MANAGEMENT'S ANALYSIS

The goal of the present management report is to provide a better understanding of our activities and should be read while referring to our audited consolidated financial statements and the accompanying notes, which are prepared in accordance with Canadian Generally Accepted Accounting Principles. All dollar amounts are in Canadian dollars unless otherwise indicated. In addition to containing an analysis of the year ended March 31, 2006, this report takes into account material elements between March 31, 2006 and June 6, 2006, the date of this report, on which it was approved by the Board of Directors of Saputo Inc. (the "Company" or "Saputo"). Additional information about the Company, including the Annual Information Form for the year ended March 31, 2006, can be obtained on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report, including the "Outlook" section, contains forward-looking information within the meaning of securities laws. These statements are based on our current assumptions, expectations and estimates, regarding projected revenue and expenses, the Canadian, US, Argentinean, and German economic environment, our ability to attract and retain clients and consumers, our operating costs and raw materials and energy supplies which are subject to a number of risks and uncertainties. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, we cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed throughout this MD&A and, in particular, in *Risks and Uncertainties*. Forward-looking information contained in this report, including the "Outlook" section, is based on management's current estimates, expectations and assumptions, which management believes are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation and do not undertake to update this information at any particular time.

GLOBAL OVERVIEW

Throughout fiscal 2006, Saputo faced numerous challenges in various aspects of its operations. With the efforts and dedication of its 8,400 employees, Saputo has met these challenges and continues to view the future with great promise. Saputo's operations are carried out in 44 plants and numerous distribution centres across Canada, United States, Argentina and more recently, Germany. As the German activities were acquired on April 13, 2006, after the fiscal year-end, the results do not include any activities from this acquisition.

Saputo is one of the top twenty dairy processors in the world, the largest dairy processor in Canada, among the top five cheese producers in the United States, the third largest dairy processor in Argentina, and the largest snack-cake manufacturer in Canada. Saputo is active in two sectors: dairy products, which accounts for 95.9% of consolidated revenues, and grocery products, with 4.1% of consolidated revenues. Saputo manufactures almost all of the products it commercializes.

Our Dairy Products Sector consists of the following: Canadian and Other Dairy Products Sector and US Dairy Products Sector. The Canadian and Other Dairy Products Sector is comprised of our Dairy Products Division (Canada) and Dairy Products Division (Argentina). The US Dairy Products Sector consists of our Cheese Division (USA). Saputo's dairy products are available in all segments of the food market: retail, foodservice and industrial.

The **retail** segment accounts for 51% of total revenues within the Dairy Products Sector. Sales are made to supermarket chains, mass merchandisers, convenience stores, independent retailers, warehouse clubs and specialty cheese boutiques under our own brand names as well as under private labels. Both dairy and non-dairy products, such as non-dairy creamers, juices and drinks, are manufactured and sold within this segment.

The **foodservice** segment accounts for 32% of total revenues within the Dairy Products Sector. Sales are made to distributors of both specialty cheeses and complete product lines as well as to restaurants and hotels under our own brand names and under various private labels. We also offer non-dairy products manufactured by third parties, which are distributed through our Canadian distribution network. In addition, we produce dairy blends for fast-food chains.

The **industrial** segment accounts for 17% of total revenues within the Dairy Products Sector. Sales are made to food processors that use our products as ingredients to manufacture their products. In Canada, we supply cheese to frozen entree manufacturers, while in the United States, we supply cheese to numerous large food manufacturers.

We also produce by-products such as lactose, whey powder and whey protein from our Canadian, US and Argentinean cheese manufacturing facilities. Through our Canadian industrial segment and our Argentinean facilities, we supply numerous international clients with cheese, lactose, whey powder, milk powder, ice cream mixes and whey protein.

Our Grocery Products Sector consists of our Bakery Division which manufactures and markets snack cakes, tarts and cereal bars. In the Canadian market, our products are sold almost exclusively in the retail segment, through supermarket chains, independent retailers, and warehouse clubs. The Bakery Division is also present in the United States, through co-packing agreements whereby the Company manufactures products for third parties under brand names owned by such parties.

Financial Orientation

The application of a sound business model and the persistent focus on efficient and effective operations have enabled Saputo to become a leader in the dairy industry. These ideals could not have been more evident than in the current fiscal year. Faced with very difficult market conditions in the US, along with other deterrents in our Argentinean operations, Saputo has been able to withstand these barriers and is still a viable force.

Our solid financial position and strong cash flows continue to set us apart from our peers. This has allowed us to continue to invest in our operations, none more evident than our significant investment in our Argentinean operations. All our capital projects are financed with cash flows generated from our existing operations. Saputo's strong cash flows have also allowed it to increase the dividend payment and implement a share purchase program through a normal course issuer bid. Our goal of increasing shareholder value remains intact.

Our first foray outside North America, Argentina, has proven to be a success. It is with enthusiasm that we start fiscal 2007 with an acquisition outside the Americas, in Europe. The acquisition of the activities of *Spezialitäten – Käserei De Lucia Gmbh* in Germany completed in April 2006 will provide us with access to a vibrant dairy market. Saputo will continue to seek out acquisition opportunities throughout fiscal 2007, with the goal of increasing its presence within the global dairy industry.

Elements to consider when reading Management's Analysis for fiscal 2006

During fiscal 2006, we experienced lower financial performance:

- Net earnings totalled $192.1 million, down 17.2%
- Earnings before interest, income taxes, depreciation, amortization and devaluation (EBITDA) totalled $366.0 million, down 10.3%
- Revenues reached $4.022 billion, up 3.6%
- Cash flows generated by operations totalled $299.6 million, up 11.5%
- Devaluation of portfolio investment of $10.0 million

The reduced performance in fiscal 2006 is primarily the result of the harsh market conditions faced by our US Dairy Products Sector. A lower average block market[1] per pound of cheese had a negative effect of approximately $136 million on revenues. The overall average block market per pound of cheese in fiscal 2006 of US$1.42 was US$0.25 lower compared to the US$1.67 for last fiscal year. This downward trend created a negative effect on the absorption of fixed costs. In addition, a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material was observed this fiscal year compared to last fiscal year. With regard to inventories, the block market had an unfavourable impact on their realization. These factors combined had a negative impact of approximately $40 million on EBITDA. The US Dairy Products Sector also incurred $3.3 million in rationalization charges in relation to the closure of our plant in Whitehall, Pennsylvania, and additional promotional expenses of approximately $15 million.

The rise of the Canadian dollar continued to negatively affect our results. In fiscal 2006, the appreciation of the Canadian dollar eroded approximately $2 million in net earnings, $6 million in EBITDA, and $93 million in revenues.

The Canadian and Other Dairy Products Sector improved its performance in fiscal 2006 compared to the prior year. Benefits derived from rationalization activities undertaken in fiscal 2005 and the acquisition of Fromage Côté, completed on April 18, 2005, were the main factors behind the improved performance. These gains were reduced by a rationalization charge of $2.0 million in relation to the closure of our plant in Harrowsmith, Ontario. The EBITDA of our Argentinean operations were negatively affected by changes in the export tax of approximately $6 million.

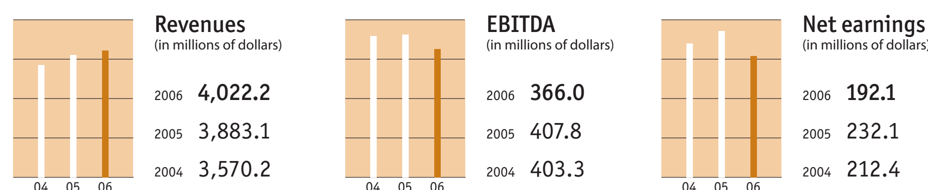
All divisions within the Dairy Products Sector were also negatively affected by increased energy, packaging, ingredient and labour costs in fiscal 2006. Higher fuel costs have increased our energy expense in all our facilities. In addition, it has also increased the cost of our packaging material. Ingredient costs also increased in the current fiscal year as a result of higher prices in the by-product markets. All of the above factors increased our manufacturing costs by approximately $18 million in 2006, compared to fiscal 2005.

In fiscal 2006, the Company wrote down the value of its portfolio investment by $10.0 million, and in addition, a dividend of $1.0 million received during fiscal 2006 was accounted for as a reduction of the cost of the investment. These actions were deemed necessary following an evaluation of the fair value of the investment. The evaluation concluded that the fair value of the investment was below the carrying value on the balance sheet, indicative of a permanent impairment. The write-down had an after-tax effect of approximately $8 million.

In fiscal 2006, the Company recorded tax benefits resulting from prior tax losses available for our Argentinean operations. A tax benefit of approximately $4 million affected net earnings in fiscal 2006. Offsetting this benefit was a tax charge of approximately $2 million to adjust future tax balances due to an increase in provincial tax rates.

In fiscal 2005, the Company recorded a $2.6 million gain on the disposal of fixed assets held for sale and a one-time tax reduction affecting net earnings by $3.5 million, to adjust future tax balances due to a reduction in US tax rates.

Selected Consolidated Financial Information



[1] "Average block market" is the average daily price of a 40 pound block of Cheddar on the Chicago Mercantile Exchange (CME), used as the base price for cheese.

