straight-line method over their estimated useful lives or by using the following methods:

Buildings	15 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

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

Revenue recognition

The Company recognizes revenue, net of sales incentives, upon shipment of goods when title and risk of loss pass to customers.

Employee future benefits

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using estimates of expected return on plan assets, rates of compensation increase, retirement ages of employees and expected health care costs and other post-retirement benefits.

Goodwill

The Company adopted prospectively the new Canadian Institute of Chartered Accountants (CICA) recommendations on goodwill on April 1, 2001. The new standards do not permit the amortization of goodwill. Goodwill must be tested for impairment annually or more often, when an event occurs or circumstance arises that could indicate a reduction in its fair value.

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 monthly 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, 2003 resulted from the increase in value of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of Canadian companies were translated into Canadian dollars using the exchange rates 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.

	2003	2002
Foreign currency gain (loss)	**$ 383**	$ (36)

2. CHANGE IN ACCOUNTING POLICIES

Stock based compensation

The Company adopted prospectively the new CICA recommendations on stock based compensation and other stock based payments, effective April 1, 2002. These recommendations, propose but do not impose, the use of the fair value based method of accounting to expense stock based compensation awards. This method consists of recording compensation cost to earnings over the vesting period of options granted. When stock options are exercised, any consideration paid by employees is credited to share capital.

A compensation cost of $1,475,000 ($1,310,000 after income taxes) for stock options granted during the year was recorded in the statement of earnings for the year ended March 31, 2003.

The effect of this cost on basic and diluted earnings per share was $0.013 for the year ended March 31, 2003.

The fair value of share purchase options awarded during the year was estimated at $8.98 per option, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate:	5%
Expected life of options:	7 1/2 years
Volatility:	20%
Dividend rate:	1.4%

The exercice price of these options is $30.35, which corresponds to the closing quoted value of the shares on the day preceding the date of the grant.

3. PORTFOLIO INVESTMENT

On July 15, 2001, the Company disposed of the cookie, fine bread and soup operations of its grocery products sector in favor of Dare Foods in exchange of a 21% share capital interest in companies of the Dare Foods group.

The investment was recorded at cost which corresponds to the following fair value of the assets as at the date of disposal:

Working capital	$ 5,542
Fixed assets	25,879
Goodwill	24,570
	$ 55,991

A gain on disposal of $845,000 resulted from this transaction.

The Company received a dividend of $2,000,000 from this investment during the year ($1,050,000 in 2002). The amount is included in revenues.

4. FIXED ASSETS

	2003			2002
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	**$ 33,050**	**$ –**	**$ 33,050**	$ 34,729
Buildings	**237,627**	**48,158**	**189,469**	206,827
Furniture, machinery and equipment	**634,027**	**233,923**	**400,104**	410,849
Rolling stock	**8,785**	**3,567**	**5,218**	6,440
	$ 913,489	**$ 285,648**	**$ 627,841**	$ 658,845

5. GOODWILL

	2003			2002		
	Dairy products sector	**Grocery products sector**	**Total**	Dairy products sector	Grocery products sector	Total
Balance, beginning of year	**$ 407,862**	**$ 164,513**	**$ 572,375**	$ 403,563	$ 189,083	$ 592,646
Foreign currency translation adjustment	**(21,745)**	**–**	**(21,745)**	2,963	–	2,963
Decrease due to the disposal of the Company's cookie, fine bread and soup operations (Note 3)	**–**	**–**	**–**	–	(24,570)	(24,570)
Adjustment	**–**	**–**	**–**	1,336	–	1,336
Balance, end of year	**$ 386,117**	**$ 164,513**	**$ 550,630**	$ 407,862	$ 164,513	$ 572,375

6. OTHER ASSETS

	2003	2002
Net accrued pension plan asset	**$ 29,553**	$ 26,561
Other	**10,065**	15,298
	$ 39,618	$ 41,859

7. BANK LOANS

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $228,000,000. These bank loans are available in Canadian or US dollars and bear interest at rates based on lenders' prime rates plus a maximum of 0.6% or LIBOR or bankers acceptance rate plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company.

