Interim Report
Fiscal • 2003

Saputo

1st Quarter

Message to Shareholders
and Analysis of Operating Results and Financial Position

We are pleased to present the results for the first quarter of fiscal 2003, ended June 30, 2002.

In the course of the quarter our Canadian Dairy Products Sector enjoyed a marked improvement in profitability, with an increase of 20.7% in earnings before interest, income taxes, depreciation and amortization (EBITDA) as compared to the same period a year earlier. The sales volume of our Cheese Division (USA) grew by nearly 10% in comparison with that of the corresponding quarter last year. Almost half of this increase can be attributable to the acquisition of a plant in the United States last March, the balance coming from organic growth in the division. Operating income from our Grocery Products Sector (Bakery Division), meanwhile, was up by 3.8%. Over the quarter the American market experienced unfavourable conditions with respect to milk and cheese prices as compared to the same period last year, a situation which represented a loss of potential net earnings of roughly $7.5 million.

During the quarter, net earnings totaled $42.1 million or $0.41 (basic) per share, up 4.5% over the $40.3 million or $0.40 (basic) per share for the same period in the previous fiscal year. Results for this quarter generated a return of 18.4% on average shareholders' equity.

EBITDA reached $89.4 million, a decrease of 1.9% as compared to the $91.1 million for the first quarter of fiscal 2002. EBITDA margin stood at 10.2% on June 30, 2002, down 0.2% compared to the same date last year, when it stood at 10.4%. During the quarter, the unfavourable price conditions that we experienced on the American market compared to the same period the year before created a shortfall of roughly $11 million in EBITDA.

With regards to revenues, had it not been for the drop in the average price per pound of cheese in the United States in the course of the first quarter of fiscal 2003 in comparison with the same period a year earlier, they would have been greater by about $37 million. Furthermore, revenues from the Grocery Products Sector last year included $19.8 million from the manufacturing and marketing activities of cookies, fine breads and soups that were transferred to Dare Foods in July 2001. Revenues reached $873.9 million for the quarter ended June 30, 2002, up 0.1% over the $873.1 million for the same period of the previous fiscal year. On a comparable basis, after eliminating the impact of the elements referred to above, our revenues would have enjoyed a growth of almost 6.8%, principally a reflection of the increase in sales volume of our Dairy Products Sector's Cheese Division (USA).

Cash and financial resources •

Cash generated before changes in non-cash working capital for the first quarter totaled $64.1 million or $0.62 (basic) per share, up 4.6% over the $61.3 million or $0.60 (basic) per share of the corresponding quarter in fiscal 2002.

The Company used this important cash inflow to repay $45.3 million in long-term debt and bank loans. Furthermore, $14.7 million were earmarked for additional capital expenditures. These capital expenditures are part of the commitments of $64 million earmarked for the 2003 fiscal year. On June 30, 2002, the Company had working capital of $277.1 million, compared to $258.9 million on March 31, 2002. The ratio of interest-bearing debt to shareholders' equity went from 0.78 on March 31, 2002, to 0.68 on June 30, 2002.

Perspectives •

Over the coming quarters, our Canadian Cheese and Milk Divisions will undertake the last phases of integrating Dairyworld operations, the aim being to optimize their operations as a whole and to increase their profitability. Growth in our volumes of cheese sales in Canada is tightly connected to growth in per-capita consumption, as a result of the regulated Canadian system. Consequently, in collaboration with the industry, we plan to promote cheese consumption in Canada. Nevertheless we remain open to any growth opportunities by way of acquisition.

Our Canadian Milk Division will concentrate its growth in Canada by increasing its penetration in the Ontario and Québec markets, where our market shares are approximately at 5% and 1.6% respectively. That division will also focus its efforts on the development of value-added products and on assessing automation possibilities for certain of its operations.

Our Cheese Division (USA) will complete the integration of the plant in Whitehall, Pennsylvania, and will redouble its efforts in order to reach its objective of increasing sales volume by 13% for the current fiscal year. We will also energetically be seeking potential acquisitions in cheese manufacturing in the United States. With respect to the volatile-price situation on the American market, the Company will work on developing permanent solutions designed to provide it with the means of lessening the repercussions of such volatility and its effects on our results.

Our Bakery Division will continue with the process undertaken last March in connection with the closing of the plant in Aurora, Ontario, which is scheduled for September 2002. We will also continue with rationalization of the transportation operations in the division, as well as initiating certain automation and robotization projects. We intend to gradually introduce certain varieties of snack cakes on the American market beginning in the fall of 2002, while continuing to focus on greater penetration of the Ontario and Western Canadian markets so as to maximize use of the Sainte-Marie plant, which has an available manufacturing capacity of roughly 30%.