Years ended March 31

(in thousands of dollars, except per share amounts and ratios)		2006	2005	2004
Statement of earnings data				
Revenues	Dairy Products Sector			
	Canada and Other	$ 2,651,402	$ 2,415,541	$ 2,161,852
	United States	1,206,601	1,308,735	1,240,954
		3,858,003	3,724,276	3,402,806
	Grocery Products Sector	164,207	158,793	167,384
		$ 4,022,210	$ 3,883,069	$ 3,570,190
Cost of sales, selling and administrative expenses				
	Dairy Products Sector			
	Canada and Other	$ 2,389,809	$ 2,171,380	$ 1,951,997
	United States	1,128,301	1,171,692	1,080,067
		3,518,110	3,343,072	3,032,064
	Grocery Products Sector	138,135	132,238	134,869
		$ 3,656,245	$ 3,475,310	$ 3,166,933
EBITDA[1]	Dairy Products Sector			
	Canada and Other	$ 261,593	$ 244,161	$ 209,855
	United States	78,300	137,043	160,887
		339,893	381,204	370,742
	Grocery Products Sector	26,072	26,555	32,515
		$ 365,965	$ 407,759	$ 403,257
	EBITDA margin (%)	*9.1%*	*10.5%*	*11.3%*
Depreciation of fixed assets				
	Dairy Products Sector			
	Canada and Other	$ 34,146	$ 29,743	$ 29,854
	United States	29,881	31,175	31,550
		64,027	60,918	61,404
	Grocery Products Sector	5,334	5,147	4,634
		$ 69,361	$ 66,065	$ 66,038
Operating income				
	Dairy Products Sector			
	Canada and Other	$ 227,447	$ 214,418	$ 180,001
	United States	48,419	105,868	129,337
		275,866	320,286	309,338
	Grocery Products Sector	20,738	21,408	27,881
		$ 296,604	$ 341,694	$ 337,219
Devaluation of portfolio investment		$ 10,000	$ -	$ -
Interest on long-term debt		24,474	28,026	34,792
Other interest, net of interest income		(644)	1,064	1,218
Earnings before income taxes		262,774	312,604	301,209
Income taxes		70,672	80,459	88,844
Net earnings		$ 192,102	$ 232,145	$ 212,365
Net earnings margin (%)		*4.8%*	*6.0%*	*5.9%*
Net earnings per share		$ 1.83	$ 2.23	$ 2.05
Diluted net earnings per share		$ 1.82	$ 2.20	$ 2.03
Dividends declared per share		$ 0.72	$ 0.60	$ 0.48
Balance sheet data				
Total assets		$ 2,253,933	$ 2,133,072	$ 2,069,548
Long-term debt (including current portion)		$ 291,846	$ 302,521	$ 371,911
Shareholders' equity		$ 1,402,543	$ 1,315,850	$ 1,156,829
Statement of cash flows data				
Cash flows generated by operations		$ 299,567	$ 268,676	$ 287,572
Amount of additions to fixed assets, net of proceeds on disposal		$ 92,868	$ 76,345	$ 84,520

[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 devaluation of portfolio investment. 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. Reference is made to section entitled "Measurement of results not in accordance with generally accepted accounting principles".

Saputo's **consolidated revenues** totalled $4.022 billion, an increase of $139.1 million or 3.6% compared to $3.883 billion posted in fiscal 2005. The increase is attributed to our Canadian and Other Dairy Products Sector. Our Dairy Products Division (Canada) and Dairy Products Division (Argentina) increased revenues by approximately $208 million and $28 million, respectively, compared to last fiscal year. An increase in selling prices in both divisions, in accordance with increases in the cost of milk as raw material as well as other manufacturing costs, the acquisition of Fromage Côté completed on April 18, 2005, and higher sales volumes in our Canadian fluid milk activities were responsible for these increases. Our US Dairy Products Sector revenues decreased by approximately $102 million. An average block market per pound of cheese of US$1.42 in the current year, compared to US$1.67 in the prior year negatively affected revenues by approximately $136 million. The continued rise in the Canadian dollar eroded approximately $93 million in revenues in comparison to last fiscal year. These factors offset a 9% sales volume increase achieved by the division throughout the current fiscal year. Revenues from our Grocery Products Sector increased by $5.4 million to $164.2 million from $158.8 million for fiscal 2005. The increase is due to an increase in our selling price and additional revenues derived from our US co-packing agreements.

Consolidated earnings before interest, income taxes, depreciation, amortization and devaluation (EBITDA) amounted to $366.0 million in fiscal 2006, a decrease of $41.8 million compared to $407.8 million in fiscal 2005. The decrease is attributed to our US Dairy Products Sector, whose EBITDA decreased by $58.7 million, from $137.0 million in fiscal 2005 to $78.3 million in the current fiscal year. The lower average block market per pound of cheese in fiscal 2006 compared to the prior year had a negative effect on the absorption of our fixed costs. In addition, a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material was observed this fiscal year compared to last fiscal year. With regard to inventories, the market factors had an unfavourable impact on their realization. These factors combined had a negative impact of approximately $40 million on EBITDA. The rise of the Canadian dollar eroded approximately $6 million from our current year's EBITDA. The US Dairy Products Sector also incurred $3.3 million of rationalization charges in relation to the closure of our plant in Whitehall, Pennsylvania in fiscal 2006 and additional promotional expenses of approximately $15 million. Furthermore, the division's EBITDA was negatively affected by increased energy, packaging, ingredient and labour costs. All of the above-mentioned negative factors offset the positive effects of efficiency improvements and additional EBITDA derived from the increased sales volumes.

The EBITDA of our Canadian and Other Dairy Products Sector increased by $17.4 million from $244.2 million in fiscal 2005 to $261.6 million in fiscal 2006. The increase is mainly attributed to the benefits derived from rationalization activities undertaken in our Canadian operations during prior years, the acquisition of Fromage Côté, completed on April 18, 2005, and increased sales volumes from our Canadian fluid milk activities in comparison to last fiscal year. These increases offset a rationalization charge of $2.0 million in relation to the closure of our plant in Harrowsmith, Ontario. The EBITDA of our Argentinean operations was negatively affected by changes in the export tax which eroded EBITDA by approximately $6 million. The Canadian and Other Dairy Products Sector was also subject to increased energy, packaging, ingredient and labour costs in fiscal 2006 in comparison to fiscal 2005.

The EBITDA of our Grocery Products Sector decreased slightly to $26.1 million in the current fiscal year from $26.6 million in fiscal 2005. Better margins achieved on existing sales and additional EBITDA generated by increased sales volumes derived from our US co-packing agreements were offset by additional costs of approximately $2 million related to the pension plan and approximately $5 million for increased marketing expenditures, in comparison to last fiscal year.

The consolidated EBITDA margin decreased from 10.5% in fiscal 2005 to 9.1% in fiscal 2006, mainly as a result of reduced margins in our US Dairy Products Sector. The relationship between the average block market per pound of cheese and the cost of milk as raw material negatively affected the EBITDA of our US Dairy Products Sector. This relationship decreased by US$0.027 per pound of cheese this fiscal year compared to fiscal 2005.

Depreciation expense totalled $69.4 million in fiscal 2006, an increase of $3.3 million over $66.1 million in fiscal 2005. The increase is mainly attributed to the acquisition of Fromage Côté, completed on April 18, 2005, and to additional depreciation relating to capital expenditures undertaken in the prior and current years, specifically in our Argentinean operations. These increases offset lower depreciation from our US Dairy Products Sector as a result of the appreciation of the Canadian dollar.

The Company wrote down the value of its **portfolio investment** by $10.0 million, negatively affecting net earnings before income taxes. In addition, a dividend of $1.0 million received during fiscal 2006 was accounted for as a reduction of the cost of the investment. These actions were deemed necessary following an evaluation of the fair value of the investment. The evaluation concluded that the fair value of the investment was below the carrying value on the balance sheet, indicative of a permanent impairment. The write-down had an after-tax effect of approximately $8 million.

Net interest expense amounted to $23.8 million in fiscal 2006, compared to $29.1 million in fiscal 2005. The decrease results from the following factors. Firstly, the interest decreased following long-term debt repayments made in fiscal 2005. Secondly, the appreciation of the Canadian dollar also reduced the interest expense on our US dollar debt. Lastly, the Company had excess cash on numerous occasions throughout fiscal 2006 in comparison to fiscal 2005, which generated incremental interest revenue.

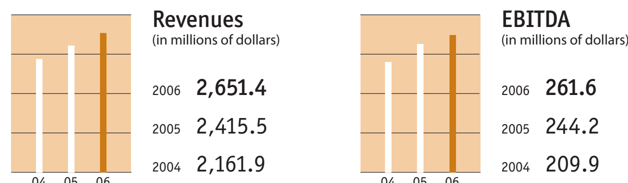
Income taxes totalled $70.7 million for an effective tax rate of 26.9%, compared to an effective tax rate of 25.7% in fiscal 2005. The Company recorded in fiscal 2006 a tax benefit of approximately $4 million resulting from prior tax losses available for our Argentinean operations. Offsetting this benefit was a tax charge of approximately $2 million to adjust future tax balances due to an increase in provincial tax rates. In fiscal 2005, a one-time tax reduction to adjust future tax balances, due to a reduction in US tax rates, benefited the Company by $3.5 million. Our income tax rate varies and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates. Subsequent to March 31, 2006, there has been a proposed change to the income tax legislation that would likely have an impact on the consolidated financial statements. The Company is currently evaluating the impact and alternatives to reduce it. At this point, the Company considers that the impact will not be material.

For the year ended March 31, 2006, **net earnings** amounted to $192.1 million, a decrease of $40.0 million or 17.2% compared to $232.1 million in fiscal 2005. The decrease is due to the factors mentioned above.

INFORMATION BY SECTOR

CANADIAN AND OTHER DAIRY PRODUCTS SECTOR

The sector is comprised of our Dairy Products Division (Canada) and our Dairy Products Division (Argentina).



Revenues (Canadian and Other Dairy Products Sector)

The revenues of the Canadian and Other Dairy Products Sector amounted to $2.651 billion, an increase of 9.7% compared to the $2.416 billion for the previous year. The $236 million increase in revenues is distributed as follows: approximately $208 million is attributed to our Dairy Products Division (Canada), up 9.2% compared to last fiscal year, and $28 million is attributed to our Dairy Products Division (Argentina), which increased 18.6% compared to last fiscal year.

Regarding the $208 million increase in revenues from our Dairy Products Division (Canada), approximately $102 million comes from the acquisition of Fromage Côté, completed on April 18, 2005. Approximately $84 million relates to higher selling prices as a result of increases in the cost of milk as raw material, as well as other manufacturing costs. The remainder is due to increases in sales volumes of fluid milk, cream, juice and yogurt categories compared to the previous fiscal year.

Our pricing, rebating and discounting practices in all segments were unchanged throughout the fiscal year.

The Company produces about 34% of all the natural cheese manufactured in Canada and remains a leader in the industry. On the fluid milk side, Saputo's production accounts for approximately 21% of the Canadian total, while in Argentina, the Company ranks third among dairy processors.