8. LONG-TERM DEBT

	2003	2002
Term bank loan, available in the form of bank advances or bankers' acceptances, repayable by quarterly variable instalments until December 2004, bearing interest at fluctuating rates based on prime rate plus a maximum of 0.6% and bankers' acceptances rates plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. As at March 31, 2003, the term bank loan is comprised of advances of $770,000 and bankers' acceptances of $153,100,000 ($275,600,000 in 2002)	**$ 153,870**	$ 276,370
Senior notes		
7.97%, due in November 2006 (US$30,000,000)	**44,034**	47,805
8.12%, due in November 2009 (US$170,000,000)	**249,526**	270,895
8.41%, due in November 2014 (US$50,000,000)	**73,390**	79,675
Other loans, repayable in annual variable instalments, due in 2008	**315**	380
	521,135	675,125
Current portion	**110,000**	102,555
	$ 411,135	$ 572,570

Estimated principal payments required in future years are as follows:

2004	**$ 110,000**
2005	**43,919**
2006	**50**
2007	**44,034**
2008	**216**
2009 and subsequent years	**322,916**
	$ 521,135

9. 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.

	2003	2002
Issued		
103,460,005 common shares (103,184,447 in 2002)	**$ 464,331**	$ 459,822

9. SHARE CAPITAL (cont'd)

275,558 common shares for an amount of $4,509,000 were issued during the year ended March 31, 2003 pursuant to the share option plan.

733,667 common shares for an amount of $8,775,000 were issued during the year ended March 31, 2002 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 key employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 14,000,000 common shares. Options may be exercised at a price equal to the closing quoted value of the shares on the day preceding the date of the grant. In general, the options vest at 20% per year and expire ten years from the date of the grant.

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

		2003		2002	
Granting period	Exercise price	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
1998	$8.50	**185,649**	**$ 8.50**	212,718	$ 8.50
1999	from $16.13 to $18.75	**298,347**	**$ 18.29**	365,850	$ 18.28
2000	$19.70	**445,299**	**$ 19.70**	529,230	$ 19.70
2001	$13.50	**884,116**	**$ 13.50**	1,005,387	$ 13.50
2002	from $19.00 to $23.00	**1,060,640**	**$ 19.12**	1,145,782	$ 19.10
2003	$30.35	**910,893**	**$ 30.35**	–	$ –
		3,784,944	**$ 19.99**	3,258,967	$ 16.69
Options exercisable at year-end		**1,188,048**	**$ 13.44**	517,050	$ 16.41

Changes in the number of options are as follows:

	2003		2002	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance at beginning of year	**3,258,967**	**$ 16.69**	3,301,956	$ 14.64
Options granted	**934,965**	**$ 30.35**	1,289,058	$ 19.10
Options exercised	**(275,558)**	**$ 16.36**	(733,667)	$ 11.96
Options cancelled	**(133,430)**	**$ 19.40**	(598,380)	$ 16.34
Balance at end of year	**3,784,944**	**$ 19.99**	3,258,967	$ 16.69

1,336,396 options to purchase common shares at a price of $22.50 were also granted as at April 1, 2003.

10. CONTRIBUTED SURPLUS

Contributed surplus resulting from the accounting of stock based compensation	$ 1,475

11. OTHER INTEREST

		2003		2002
Expense	$	**726**	$	894
Income		**(2,077)**		(1,695)
	$	**(1,351)**	$	(801)

12. INCOME TAXES

The provision for income taxes is comprised of the following:

		2003		2002
Current income taxes	$	**61,422**	$	54,464
Future income taxes		**4,435**		17,132
	$	**65,857**	$	71,596

Reconciliation of income taxes, calculated using statutory Canadian income tax rates, to the income tax provision presented in the statement of earnings:

