A Whole World to Discover

Saputo

2007 ANNUAL REPORT

OUR PRODUCTION FACILITIES ARE LOCATED IN FIVE COUNTRIES AND SPAN THREE CONTINENTS. OUR PRODUCTS ARE DISTRIBUTED IN OVER THIRTY COUNTRIES, ON SIX CONTINENTS.

A universe of possibilities

Photo cover: Yvon Charrier, ST-LÉONARD, DAIRY PRODUCTS DIVISION (CANADA) and Nicholas Sirignano, son of Carmela De Blasio, HEAD OFFICE.

COMPANY PROFILE

Saputo… a whole world to discover.

With its distinctive array of products and its commitment to growth, Saputo continues to explore and seize new opportunities while maintaining the best of tradition. Through product innovations, global expansion and unwavering employee dedication, Saputo produces, markets and distributes products of the highest quality.

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. Success stems from the passion and expertise of the 9,000 men and women who work in its numerous locations worldwide.

Well-known brands such as *Saputo, Alexis de Portneuf, Armstrong, Baxter, Dairyland, Danscorella, De Lucia, Dragone, DuVillage de Warwick, Frigo, Kingsey, La Paulina, Nutrilait, Princesse, Ricrem, Sir Laurier d'Arthabaska, Stella, Treasure Cave, HOP&GO!, Rondeau* and *Vachon* have earned the trust of consumers in over thirty countries. Saputo Inc. is a public company whose shares are traded on the Toronto Stock Exchange under the symbol SAP.

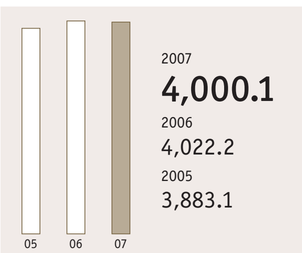
HIGHLIGHTS

Fiscal years ended March 31 (in thousands of dollars, except per share amounts and ratios)	2007	2006	2005
Revenues			
Dairy Products Sector			
Canada and Other	$ 2,794,099	$ 2,651,402	$ 2,415,541
United States	1,036,830	1,206,601	1,308,735
	3,830,929	3,858,003	3,724,276
Grocery Products Sector	170,051	164,207	158,793
	$ 4,000,980	$ 4,022,210	$ 3,883,069
Earnings before interest, income taxes, depreciation, amortization and devaluation (EBITDA)[1]			
Dairy Products Sector			
Canada and Other	$ 317,086	$ 261,593	$ 244,161
United States	82,890	78,300	137,043
	399,976	339,893	381,204
Grocery Products Sector	26,356	26,072	26,555
	$ 426,332	$ 365,965	$ 407,759
Net earnings	$ 238,467	$ 192,102	$ 232,145
Cash flows generated by operations	$ 343,501	$ 299,567	$ 268,676
Working capital	$ 521,114	$ 423,623	$ 452,635
Total assets	$ 2,488,367	$ 2,253,933	$ 2,133,072
Long-term debt (including current portion)	$ 254,033	$ 291,846	$ 302,521
Shareholders' equity	$ 1,533,018	$ 1,402,543	$ 1,315,850
Per share			
Net earnings			
Basic	$ 2.30	$ 1.83	$ 2.23
Diluted	$ 2.28	$ 1.82	$ 2.20
Dividends declared[2]	$ 0.80	$ 0.72	$ 0.60
Book value	$ 14.79	$ 13.47	$ 12.59
Financial ratios			
Interest bearing debt[3]/Shareholders' equity	0.08	0.17	0.21
Return on average shareholders' equity	16.2 %	14.1 %	18.8 %

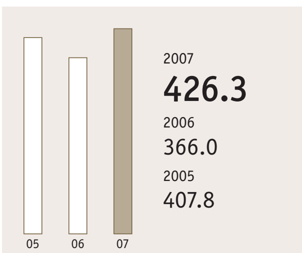
[1] **Measurement of results not in accordance with Generally Accepted Accounting Principles.**
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation, amortization and devaluation of portfolio investment. EBITDA is not a measurement 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 the section entitled "Measurement of results not in accordance with Generally Accepted Accounting Principles".

[2] For the purpose of the Income Tax Act and other similar provincial legislation, all dividends paid as of January 1, 2007 and thereafter, are eligible dividends until further notice.

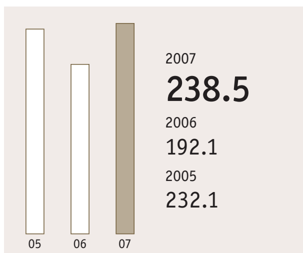
[3] Net of cash and cash equivalents.



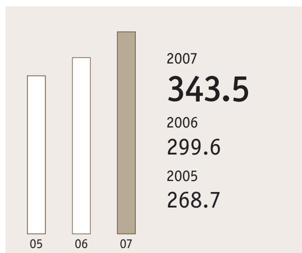
REVENUES
(in millions of dollars)



EBITDA
(in millions of dollars)



NET EARNINGS
(in millions of dollars)



CASH FLOWS GENERATED BY OPERATIONS
(in millions of dollars)

Innovation allows us
to discover new horizons

MESSAGE FROM THE CHAIRMAN OF THE BOARD

AS I REFLECT ON OUR PAST, I DEEPLY BELIEVE OUR STORY IS ONE OF GROWTH AND SUCCESS. TOGETHER, WE HAVE ALWAYS WORKED HARD TO FIND WAYS TO OVERCOME DIFFICULTIES AND RISE ABOVE CHALLENGES, WHILE PURSUING OUR EXPANSION.

Our values, which stand at the heart of our Company, allow us to deliver quality products and services to our customers. This commitment is strengthened every day, as dedicated employees challenge themselves to uncover innovative ideas and solutions that create new and better ways of doing business. As leaders in our industry, we support them by providing a work environment that encourages and rewards entrepreneurship and individual initiative. Our culture not only allows us to distinguish ourselves within the industry, but also creates additional value for our shareholders.

I am very proud to say that our values are as strong today as they were at the founding of our company and I believe they will continue to serve as a solid foundation in the years to come.

GOVERNANCE

As Chairman of the Board of Directors, it is my pleasure to report on the Board's main activities.

The key responsibility of the Board of Directors is to oversee the stewardship of the Company's affairs so as to secure long-term growth and increase share value. Our mandate focuses on management accountability and contribution to wealth creation. Saputo Inc. is committed to sound corporate governance and the Board of Directors and its committees fulfilled their duties and mandates in the course of the past fiscal year.

Per row, from left to right:

ANDRÉ BÉRARD
Corporate Director

LUCIEN BOUCHARD
Senior Partner, Davies Ward Phillips & Vineberg LLP

PIERRE BOURGIE
President and Chief Executive Officer, Société Financière Bourgie Inc.

FRANK A. DOTTORI
President,
Fadco Consulting Inc.

JEAN GAULIN
Corporate Director

CATERINA MONTICCIOLO, CA
President,
Julvest Capital Inc.

LINO SAPUTO, JR.
President and Chief Executive Officer, Saputo Inc.

PATRICIA SAPUTO, CA, ICD.D
Chief Financial Officer,
Placements Italcan Inc.

LOUIS A. TANGUAY
Corporate Director

The Board believes that the value of the equity stake held by the principal shareholder ensures that his interests are aligned with those of all shareholders. The positions of Chairman of the Board and Chief Executive Officer are separate and the Board also has an independent lead director. The Board is composed of a majority of independent directors and both committees—the Corporate Governance and Human Resources committee and the Audit committee—are composed solely of independent directors.

The Board is satisfied with the corporate governance practices currently in place and believes to be effective in offering the necessary supervision to increase shareholder value and contribute to the effective management of the Company. Please refer to the Information Circular, dated June 5, 2007, for additional information concerning the Company's corporate governance practices.

ACKNOWLEDGEMENTS

Our results this year reflect the commitment and talent of the many employees who make up the large Saputo corporate family.

Our Board of Directors has served us with great distinction over the years. They have both supported and challenged us as we faced important decisions. We are fortunate to have the benefit of their advice and value their insight, dedication and counsel.

Clients, consumers and business partners around the world continue to entrust us with their business, and we consistently return this trust by providing the best of ourselves.

Finally, I want to express my gratitude to our employees around the world. They are the living embodiment of the values which define our Company. Their dedication and hard work makes us successful and, for this reason, we can confidently look to the future.

LINO SAPUTO
Chairman of the Board

Success stems from employee initiatives

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

OUR STRONG OPERATING RESULTS FOR FISCAL 2007 CLEARLY REFLECT THE SUSTAINED EFFORTS OF OUR DEDICATED EMPLOYEES AROUND THE WORLD WHOSE ACCOMPLISHMENTS HAVE MADE THIS SUCCESS POSSIBLE. THANKS TO THEIR CONTINUING FOCUS ON IMPROVING OPERATIONAL EFFICIENCY, WE WERE ABLE TO INCREASE OUR PROFITABILITY MARGINS AND BECOME A STRONGER COMPANY.

Total revenues for the fiscal year ended March 31, 2007 reached $4,001 billion, down by 0.5% compared to last fiscal year. Net earnings totalled $238.5 million, compared to $192.1 million for the preceding fiscal year, up 24.2%.

In fiscal 2006, our results were negatively impacted by challenging conditions in the dairy market, particularly in the United States. In traditional Saputo fashion, we worked to overcome these challenges in fiscal 2007. Once again, this proves that the values that have been a part of our Company since its founding have transcended time despite growth and expansion. We are confident that they will continue to be at the heart of our business in the years ahead.