As for our **Canadian cheese activities**, sales volumes have increased slightly compared to the previous fiscal year taking into consideration the volume growth attributed to the activities of Fromage Côté, acquired at the beginning of the fiscal year.

The **retail** segment sales now account for 46% of revenues in our Canadian cheese activities compared to 48% for last fiscal year.

To facilitate the integration of Fromage Côté and to capitalize on the increasing consumers' appetite for specialty cheeses, we created a Specialty Cheese Group in June 2005 whose mandate is to manufacture, market and distribute specialty cheeses across Canada. As such, during the second quarter of fiscal 2006, we launched a new brand, *Alexis de Portneuf*, as our premium cheese brand, with a particular focus on high-end fine cheeses. In addition, we launched a variety of innovative fine cheeses to solidify our position in this growing category. These efforts have resulted in an increased volume of approximately 6% for the specialty cheese category.

The **foodservice** segment has remained relatively stable compared to the previous fiscal year and represents 38% of revenues in our Canadian cheese activities. We are continuing to pursue opportunities with specialty cheeses through our national accounts.

The **industrial** segment accounts for 16% of revenues in our Canadian cheese activities compared to 13% for last fiscal year. This segment is comprised of cheese sales as well as by-products sales. The increase in revenues is attributed to higher sales volumes in the international by-product market and additional sales of skim milk powder. We continue to work towards developing value-added milk by-products intended for both local and international markets.

Our **Canadian fluid milk activities** enjoyed good sales volume growth during fiscal 2006. Increased efforts were made during fiscal 2006 to promote growth within more specialized niches, such as yogurts, sour creams, flavoured milks and flavoured creams. Our core category of fluid milk has shown good volume increase, as we continued our penetration of new markets. Globally, the increase in sales volume amounts to 2.6% for all our Canadian fluid milk activities. The breakdown of our revenues remains unchanged between the retail segment with 80% and the foodservice segment with 20%.

During the past fiscal year, we have continued our development of the Ontario and Quebec markets through increased distribution. Our sales volumes have slightly increased in these markets with branded products such as: *Dairyland, Nutrilait, Armstrong, Sunny Delight*[2]*, International Delight*[2] and *Milk 2 Go / Lait's Go*.

During fiscal 2006, we achieved excellent sales results for our value-added products sold in Extended Shelf Life (ESL) plastic packaging, such as our successful *Milk 2 Go / Lait's Go* line of flavoured milks. In addition, we launched a line of iced coffee beverages under the *Caféccino* brand name in the summer of 2005.

In fiscal 2006, we continued to drive growth in our cultured products sales through innovation and consumer marketing, especially for our *Dairyland* single serve cottage cheese and *Dairyland L'il Ones* yogurt.

In **Argentina**, our activities continued to progress at a steady pace. Revenues from these activities for fiscal 2006 amounted to $178.4 million, an increase of $28.1 million over fiscal 2005. Our export market enjoyed volume increases and higher market prices. On the domestic market, sales prices were higher as a result of the increase in the cost of milk as raw material and better product mix.

[2] Trademarks used under licence.

EBITDA (Canadian and Other Dairy Products Sector)

Our earnings before interest, income taxes, depreciation and amortization (EBITDA) totalled $261.6 million as at March 31, 2006, an increase of 7.1% compared to the $244.2 million for the previous fiscal year. The EBITDA margin went from 10.1% in fiscal 2005 to 9.9% in fiscal 2006. The activities of Fromage Côté, which generated a lower EBITDA margin compared to the rest of the activities in Canada, resulted in a lower overall EBITDA margin. The EBITDA for fiscal 2005 included a $2.6 million gain on the disposal of fixed assets held for sale. Had it not been for this gain last fiscal year, the EBITDA margin would have remained at the same level. Throughout the fiscal year, our Argentinean activities continued to improve their EBITDA margins. These improvements were offset by changes to the export tax.

On October 12, 2005, following the continual analysis of our overall activities and the implementation of measures aimed at improving our operational efficiency, we announced the closure of our Harrowsmith plant in Ontario, scheduled for June 28, 2006. The costs associated with this closure were absorbed during the third and fourth quarters of fiscal 2006 and reduced EBITDA by $2.0 million. Together with this rationalization, the Company intends to spend in fiscal 2007 close to $6 million in additions to fixed assets in other plants. The Company expects annual savings on EBITDA of $3.5 million. Additional EBITDA was generated from our Fromage Côté's operations acquired last April 2005.

From an operational point of view, being an efficient manufacturer and a low-cost processor remains a priority, and fiscal 2006 included savings of $7.5 million related to rationalizations carried out during the previous fiscal years. We are carefully looking into all aspects of manufacturing and handling in order to minimize the ever-increasing energy, packaging, ingredient and labour costs which increased our manufacturing costs by approximately $3 million in fiscal 2006 compared to fiscal 2005.

Finally, the by-product market for fiscal 2006 has been quite volatile, but has had a favourable impact of $2.8 million compared to fiscal 2005.

A decrease in our cheese production consistent with our goal of reducing our inventory levels, negatively affected the EBITDA in the last two quarters of fiscal 2006. We believe that, in Canada, our inventory level is now adequate with respect to our operations.

Victor Hugo Pollini, Production of mozzarella
RAFAELA, DAIRY PRODUCTS DIVISION (ARGENTINA)

Outlook (Canadian and Other Dairy Products Sector)[3]

Fiscal 2006 has allowed us to solidify our operations. Our two former Milk and Cheese Divisions (Canada) have now become one single operating unit. We believe that even though some synergies have been achieved following the merger of our two former divisions, other opportunities still exist.

We believe in the importance of innovation as a means of offering consumers products that follow the evolution of their needs and in the continuous improvement of our manufacturing processes. A corporate research and development team created to this effect at the beginning of fiscal 2006 is committed to reaching these goals.

Our strategic plan for our newly created specialty group within our division should continue to yield positive results in fiscal 2007, improving our position to maximize on consumers' enthusiasm for specialty cheeses.

In fiscal 2007, based on solid manufacturing activities in both our cheese and fluid milk activities, we are ready to enter or enhance product sub-categories with long-term profitability and the building of the brands. In the cheese activities, we are looking to grow our market in the pressed and stretched cheese categories year-over-year with volume gains that exceed market growth. In the fluid milk activities, we are looking to expand our share of the fluid milk and cream market in Eastern and Atlantic Canada. In aggregate, we wish to continue our ongoing process of revisiting every aspect of our business in order to capitalize on opportunities that will increase our overall profitability.

The Company is constantly evaluating its production capacity in all categories of products. Our excess production capacity stands at 33% in our Canadian cheese activities and at 39% in our fluid milk activities.

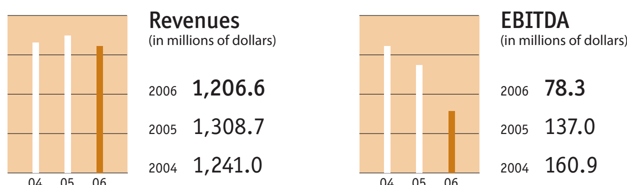
For our Argentinean activities, a major part of our capital investments was completed in the current fiscal year. The benefits derived from these investments began to materialize in the current fiscal year. We plan to add $20.0 million in capital investments for our Argentinean operations in fiscal 2007 in an effort to take full advantage of the opportunities that exist on the domestic and international markets.

The recent acquisition of the activities of *Spezialitäten-Käserei De Lucia GmbH* will complement our current activities in Canada, the United States and Argentina and provide us with a local presence in Europe and greater exporting capabilities.

[3] Reference is made to section entitled "Caution regarding forward-looking statements".

US DAIRY PRODUCTS SECTOR

Our Cheese Division (USA) experienced difficult market conditions in fiscal 2006. A sustained record-high price for dry whey pushed the cost of milk higher, at the expense of cheese margins. Dry whey is an important input in the formula which determines the cost of milk for manufactured dairy products in the US. Therefore, the high cost of milk driven largely by high dry whey prices adversely impacted cheese margins. The division also endured increased energy, packaging, ingredient and labour costs and a declining block market per pound of cheese for most of the year. Despite the difficult economic conditions, our Cheese Division (USA) performed well in controlling costs and expanding market share.



Revenues (US Dairy Products Sector)

Sales volumes were strong for the fiscal year posting an 8.8% increase over fiscal 2005. Each of our market segments (retail, foodservice and industrial) grew by more than 8% on a per segment basis. The acquisition of the activities of Schneider Cheese, Inc., completed on May 27, 2005, accounted for approximately 2.4% of the 8.8% increase in the current fiscal year. Fiscal 2006 revenues totalled $1.207 billion, a decrease of $102.0 million or 7.8% less than the $1.309 billion in revenues attained in fiscal 2005. The lower average block market per pound of cheese this fiscal year had a negative impact of $135.5 million on revenues. The average block market per pound of cheese during fiscal 2006 was US$1.42, a US$0.25 decrease from the US$1.67 in fiscal 2005. Sales volumes were consistently strong throughout the fiscal year. Our volumes increased in most of our cheese types with notable increases in string, ricotta and some of our new items. Retail sales volumes recovered nicely from last fiscal year which had been adversely impacted by higher market prices. The appreciation of the Canadian dollar throughout the fiscal year negatively affected revenues by approximately $93 million.

Our pricing, rebating and discounting practices in all segments were unchanged throughout the fiscal year.

The **retail** segment accounts for 29% of our total sales volume in the United States, slightly lower than the previous fiscal year. In this past fiscal year, we again concentrated our marketing efforts on supporting our brands with distinctive promotions to increase market share in several highly competitive retail cheese categories. *Frigo Cheese Heads* continues to be the number one brand of string cheese in the United States. This brand is supported by consumer promotion, utilizing on-pack offers, coupon distribution, and Web and print advertising. During the fiscal year, our complete line of *Stella* and *Treasure Cave* cheese packaging graphics were revamped. Several new line extensions were also introduced to take advantage of consumer trends within the cheese category.

The **foodservice** segment accounts for 45% of our total sales volume in the United States, slightly higher than that of last fiscal year. We again experienced volume growth in this segment due to the quality of our products, our customer service, and our people at every level throughout the organization. During the fiscal year, we managed to increase volume despite the necessity of implementing price increases to offset the adverse industry economics.