Information by sector •

DAIRY PRODUCTS (CANADA)

Revenues for the first quarter of fiscal 2003 totaled $511.7 million, an increase of 3.7% over the $493.3 million of the same quarter in the previous fiscal year.

EBITDA for the quarter ended June 30, 2002 reached $49.5 million, which represents an increase of 20.7% over the $41 million for the same period a year earlier. EBITDA margin for this sector climbed from 8.3% last year to 9.7% during the quarter. These increases can be accounted for by the furthering of the process of integrating the activities of Dairyworld, acquired in 2001, which among other things involved optimization of its operations as well as certain rationalizations carried out during the fiscal year ended March 31, 2002.

DAIRY PRODUCTS (UNITED STATES)

Revenues for the quarter ended June 30, 2002 amounted to $319.7 million. Last year, for the same period, revenues were at a similar level, or $319.1 million. The positive impact on revenues created by the growth of nearly 10% in the volume of cheese sold over the quarter was overshadowed by an average price per pound of cheese that was approximately US$0.30 lower than that of the corresponding quarter of last year.

EBITDA for this quarter amounted to $31.1 million, a drop of $9.4 million from the $40.5 million in the same period of the previous fiscal year. This decrease can be explained by a drop in the average price per pound of cheese as compared to the same period a year earlier, and which additionally did not fluctuate in tandem with the cost of milk. Added to that is a decrease in the price per pound of cheese of US$0.1450 between March 31, 2002 and June 30, 2002. That particular situation deprived us of an EBITDA of roughly $11 million in comparison with the same period in the previous fiscal year. For the quarter ended June 30, 2002, EBITDA margin came in at 9.7%, down from the 12.7% for the three months ended June 30, 2001.

GROCERY PRODUCTS

During the first quarter of the 2003 fiscal year, revenues totaled $42.5 million and EBITDA reached $8.8 million, for a margin of 20.7%. These results reflect the transfer of manufacturing and marketing activities of cookies, fine breads and soups to Dare Foods in July 2001. In other words, this year, the Company's revenues do not include the aforementioned activities. Last year, those revenues totaled $19.8 million. The Company's profitability increased as a result of that transaction. We can now concentrate on maximizing the development of our snack cakes.

Dividends •

The Board of Directors of the Company revised the Company's dividend policy upward, with the result that the quarterly dividend will rise from $0.055 per common share to $0.10 per common share for a total of $0.40 annually and will take effect when the dividend of September 6, 2002 is paid to common shareholders of record on August 23, 2002.

Lino Saputo
Chairman of the Board and
Chief Executive Officer
August 7, 2002

Consolidated Statements of
Earnings
(unaudited)

For the three-month periods ended June 30	2002	2001
(in thousands of dollars, except per share amounts)		
Revenues	**$ 873,942**	$ 873,056
Cost of sales, selling and administrative expenses	**784,569**	781,947
Earnings before interest, depreciation and income taxes	**89,373**	91,109
Depreciation of fixed assets	**17,611**	18,257
Operating income	**71,762**	72,852
Interest on long-term debt	**11,668**	14,291
Other interest	**(247)**	(338)
Earnings before income taxes	**60,341**	58,899
Income taxes	**18,283**	18,622
Net earnings	**$ 42,058**	$ 40,277
Per share (Note 3)		
Net earnings		
Basic	**$ 0.41**	$ 0.40
Diluted	**$ 0.40**	$ 0.39

Consolidated Statements of
Retained Earnings
(unaudited)

For the three-month periods ended June 30	2002	2001
(in thousands of dollars)		
Retained earnings, beginning of period	**$ 409,648**	$ 271,087
Net earnings	**42,058**	40,277
Retained earnings, end of period	**$ 451,706**	$ 311,364

Segmented Information

(unaudited)

For the three-month periods ended June 30	2002	2001
(in thousands of dollars)		
Revenues		
Dairy products		
Canada	**$ 511,657**	$ 493,253
United States	**319,743**	319,122
	831,400	812,375
Grocery products	**42,542**	60,681
	$ 873,942	$ 873,056
Earnings before interest, depreciation and income taxes		
Dairy products		
Canada	**$ 49,489**	$ 40,971
United States	**31,057**	40,491
	80,546	81,462
Grocery products	**8,827**	9,647
	$ 89,373	$ 91,109
Depreciation of fixed assets		
Dairy products		
Canada	**$ 7,314**	$ 7,409
United States	**8,921**	8,378
	16,235	15,787
Grocery products	**1,376**	2,470
	$ 17,611	$ 18,257
Operating income		
Dairy products		
Canada	**$ 42,175**	$ 33,562
United States	**22,136**	32,113
	64,311	65,675
Grocery products	**7,451**	7,177
	$ 71,762	$ 72,852
Interest	**11,421**	13,953
Earnings before income taxes	**60,341**	58,899
Income taxes	**18,283**	18,622
Net earnings	**$ 42,058**	$ 40,277