Faced with challenges from a dynamic and difficult market, our employees were asked to roll up their sleeves, think creatively and improve our operating efficiencies. They responded magnificently! Today, we are a more efficient and profitable company because they took ownership of their responsibilities and moved us forward on many fronts. Much more than just accepting change, they embraced it as an essential and ongoing element of our business.

While we are satisfied with our results and the sustained evolution of the Company, we are confident that our future holds great potential. To meet our objectives and grow as a global organization in this dynamic market, we must continue to move our Company forward. We are pleased with our success for fiscal 2007 and are ready to seize new opportunities.

AN INCREASED EFFICIENCY

An essential element of our operating strategy is to increase efficiency through optimization. A meticulous analysis of our business identified a number of ways to improve our processes and we acted to make the most of these opportunities.

We are pleased with the savings derived from the merger of our two former Canadian milk and cheese divisions. The increased efficiencies and rationalization of activities were beneficial in our logistics and warehousing operations. Our measures to counteract uncontrollable and adverse market conditions in the US produced positive results. Optimization activities, price increases and reduction of milk handling costs in the US enabled us to improve our profitability, thereby mitigating the impacts of a volatile US dairy industry.

Across our divisions, these results were achieved using an operating approach that never takes anything for granted. Through questioning we change, through change we improve.

A PATH TOWARDS GROWTH

Through several acquisitions, we reinforced our commitment to growth. We entered the European market for the first time at the beginning of fiscal 2007 when we acquired the activities of Spezialitäten-Käserei De Lucia GmbH, a specialty Italian cheese manufacturer located in Germany. We continued our growth within the European market in March 2007, with the acquisition of the activities of Dansco Dairy Products Limited, a mozzarella manufacturer based in the United Kingdom. In April 2007, we acquired the activities of Land O'Lakes West Coast industrial cheese business, which will allow our Cheese Division (USA) to grow considerably. We also expanded the product portfolio of our Bakery Division through the acquisition of the activities of Biscuits Rondeau Inc. and Boulangerie Rondeau Inc. in July 2006.

Our growth in the dairy market is fuelled by innovation and the introduction of products that cater to consumers' dynamic needs. Our strategy is to build on this momentum and capitalize on new trends such as value-added products and single-served flavoured milk.

The specialty cheese market has evolved considerably over the past several years. We have modified our product offerings and adapted our sales and marketing approach to ensure growth in this category. Through targeted initiatives, we increased our sales volumes in selected product categories even in markets characterized by slow growth.

In the Bakery Division, we are also focusing on innovation. Our research and development team is working hard to find new and innovative ways to improve our products and respond to our consumer buying preferences while reducing production costs.

In Argentina, our capital investments have been completed and we are benefiting from our increased capacity and improved flexibility, which allow us to seize opportunities in the domestic and international markets.

A WHOLE WORLD TO DISCOVER

On a global scale, the dairy industry is changing both rapidly and profoundly. We must continually adapt ourselves to new dynamics, just as we did successfully in the past fiscal year.

Through research and development, we are committed to sustained innovation in an effort to offer consumers the highest quality products and meet the emerging needs of the market. In an industry where consolidation is expected, we have the financial strength, management talent, employee commitment and customer loyalty to succeed.

ACROSS OUR DIVISIONS, THESE RESULTS WERE ACHIEVED USING AN OPERATING APPROACH THAT NEVER TAKES ANYTHING FOR GRANTED. THROUGH QUESTIONING WE CHANGE, THROUGH CHANGE WE IMPROVE.

We will pursue our growth without losing touch with the values that have brought us to this point. In fact, one of the reasons we have successfully managed global growth, innovation and market challenges is the quality of our employees, who are the living embodiment of our values. They remain the cornerstone of our business.

In the future we will strive to succeed as we did this year through innovation, a sharp focus on improved efficiency and an unwavering commitment to the delivery of quality products to our customers. We will continue to craft ourselves to remain a captivating world to discover.

LINO SAPUTO, Jr.
President and Chief Executive Officer

THE FOCUS OF THE SENIOR MANAGEMENT TEAM ALLOWED OUR COMPANY TO ACHIEVE IMPROVED OPERATING EFFICIENCIES AND PROFITABILITY.

CORPORATE MANAGEMENT

From left to right:

CARMINE DE SOMMA
President and Chief Operating Officer, Dairy Products Division (Argentina)

DINO DELLO SBARBA
President and Chief Operating Officer, Dairy Products Division (Canada)

PIERRE LEROUX
Executive Vice President, Human Resources and Corporate Affairs

TERRY BROCKMAN
President and Chief Operating Officer, Cheese Division (USA)

LOUIS-PHILIPPE CARRIÈRE
Executive Vice President, Finance and Administration

LINO SAPUTO, JR.
President and Chief Executive Officer

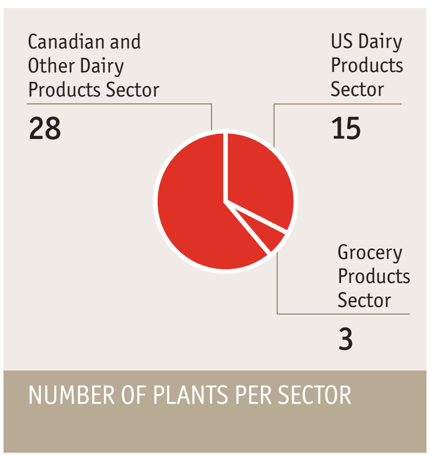
CLAUDE PINARD
President and Chief Operating Officer, Bakery Division

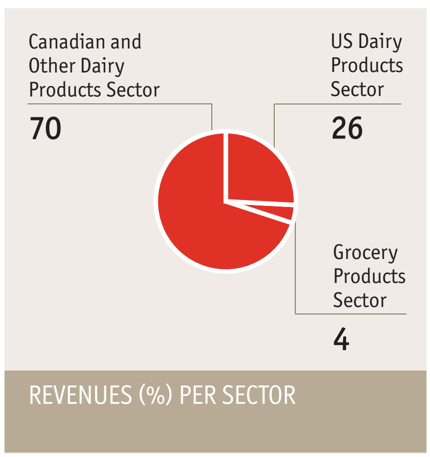
Angela Faedda, HEAD OFFICE *and Elizabeth Calero,* CALGARY, DAIRY PRODUCTS DIVISION (CANADA)

Saputo, a whole world to discover

OPERATING REVIEW

DEDICATED TO ALWAYS DELIVERING THE HIGHEST QUALITY PRODUCTS AND SERVICES WHILE CONSTANTLY REVIEWING OUR OPERATIONS TO REMAIN A LOW-COST AND EFFICIENT OPERATOR, SAPUTO IS A WHOLE WORLD TO DISCOVER.





Gabriel Morin, ST-LÉONARD, DAIRY PRODUCTS DIVISION (CANADA)

David James, NEW EMLYN, DAIRY PRODUCTS DIVISION (UNITED KINGDOM)

A variety of products to explore

SAPUTO'S OPERATIONS ARE DIVIDED INTO TWO SECTORS: DAIRY PRODUCTS AND GROCERY PRODUCTS. THERE ARE SIX DIVISIONS WITHIN THESE TWO SECTORS: DAIRY PRODUCTS DIVISION (CANADA), DAIRY PRODUCTS DIVISION (ARGENTINA), DAIRY PRODUCTS DIVISION (GERMANY), DAIRY PRODUCTS DIVISION (UNITED KINGDOM), CHEESE DIVISION (USA) AND BAKERY DIVISION.

With production facilities in five countries, located on three continents, our products are distributed in more than 30 countries, spanning six continents. Saputo's products are sold in three major food market segments: retail, foodservice and industrial.

We remain committed to offering products of the highest quality and pursuing our growth on a global basis, fuelled both by product innovation, to capture additional market share, and by acquisitions.

This year, we introduced several new products. We also focused our efforts on finding innovative ways of doing business while promoting our products, allowing us to increase our market share in many categories, often surpassing average category growth.

Our acquisition in the first quarter of the fiscal year of the activities of Italian specialty cheese maker Spezialitäten-Käserei De Lucia GmbH in Germany provided us with our first presence in Europe. Also on the European front, in March 2007, we acquired the activities of Dansco Dairy Products Limited in Wales, United Kingdom (UK). These acquisitions will allow us to gain important insight into the European market and will serve as a platform for further European development.

In the United States (US), our acquisition of the activities of the Land O'Lakes West Coast industrial cheese business, in April 2007, will significantly grow our US activities.

In fiscal 2007, Saputo processed over 4 billion liters of raw milk and produced approximately 400 million kilograms of cheese and, with the recent acquisitions, should process annually over 5 billion liters of raw milk and should produce approximately 500 million kilograms of cheese.

During fiscal 2007, we also acquired the activities of Biscuits Rondeau Inc. and Boulangerie Rondeau Inc. (Rondeau), which allowed us to diversify our variety of bakery products.

Brenda McConnery, SASKATOON, DAIRY PRODUCTS DIVISION (CANADA)

Steve Langevin, ST-RAYMOND, DAIRY PRODUCTS DIVISION (CANADA)

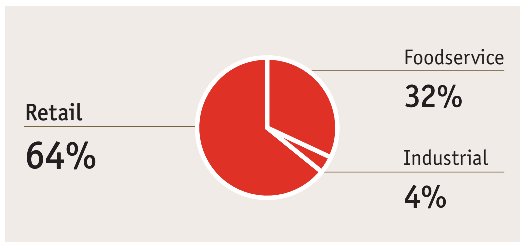
CANADIAN AND OTHER DAIRY PRODUCTS SECTOR

The Canadian and Other Dairy Products Sector is comprised of the Dairy Products Division (Canada), the Dairy Products Division (Argentina), the Dairy Products Division (Germany) and the Dairy Products Division (United Kingdom).