The **industrial** segment represents 26% of our total sales volume in the United States, about the same as last fiscal year. Market volatility and excess production capacity in the industry inhibited our ability to meet our volume growth targets for this segment. We still managed to increase our volume by 8.6% in this highly competitive channel by focusing on value-added items in lieu of high-volume low-margin bulk commodities. Products in the industrial segment also include whey by-products, sweetened condensed milk and eggnog. Prices of by-products in the international market continued strong in fiscal 2006.

EBITDA (US Dairy Products Sector)

During fiscal 2006, earnings before interest, income taxes, depreciation and amortization totalled $78.3 million, a $58.7 million or 42.8% decrease compared to $137.0 million posted in fiscal 2005. Fiscal 2006 resulted in the lowest "spread" or margin between the average block market per pound of cheese and the cost of milk as raw material, in the past 25 years. The spread was adversely impacted by the declining cheese market and the extraordinarily high market value of dry whey, which impacts the price of milk as raw material. The overall average block market per pound of cheese of US$1.42 this fiscal year was lower compared to the US$1.67 of last fiscal year. This eroded our EBITDA this fiscal year by reducing the basis for absorption of our fixed costs. In a declining market, cheese is produced at a higher cost and is subsequently sold at a lower sales price. The margin is also compressed in a declining market because the cost of milk follows the block market on a delayed basis. In theory, these timing differences should balance out over time. However, fiscal 2005 started with a block market per pound of cheese at US$2.09 and ended at US$1.62, while fiscal 2006 started at US$1.62 and ended at US$1.17. Balancing will not occur until market declines are offset by corresponding market increases. This has not occurred in the past two fiscal years.

Declining markets also create an unfavourable impact on the realization of inventories. These combined factors had a negative impact of $40.2 million on EBITDA. The appreciation of the Canadian dollar created a shortfall in EBITDA of $6.4 million. On September 28, 2005, we announced the closure of our plant in Whitehall, Pennsylvania, effective October 2005 for the cheese manufacturing and March 2006 for the by-products manufacturing. The costs incurred in fiscal 2006 for this closure were $3.3 million on EBITDA. Also, additional promotional expenses of approximately $15 million were incurred in fiscal 2006 compared to fiscal 2005. Moreover, the division experienced increased energy, packaging, ingredient and labour costs in the current fiscal year, increasing manufacturing costs by approximately $15 million compared to fiscal 2005.

Outlook (US Dairy Products Sector)[4]

During the past fiscal year, the Cheese Division (USA) increased its sales volume in almost every product category and was able to grow in all three of our market segments: retail, foodservice and industrial. This is a testimony to the continuous quality of products and services provided by Saputo people from the plant floor right up to the customer's location.

The acquisition of the activities of Schneider Cheese, Inc. in May 2005 further increased our presence in the string and snack cheese categories. We will continue to capitalize on these product categories.

We look forward to the upcoming fiscal year with optimism. We believe we are well-positioned to improve our profitability as we are poised to selectively launch new line extensions to complement for example our *Frigo Cheese Heads* line and our specialty *Treasure Cave* blue cheeses. We also embrace the new fiscal year with our continued mandate to be innovative and efficient at every level of the organization. First at the operations level, we plan to apply innovative processes and techniques to diminish the impact of raw material, labour and overhead cost increases. At the marketing and sales level, we will conduct innovative promotions, introduce new products and enhance service to our clients. Finally, internally, we will invest in our employees to foster future growth.

During fiscal 2006, we completed projects that increased our capacity in certain manufacturing locations and enhanced the production capabilities of our specialty plants for greater efficiency and quality so that we can remain competitive despite rising energy, ingredient, labour and other manufacturing costs. In the upcoming fiscal year, we will continue to evaluate our operations and will invest accordingly in projects that will enhance our profitability and better serve the needs of our clients. We are currently operating our facilities at 95% capacity following the closure of Whitehall. If necessary, we could add additional manufacturing capacity to our plants with minor capital investments.

Once again in fiscal 2006, the fluctuations in the pricing of dairy products on the Chicago Mercantile Exchange (CME) significantly affected the results of our Cheese Division (USA). As mentioned in prior fiscal years, base prices are set according to daily transactions conducted at the CME. The CME acts as an auction market for certain commodity products where brokers represent buyers and sellers. Cheese and butter are bought and sold on a daily basis. The prices established at the end of a session serve as the reference price for most cheese and butter sales made in the United States. The CME market for Cheddar cheese blocks began in fiscal 2006 at US$1.62 which was the high for the year, and fell as low as US$1.12 in February and closed at US$1.17 as at March 31, 2006. This general decline in the cheese block market had a significant effect on the results of our Cheese Division (USA). During the fourth quarter of fiscal 2006, we communicated price increases to the market. We will continue to monitor the cheese block market and react accordingly. We were successful in reducing the cost associated with milk handling in the last quarters and we plan to pursue this in fiscal 2007. The Company is continuing with a program to offer fixed-price long-term contracts to customers as a means of managing market volatility, extending relationships, and stabilizing margins. This is done in conjunction with the purchase of milk futures contracts through the CME.

In January 2006, the US Department of Agriculture held public hearings to consider a petition for a revision in the formulas that determine the manufacturing milk price with the objective of allowing processors better margins. The manufacturing cost data employed in the formulas has not been updated in more than three years. We are participating in these hearings as a Company and as part of industry associations. The hearing decision is expected in the summer of 2006. All the above actions are in line with our goal of reducing our operating costs with the objective of reaching past profitability levels.

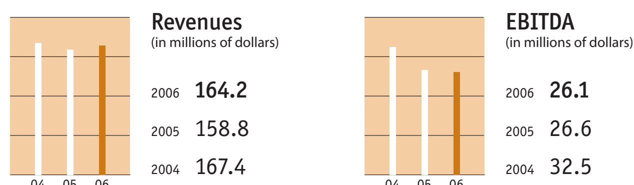
During the first quarter of fiscal 2007, the Company announced the closing of its manufacturing facility in Peru, Indiana. Saputo ceased to manufacture the products coming from this facility on May 15, 2006. The closure will have almost a neutral effect on the profitability of the Cheese Division (USA).

Trish Burres and Jean Miller, Customer Service
LINCOLNSHIRE,
CHEESE DIVISION (USA)

[4] Reference is made to section entitled "Caution regarding forward-looking statements".

GROCERY PRODUCTS SECTOR

The Grocery Products Sector consists of the Bakery Division and accounts for 4.1% of the Company's revenues.



Revenues (Grocery Products Sector)

Revenues for the Bakery Division totalled $164.2 million for the fiscal year ended March 31, 2006, up by $5.4 million in comparison to the previous fiscal year. During fiscal 2006, sales volumes remained at the same level as the previous fiscal year.

Our Canadian sales volume showed a decrease of 11.5%. This decrease was offset by higher sales due to co-packing agreements for the manufacturing of products for the US market. The situation in the Canadian market can be explained by the following factors: in February 2005, we increased the base selling price for our economy- and family-size products. At the same time, we changed our strategy regarding the reduction and frequency of our featured prices and rebates. Consumers reacted with a more cautious approach with regard to our product offerings. Our investment strategy on the *HOP&GO!* brand triggered sales volume increases but was not sufficient to counter the loss of sales volume in our business. This being said, in Canada, despite an increasingly competitive market, the division was not only able to retain its market share, but saw a slight increase in the last quarter of fiscal 2006.

Throughout the fiscal year, we were active in supporting our brands. We operate in an environment where product innovation and seasonality are key. Therefore, 16 new *Vachon* products were introduced in the Canadian market, as well as 7 new *HOP&GO!* products, including four in the new healthy *HOP&GO!* Multigrain brand.

With regard to the US market, we have revised our marketing strategy. We have decided to withdraw our branded business from the retail market and focus solely on co-packing, for which we manufacture products. This decision was in line with the establishment of co-packing agreements in fiscal 2006. This approach should help us increase our sales volumes south of the border.

EBITDA (Grocery Products Sector)

EBITDA for the fiscal year ended March 31, 2006 amounted to $26.1 million, a slight decrease as compared to the previous fiscal year. The EBITDA margin went from 16.7% in fiscal 2005 to 15.9% this fiscal year.

During the course of fiscal 2006, the sector incurred additional expenses of approximately $2 million related to the pension fund and $4.8 million for additional marketing spending directed towards the development and penetration of our *HOP&GO!* brand in Ontario and in the Atlantic provinces. If we exclude these marketing expenses, the EBITDA margin would have stood at 18.8%. Fiscal 2006 saw some increases in our manufacturing costs as compared to last fiscal year, mainly related to energy, packaging, ingredient and labour costs for approximately $2 million. Different capital expenditure projects in robotizing and automation in fiscal years 2005 and 2006 have allowed us to increase our manufacturing efficiency. The resulting savings helped us offset part of the cost increases experienced this fiscal year.

Outlook (Grocery Products Sector)[5]

Fiscal 2006 was somewhat of a transition year for our Bakery Division, with the first price increase in 8 years resulting in a loss of volume in our Canadian business.

Indulgent and nutritious are the main characteristics of our products. While a good portion of our portfolio continues to be comprised of indulgent products, we have spent a great number of research and development hours on converting our cakes into either trans-fat-reduced or trans-fat-free products. In the coming fiscal year, we will continue in that direction in order to offer consumers a healthier offering in our categories.

The nutritious section of our product offerings keeps getting better with the introduction of wholegrain bars in the *HOP&GO!* line of products. These products are endorsed by the Heart and Stroke Foundation of Canada. We will continue to promote these products in the year to come and at the same time evaluate the possibility of penetrating new market segments.

Fiscal 2007 will be the second of our three-year program geared towards the development and the redeployment of our brands. We had initially announced a $20 million investment to be covered by additional profitability within the same three years. In year one of the program, we invested close to $5 million on our *HOP&GO!* brand and we are satisfied with the results. *HOP&GO!* will still benefit from the bulk of this investment in year two of the program, although the investment will be reduced by half. We also foresee investing approximately the same amount in 2008, thus reducing the $20 million investment program previously announced to $10 million. We feel confident that we will achieve our objectives for the development of the *HOP&GO!* brand by using a combination of marketing and sales initiatives. In the US market, we will pursue the development of our presence in this market through co-packing initiatives, for which we will manufacture the products.