		2003		2002
Income taxes, calculated using statutory Canadian income tax rates	$	**83,200**	$	85,520
Adjustments resulting from the following:				
Manufacturing and processing credit		**(7,246)**		(10,084)
Non-taxable dividend from the portfolio investment		**(791)**		(388)
Tax rates of American subsidiaries		**612**		1,282
Changes in tax laws and rates		**(2,728)**		(387)
Other		**(7,190)**		(4,347)
Provision for income taxes	$	**65,857**	$	71,596

The tax effects of temporary differences that give rise to significant portions of the future tax asset and liability are as follows:

		2003		2002
Future income taxes asset				
Accounts payable and accrued liabilities	$	**5,496**	$	9,560
Losses for income tax purposes		**4,570**		6,579
Other		**4,879**		2,775
	$	**14,945**	$	18,914
Future income taxes liability				
Fixed assets	$	**92,064**	$	88,018
Net assets of pension plans		**4,999**		9,209
Other assets		**557**		1,944
Portfolio investment		**6,301**		7,835
	$	**103,921**	$	107,006

12. INCOME TAXES (cont'd)

Classified in the financial statements as:		
Current future income taxes asset	**$ 12,854**	$ 13,781
Long-term future income taxes asset	**8,861**	4,090
Long-term future income taxes liability	**(110,691)**	(105,963)
Net future income taxes liability	**$ 88,976**	$ 88,092

13. EARNINGS PER SHARE

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during each fiscal year: 103,380,203 shares in 2003 and 102,793,390 in 2002.

Diluted earnings per share for the year ended March 31, 2003 have been calculated using 104,454,043 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2003 (103,380,203 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (1,073,840 shares).

Diluted earnings per share for the year ended March 31, 2002 have been calculated using 103,712,252 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2002 (102,793,390 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (918,862 shares).

Earnings per share were calculated net of income taxes.

14. PLANT ACQUISITION

The Company acquired during the year ended March 31, 2002 a cheese manufacturing plant situated in the United States for a cash consideration of $16,410,000. The allocation of the purchase price was $14,059,000 for fixed assets and $2,351,000 for working capital.

15. EMPLOYEE PENSION AND BENEFIT PLANS

The Company provides defined benefit and defined contribution pension plans as well as other benefits such as health insurance, life insurance and dental plans to eligible employees and retired employees.

Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years or the career salary. Contributions are paid by employees and contributions by the Company are based on recommendations from independent actuaries.

The defined contribution pension plans entitle participating employees to an annual contribution giving right to a pension.

Plan assets are principally comprised of shares of Canadian and foreign companies, mutual funds and fixed income investments.

15. EMPLOYEE PENSION AND BENEFIT PLANS (cont'd)

Financial position of the plans

	2003		2002	
	Defined benefit pension plans	**Other benefit plans**	Defined benefit pension plans	Other benefit plans
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	**$ 163,003**	**$ –**	$ 192,470	$ –
Acquisitions during the year	**893**	**–**	854	–
Actual return on plan assets	**(9,709)**	**–**	(5,333)	–
Employer contributions	**698**	**777**	514	809
Employee contributions	**1,129**	**71**	1,509	–
Benefits paid	**(13,684)**	**(848)**	(14,464)	(809)
Divestitures	**–**	**–**	(12,557)	–
Foreign currency (loss) gain	**(185)**	**–**	10	–
Fair value of plan assets at end of year	**142,145**	**–**	163,003	–
Changes in accrued benefits obligation				
Benefit obligation at beginning of year	**154,735**	**19,175**	166,430	18,695
Acquisitions during the year	**893**	**–**	727	–
Current service cost	**4,125**	**799**	4,937	784
Interest	**10,008**	**276**	10,430	1,332
Benefits paid	**(13,684)**	**(848)**	(14,464)	(809)
Actuarial (gain) loss	**(940)**	**1,281**	(1,121)	77
Amendments and divestitures	**–**	**–**	(12,225)	(904)
Foreign currency (gain) loss	**(247)**	**–**	21	–
Benefit obligation at end of year	**154,890**	**20,683**	154,735	19,175
Surplus (deficit)	**(12,745)**	**(20,683)**	8,268	(19,175)
Unamortized actuarial loss	**55,715**	**2,610**	33,138	1,749
Unamortized past service cost	**802**	**(456)**	895	(572)
Foreign currency loss	**(1,146)**	**–**	(1,277)	–
Unamortized transitional obligation	**(13,370)**	**4,592**	(14,526)	5,051
Asset (liability) as at the measurement date	**29,256**	**(13,937)**	26,498	(12,947)
Employer contributions made from the measurement date to the end of the year	**297**	**–**	63	–
Net asset (liability) recognized in the balance sheet	**$ 29,553**	**$ (13,937)**	$ 26,561	$ (12,947)