DAIRY PRODUCTS DIVISION (CANADA)

As the country's largest milk processor, our Dairy Products Division (Canada) produces approximately 37% of the natural cheese and processes approximately 22% of all fluid milk in Canada.

Our financial results depend on sustained operational and marketing efficiencies achieved through innovative product development. During fiscal 2007, we completed the closure of our cheese production plants in Harrowsmith, Ontario and Vancouver, British Columbia. Furthermore, in response to a competitive market, we decided to consolidate our cutting, shredding and wrapping activities to create more productive units. This led us to announce the closure of our Boucherville, Québec facility effective June 2, 2007.



REVENUES (%) PER MARKET SEGMENT
DAIRY PRODUCTS DIVISION (CANADA)

OPERATING IMPROVEMENTS AND OTHER SIMILAR INITIATIVES CONTINUOUSLY PRODUCE A MORE EFFICIENT AND COST EFFECTIVE OPERATING BASE FOR OUR CANADIAN DAIRY OPERATIONS.

In addition to these consolidation programs, we closely monitored our key processing activities, seeking ways to optimize operations, while maintaining a clear focus on making products of the highest quality. We achieved valuable cost savings by reducing product and packaging waste.

Selective capital investments also had a major impact on productivity. Fixed asset investments in our Plessisville, Québec plant allowed this facility to become one of the largest specialized cheese curd plants in Canada. Meanwhile, we completed investments in our Warwick, Québec facility to consolidate specialty cheese production activities serving the fast growing specialty cheese market segment. We continued the automation of the packaging line equipment in several of our cheese plants. For fiscal 2008, we announced a $10 million capital investment in automation initiatives in our cutting plants, which will lead to a significant increase in efficiency.

Our capital investments and rationalization activities of prior years in our fluid milk facilities have delivered strong results, generating a positive impact on earnings. These results motivate us to continue to identify opportunities and improve our efficiencies.

We also combined several transportation lines to optimize efficiency as well as some distribution centres serving fluid and cheese activities. We focused on improving transportation logistics to further reduce operating costs and mitigate the impact of rising fuel and energy costs.

These operating improvements and other similar initiatives continuously produce a more efficient and cost effective operating base for our Canadian dairy operations.

During fiscal 2007, national brands were very aggressive, especially in the retail cheese segment. As a milk processor also producing private brands, our production and sales volumes were negatively impacted.

Created in 2005, our Specialty Cheese Group continued its excellent performance as it recorded approximately a 5% sales increase in 2007. Through a targeted marketing strategy, we strengthened our position with the *Alexis de Portneuf* brand. The Group also seized other opportunities in connection with fast growing niches within this market. For example, we introduced the first cow milk soft cheese coated with edible vegetable ashes in Canada: the *Cendré de Lune DuVillage de Warwick*, which quickly became very popular with consumers.

Our specialty cheeses were awarded several prestigious prizes this year. Among others, *Bleubry Alexis de Portneuf* was named Grand Champion both at the Royal Agricultural Winter Fair, one of the world's largest food fairs, and at the British Empire Cheese Show presented by the Central Ontario Cheesemaker Association.

Even though the branded cheddar category is experiencing slight negative growth, we increased our sales volumes by 19%[1], thanks in large part to the strong performance of our *Armstrong* brand. Given our volume growth, we launched a new line of organic cheddars, as well as low-calorie cheese sticks.

Our commitment to innovation allows us to move quickly to respond to changes in consumer buying preferences and tastes. The strong growth in the sliced cheese segment led us to launch three new *Saputo* products, including the first sliced goat cheese. *Milk 2 Go/Lait's Go*, our flavoured milk brand, became number one in the single-serve plastic beverage[2] category and we will continue to introduce new flavours for this popular product. Changing consumer health trends created the right opportunity to introduce *Shape*, a *Dairyland* fat free yogurt containing just a few calories per serving.

Our research and development teams were at the forefront of these initiatives to create new products that meet or exceed consumer expectations while concurrently developing new technologies to improve production.

[1] Source: ACNielsen, 3 channels combined, kg, 52 weeks ending March 17, 2007.
[2] Source: ACNielsen, Brand Overview, Total Single Serve Milk, Milk Shakes, 500mL or under, Plastic Bottle (Control Label Excluded), 52 weeks ending September 2, 2006.

Hani Kacho, HEIDEN, DAIRY PRODUCTS DIVISION (GERMANY)

Basacco Hernan Roque, TIO PUJIO, DAIRY PRODUCTS DIVISION (ARGENTINA)

A future filled with discoveries

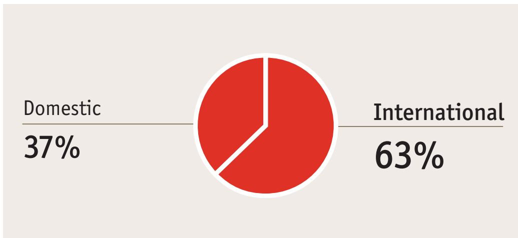
DAIRY PRODUCTS DIVISION (ARGENTINA)

Our Dairy Products Division (Argentina) is growing steadily and continues to be the third largest milk processor in this country. Each day we process nearly 2 million liters of raw milk, representing approximately 7% of milk processed in Argentina.

We completed a capital investment program in Argentina that allowed us to double our production since fiscal 2005. This increased capacity has provided greater flexibility to seize opportunities in domestic and foreign markets as well as contributing to higher operating efficiency.

We have seen increases in our international sales and expect this trend to continue. Today, some 63% of our Argentinean production is exported to numerous countries around the world. We plan to open a sales office for our international sales department in China in fiscal 2008, which should provide substantial growth opportunities in this country and other parts of Asia.

Meanwhile, we continued to show an increase in our *La Paulina* domestic sales relating to our cheese products in fiscal 2007.



REVENUES (%) PER GEOGRAPHIC SEGMENT
DAIRY PRODUCTS DIVISION (ARGENTINA)

A major contributor to this success was the renewal of our *La Paulina* packaging and the launch of a marketing campaign to enhance the brand's positioning and sales in the local market. This promotional initiative included television as well as print advertisements presenting various serving suggestions and meals made with *La Paulina* cheese.

Our products won a number of prizes at the National Cheese Competition held in conjunction with the MercoLáctea 2006 exposition in San Francisco, Cordoba, Argentina. Our Goya cheese won first prize in its category while the Reggianito, mozzarella and Pategras cheeses also won prizes in their respective categories.

DAIRY PRODUCTS DIVISION (GERMANY)

Our Dairy Products Division (Germany) processes over 200,000 liters of milk each day and serves customers mainly in the retail and industrial segments of the market. This division was created in April 2006 following the acquisition of the activities of Spezialitäten-Käserei De Lucia GmbH, a German manufacturer of Italian specialty cheeses such as mozzarella, ricotta and mascarpone.

Our operating results have been in line with our expectations and the integration of this division into the Saputo corporate structure has progressed positively. We have recently increased our sales force and are introducing new products as part of our strategy to grow our presence in the European market.

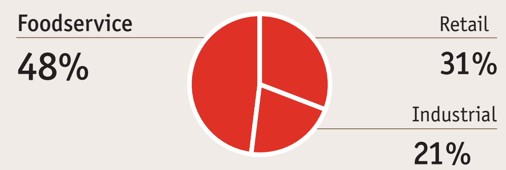
We are also in the process of implementing some technologies used by our German division throughout the Company, a strategy that underscores the value of pooling the global expertise of our cheese craftsmen and women.

DAIRY PRODUCTS DIVISION (UNITED KINGDOM)

The Dairy Products Division (United Kingdom) was created following the acquisition of the activities of Dansco Dairy Products Limited on March 23, 2007. It employs approximately 130 people at its manufacturing facility located in Newcastle Emlyn, Wales.

Through our UK operations, we produce and market mainly mozzarella for the foodservice segment.

THE UNITED STATES IS AN IMPORTANT MARKET AND A KEY ELEMENT OF OUR GLOBAL STRATEGY. DESPITE ALL ITS CHALLENGES, WE REMAIN COMMITTED TO GROWING THIS SECTOR OF OUR BUSINESS.



VOLUME (%) PER MARKET SEGMENT
DAIRY PRODUCTS DIVISION (USA)

US DAIRY PRODUCTS SECTOR

CHEESE DIVISION (USA)

Saputo is one of the five largest cheese manufacturers in the US, producing approximately 5% of all natural cheese manufactured in this country. The recent acquisition of the West Coast industrial cheese activities of Land O'Lakes, on April 2, 2007, will further increase our presence and strengthen our operational base in the challenging US market.

Market conditions in the US dairy industry remain a serious concern, particularly the record breaking high whey prices which have significantly increased the cost of milk as raw material in the manufacturing of cheese. Although there was some improvement during the second half of fiscal 2007, these high input costs remain a challenging issue for us and all dairy processors in the US.

To mitigate the impact of these difficult market conditions, we maintained our strong focus on achieving cost savings within our operations. Among the steps was the closure of our cheese manufacturing plant in Peru, Indiana.

We also completed capital investments in our Hinesburg, Vermont and Tulare, California plants. These investments increased our shredding capacity at both locations allowing us to consolidate our operations and achieve greater efficiency. These rationalization and process improvement initiatives, as well as many others, have produced significant cost reductions and helped the division return to more satisfactory levels of profitability.

Our cheeses are well established as favourites of American consumers. We maintain the number one position for our Blue Cheese, *Treasure Cave*, and String Cheese *Frigo Cheese Heads* brands[3]. We are proud that our mozzarella part skim, string cheese, blue veined cheese and gorgonzola cheese products were recognized for their excellence at the US Championship Cheese Contest this year.