Guy Poulin, Packing
STE-MARIE (CANADA)
BAKERY DIVISION

[5] Reference is made to section entitled "Caution regarding forward-looking statements".

LIQUIDITY

Cash generated by operating activities before changes in non-cash working capital items amounted to $265.4 million for fiscal 2006, a decrease of $33.7 million compared to $299.1 in fiscal 2005. During fiscal 2006, non-cash operating working capital items generated $34.2 million, in comparison to a $30.4 million usage in fiscal 2005. The increased generation of funds in fiscal 2006 was partly due to a reduction in inventory from our Canadian operations due to a voluntary decrease in our cheese production. Our US division's inventory value also decreased due mainly to a lower block market per pound of cheese as at March 31, 2006, in comparison to March 31, 2005. In fiscal 2005, these two divisions saw an increase in their respective inventory value. The decreased inventory value in our Canadian and US operations in fiscal 2006 was offset by an inventory increase in our Argentinean operations. The capital expenditures undertaken in the previous and current fiscal years, which have increased the product mix of our Argentinean facilities, resulted in higher inventory.

In **investing activities**, the Company acquired in fiscal 2006 the activities of Fromage Côté and Schneider Cheese, Inc., for a combined purchase price of $86.3 million. The Company added $96.2 million in fixed assets, of which nearly 20% went into the replacement of fixed assets. The remaining funds were used to implement new technologies, as well as to expand and increase certain manufacturing capacities. The total fixed asset spending is close to our original budget of $100 million. The Company also disposed of unused assets in fiscal 2006 for total proceeds of $3.3 million.

As for **financing activities** in fiscal 2006, the Company increased the use of its bank loans by $28.1 million, essentially for its Argentinean operations. The Company also issued shares for a cash consideration of $13.7 million as part of the Stock Option Plan, paid out $72.2 million in dividends, and purchased for an amount of $38 million share capital in accordance with the share purchase program through its normal course issuer bid.

FINANCIAL RESOURCES

As at March 31, 2006, the Company's working capital stood at $423.6 million, a decrease of $29.0 million compared to the $452.6 million in fiscal 2005. The decrease is attributed to the transfer of $35.0 million from long-term debt to current liabilities, reflecting the US$30 million payment of our US senior notes scheduled for November 2006. Our interest bearing debt-to-equity ratio improved to 0.17 as at March 31, 2006, compared to 0.21 as at March 31, 2005. The improvement is due to the continued strong cash flows generated by the Company. As our financial position continues to improve, we do not foresee any additional working capital requirements.

For fiscal 2007, the Company expects to add about $76 million to fixed assets, with approximately $35 million earmarked for new technology and added manufacturing capacity. The remainder will be devoted to replacing certain fixed assets. The Company expects fixed-asset depreciation expense to total approximately $76 million in fiscal 2007. The increase in depreciation expense in comparison to fiscal 2006 is due to the capital expenditures undertaken in the current fiscal year, specifically in our Argentinean operations. All funds required for the additions to fixed assets will be generated from Company operations. As at March 31, 2006, the Company had no significant commitments related to fixed-asset acquisitions.

The Company currently has at its disposal bank credit facilities of approximately $325 million, $41.5 million of which are drawn, essentially for its Argentinean operations. The Company also has $91.5 million of cash and cash equivalents. In fiscal 2006, the Company renewed its bank credit facilities for a five-year period, thus benefiting from current credit terms and raising bank credit facilities by about $75 million. Should the need arise, the Company can make additional financing arrangements to pursue growth through acquisitions.

BALANCE SHEET

In comparison to March 31, 2005, the main balance sheet items as at March 31, 2006 varied due to the appreciation of the Canadian dollar versus both the US dollar and the Argentina peso. The conversion rate of our US operations' balance sheet items in US currency was CND$1.1671 per US dollar as at March 31, 2006, compared to CND$1.2096 per US dollar as at March 31, 2005. The conversion rate of our Argentinean operations' balance sheet items in Argentina pesos was CND$0.3775 per Argentina peso as at March 31, 2006, compared to CND$0.4135 per Argentina peso as at March 31, 2005. The increased Canadian dollar results in lower values recorded for the balance sheet items of our foreign operations. Changes in the main balance sheet items were also due to the acquisition of the activities of Fromage Côté and Schneider Cheese, Inc., completed in the first quarter of fiscal 2006.

In fiscal 2006, the Company wrote down the value of its portfolio investment by $10.0 million. In addition, a dividend of $1.0 million received during fiscal 2006 was also accounted for as a reduction of the cost of the investment. These actions were deemed necessary following the conclusion that the fair value of the portfolio investment had undergone a permanent impairment. Fixed assets increased from $648.6 million as at March 31, 2005, to $674.7 million as at March 31, 2006. The increase is the result of the significant capital expenditure undertaken in the current year, specifically in our Argentinean operations. As at March 31, 2006, we also note a current portion of long-term debt of $35.0 million. This amount relates to the US$30.0 million senior note payment scheduled on November 2006. Our net cash position also increased from $26.4 million as at March 31, 2005, to $50.0 million as at March 31, 2006. The change in foreign currency translation adjustment listed under shareholders' equity decreased due to the appreciation of the Canadian dollar. The Company's total assets stood at $2.254 billion as at March 31, 2006, compared to $2.133 billion as at March 31, 2005.

SHARE CAPITAL INFORMATION

Share capital authorized by the Company is comprised of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares can be issued in one or more series, and the terms and privileges of each class must be determined at the time of their creation.

	Authorized	Issued as at March 31, 2006	Issued as at June 1, 2006
Common shares	Unlimited	104,114,555	104,199,278
Preferred shares	Unlimited	None	None
Stock options		4,879,243	5,895,354

The Company announced on November 7, 2005 its intention to purchase, by way of the normal course issuer bid (the "Bid"), for cancellation purposes, some of its common shares through the facilities of the Toronto Stock Exchange, beginning on November 11, 2005.

Under the Bid, the Company may purchase for cancellation up to 5,256,369 common shares. This represents 5% of its 105,127,391 issued and outstanding common shares as of October 28, 2005. These purchases will be made in accordance with applicable regulations over a maximum period of 12 months beginning on November 11, 2005 and ending on November 10, 2006. The Company will not purchase more than 2% of the issued and outstanding common shares in any 30-day period. The consideration, which will be in cash, which the Company will pay for any common shares acquired by it under the Bid will be the market price of such common shares at the time of acquisition. For the year ended March 31, 2006, the Company purchased for cancellation an aggregate of 1,094,900 common shares at an average of $34.71 for a total of $38.0 million.

The Company believes that the purchase of its own shares may, under appropriate circumstances, be a responsible investment of funds on hand. Copies of the notice with respect to the Bid may be obtained without charge upon request to the Secretary of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

For all of its operations, the Company has certain off-balance sheet arrangements, consisting primarily of leasing certain premises as well as certain lease agreements for equipment and rolling stock. These agreements are recorded as operating leases. Future minimum lease payments as at March 31, 2006 totalled $43.9 million.

The Company does not use derivative financial instruments for speculation. Saputo uses certain derivative financial instruments in specific situations. In the normal course of business, our Canadian operations import some products and our management of foreign exchange risk occasionally leads us to make certain foreign currency purchases in euros, of which the total amount as at March 31, 2006 was 1,800,000 Euros.

The Company periodically enters into forward contracts to protect itself against price fluctuations on certain commodities when it has secured a commitment to sell a finished product. As at March 31, 2006, the market value of these contracts was $1.8 million.

The Company's exposure to the derivative financial instruments used is not affected by changing economic conditions, since these instruments are generally held until maturity.

Notes 16 and 18 to the consolidated financial statements describe the Company's off-balance sheet arrangements.

GUARANTEES

From time to time, the Company enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or disposals, agreements, which by nature may provide for indemnification to third parties. These indemnification provisions may be in connection with breach of representations and guarantees and for future claims for certain liabilities, including liabilities related to tax and environmental issues. The terms of these indemnification provisions vary in duration.

Note 16 to the consolidated financial statements discusses the Company's guarantees.

CONTRACTUAL OBLIGATIONS

The Company's contractual obligations consist of commitments to repay its long-term debt as well as certain leases of premises, equipment and rolling stock.

Note 7 describes the Company's commitment to repay long-term debt, and Note 16 describes its lease commitments.

(in thousands of dollars)	Long-term debt	Minimum lease	TOTAL
2007	35,013	10,624	45,637
2008	71	8,714	8,785
2009	-	7,509	7,509
2010	198,407	6,322	204,729
2011	-	4,855	4,855
Subsequent years	58,355	5,862	64,217
Total	291,846	43,886	335,732

RELATED PARTY TRANSACTIONS

In the normal course of business, the Company receives and provides goods and services from and to companies subject to significant influence by its principal shareholder. These goods and services of an immaterial amount are compensated by a counterpart equal to the fair market value. See Note 17 to the consolidated financial statements that describes the related party transactions.

ACCOUNTING STANDARDS

Applied Standards

Asset Retirement Obligations

Section 3110 of the Canadian Institute of Chartered Accountants [CICA Handbook], *Asset Retirement Obligations*, requires the recognition of liabilities for legal obligations, whether they are of a legal, prescribed, contractual or other nature, and normally when these obligations arise. The liability's fair value is initially measured and the related costs are capitalized in the carrying amount of the fixed asset in question. The asset retirement cost is amortized in the income statement using a systematic and rational method. The Company prospectively adopted these new recommendations effective April 1, 2004, which had no impact on the Company's consolidated financial statements.

Hedging Relationships

The CICA Accounting Guideline AcG-13, *Hedging Relationships*, specifies the circumstances in which hedge accounting is appropriate, and it examines in particular the identification, documentation, designation and effectiveness of hedge accounting, as well as the discontinuance of hedge accounting. The Company prospectively adopted these new recommendations effective April 1, 2004, which had no impact on the Company's consolidated financial statements.