The net accrued benefit asset is included in other assets presented in the balance sheet (Note 6).

15. EMPLOYEE PENSION AND BENEFIT PLANS (cont'd)

	2003		2002	
	Pension plans	**Other benefit plans**	Pension plans	Other benefit plans
Employee benefit plans expense				
Defined benefit plans				
Current service cost	**$ 3,025**	**$ 694**	$ 3,428	$ 784
Interest cost	**10,058**	**1,341**	10,201	1,205
Expected return on plan assets	**(14,010)**	**–**	(14,842)	–
Amortization of transitional obligation	**(1,155)**	**460**	(1,230)	467
Amortization of past service cost	**89**	**37**	28	(19)
Amortization of actuarial gain	**70**	**(13)**	45	(538)
Provision for decrease in value	**67**	**–**	–	–
	(1,856)	**2,519**	(2,370)	1,899
Defined contribution plans	**8,531**	**–**	7,191	–
	$ 6,675	**$ 2,519**	$ 4,821	$ 1,899
Weighted average assumptions				
Discount rate of obligation	**6.75%**	**6.75%**	6.75%	7.00%
Expected long-term rate of return on plan assets	**7.90%**	**N/A**	8.00%	N/A
Rate of compensation increase	**3.50%**	**3.50%**	3.50%	3.50%

For measurement purposes, a 5.5% to 12% annual rate of increase was used for health, life insurance and dental plan costs for the year 2004 and this rate is assumed to decrease gradually to 5.7% in 2009 and remain at that level thereafter.

16. COMMITMENTS AND CONTINGENCIES

The Company carries some of its operations in leased premises and has also entered into lease agreements for equipment and rolling stock. The minimum annual lease payments required for the next five years are as follows:

2004	**$ 9,814**
2005	**8,337**
2006	**6,689**
2007	**5,175**
2008	**8,883**
	$ 38,898

The Company is defendant to certain claims arising from the normal conduct of its business. The Company believes that the final resolution of these claims will not have a material adverse effect on its earnings or financial position.

The Company from time to time enters into agreements in the normal course of its business, such as a service arrangements and leases, and in connection with business or asset acquisitions or dispositions, which agreements by their nature may provide for indemnifications of counterparties. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration. Given the nature of such indemnifications, the Company is unable to reasonably estimate its maximum potential liability under these agreements.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The fair value of cash, receivables, bank overdraft, bank loans, 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, is $604,385,000 ($697,138,000 in 2002).

b) Credit risk

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.

c) Interest rate risk

The short-term bank credit facilities and long-term bank loans bear interest at fluctuating rates.

The Company occasionally enters into interest swap contracts to hedge against exposures to increases in interest rates. As at March 31, 2003, the Company had entered into an interest swap contract at a rate of 5.08% covering $75,937,500 of long-term debt. This contract expires in December 2004. As at March 31, 2003, an amount of $1,089,740 would be necessary to settle this contract.

d) Currency risk

In the normal course of Canadian operations, the Company enters into certain foreign currency transactions. The Company manages its currency risks by occasionally entering into foreign currency contracts. Outstanding foreign currency contracts as at the balance sheet date are not material.