[3] Source: Information Resources, Inc. (IRI), 52 weeks ending March 25, 2007, Total US FDMN.

Keith Westphal, REEDSBURG, CHEESE DIVISION (USA)

A growing and innovative product universe

As is the case in other sectors, marketing initiatives focusing on our key brands play an important role in building sales and market share. Our *Lorraine, Frigo Cheese Heads, Frigo, Dragone* and *Stella* brands in particular were featured in several promotional campaigns.

Building our US business also depends on strengthening our relationships with industry partners. Through our new foodservice website, our customers now have access to more information about our full line of products destined to the foodservice and industrial segments.

The US is an important market and a key element of our global strategy. Despite all its challenges, we remain committed to growing this sector of our business.

GROCERY PRODUCTS SECTOR

BAKERY DIVISION

Saputo has established an enviable reputation as Canada's largest snack-cake manufacturer and the Quebec market leader in cereal bars.

In July 2006, we acquired the activities of Rondeau. This acquisition was strategically important because it allowed us to diversify the variety of bakery products which we offer and also provided an entry into the in-store bakery segment. In the course of the integration of those activities, we announced in March 2007 the closure of our Laval, Québec plant effective June 2007. The production will be transferred to our Ste-Marie, Québec facility and will allow us to optimize our operations and reduce production costs. We also integrated research and development as well as administration functions into the Saputo structure.

Stéphane Roy, STE-MARIE, BAKERY DIVISION

Claude Tardif, STE-MARIE, BAKERY DIVISION

PRODUCT INNOVATION CONTINUES TO BE AN IMPORTANT ELEMENT OF OUR STRATEGY IN THE BAKERY DIVISION

Our focus since the acquisition has been on growing Rondeau sales by increasing our penetration in markets where they have historically been less well known, especially Ontario and the Atlantic provinces.

We are pleased of our employees' excellent work over the course of the fiscal year that helped us to improve our products, reduce costs and optimize production processes. Similarly, our employees introduced improvements that directly enhanced customer service and inventory management. This has laid the foundation for changes we are currently making to improve both the efficiency and performance of our distribution network.

Product innovation continues to be an important element of our strategy in the Bakery Division, particularly as we launch new products that respond to changing customer preferences. We introduced a new muffin, *Igor* by *Vachon*, made of 100% whole grain with added nutritional elements and sold in portion sizes suited to young children. We also reformulated a variety of our *Vachon* products to reduce or eliminate trans fats, a change well received by our customers.

Our sales results for the year were very satisfactory, generally growing at a rate greater than that of the category. This was the case as well for products such as *HOP&GO!* which maintained its sales volumes even with lower promotional support than in previous years.

From left to right: Bridget Mooney, CALGARY, *Donald Goulet,* ST-LAURENT, *Emmanuel Costa and Annie Vincelette-Amyot,* ST-LÉONARD, DAIRY PRODUCTS DIVISION (CANADA)

A whole world worth sharing

SOCIAL RESPONSIBILITY

SINCE THE COMPANY'S HUMBLE BEGINNINGS, SAPUTO VALUES HAVE BEEN FOCUSED ON THE WELL-BEING OF PEOPLE AND COMMUNITIES, AS WELL AS ON ENVIRONMENTAL PROTECTION. AS A GLOBAL ORGANIZATION WHOSE PRODUCTS PROVIDE HEALTHY LIFESTYLE TO MILLIONS OF PEOPLE EVERY DAY, OUR VALUES REMAIN INTACT.

At Saputo, we are committed to meeting our social, economic and environmental responsibilities while contributing to society. These responsibilities begin with each and every employee within our organization and extend outward to our customers, suppliers, business partners and communities at large. We believe it is particularly important to support our youth, whose development, health and values will shape the future.

Meeting our social responsibilities is an important objective at Saputo and it involves employees at every level of the Company. As an organization, we feel we can make a difference in our society.

BEGINNING WITH OUR EMPLOYEES...

We strongly believe that our greatest asset is our workforce. Today, over 9,000 employees are proud to say that they are part of Saputo and we, in turn, are very proud of them.

Relationships among Saputo employees are based on mutual respect. We therefore have a responsibility to provide a workplace environment which is open to new ideas, stimulates creativity and fosters productivity and collaboration. This approach has enabled us to maintain a strong position within the market and remain innovative in terms of efficient operating practices.

Saputo also provides its employees with training, both on–the-job and in more formal educational settings. Consequently, our teams are well equipped to meet the challenges of an ever-changing environment. We strongly encourage internal promotions, allowing our employees to envision a meaningful career path.

Providing a safe workplace is a fundamental aspect of our relationship with employees. As such, they are involved in our initiatives aimed at preventing work-related injuries. As a team, we have a continuous and sustainable health and safety awareness focus that seeks out improvements and enhances performance. In addition, we follow comprehensive Health and Safety practices as well as Quality Assurance practices, both of which are regularly updated to include the latest and best practices.

Our employees assume their individual responsibilities by adhering to our Code of ethics, which defines how we deal with our colleagues, customers, suppliers and other members of society. The Code is an extension of our values, which have been at the heart of our business since its inception.

Finally, we encourage employees to actively contribute to our success and to reap the rewards of a job well done. In keeping with this philosophy, we have made it possible for many of our employees to become shareholders through our stock purchase plan. By participating in this program, employees directly share in the ownership and success of the Company.

BUILDING STRONG COMMUNITIES

As part of its community involvement, Saputo supports organizations that help young people become confident and responsible individuals, ready to make their own positive contributions to society. Our initiatives are focused on children's nutrition and physical activity, as well as entrepreneurship.

We have chosen to use our position as a food industry leader to promote healthy eating habits among children. Our involvement includes ongoing research and development aimed at creating products that meet or exceed current nutritional standards. We are also involved in supporting community-minded organizations.

For instance, Saputo is one of two major supporters of the Breakfast Clubs of Canada, an organization that shares our commitment to making a real difference in children's lives. Breakfast Clubs of Canada makes it possible for 220,000 children to participate in school nutrition programs across the country by providing the food they need to start their day in class well-nourished and ready to learn. We also help food banks in various regions where we do business through product donations and monetary contributions. These grassroot organizations distribute food to needy individuals and families who would otherwise be unable to get a satisfactory level of nutrition.

Furthermore, our company actively supports global organizations that contribute to the social development of young people faced with special challenges, such as the Make-A-Wish Foundation of America in the United States. This foundation gives children living with a life-threatening condition an opportunity to live a dream and experience hope and joy.

MEETING OUR SOCIAL RESPONSIBILITIES IS AN IMPORTANT OBJECTIVE AT SAPUTO AND IT INVOLVES EMPLOYEES AT EVERY LEVEL OF THE COMPANY. AS AN ORGANIZATION, WE FEEL WE CAN MAKE A DIFFERENCE IN OUR SOCIETY.

In Argentina, we support the Granja El Ceibo (El Ceibo Farm), an organization that helps handicapped children by giving them the opportunity to work, and in doing so, develop self-esteem and acquire tools to take control of their lives.

We also encourage physical activity. We believe it is beneficial for young people to participate in sports, as it allows them to learn and grow as individuals. Our commitment is based on the firm belief that a healthy diet, combined with physical activity, is essential to the balanced development of younger generations.

Saputo has a special involvement with soccer, which we believe, best embodies team spirit. This sport brings together people from different cultural backgrounds and fosters mutual understanding. Soccer is an ideal way to teach youngsters the basics of teamwork, which will be an essential element of their future personal and professional lives. It also has the advantage of being readily accessible to all.

Our contribution to this sport includes both professional and amateur soccer activity. At the professional level, we support the Montréal Impact soccer team, which competes in the First Division of the United Soccer League. Saputo is a founding partner of this non-profit organization, which is a source of entertainment and community spirit.

We also support the Québec Soccer Federation, the umbrella organization for all soccer associations in the province with close to 175,000 players. Through this partnership, we sponsor several tournaments, teams and soccer technique clinics.

Mariève Lepage, ST-LÉONARD, BAKERY DIVISION, *Somano Duy,* HEAD OFFICE
and the Saputo employees soccer league, Montréal area

Traverssa Paola, TIO PUJIO, DAIRY PRODUCTS DIVISION (ARGENTINA)

A dedication to the well-being of communities

Given our roots, we are deeply committed to promoting entrepreneurship, which we believe helps individuals reach their full potential while supporting communities by creating or generating economic wealth. We therefore support the activities of Junior Achievement of Canada and other similar organizations in countries in which we are present.

Saputo believes in the creation of learning opportunities for children and youth. We contribute to the education of the future generation by offering a variety of scholarship programs and by supporting several higher education institutions.

Our employees also share our commitment and contribute to many of these programs either through direct contributions or by donating their time and expertise. We support their actions through both financial and product donations.

We also support employee initiatives that contribute to various organizations through activities carried out within the workplace, such as "Jeans on Fridays" and silent auctions that raise money for community associations. In addition, we support our employees who choose to become volunteers for various organizations.

CARING FOR OUR ENVIRONMENT

At Saputo, we have always believed that innovation and growth must be achieved in a sustainable and environmentally-friendly manner. Across our operations, we strive to mitigate the impact of our activities on the environment.

We have adopted and implemented an environmental policy and constantly monitor our performance to comply with prevailing environmental regulations and standards. Our measures include continuous updating and modernization of operating processes to optimize the use of raw materials and reduce waste. This is not new to us. For more than twenty-five years, we have been recovering whey and designing new dairy by-products that improve the use of raw materials.