Employee Future Benefits

Section 3461 of the CICA Handbook, *Employee Future Benefits*, expanded the disclosure requirements for these plans on both annual and interim financial statements. The Company prospectively adopted these new recommendations effective April 1, 2004, which had no impact on the Company's consolidated financial statements.

Accounting by a Customer for Certain Consideration Received from a Vendor

The CICA Emerging Issues Committee EIC-144, *Accounting by a Customer for Certain Consideration Received from a Vendor,* provides guidance on how a customer of a vendor's products should account for cash consideration received from a vendor. The Company retroactively adopted this new recommendation effective July 1, 2004, which had no significant impact on the Company's consolidated financial statements.

Consolidation of Variable Interest Entities

The CICA Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities,* requires enterprises to identify Variable Interest Entities in which they have an interest, to determine if they are the primary beneficiary of such entities and, if so, to consolidate them. The Company prospectively adopted this new recommendation effective January 1, 2005, which had no impact on the Company's consolidated financial statements.

Non-Monetary Transactions

Section 3831 of the CICA Handbook, *Non-Monetary Transactions,* establishes standards for the measurement and disclosure of non-monetary transactions. It defines when an exchange of assets is measured at fair value and when an exchange of assets is measured at the carrying amount. The Company prospectively adopted these new recommendations effective July 1, 2005, which had no significant impact on the Company's consolidated financial statements.

Future Standards

Comprehensive Income

Section 1530 of the CICA Handbook, *Comprehensive Income,* establishes standards for the reporting and display of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events from non-owner sources. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company is currently assessing the disclosure impact of this new recommendation on the consolidated financial statements.

Financial Instruments – Recognition and Measurement

Section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement,* establishes standards for recognizing and measuring financial assets, financial liabilities, non-financial derivatives and embedded derivatives. The standard requires all financial assets and financial liabilities to be classified by characteristic and/or management intent. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Louis-Philippe Perreault, Feta
ST. LEONARD, DAIRY PRODUCTS DIVISION (CANADA)

Financial Instruments – Disclosure and Presentation

Section 3861 of the CICA Handbook, *Financial Instruments – Disclosure and Presentation,* establishes standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Hedges

Section 3865 of the CICA Handbook, *Hedges,* establishes standards for when and how hedge accounting may be applied. The section requires that formal documentation, designation of specific hedging relationship components, and assessment of effectiveness are pre-requisites for the application of hedge accounting. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Foreign Currency Translation

Section 1651 of the CICA Handbook, *Foreign Currency Translation,* establishes standards for the translation of transactions of a reporting enterprise that are denominated in a foreign currency and financial statements of a foreign operation for incorporation in the financial statements of a reporting enterprise. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Investments

Section 3051 of the CICA Handbook, *Investments,* establishes standards for accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instrument investments. The new section is to be applied for interim and annual financial statements relating to fiscal year beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

Equity

Section 3251 of the CICA Handbook, *Equity,* establishes standards for the presentation of equity and changes in equity during the reporting period. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company believes the adoption of this section will not have a significant impact on the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates. These estimates are established on the basis of previous fiscal years and management's best judgment. Management continually reviews these estimates. Actual results may differ from those estimates. The following section establishes the main estimates used in preparing the consolidated financial statements of Saputo Inc.

Fixed Assets

In order to allocate the cost of fixed assets over their useful lives, estimates of the duration of their useful lives must be carried out. The cost of each fixed asset will then be attributed over the duration of its useful life and amortized year after year on this basis.

Portfolio Investment

The portfolio investment is recorded at cost. The Company carries out an annual valuation to ensure that the fair value of the investment is not lower than the carrying amount. To calculate an estimated fair value, the Company uses the Company's EBITDA by applying to it a multiple based on comparable industry standards. If the portfolio investment undergoes a decline in value that is permanent, its carrying amount would be written down to account for this decline in value. The Company has performed the impairment test and a write-down of $10.0 million was recorded for fiscal 2006.

Goodwill

The accounting standards require that goodwill no longer be amortized and that an impairment test be performed annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. To determine any decline in value, each of the respective accounting units are required to undergo an assessment. The Company's assessments are based on multiples for Saputo and for the industry. These multiples are applied to EBITDA and net assets. Should the calculated value be lower than the book value, a write-down would be taken. The Company has performed the impairment test, no write-down was necessary in fiscal 2006.

Stock Based Compensation

The Company uses the fair value based method to expense stock based compensation. With this method, the Company records a compensation cost over the vesting period of the options granted. The expected useful life of options used for calculating the fair value of options is based on management's experience and judgment.

Trademarks

Impairment testing has to be performed on all trademarks annually. Estimated future cash flows to be derived from the intangible are discounted to the present using current market rates. The discounted cash flow is compared to the carrying value of the trademarks. Should the discounted cash flow be lower than the book value, a write-down is taken. The Company has performed the impairment test and no write-down was necessary in fiscal 2006.

Sensitivity Analysis
Pension Plans and Other Employee Future Benefits

	Pension plans		Other employee future benefits	
(in thousands of dollars)	Accrued benefit obligations	Net expense	Accrued benefit obligations	Net expense
Anticipated rate of return on assets				
Effect of an increase of 1%	N/A	(1,708)	N/A	N/A
Effect of a decrease of 1%	N/A	1,708	N/A	N/A
Discount rate				
Effect of an increase of 1%	(23,449)	(2,044)	(1,122)	(117)
Effect of a decrease of 1%	23,531	1,532	1,337	8
Assumed growth rate of overall healthcare costs				
Effect of an increase of 1%	N/A	N/A	1,036	132
Effect of a decrease of 1%	N/A	N/A	(861)	(107)

Pension Plans

The Company offers and participates in defined contribution pension plans of which close to 82% of its active employees are members. The net pension expenditure under these types of plans is generally equal to the contributions made by the employer.

The Company also participates in defined benefit pension plans of which the remaining active employees are members. The cost of these pension benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using management's assumptions bearing on, among other things, the discount rate, expected return on plan assets, rates of compensation increase and the retirement age of employees. All of these estimates and assessments are formulated with the help of external consultants.

The discount rate is determined on the basis of the effective rates of return on high-quality long-term corporate bonds, as required by the adjusted standard, to account for the duration of plan liability. The rate was downwardly adjusted last fiscal year from 6.0% to 5.26%, effective December 31, 2005. We expect that this adjustment will increase our expense during fiscal 2007 by approximately $1.1 million.

We established the expected average return on invested assets at 7.3% given the type and combination of these assets. This assumption is deemed reasonable and is supported by our external consultants.

The compensation growth rate was set at 3.5% over the long term, taking into consideration estimated future inflation rates.

The Company also offers a post-retirement medical benefit program. For the purposes of assessing costs related to this program, the hypothetical annual growth rate of medical costs was set at between 7% and 12% for fiscal 2007 and, based on the assumptions used, these rates should gradually decline to reach 6% in fiscal 2011.

Any change in these assumptions or any plan experience that differs from the expected entails actuarial gains or losses with respect to expected results. If these gains or losses exceed 10% of the maximum of the asset or liability of the plans, they are amortized over the expected average remaining service life of the group of employees participating in the plans, in compliance with CICA recommendations.

The above table presents a sensitivity analysis of the key economic assumptions used to measure the impact on defined benefit pension obligations, on other employee future benefit obligations and on net expenditures. 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. The 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.

The measurement date of pension plan assets and liabilities is December 31 of each fiscal year.

Pension plan assets are held by several independent trusts, and the average composition of the overall portfolio as at December 31, 2005 was 6% in cash and short-term investments, 45% in bonds and 49% in shares of Canadian, US and foreign companies. In the long term, we do not expect any major change to this asset allocation. In comparison to December 31, 2004, the average composition was 4% in cash and short-term investments, 47% in bonds and 49% in shares.

For defined benefit plans, actuarial valuations were performed in December 2002 and 2003, covering all obligations with respect to this type of plan. In light of these valuations, a solvency deficiency of $20.0 million was posted on December 31, 2003. This deficiency is primarily due to an increase in plan liabilities resulting from a sharp decline in the discount rate prescribed by provincial legislation on pension plans, and from insufficient asset returns at the time of the evaluation. In accordance with this provincial legislation, an additional contribution is required for the next five years to pay off this deficiency. An additional payment of $6.0 million was made in fiscal 2006 ($6.1 million for fiscal 2005). The additional payment required for fiscal 2007 remains to be determined given the actuarial valuation for some pension plans is currently being performed, as at December 31, 2005. The next evaluation for certain pension plans is scheduled for December 2006.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery or settlement period for temporary differences. The projection of future taxable income is based on management's best estimates and may vary from actual taxable income. On an annual basis, the Company assesses its need to establish a valuation allowance for its deferred income tax assets. Canadian, US and international tax rules and regulations are subject to interpretation and require judgment on the part of the Company that may be challenged by the taxation authorities. The Company believes that it has adequately provided for future tax obligations that may result from current facts and circumstances. Temporary differences and income tax rates could change due to fiscal budget changes and/or changes in income tax laws.

RISKS AND UNCERTAINTIES

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 problems 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.

Supply of Raw Materials

Saputo purchases raw materials that may represent up to 85% of the cost of products. It processes raw materials into the form of finished edible products intended for resale to a broad range of consumers. Variations in the price of foodstuffs can therefore influence Company results upwards or downwards, and the effect of any increase of foodstuff prices on results depends on the Company's ability to transfer those increases to its customers, and this in the context of a competitive market.

US and International Markets

The price of milk as raw material and the price of our cheese products in the United States, Argentina and Germany and by-products on 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. Price fluctuations may affect the Company's results. The effect of such fluctuations on our results will depend on our ability to implement mechanisms to reduce them.

Competition

The food processing industry in North America is extremely 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, Argentina and Germany, Saputo competes in the dairy industry on a national basis with several regional and national competitors. Our performance will be dependent on our ability to continue to offer quality products at competitive prices, and this applies to all the countries in which we operate.

Consolidation of Clientele

During the last few years, we have seen important consolidation in the food industry in all market segments. Given that we serve these segments, the consolidation within the industry has resulted in a decrease in the number of clients and an increase in the relative importance of some clients. Our ability to continue to service our clients in all the markets that we serve will depend on the quality of our products, services and the prices of our products.