Consolidated Statements of
Cash Flows

(unaudited)

For the three-month periods ended June 30		2002		2001
(in thousands of dollars, except per share amounts)				
Cash flows related to the following activities:				
Operating				
Net earnings	$	42,058	$	40,277
Items not affecting cash				
Depreciation of fixed assets		17,611		18,257
Future income taxes		4,390		2,789
		64,059		61,323
Currency (gain) loss on cash held in foreign currency		(577)		64
Changes in non-cash operating working capital items		(15,400)		(28,637)
		48,082		32,750
Investing				
Net additions to fixed assets		(14,697)		(11,826)
Other assets		599		(6,799)
Foreign currency translation adjustment		29,266		22,807
		15,168		4,182
Financing				
Bank loans		(20,255)		(9,343)
Repayment of long-term debt		(25,000)		(10,000)
Issuance of share capital		3,014		2,326
Employee future benefits		300		264
Foreign currency translation adjustment		(21,018)		(16,169)
		(62,959)		(32,922)
Increase in cash		291		4,010
Currency gain (loss) on cash held in foreign currency		577		(64)
Cash, beginning of period		4,852		6,294
Cash, end of period	$	5,720	$	10,240
Supplemental information				
Interest paid	$	19,247	$	19,617
Income taxes paid	$	20,110	$	4,587
Per share (Note 3)				
Net inflow of cash related to operations before changes in non-cash operating working capital items				
Basic	$	0.62	$	0.60
Diluted	$	0.61	$	0.59

Consolidated
Balance Sheets

(in thousands of dollars)	June 30 2002 (unaudited)	March 31 2002 (audited)
Assets		
Current assets		
Cash	**$ 5,720**	$ 4,852
Receivables	**265,190**	272,895
Inventories	**387,172**	406,621
Income taxes	**4,288**	4,288
Future income taxes	**13,587**	13,781
Prepaid expenses and other assets	**10,293**	11,078
	686,250	713,515
Portfolio investment	**55,991**	55,991
Fixed assets	**639,583**	658,845
Goodwill	**559,457**	572,375
Other assets	**41,260**	41,859
Future income taxes	**4,140**	4,090
	$ 1,986,681	$ 2,046,675
Liabilities		
Current liabilities		
Bank loans	**$ 8,652**	$ 28,907
Accounts payable and accrued liabilities	**284,297**	305,752
Income taxes	**11,176**	17,393
Current portion of long-term debt	**105,055**	102,555
	409,180	454,607
Long-term debt	**526,356**	572,570
Employee future benefits	**13,247**	12,947
Future income taxes	**107,905**	105,963
	1,056,688	1,146,087
Shareholders' Equity		
Share capital (103,370,264 shares, 103,184,447 shares as at March 31, 2002)	**462,836**	459,822
Retained earnings	**451,706**	409,648
Foreign currency translation adjustment	**15,451**	31,118
	929,993	900,588
	$ 1,986,681	$ 2,046,675

Notes
to the Consolidated Financial Statements

1. Accounting policies

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and applied in the same manner as the most recently audited financial statements. The unaudited consolidated financial statements do not include all the information and notes required according to generally accepted accounting principles for annual financial statements, and should therefore be read with the audited consolidated financial statements and the notes included in the Company's annual report for the year ended March 31, 2002.

2. Stock-based Compensation

Using the same assumptions as in the most recent audited financial statements dated March 31, 2002, and had the stock-based compensation cost been accounted for based on the fair value of the options at the grant dates, net income for the quarter would have been $41.5 million, the basic earnings per share and fully diluted earnings per share would have been ½ of 1¢ lower.

3. Earnings per share

The weighted average number of common shares outstanding for the three-month periods ended June 30, 2002 and June 30, 2001 are 103,282,080 and 102,547,536 respectively.

The weighted average number of common shares outstanding, including the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan for the three-month periods ended June 30, 2002 and June 30, 2001 are 104,254,560 and 103,099,808 respectively.

In 2001, the computations of basic and diluted earnings per share were adjusted retroactively as a result of the stock dividend paid on November 30, 2001 which had the same effect as a two for one stock split.