The Company realizes approximately 36% of its sales in the United States and is therefore exposed to currency exchange fluctuations.

The cash flows from US operations constitute a natural hedge against the exchange risk related to debt expressed in US dollars.

e) Price commodities risk

The Company occasionally enters into hedging contracts to hedge against fluctuations on the price of certain commodities. Outstanding contracts are not material as at the balance sheet date.

18. SEGMENTED INFORMATION

The dairy products segment principally includes the production and distribution of cheeses and fluid milk. The activities of this segment are carried out in Canada and the United States.

The grocery products sector consists exclusively since July 15, 2001 of the production and marketing of snack cakes. Prior to that date, the products of this sector were classified in four categories, snack cakes, cookies, fine breads and soups. The production and marketing operations of cookies, fine breads and soups were sold on July 15, 2001 (see Note 3). Total assets of this sector includes the portfolio investment.

These operating segments are managed separately because each segment represents a strategic business unit that offers different products and serves different markets. The Company measures performance based on geographic operating income and segment operating income on a stand alone basis.

The accounting policies of the segments are the same as those described in Note 1 relating to significant accounting policies. The Company does not make any intersegment sales.

18. SEGMENTED INFORMATION (cont'd)

Information on operating segments

	2003			2002		
	Canada	**United States**	**Total**	Canada	United States	Total
Revenue						
Dairy products	**$ 2,017,383**	**$ 1,212,810**	**$ 3,230,193**	$ 1,987,486	$ 1,282,555	$ 3,270,041
Grocery products	**167,919**	**–**	**167,919**	187,371	–	187,371
	$ 2,185,302	**$ 1,212,810**	**$ 3,398,112**	$ 2,174,857	$ 1,282,555	$ 3,457,412
Earnings before interest depreciation and income taxes						
Dairy products	**$ 200,621**	**$ 120,484**	**$ 321,105**	$ 183,054	$ 133,996	$ 317,050
Grocery products	**33,165**	**–**	**33,165**	35,372	–	35,372
Stock based compensation	**(1,060)**	**(415)**	**(1,475)**	–	–	–
	$ 232,726	**$ 120,069**	**$ 352,795**	$ 218,426	$ 133,996	$ 352,422
Depreciation of fixed assets						
Dairy products	**$ 29,697**	**$ 35,704**	**$ 65,401**	$ 27,970	$ 33,607	$ 61,577
Grocery products	**5,488**	**–**	**5,488**	6,510	–	6,510
	$ 35,185	**$ 35,704**	**$ 70,889**	$ 34,480	$ 33,607	$ 68,087
Operating income						
Dairy products	**$ 170,924**	**$ 84,780**	**$ 255,704**	$ 155,084	$ 100,389	$ 255,473
Grocery products	**27,677**	**–**	**27,677**	28,862	–	28,862
Stock based compensation	**(1,060)**	**(415)**	**(1,475)**	–	–	–
	$ 197,541	**$ 84,365**	**281,906**	$ 183,946	$ 100,389	284,335
Interest			**42,321**			52,578
Earnings before income taxes			**239,585**			231,757
Income taxes			**65,857**			71,596
Net earnings			**$ 173,728**			$ 160,161