Environment

Saputo's business and operations are subject to environmental laws and regulations. We believe that our operations are in compliance, in all material aspects, with such environmental laws and regulations, except as disclosed in our Annual Information Form dated June 1, 2006 for the fiscal year ended March 31, 2006. 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.

Consumer Trends

Demand for our products is subject to changes in consumer trends. These changes may affect the Company's earnings. In order to constantly adapt to these changes, the Company innovates and develops new products.

Financial Risk Exposures

Saputo has financial risk exposure to varying degrees relating to the foreign currency of our United States and Argentinean operations. Approximately 30% and 4% of our sales are realized in the United States and Argentina, respectively. However, the cash flows from these operations act as a natural hedge against exchange risk. Cash flows from the United States also constitute a natural hedge against the exchange risk related to debt expressed in US dollars. As at March 31, 2006, Saputo's long-term debt was made up of the US senior notes only, which are at a fixed rate throughout their term.

Regulatory Considerations

The production and distribution of food products are subject to federal, state, provincial and local laws, rules, regulations and policies and to international trade agreements, all of which provide a framework for Saputo's operations. The impact of new laws and regulations, stricter enforcement or interpretations or changes to enacted laws and regulations will depend on our ability to adapt and comply. We are currently in compliance with all important government laws and regulations and maintain all important permits and licenses in connection with our operations.

Growth by Acquisitions

The Company intends to grow both organically and through acquisitions. Based on past experience, a significant portion of this growth will likely occur through acquisitions. The ability to properly evaluate the fair value of the businesses being acquired, to successfully integrate them into the Company's operations and realize the expected profit and returns are inherent risks related to acquisitions.

Tariff Protection

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 amendments to international trade agreements will not, at some point in the future, result in the removal of tariff protection in the dairy market, resulting in increased competition. Our performance will be dependent on our ability to continue to offer quality products at competitive prices.

CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer together with management, after evaluating the effectiveness of the Company's disclosure controls and procedures as of March 31, 2006, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

SENSITIVITY ANALYSES OF INTEREST RATE AND THE US CURRENCY FLUCTUATIONS

The portion of the long-term debt covered by fixed interest rates equals 100%. The used portion of the bank credit facility is subject to interest rate fluctuations, and was not being protected as of March 31, 2006. A 1% change in the interest rate would lead to a change in net earnings of approximately $0.301 million, based on the $41.5 million in bank loans outstanding as of March 31, 2006.

Canadian-US currency fluctuations may affect earnings. Appreciation of the Canadian dollar compared to the US dollar would have a negative impact on earnings. Conversely, a decrease in the Canadian dollar would have a positive impact on earnings. During the fiscal year ended March 31, 2006, the average US dollar conversion was based on CND$1.00 for US$0.84. A fluctuation of CND$0.01 would have resulted in a change of approximately $0.18 million in net earnings, $1.03 million in EBITDA and $16.62 million in revenues.

MEASUREMENT OF RESULTS NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company defines EBITDA as earnings before interest, income taxes, depreciation, amortization and devaluation. EBITDA is presented on a consistent basis from period to period.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of depreciation expense. We exclude depreciation expense because it largely depends on the accounting methods and assumptions a company uses, as well as on non-operating factors such as the historical cost of capital assets.

EBITDA is not a measurement of results that is defined in accordance with generally accepted accounting principles (GAAP) in Canada, nor is it intended to be regarded as an alternative to other financial operating performance measures. It is not intended to represent funds available for debt service, dividend payments, reinvestment or other discretionary uses, and should not be considered separately or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles in Canada. EBITDA is used by the Company because management believes it is a meaningful measure of performance. EBITDA is commonly used by the investment community to analyze the performance of companies in the industries in which the Company is active. The Company's definition of EBITDA may not be identical to similarly titled measures reported by other companies and consequently may not be comparable to similar measurements presented by other companies.

The most comparable Canadian GAAP financial measures is that of operating income. The tables below present the reconciliation of operating income to EBITDA on a consolidated basis.

Measurement of results not in accordance with generally accepted accounting principles

	2006				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada and Other	United States	Total	Products	Total
Operating income	227,447	48,419	275,866	20,738	296,604
Depreciation of fixed assets	34,146	29,881	64,027	5,334	69,361
EBITDA	261,593	78,300	339,893	26,072	365,965

	2005				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada and Other	United States	Total	Products	Total
Operating income	214,418	105,868	320,286	21,408	341,694
Depreciation of fixed assets	29,743	31,175	60,918	5,147	66,065
EBITDA	244,161	137,043	381,204	26,555	407,759

Jean-Chrisner Pierre-Louis, Packaging
ST. LEONARD, DAIRY PRODUCTS DIVISION (CANADA)

The 2005 and 2006 quarterly financial information has not been reviewed by an external auditor.

2006 Quarterly Financial Information – Consolidated Statement of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Fiscal 2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Statement of earnings data					
Revenues	$ 1,006,708	$ 1,030,785	$ 1,014,841	$ 969,876	$ 4,022,210
Cost of sales, selling and administration expenses	910,034	929,269	928,852	888,090	3,656,245
Earnings before interest, income taxes, depreciation, amortization and devaluation	96,674	101,516	85,989	81,786	365,965
Margin %	9.6%	9.8%	8.5%	8.4%	9.1%
Depreciation of fixed assets	17,904	17,659	17,412	16,386	69,361
Operating income	78,770	83,857	68,577	65,400	296,604
Devaluation of portfolio investment	-	-	-	10,000	10,000
Interest on long-term debt	6,344	6,158	5,953	6,019	24,474
Other interest	(1)	354	128	(1,125)	(644)
Earnings before income taxes	72,427	77,345	62,496	50,506	262,774
Income taxes	18,273	22,134	17,464	12,801	70,672
Net earnings	$ 54,154	$ 55,211	$ 45,032	$ 37,705	$ 192,102
Net margin %	5.4%	5.4%	4.4%	3.9%	4.8%
Per share					
Net earnings					
Basic	$ 0.52	$ 0.52	$ 0.43	$ 0.36	$ 1.83
Diluted	$ 0.51	$ 0.52	$ 0.43	$ 0.36	$ 1.82

2005 Quarterly Financial Information – Consolidated Statement of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Fiscal 2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Statement of earnings data					
Revenues	$ 1,018,900	$ 1,005,109	$ 942,235	$ 916,825	$ 3,883,069
Cost of sales, selling and administration expenses	911,882	904,209	845,711	813,508	3,475,310
Earnings before interest, income taxes, depreciation and amortization	107,018	100,900	96,524	103,317	407,759
Margin %	10.5%	10.0%	10.2%	11.3%	10.5%
Depreciation of fixed assets	17,043	16,689	16,138	16,195	66,065
Operating income	89,975	84,211	80,386	87,122	341,694
Interest on long-term debt	7,870	7,404	6,439	6,313	28,026
Other interest	467	426	170	1	1,064
Earnings before income taxes	81,638	76,381	73,777	80,808	312,604
Income taxes	23,348	20,513	15,507	21,091	80,459
Net earnings	$ 58,290	$ 55,868	$ 58,270	$ 59,717	$ 232,145
Net margin %	5.7%	5.6%	6.2%	6.5%	6.0%
Per share					
Net earnings					
Basic	$ 0.56	$ 0.54	$ 0.56	$ 0.57	$ 2.23
Diluted	$ 0.55	$ 0.53	$ 0.55	$ 0.57	$ 2.20

SUMMARY OF THE FOURTH QUARTER RESULTS ENDED MARCH 31, 2006

Revenues for the quarter ended March 31, 2006 amounted to $969.9 million, an increase of $53.1 million or 5.8% compared to the $916.8 million for the same quarter last fiscal year. The increase is attributed mostly to our Canadian and Other Dairy Products Sector, whose revenues increased by approximately $76 million compared to the corresponding period last fiscal year. Higher selling prices and sales volumes in all divisions within the sector, as well as the inclusion of Fromage Côté, acquired on April 18, 2005, were responsible for the revenue increase. Revenues from our US Dairy Products Sector decreased by approximately $27 million compared to the same quarter last fiscal year. The combination of a lower average block market per pound of cheese and the appreciation of the Canadian dollar reduced revenues by approximately $53 million. These negative factors offset increased revenues of approximately $26 million as a result of a 7.5% increase in sales volume compared to the same quarter last fiscal year. Revenues from our Grocery Products Sector increased by about $5 million compared to the same quarter last year, due mostly to new business generated by the Bakery Division.

Earnings before interest, income taxes, depreciation, amortization, and devaluation totalled $81.8 million for the quarter ended March 31, 2006, a decrease of $21.5 million from the quarter ended March 31, 2005. The decrease is mainly attributed to our US Dairy Products Sector, whose EBITDA decreased by approximately $18 million compared to the same quarter last fiscal year. The factors behind this decrease were a lower average block market per pound of cheese, a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material, the continued increase in energy costs, and rationalization costs of $2.5 million incurred in the fourth quarter of fiscal 2006 for the closure of our plant in Whitehall, Pennsylvania. EBITDA of our Canadian and Other Dairy Products Sector decreased by approximately $5 million in the fourth quarter of fiscal 2006 compared to the corresponding quarter last fiscal year. This decrease is due to rationalization costs of $1.0 million incurred in the fourth quarter of fiscal 2006 for the closure of our plant in Harrowsmith, Ontario, and the negative effects of changes in the export tax on our Argentinean operations. A decrease in our Canadian cheese production, consistent with the goal of reducing our inventory levels, also negatively affected our EBITDA in the fourth quarter of fiscal 2006. These factors offset additional EBITDA derived from improved operational efficiencies and the inclusion of Fromage Côté, acquired on April 18, 2005. Included in the EBITDA of fiscal 2005 for our Canadian and Other Dairy Products Sector was a gain on sale of assets held for sale in the amount of $2.6 million. The EBITDA of our Grocery Products Sector increased by approximately $1 million to $7.1 million for the fourth quarter of fiscal 2006 compared to the same quarter last fiscal year. The increase is due to better margins achieved on our existing sales, additional EBITDA generated by overall higher sales volume, and improved efficiencies in comparison to the corresponding quarter last year. These positive factors offset approximately $0.7 million of additional costs relating to the pension plan and approximately $1.3 million of increased marketing expenditures in comparison to the same quarter last fiscal year.