We actively take part in research and development within the agrifood industry and participate in socially responsible product innovation. We have contributed to the development of a liquid lacto-fermented fertilizer for fruit and vegetables. This 100% natural product shows that innovation allows us to use our by-products in a way that has positive environmental impacts that extend far beyond our own operations.

At Saputo, we are proud of our history of delivering high quality food products that promote a healthy lifestyle and contribute to quality of life in our communities.

MANAGEMENT'S ANALYSIS

THE GOAL OF THE MANAGEMENT REPORT IS TO ANALYZE THE RESULTS OF AND THE FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 2007. IT SHOULD BE READ WHILE REFERRING TO OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES. THE COMPANY'S ACCOUNTING POLICIES ARE IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES OF THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS. ALL DOLLAR AMOUNTS ARE IN CANADIAN DOLLARS UNLESS OTHERWISE INDICATED. THIS REPORT TAKES INTO ACCOUNT MATERIAL ELEMENTS BETWEEN MARCH 31, 2007 AND JUNE 5, 2007, THE DATE OF THIS REPORT, ON WHICH IT WAS APPROVED BY THE BOARD OF DIRECTORS OF SAPUTO INC. (COMPANY OR SAPUTO). ADDITIONAL INFORMATION ABOUT THE COMPANY, INCLUDING THE ANNUAL INFORMATION FORM FOR THE YEAR ENDED MARCH 31, 2007, 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 revenues and expenses, the Canadian, US, Argentinean, German and United Kingdom (UK) 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

Entering fiscal 2007, a common objective among Saputo employees was to seek the levels of profitability that all stakeholders have been accustomed to. This objective was met with great enthusiasm and determination by each and every one of Saputo's employees. Their efforts were the driving force behind the profitability levels attained in fiscal 2007, the highest ever in the Company's history. Given the progress made in fiscal 2007, combined with our relentless drive to improve all aspects of our operations, Saputo is well positioned for the future.

Fiscal 2007 also marked the first time an acquisition was completed by Saputo outside the Americas, with the acquired activities of Spezialitäten-Käserei De Lucia GmbH (De Lucia), in Germany, in April 2006, and with the acquisition of the activities of Dansco Dairy Products Limited (Dansco) in the UK in March 2007. These will strengthen our goal to become a world leader in the dairy industry. Saputo's operations are carried out in 46 plants and numerous distribution centers across Canada, the United States (US), Argentina, Germany and the UK.

In an increasingly challenging dairy industry, Saputo is proud to have maintained its position as the largest dairy processor in Canada, among the top five cheese producers in the US, and the third largest dairy processor in Argentina. On a worldwide scale, Saputo ranks as one of the top twenty dairy processors. Saputo is also the largest snack-cake manufacturer in Canada. These rankings should improve with the acquisition of the activities of Land O'Lakes West Coast industrial cheese business in the US (Land O'Lakes West Coast Acquisition). This business was acquired on April 2, 2007, after the fiscal year-end. The results do not include any activities from this acquisition.

Saputo is active in two sectors: Dairy Products, which accounts for 95.7% of consolidated revenues, and Grocery Products, with 4.3% 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), Dairy Products Division (Argentina), Dairy Products Division (Germany) and Dairy Products Division (United Kingdom). 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 55% 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. Products manufactured and sold in this segment include dairy products as well as non-dairy products such as non-dairy creamers, juices and drinks. The increase in this segment compared to last fiscal year, is due mainly to increased retail sales from our Canadian and Other Dairy Products Sector.

The **foodservice** segment accounts for 33% of total revenues within the Dairy Products Sector. Sales are made to specialty cheeses and broad line distributors as well as to restaurants and hotels under our own brand names and various private labels. Through our Canadian distribution network, we also offer non-dairy products manufactured by third parties. We also produce dairy blends for fast-food chains. The acquisition of the activities of Dansco in the UK, toward the end of fiscal 2007, complements our existing activities in the foodservice segment.

The **industrial** segment accounts for 12% of total revenues within the Dairy Products Sector. Sales are made to food processors that use our products as ingredients to manufacture their products.

Through our Canadian, US, and Argentinean cheese manufacturing facilities, we also produce by-products such as lactose, whey powder and whey protein. Our Canadian and Argentinean facilities supply numerous international clients with cheese, lactose, whey powder, milk powder and whey protein.

With the Land O'Lakes West Coast Acquisition in the US, the split of our Dairy Products Sector segment revenues should be approximately 49% retail, 35% foodservice and 16% industrial, on a pro forma basis.

Our Grocery Product Sector consists of our Bakery Division which manufactures and markets snack-cakes, tarts, cereal bars, and also fresh cookies and tarts since the acquisition of the activities of Boulangerie Rondeau Inc. and Biscuits Rondeau Inc. (Rondeau) in July 2006. 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 US, through co-packing agreements whereby the Company manufactures products for third parties under brand names owned by such parties.

Financial Orientation

Over the past four fiscal years, Saputo has completed many acquisitions in an effort to grow its business and become a leader in the global dairy industry. Acquisitions were undertaken in Canada, US, Argentina, and more recently, in Europe. Due to our disciplined approach towards acquisitions and our core value of maintaining profitable growth, we have grown over this period our top and, more importantly, our bottom line. The results in fiscal 2007 demonstrate that Saputo has remained true to its commitment of profitable growth, and in questioning current operations and re-engineering work methods to create additional value for all employees, business partners, and shareholders.

With these values in place, Saputo's financial position continues to improve. Our strong cash flows have resulted in another dividend increase and in the implementation of a second share purchase program through a new normal course issuer bid. These strong cash flows also allow Saputo to continually invest in capital projects and in research and development activities to ensure the Company remains amongst the leaders in terms of technological advancement. In addition, Saputo continues to invest in its most valuable asset, its employees.

On a global scale, the dairy industry poses many challenges for Saputo. From creating new ways to increase profitability in a mature Canadian market, to adapting to the ever changing market conditions in the US and Argentina, and to integrating our newly acquired European and US operations, we are confident that our employees are up to these challenges and that they will succeed. In addition, we will continue to evaluate acquisition opportunities. The Company looks to fiscal 2008 with great anticipation and unrelenting focus.

Elements to consider when reading Management's Analysis for fiscal 2007

During fiscal 2007, we experienced solid financial performance:

- Net earnings totalled $238.5 million, up 24.2%
- Earnings before interest, income taxes, depreciation, amortization and devaluation (EBITDA) totalled $426.3 million, up 16.5%
- Revenues reached $4.001 billion, down 0.5%
- Cash flows generated by operations totalled $343.5 million, up 14.7%

The improved results in fiscal 2007 are due mostly to our Canadian and Other Dairy Products Sector. Benefits derived from prior year rationalization activities undertaken in our Canadian operations, sales volume increases in both our Canadian and Argentinean operations, along with benefits resulting from a more favourable by-product market explain the improved results. These improvements offset rationalization costs of approximately $2.1 million for the closure of our Vancouver, British-Columbia facility and our Boucherville, Quebec facility. In addition, our Argentinean operations incurred additional charges with regards to increases in the export tax in comparison to the last fiscal year.

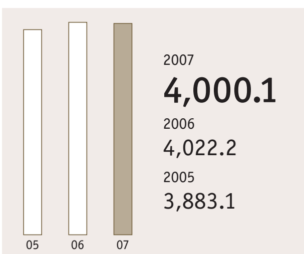
The results from our US Dairy Products Sector also improved in fiscal 2007. Significant measures undertaken by the Company to counteract adverse market conditions, along with improved efficiencies, offset the negative impacts from a lower average block market per pound of cheese, and a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material. The overall average block market per pound of cheese in fiscal 2007 of US$1.26 was US$0.16 lower compared to the US$1.42 for last fiscal year. This downward trend created a negative effect on the absorption of fixed costs. With regards to inventories, the block market had a favourable impact on their realization. All market factors combined had a negative impact of approximately $20 million on EBITDA. The division also incurred rationalization costs of approximately $1.3 million for the closure of our Peru, Indiana facility.

The results of fiscal 2007 from our Grocery Products Sector remained relatively stable in comparison to fiscal 2006. Decreased marketing expenditures and the inclusion of Rondeau, acquired on July 28, 2006, offset lower EBITDA due to increased raw material and other costs, and lower EBITDA resulting from reduced revenues from our co-packing agreements for the manufacturing of products for the US market in comparison to the last fiscal year. Also included in fiscal 2007, are rationalization charges of approximately $0.6 million for the closure of our Laval, Quebec facility.

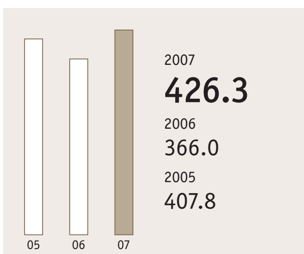
In fiscal 2006, the Company wrote down the value of its portfolio investment by $10 million, and in addition, a dividend of $1.0 million during fiscal 2006 was accounted for as a reduction of the cost of the investment. The write-down had an after-tax effect of approximately $8 million. An evaluation of the fair value of the portfolio investment was also performed in fiscal 2007. The evaluation concluded that the carrying value on the March 31, 2007 balance sheet is appropriate and no write-down was required in fiscal 2007.

Included in the results of fiscal 2006, were rationalization charges of approximately $2 million in our Canadian and Other Dairy Products Sector for the closure of our Harrowsmith, Ontario facility, and approximately $3.3 million in our US Dairy Products Sector for the closure of our Whitehall, Pennsylvania facility.