18. SEGMENTED INFORMATION (cont'd)

	2003			2002		
	Canada	**United States**	**Total**	Canada	United States	Total
Total assets						
Dairy products	**$ 861,176**	**$ 824,759**	**$ 1,685,935**	$ 821,888	$ 936,334	$ 1,758,222
Grocery products	**284,751**	**–**	**284,751**	288,453	–	288,453
	$ 1,145,927	**$ 824,759**	**$ 1,970,686**	$ 1,110,341	$ 936,334	$ 2,046,675
Net book value of fixed assets						
Dairy products	**$ 276,036**	**$ 312,164**	**$ 588,200**	$ 264,482	$ 353,572	$ 618,054
Grocery products	**39,641**	**–**	**39,641**	40,791	–	40,791
	$ 315,677	**$ 312,164**	**$ 627,841**	$ 305,273	$ 353,572	$ 658,845
Additions to fixed assets						
Dairy products	**$ 42,694**	**$ 22,080**	**$ 64,774**	$ 35,348	$ 25,364	$ 60,712
Grocery products	**5,817**	**–**	**5,817**	2,468	–	2,468
	$ 48,511	**$ 22,080**	**$ 70,591**	$ 37,816	$ 25,364	$ 63,180
Goodwill, unamortized portion						
Dairy products	**$ 132,698**	**$ 253,419**	**$ 386,117**	$ 134,552	$ 273,310	$ 407,862
Grocery products	**164,513**	**–**	**164,513**	164,513	–	164,513
	$ 297,211	**$ 253,419**	**$ 550,630**	$ 299,065	$ 273,310	$ 572,375

19. COMPARATIVE AMOUNTS

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

Shareholder Information

Head Office

Saputo Inc.
6869 Métropolitain Blvd. East
Saint-Léonard, Québec Canada H1P 1X8
Telephone: 514.328.6662 • Fax: 514.328.3364
www.saputo.com

General Annual Meeting of Shareholders

Wednesday August 6, 2003 at 11:00 AM
Laval Room, Hotel Sheraton Laval
2440 Autoroute des Laurentides
Laval, Québec Canada H7T 1X5

Investor Relations

Corporate Communications
Telephone: 514.328.3381 • Fax: 514.328.3364
Email: saputo@saputo.com

Stock Exchange

Toronto
Symbol: SAP

Transfer Agent

National Bank Trust
1100 University Street, Suite 900
Montréal, Québec Canada H3B 2G7
Telephone: 514.871.7171 or 1.800.341.1419
Fax: 514.871.7442

External Auditors

Deloitte & Touche, Laval, Québec

Dividend Policy

Saputo Inc. declares quarterly cash dividends on common shares in an amount of $0.10 per share, representing a yearly dividend of $0.40 per share. The balance of corporate earnings is 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.

Un exemplaire français vous sera expédié sur demande adressée aux :
Communications corporatives, Saputo Inc.
6869, boul. Métropolitain Est,
Saint-Léonard (Québec) Canada H1P 1X8

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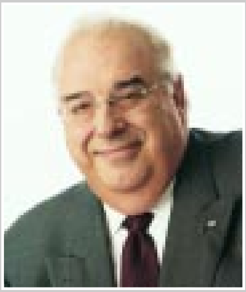
Board of Directors



André Bérard
Chairman of the Board
National Bank of Canada

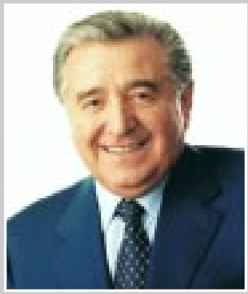
Claude Blanchet
Corporate Director

Pierre Bourgie
President and
Chief Executive Officer
Société Financière Bourgie Inc.

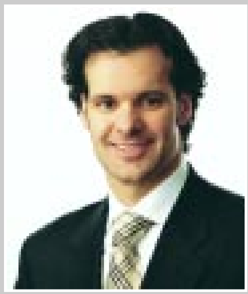
Frank A. Dottori
President and
Chief Executive Officer
Tembec Inc.

Jean Gaulin
Corporate Director

Caterina Monticciolo, CA
President
Julvest Capital Inc.



Lino Saputo
Chairman of the Board
and Chief Executive Officer
Saputo Inc.



Lino Saputo, Jr.
President and
Chief Operating Officer,
Cheese Division (USA)
Saputo Inc.

Patricia Saputo, CA, FP
President
Pasa Holdings Inc.

Louis A. Tanguay
Corporate Director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