Depreciation expense increased by $0.2 million to $16.4 million in the fourth quarter of fiscal 2006 compared to the same quarter in fiscal 2005. Interest expense decreased to $4.9 million compared to $6.3 million for the corresponding period last year, as a result of long-term debt payment made in fiscal 2005 and interest revenue derived from excess cash on hand in the fourth quarter of fiscal 2006. The effective tax rate for the current quarter was 25.3% compared to 26.1% for the same quarter last year. For the quarter ended March 31, 2006, the Company recorded tax benefits resulting from tax losses available from our Argentinean operations of approximately $4 million. Offsetting this benefit was a tax charge of approximately $2 million to adjust future tax balances due to an increase in provincial tax rates. During the quarter, the Company added approximately $34 million in fixed assets and received proceeds of $2.5 million from the sale of some fixed assets. During the quarter, the Company wrote down its portfolio investment by $10.0 million following an evaluation of its fair value. The Company also reduced the portfolio investment during the current quarter by $1.0 million, the amount of dividends received from the investment. The Company issued shares for a cash consideration of $1.3 million as part of the Stock Option Plan, paid out $18.7 million in dividends to its shareholders, and purchased $8.2 million of share capital in accordance with the share purchase program through the normal course issuer bid. For the same period, the Company generated cash flows of $59.5 million, a decrease from the $71.0 million generated for the corresponding period last fiscal year, due essentially to the payment of income taxes of approximately $55 million. Net earnings amounted to $37.7 million for the quarter ended March 31, 2006, a decrease of $22.0 million compared to the same quarter last fiscal year.

QUARTERLY FINANCIAL INFORMATION

During fiscal 2006, certain specific circumstances affected the quarterly changes in revenues and earnings before interest, income taxes, depreciation and amortization compared to fiscal 2005.

Throughout all four quarters in fiscal 2006, the average block market per pound of cheese was lower compared to all four quarters in fiscal 2005. Likewise, the relationship between the average block market per pound of cheese and the cost of milk as raw material was unfavourable in all four quarters. The Canadian dollar was also stronger during all four quarters of fiscal 2006, eroding both revenues and EBITDA. The results of fiscal 2006 included the operations of Fromage Côté and Schneider Cheese, Inc. acquired during the first quarter of fiscal 2006. Our Argentinean activities were negatively affected by changes in the export tax during the last three quarters of the current fiscal year. Our Grocery Products Sector incurred additional pension costs of approximately $0.5 million per quarter in fiscal 2006 compared to fiscal 2005. The Bakery Division also incurred additional marketing expenditures in all four quarters compared to last fiscal year. Finally, the results of the fourth quarter of fiscal 2005 included a gain on the sale of assets held for sale in the amount of $2.6 million. All divisions were affected by increased energy, packaging, ingredient and labour costs throughout fiscal 2006. Quarterly earnings directly reflect the effects of the previously mentioned items.

In the fourth quarter of fiscal 2006, the Company wrote down the value of its portfolio investment by $10.0 million. In addition, a dividend of $1.0 million received during fiscal 2006 was accounted for as a reduction of the cost of the investment. These actions were deemed necessary following an evaluation of the fair value of the investment. The evaluation concluded that the fair value of the investment was below the carrying value on the balance sheet, indicative of a permanent impairment. The write-down had an after-tax effect of approximately $8 million.

ANALYSIS OF EARNINGS FOR THE YEAR ENDED MARCH 31, 2005 COMPARED TO MARCH 31, 2004

Saputo's **consolidated revenues** in fiscal 2005 totalled $3.883 billion, an increase of $313.0 million or 8.8% compared to $3.570 billion posted in fiscal 2004. The increase was attributed to our Dairy Products Division (Canada), as a result of increased sales volumes and higher selling prices, along with the inclusion of a full year of activity from our Dairy Products Division (Argentina) compared to only 18 weeks in fiscal 2004. These two factors contributed approximately $254 million of additional revenues in fiscal 2005. Our US Dairy Products Sector benefited in fiscal 2005 from a US$0.28 higher average block market per pound of cheese, increasing revenues by approximately $148 million compared to fiscal 2004. However, the appreciation of the Canadian dollar in fiscal 2005 eroded about $70 million in revenues. Furthermore, a 3% decrease in sales volumes in our US Dairy Products Sector negatively affected revenues in fiscal 2005. The Grocery Products Sector revenues for fiscal 2005 were approximately $9 million or 5.1% lower compared to fiscal 2004.

Consolidated earnings before interest, income taxes, depreciation and amortization (EBITDA) in fiscal 2005 amounted to $407.8 million, an increase of $4.5 million compared to $403.3 million fiscal 2004. The increase was attributed to our Canadian and Other Dairy Products Sector. Increased sales volumes in fiscal 2005 and the benefit of the rationalization activities undertaken in fiscal 2004 from our Dairy Products Division (Canada), combined with the benefit from a full year of results from our Dairy Products Division (Argentina), contributed approximately $34 million in additional EBITDA. Our US Dairy Products Sector EBITDA decreased by approximately $24 million in fiscal 2005 compared to fiscal 2004. The overall average block market per pound of cheese of US$1.67 in fiscal 2005 was higher compared to US$1.39 in fiscal 2004. This benefited EBITDA in fiscal 2005 by providing a better basis of absorption for our fixed costs, while a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material was observed in fiscal 2005 compared to fiscal 2004. With regards to inventories, we started fiscal 2005 with a block market per pound of cheese at US$2.09 and ended the year at US$1.62, causing an unfavourable impact on the realization of inventories. These combined factors had a negative impact in fiscal 2005 of $29.7 million on EBITDA. The appreciation of the Canadian dollar also eroded approximately $8 million of EBITDA in fiscal 2005. These factors offset an increase of approximately $12 million in our US Dairy Products Sector's EBITDA for fiscal 2005 generated by continued improvements in our manufacturing processes, price increases implemented on fixed-price items and better product mix within the retail segment. EBITDA for our Grocery Products Sector decreased by $5.9 million in fiscal 2005 caused by the reduced revenues, additional pension charges as well as increased ingredient and labour costs.

Patrick Bilodeau, Moulding
ST-RAYMOND,
DAIRY PRODUCTS DIVISION (CANADA)

Cindy Pecha, String Cheese Manufacturing
LENA, CHEESE DIVISION (USA)

The EBITDA margin decreased from 11.3% in fiscal 2004 to 10.5% in fiscal 2005, mainly as a result of reduced margins in our US Dairy Products Sector. The US Dairy Products Sector was affected negatively in terms of the relationship between the average block market per pound of cheese and the cost of milk as raw material, which decreased by US$0.063 per pound of cheese in fiscal 2005 compared to fiscal 2004.

Depreciation expense in fiscal 2005 totalled $66.1 million, stable compared to $66.0 million for fiscal 2004. The increase attributed to the inclusion of a full year depreciation from our Argentinean operations in fiscal 2005 was offset by a decrease in our Cheese Division (USA) depreciation caused by the appreciation of the Canadian dollar in fiscal 2005 compared to fiscal 2004.

Net interest expense decreased to $29.1 million in fiscal 2005 from $36.0 million in fiscal 2004. The reduction is attributed to the decrease in interest on long-term debt following repayments made. The appreciation of the Canadian dollar in fiscal 2005 also reduced the interest expense on our US dollar debt.

Income taxes totalled $80.5 million in fiscal 2005 for an effective tax rate of 25.7% compared to 29.5% in fiscal 2004. The following two factors explain the change in the effective tax rate. Firstly, a greater portion of our taxable earnings in fiscal 2005 was generated in Canada, which is subject to lower tax rates than the United States. Secondly, the Company benefited in fiscal 2005 from a one-time tax reduction to adjust future tax balances, due to a reduction in US tax rates, thus reducing income taxes by $3.5 million.

For the year ended March 31, 2005, **net earnings** amounted to $232.1 million, a 9.3% increase over $212.4 million in fiscal 2004. The appreciation of the Canadian dollar eroded net earnings in fiscal 2005 by approximately $3 million, while the one-time tax adjustment added $3.5 million to net earnings. Excluding these two factors, net earnings in fiscal 2005 would have risen by 9% compared to fiscal 2004.

Ramón Garcia, Quality Assurance
TIO PUJIO, DAIRY PRODUCTS DIVISION (ARGENTINA)

OUTLOOK[6]

As we enter fiscal 2007, our vision and outlook for growth are aligned. We are confident that the Company is very well positioned to pursue its development. Each of our divisions has set precise objectives specific to their own markets and is committed to deploying every effort necessary to reach them.

Our main objectives remain to create value and become a world-class dairy processor. To reach these goals, we will focus on growth by acquisitions, the improvement of our operational efficiency and on innovation.

In the past years, we have made several acquisitions, large and small, all of which had an important impact on our development. During the current fiscal year, we completed two acquisitions, one in Canada and one in the United States. By making an acquisition in Germany in April 2006, we established an initial presence outside of the Americas which will enable us to complement our current activities and enable us to pursue our international expansion. Without a doubt, our growth will be fuelled by further acquisitions. We will continue to be proactive and devote every effort to find the right opportunities.

Aside from acquisitions, we believe in increasing net earnings by constantly improving the way we operate. We will thus continue to outdo ourselves by seeking even greater operational efficiency and by pursuing innovation. Organic growth is absolutely essential since it enables us to focus on the controllable aspects of our production and thus mitigate the impacts of adverse market conditions.

Our outlook for fiscal 2007 is very positive. Obviously, as is always the case, there are some circumstances over which we have no control and that could have an impact on our results. However, we are convinced that the Company is well positioned to foil adverse market conditions and continue its growth. We are focused on returning to past profitability levels.

Our financial position remains excellent and provides us with considerable flexibility to ensure our future development. Our balance sheet is sound with $2.254 billion in assets and an interest bearing debt ratio at 0.17 of shareholder's equity. Current contractual commitments on bank loans and the US senior notes would enable us, if new debts were contracted, to add almost $1.5 billion in additional debt for acquisitions.

[6] Reference is made to section entitled "Caution regarding forward-looking statements".