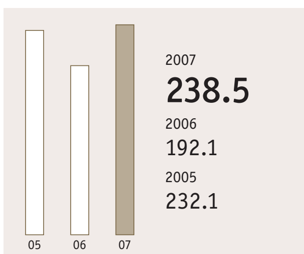
In fiscal 2007 the Company benefited from a one-time tax reduction to adjust future tax balances, due to a reduction in Canadian federal tax rates, thus increasing net earnings by approximately $6 million. In fiscal 2006, the Company recorded tax benefits resulting from prior tax losses available for our Argentinean operation of approximately $4 million. The Company also recorded in fiscal 2006 a tax charge of approximately $2 million to adjust future tax balances due to an increase in Canadian provincial tax rates.



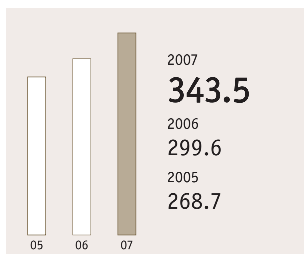
REVENUES
(in millions of dollars)



EBITDA
(in millions of dollars)



NET EARNINGS
(in millions of dollars)



CASH FLOWS GENERATED BY OPERATIONS
(in millions of dollars)

Selected consolidated financial information

Years ended March 31 (in thousands of dollars, except per share amounts and ratios)		2007	2006	2005
Statement of earnings data				
Revenues	Dairy Products Sector			
	Canada and Other	$2,794,099	$ 2,651,402	$ 2,415,541
	United States	1,036,830	1,206,601	1,308,735
		3,830,929	3,858,003	3,724,276
	Grocery Products Sector	170,051	164,207	158,793
		$4,000,980	$4,022,210	$3,883,069
Cost of sales, selling and administrative expenses				
	Dairy Products Sector			
	Canada and Other	$ 2,477,013	$2,389,809	$ 2,171,380
	United States	953,940	1,128,301	1,171,692
		3,430,953	3,518,110	3,343,072
	Grocery Products Sector	143,695	138,135	132,238
		$ 3,574,648	$3,656,245	$ 3,475,310
EBITDA[1]	Dairy Products Sector			
	Canada and Other	$ 317,086	$ 261,593	$ 244,161
	United States	82,890	78,300	137,043
		399,976	339,893	381,204
	Grocery Products Sector	26,356	26,072	26,555
		$ 426,332	$ 365,965	$ 407,759
	EBITDA margin (%)	*10.7%*	*9.1%*	*10.5%*
Depreciation of fixed assets				
	Dairy Products Sector			
	Canada and Other	$ 36,163	$ 34,146	$ 29,743
	United States	29,849	29,881	31,175
		66,012	64,027	60,918
	Grocery Products Sector	6,104	5,334	5,147
		$ 72,116	$ 69,361	$ 66,065
Operating income				
	Dairy Products Sector			
	Canada and Other	$ 280,923	$ 227,447	$ 214,418
	United States	53,041	48,419	105,868
		333,964	275,866	320,286
	Grocery Products Sector	20,252	20,738	21,408
		$ 354,216	$ 296,604	$ 341,694
Devaluation of portfolio investment		–	10,000	–
Interest on long-term debt		22,603	24,474	28,026
Other interest, net of interest income		(3,498)	(644)	1,064
Earnings before income taxes		335,111	262,774	312,604
Income taxes		96,644	70,672	80,459
Net earnings		$ 238,467	$ 192,102	$ 232,145
Net earnings margin (%)		*6.0%*	*4.8%*	*6.0%*
Net earnings per share		$ 2.30	$ 1.83	$ 2.23
Diluted net earnings per share		$ 2.28	$ 1.82	$ 2.20
Dividends declared per share		$ 0.80	$ 0.72	$ 0.60
Balance sheet data				
Total assets		$2,488,367	$2,253,933	$ 2,133,072
Long-term debt (including current portion)		$ 254,033	$ 291,846	$ 302,521
Shareholders' equity		$1,533,018	$1,402,543	$1,315,850
Statement of cash flows data				
Cash flows generated by operations		$ 343,501	$ 299,567	$ 268,676
Amount of additions to fixed assets, net of proceeds on disposal		$ 72,319	$ 92,868	$ 76,345

[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 the section entitled "Measurement of results not in accordance with Generally Accepted Accounting Principles".

Saputo's **consolidated revenues** totalled $4.001 billion, a decrease of $21.2 million or 0.5% compared to $4.022 billion for fiscal 2006. The decrease is attributed to our US Dairy Products Sector, whose revenues decreased by approximately $170 million. An average block market per pound of cheese of US$1.26 in fiscal 2007, compared to US$1.42 in fiscal 2006, negatively affected revenues by approximately $84 million. The appreciation of the Canadian dollar in fiscal 2007 eroded approximately $48 million in revenues in comparison to last fiscal year. Sales volumes decreased by 5.9%, due to the closure of the Peru, Indiana facility in May 2006. Excluding this closure, sales volumes remained relatively stable in fiscal 2007 in comparison to last fiscal year. Revenues from our Canadian and Other Dairy Products Sector increased by approximately $143 million in comparison to last year. Higher selling prices in our Canadian operations, in accordance with the increase in the cost of milk as raw material, increased sales volumes from our Canadian fluid milk activities and Argentinean operations, additional revenues due to a more favourable by-products market, and the inclusion of our German operations, acquired on April 13, 2006, explain the increased revenues in this sector. These factors offset the erosion of revenues from our Argentinean operations due to the appreciation of the Canadian dollar. Revenues from our Grocery Products Sector increased by approximately $6 million in comparison to last fiscal year. Additional sales volumes intended for the Canadian market and the inclusion of Rondeau, acquired on July 28, 2006, offset lower revenues generated by our co-packing agreements for the manufacturing of products for the US market.

Consolidated earnings before interest, income taxes, depreciation, amortization and devaluation (EBITDA) amounted to $426.3 million in fiscal 2007, an increase of $60.3 million or 16.5% compared to the $366.0 million for fiscal 2006. The increase is attributed essentially to our Canada and Other Dairy Products Sector, whose EBITDA increased by $55.5 million to $317.1 million in comparison to $261.6 million for fiscal 2006. This increase is mainly attributed to the benefits derived from rationalization activities undertaken in our Canadian operations during prior years, along with increased sales volumes from our Canadian fluid milk activities and Argentinean operations in comparison to last fiscal year. The sector also benefited from a more favourable by-products market. The EBITDA of our Argentinean operations continues to be negatively affected by the appreciation of the Canadian dollar, as well as the previously reported changes in the export tax. Both factors negatively affected EBITDA by approximately $4 million compared to the previous fiscal year. During fiscal 2007, rationalization charges of approximately $2.1 million were taken for the closure of our Vancouver, British Columbia facility and our Boucherville, Quebec facility. Fiscal 2006 included a rationalization charge of approximately $2.0 million for the closure of our Harrowsmith, Ontario facility. The EBITDA of our Dairy Products Division (Germany) and our Dairy Products Division (United Kingdom) had a minimal effect on the sector's EBITDA.

The EBITDA of our US Dairy Products Sector amounted to $82.9 million, an increase of $4.6 million in comparison to $78.3 million for last fiscal year. Significant efforts were undertaken by the sector to increase EBITDA, such as improving operational efficiencies, increasing selling prices, reducing promotional, energy, packaging and ingredients costs, and reducing the cost associated with milk handling. These efforts increased EBITDA by approximately $22 million in fiscal 2007 compared to fiscal 2006. The division also benefited from the revisions to the milk pricing formulas from both the California Department of Agriculture, effective November 1, 2006 as well as the US Department of Agriculture, effective February 1, 2007. These positive factors offset reductions in EBITDA due to the negative market conditions. An average block market per pound of cheese of US$1.26 in fiscal 2007 was lower than US$1.42 in fiscal 2006, causing 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 regards to inventories, the market factors had a favourable impact on their realization. These factors combined had a negative impact of approximately $20 million on EBITDA. The rise of the Canadian dollar eroded approximately $3.4 million from the current year's EBITDA. In fiscal 2007, the division incurred approximately $1.3 million of rationalization charges, in relation to the closure of our facility in Peru, Indiana. In fiscal 2006, the division incurred approximately $3.3 million of rationalization charges in relation to the closure of our facility in Whitehall, Pennsylvania.

The EBITDA of our Grocery Products Sector increased slightly to $26.4 million in the current fiscal year from $26.1 million in fiscal 2006. Decreased marketing expenditures and the inclusion of Rondeau, acquired on July 28, 2006, increased EBITDA by approximately $5 million in fiscal 2007. This increase was offset by increased raw material and other costs, and lower EBITDA resulting from reduced revenues generated by our co-packing agreements for the manufacturing of products for the US market in comparison to last fiscal year. The Grocery Products Sector also incurred in fiscal 2007 approximately $0.6 million of rationalization charges in relation to the closure of its facility in Laval, Quebec.

The consolidated EBITDA margin increased from 9.1% in fiscal 2006 to 10.7% in fiscal 2007. This increase is due to higher EBITDA margins achieved by essentially all sectors in fiscal 2007 in comparison to fiscal 2006.

Depreciation expense totalled $72.1 million in fiscal 2007, an increase of $2.7 million over $69.4 million in fiscal 2006. The increase is mainly attributed to capital expenditures undertaken in the prior and current years in all sectors, more predominantly in our Canadian and Other Dairy Products Sectors. The acquisitions completed in fiscal 2007 also explain the increased depreciation. These increases offset lower depreciation from our Cheese Division (USA) and our Dairy Products Division (Argentina) as a result of the appreciation of the Canadian dollar.

In fiscal 2006, 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 write-down had an after-tax effect of approximately $8 million in fiscal 2006. The same evaluation was performed in fiscal 2007. The conclusion was that no write-down was necessary in fiscal 2007.

Net interest expense amounted to $19.1 million in fiscal 2007 compared to $23.8 million in fiscal 2006. The decrease is due to additional interest revenue generated from excess cash on hand in fiscal 2007 compared to fiscal 2006, the appreciation of the Canadian dollar and the repayment of the US$30 million of long-term debt.

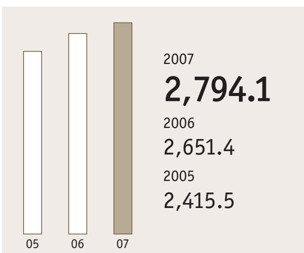
Income taxes totalled $96.6 million in fiscal 2007 for an effective tax rate of 28.8%, compared to $70.7 million for an effective tax rate of 26.9% in fiscal 2006. During fiscal 2007, the Company benefited from a one-time tax reduction of approximately $6 million to adjust future tax balances, due to a reduction in Canadian federal tax rates. In fiscal 2006, the Company recorded a tax benefit of approximately $4 million resulting from prior tax losses available for our Argentinean operations. Also in fiscal 2006, the Company recorded a tax charge of approximately $2 million to adjust future tax balances due to an increase in Canadian provincial tax rates. Excluding these tax adjustments, the effective tax rate for fiscal 2007 was 30.6% in comparison to 27.7% in fiscal 2006. 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. During the fiscal year, a proposed change with retroactive effect to a Canadian provincial tax legislation was effectively enacted. A tax assessment for an amount of approximately $12 million was issued as a result of the enactment. The Company has legal basis to believe that it will not have to pay such tax assessment. Therefore, no amount relating to this assessment has been included in the March 31, 2007 financial statement.

Net earnings for the year ended March 31, 2007 totalled $238.5 million, an increase of $46.4 million or 24.2% compared to $192.1 million in fiscal 2006. The increase is due to the factors mentioned above.

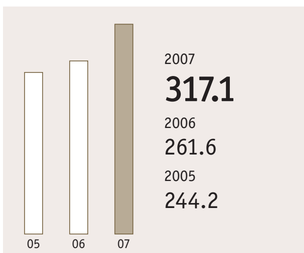
INFORMATION BY SECTOR

CANADIAN AND OTHER DAIRY PRODUCTS SECTOR

The sector is comprised of our Dairy Products Division (Canada), Dairy Products Division (Argentina), Dairy Products Division (Germany), and Dairy Products Division (United Kingdom).



REVENUES
(in millions of dollars)



EBITDA
(in millions of dollars)

Revenues (Canadian and Other Dairy Products Sector)

Revenues from the Canadian and Other Dairy Products Sector amounted to $2.794 billion, an increase of $142.7 million compared to $2.651 billion for fiscal 2006. The increase in revenues is distributed as follows: approximately $94 million is attributed to our Dairy Products Division (Canada), approximately $31 million is attributed to our Dairy Products Division (Germany), approximately $17 million is attributed to our Dairy Products Division (Argentina), and approximately $1 million is attributed to our newly acquired Dairy Products Division (United Kingdom).

The $94 million increase in revenues from our Dairy Products Division (Canada) is attributable to three main factors. Approximately $53 million relates to higher selling prices in accordance with the increase of the cost of milk as raw material. In addition, we enjoyed volume growth in most categories, especially in fluid milk and cream. Continuing the trend from our previous fiscal year, we increased sales volume in our core category of fluid milk as we further penetrated those regions where we are less prevalent. Our sales volume for our fluid milk category increased by 3.3%. Last fiscal year, the same increase was 2.9%. Finally, our industrial segment contributed to the revenue increase through higher by-products sales due to a more favourable by-product market. These increases offset lower sales volume from certain less profitable products in our Canadian retail and industrial cheese segments.

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

The Company produces about **37%** of all the natural cheese manufactured in Canada and remains the leader in the industry. On the fluid milk side, Saputo's production accounts for approximately **22%** of the Canadian total.

In the **retail** segment, most product categories within the Canadian dairy market are relatively stable in terms of per capita consumption. Therefore, we rely on product innovations and enhancements to fuel our sales development. Our continuous efforts in the growing specialty cheese category are fruitful and have enabled us to capitalize on numerous opportunities. Our sales volume growth in the soft cheese category demonstrates that we are heading in the right direction and we expect the consumer's enthusiasm for these products to continue. In fiscal 2007, we continued towards the development of value added product categories. Our efforts in this regard are yielding positive results. *Milk 2 Go/Lait's Go* is a good example of a Saputo innovation that has delivered several years of sales growth and became the number one brand in Canada as Single Serve Plastic Beverage[1] in its segment. Other examples include *Shape* diet yogurt and a variety of new cheeses launched under our *Saputo* and *Armstrong* brands. The retail segment sales accounts for 64% of revenues in our Dairy Products Division (Canada). This percentage remains unchanged as compared to the prior fiscal year.

The **foodservice** segment remained relatively stable compared to the previous fiscal year and represents 32% of revenues in our Dairy

[1] Source: ACNielsen, Brand Overview, Total Single Serve Milk, Milk Shakes, 500mL or Under, Plastic Bottle (Control Label Excluded), 52 weeks ending September 2, 2006.

Products Division (Canada). We are working closely with our customers in order to better satisfy their needs and helping to maintain and develop a strong relationship to grow our business. The largest volume increase in this segment was in the fluid milk and cream category. Our specialty cheese team has continued to successfully introduce their products, thus increasing volume.

The **industrial** segment accounts for 4% of revenues in our Dairy Products Division (Canada), relatively stable in comparison to last fiscal year. This segment is comprised of cheese sales as well as by-product sales. Our increase in revenues is attributable to a more favourable by-product market and higher sales volumes versus last fiscal year.

The $17 million revenue increase from our Dairy Products Division (Argentina) in fiscal 2007 compared to fiscal 2006 is due to increased sales volumes mainly from our export sales. Our export market enjoyed sales volume increases and higher market prices. Sales volumes of our cheese products destined for the domestic market also showed an increase in fiscal 2007 compared to the prior fiscal year. These increases offset the erosion of revenues in fiscal 2007 due to the appreciation of the Canadian dollar.

Revenues from our Dairy Products Division (Germany) are in line with our pre-acquisition expectations. The acquisition of our Dairy Products Division (United Kingdom) was completed on March 23, 2007, and our results only reflect one week of revenues.

EBITDA (Canadian and Other Dairy Products Sector)

Our earnings before interest, income taxes, depreciation and amortization (EBITDA) totalled $317.1 million for the fiscal year ending March 31, 2007, an increase of 21.2% compared to $261.6 million for the previous fiscal year. The EBITDA margin increased from 9.9% in fiscal 2006 to 11.3% in fiscal 2007. The margin improvement is the result of better margins from both our Dairy Products Division (Canada) and our Dairy Products Division (Argentina).

The Dairy Products Division (Canada) had a strong performance this fiscal year in comparison to last fiscal year, benefiting from prior years' operational rationalizations. These rationalization measures, an integral part of our commitment to being a low cost producer, have allowed our manufacturing facilities to become more specialized and efficient.

On July 21, 2006, we completed the closure of our cheese manufacturing plant in Harrowsmith, Ontario. In addition, on March 7, 2007, we announced the closure of two plants, one cheese manufacturing plant in Vancouver, British Columbia (closed as of March 31, 2007) and one cutting and wrapping facility in Boucherville, Quebec (closure completed during the first quarter of fiscal 2008). These decisions are part of the Company's continual analysis of its overall activities and the implementation of measures aimed at improving its operational efficiency. As part of this process, the Company plans to invest approximately $10 million in fixed assets in fiscal 2008 mainly to enhance automation within our Canadian plants.

As a result of these rationalizations, the Company expects annual EBITDA savings of approximately $4.8 million, and approximately $3 million for fiscal 2008. In fiscal 2007, rationalization charges of approximately $2.1 million were incurred for the closure of the two facilities mentioned above. The EBITDA for fiscal 2006 included a rationalization charge of approximately $2.0 million for the closure of our Harrowsmith, Ontario facility.

The increase in EBITDA during fiscal 2007 clearly reflects better efficiencies throughout our manufacturing plants. In addition, savings generated through logistics optimization contributed positively to the increased EBITDA. Furthermore, a strong by-product market in fiscal 2007 had a positive impact on EBITDA of approximately $11 million compared to fiscal 2006.

The EBITDA of our Dairy Products Division (Argentina) performed well in fiscal 2007. Additional EBITDA generated from increased sales volumes, and benefits derived from capital investments in the current and prior years offset the negative impacts from the increased export tax as well as the appreciation of the Canadian dollar.

The EBITDA of our Dairy Products Division (Germany) and our Dairy Products Division (United Kingdom) had a minimal effect on our consolidated financial statements.

Outlook (Canadian and Other Dairy Products Sector)

Fiscal 2007 has been a successful year. The years to come will benefit from the optimization of our production facilities through the closure of our Vancouver and Boucherville plants, but also through the investment in automation planned for fiscal 2008. These investments will allow us to remain a low cost producer and competitive within the industry.

In fiscal 2008, we will continue to concentrate on all areas of our business and increase marketing efforts to launch value added products that generate higher margins throughout the chain while providing a true benefit to our consumers and customers. We will also continue to support our core brands in an effort to maintain our position in the market.

We believe that the market for specialty cheeses offers good potential for growth. Our dedicated specialty cheese resources are well positioned to capitalize on this potential. We consider innovation as a primary focus in order to be able to offer products that meet the needs of today's consumers. Accordingly, we are allocating resources to new product innovations that will allow us to secure and build long-term relationships with both our customers and our consumers.

We see excellent opportunities for innovation in several dairy categories, including milk, cream, yogurt and cheese. Accordingly, we are planning to launch a variety of value added products in these categories during fiscal 2008. Moreover, we will support our product innovations via advertising and promotional programs throughout fiscal 2008.

The Company is constantly evaluating its production capacity in all categories of products. Our goal is to ensure that the right product is produced at the right place. Our excess production capacity stands at 31% in our Canadian cheese activities and 36% in our Canadian fluid milk activities.

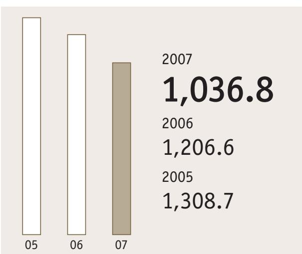
As the capital expenditures have been completed, our focus in our Dairy Products Division (Argentina) will be on ensuring costs are maintained at minimal levels. We will also evaluate our product mix, along with its respective distribution channels, in order to further improve our customer service. Our goal is to continue the growth of our domestic and export activities. We plan to increase our sales volumes, the variety of products offered, and the locations served.

The goal in fiscal 2008 for our Dairy Products Division (Germany) and our Dairy Products Division (United Kingdom) will be to continue the integration of these operations within Saputo. We will also focus on these operations to obtain a better understanding of the European market.

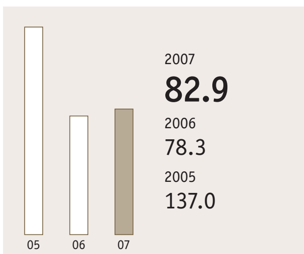
US DAIRY PRODUCTS SECTOR

Cheese margins in the US dairy industry are heavily influenced by government regulation. In most cases, regulations dictate the minimum price that must be paid for milk. The minimum milk price is derived from formulas based on the value of basic commodities such as cheddar cheese, butter, dry whey and nonfat dry milk. The formulas provide an allowance intended to cover manufacturing expense and profit. The allowance is fixed and seldom updated by government for periodic increases in manufacturing expenses. In November 2006 the State of California reduced its manufacturing milk price by approximately US$0.42 per hundredweight and in late February 2007, the United States Department of Agriculture followed suit with a US$0.25 reduction effective February 1, 2007. In both cases, the amounts were less than those expected by the industry. As previously mentioned, one of the primary inputs in the formulas that establish the minimum price for milk is the value of dry whey. This is without regard to the fact that relatively few cheese manufacturers produce that commodity. Most have migrated to the production of more sophisticated whey products. Once a whey strategy is decided, it is generally not economically feasible to switch back and forth between alternative products. From the middle of calendar 2006 through the middle of fiscal 2007, the market for dry whey had been averaging about 40% above historic levels. In late calendar 2006 and early 2007, the dry whey market skyrocketed to unprecedented levels of more than three times the historic average. This high dry whey price has driven up milk prices beyond the economic return attainable from other cheese by-products.

Despite these challenges in fiscal 2007, our Cheese Division (USA) was able to deliver significant improvements over fiscal 2006.



REVENUES
(in millions of dollars)



EBITDA
(in millions of dollars)

Revenues (US Dairy Products Sector)

Revenues from our US Dairy Products Sector totalled $1.037 billion in fiscal 2007, a decrease of $169.8 million in comparison to $1.207 billion for fiscal 2006. The lower average block market per pound of cheese this fiscal year had a negative impact of approximately $84 million on revenues. The average block market per pound of cheese during fiscal 2007 was US$1.26, a US$0.16 decrease from the US$1.42 in fiscal 2006. The appreciation of the Canadian dollar throughout the fiscal year negatively affected revenues by approximately $48 million. Sales volumes were 5.9% lower than fiscal 2006 primarily as the result of closing our Peru, Indiana facility in May 2006. The volume decline was concentrated in the industrial channel, which felt the majority of the impact of the Peru closure. Retail sales volumes increased 1.5% over last year while foodservice sales volume remained relatively stable. Our volumes increased in many of our cheese types with notable increases in string and feta.

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

The retail segment accounts for 31% of our total sales volume in the US, slightly higher than the previous fiscal year. In the last fiscal year, we concentrated our marketing efforts on supporting our brands with distinctive promotions, and product advertising to grow market share in several highly competitive retail cheese categories. *Frigo Cheese Heads* continues to be the number one brand of string cheese in the US along with the *Treasure Cave* blue cheese brand[1].

The foodservice segment accounts for 48% of our total sales volume in the US, slightly higher than that of last fiscal year. To support our growing foodservice segment, we implemented an awareness building plan through print advertising in key trade publications, and the launch of a website focused on that segment. During the fiscal year, we managed to maintain volume despite the necessity of implementing further price increases to offset the adverse industry economics, thanks to the quality of our products, our customer service, and most importantly, our people.

The industrial segment represents 21% of our total sales volume in the US, which is lower than last fiscal year because of the Peru, Indiana closure. Products in the industrial segment also include whey by-products, sweetened condensed milk and eggnog. Prices of by-products in the international market were even stronger in fiscal 2007 compared to an already strong market in fiscal 2006.

EBITDA (US Dairy Products Sector)

During fiscal 2007, earnings before interest, income taxes, depreciation and amortization totalled $82.9 million, a $4.6 million or 5.9% increase compared to $78.3 million posted in fiscal 2006. Major strides were made during the fiscal year with respect to improved operational efficiencies, increased selling prices, and the reduction of the cost associated with milk handling. The sum of these efforts resulted in approximately $15 million improvement in EBITDA in fiscal 2007 compared to fiscal 2006. In addition, the division spent approximately $4 million less on promotional costs and approximately $3 million less on energy, packaging and ingredients costs during the current fiscal year. Finally, the reduction of the manufacturing milk price of approximately US$0.42 per hundredweight by the state of California and approximately US$0.25 per hundredweight by the United States Department of Agriculture improved EBITDA by approximately $3 million during fiscal 2007.

These efforts offset the negative market conditions that existed throughout fiscal 2007. The "spread" or margin between the average block market per pound of cheese and the cost of milk as raw material was actually lower than that of fiscal 2006 which had

[1] Source: Information Resources, Inc. (IRI), 52 weeks ending March 25, 2007, Total US FDMW.

been the lowest in the past 25 years. The spread was adversely impacted by the unprecedented 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$1.26 this fiscal year was lower compared to US$1.42 of last fiscal year. This eroded our EBITDA by reducing the basis for absorption of our fixed costs. Fortunately, the cheese market rose gradually through much of the fiscal year. When the market is rising, cheese produced at a lower cost is subsequently sold at a higher sales price. Fiscal 2007 commenced with a block market per pound of cheese at US$1.17 and ended at US$1.42, while fiscal 2006 started at US$1.62 and ended at US$1.17. The rising market created a favourable impact on the realization of inventories. These combined factors had a negative impact of approximately $20 million. The appreciation of the Canadian dollar created a shortfall in EBITDA of approximately $3.4 million. Rationalization costs for the closure of our Peru, Indiana facility of approximately $1.3 million were incurred in fiscal 2007. Included in fiscal 2006 was a rationalization charge of $3.3 million for the closure of our facility in Whitehall, Pennsylvania.

Outlook (US Dairy Products Sector)

On April 2, 2007, we completed the Land O'Lakes West Coast Acquisition. This business employs approximately 530 people in Tulare, California and its operations consist of manufacturing, selling, shredding and blending of mostly mozzarella and provolone cheese products. In 2006, the activities related to the Land O'Lakes West Coast Acquisition generated annual sales of approximately US$415 million. In connection with this transaction, Saputo secured a long-term milk supply agreement for approximately two billion pounds of milk annually.

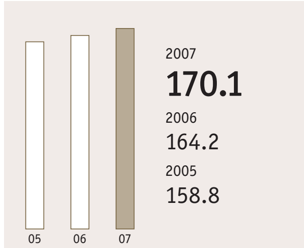
This transaction will enable our Cheese Division (USA) to grow significantly in enhancing the capability of serving all customers regardless of size. This business, which represents almost half of our existing US activities, is also equipped with a by-product drying facility that provides us with greater flexibility in our US operations. Much of our focus for the next fiscal year will be concentrated on the successful integration of these activities into the Cheese Division (USA). As always, instilling the culture and values of Saputo will be of utmost importance. In the months to follow, we will undertake an extensive analysis of the cost structure looking to optimize synergies between the new business and our existing activities. Customer relationships and practices will be transitioned over time to mirror those of our existing US business.

Given the increasing world demand for dairy proteins, we expect another challenging year in the context of the US dairy market. The cost of milk is again expected to be high relative to the value of cheese. We will continue to work toward mitigating the adverse market impacts by improving efficiencies, innovating, and providing quality products and services to customers.

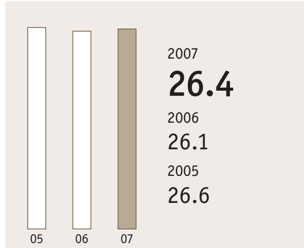
There will be exciting new product developments in the coming year, some of which will employ technology from our new German division. During fiscal 2008, we will relaunch our *Frigo Cheese Heads* string cheese with an improved texture, flavour and new packaging. We will also focus on our specialties including hard Italian, blue and *Lorraine* cheeses. As always, we approach the new year with energy and optimism while respecting the difficulty of the challenges ahead.

GROCERY PRODUCTS SECTOR

The Grocery Products Sector consists of the Bakery Division and accounts for 4.3% of the revenues of the Company.



REVENUES
(in millions of dollars)



EBITDA
(in millions of dollars)

Revenues (Grocery Products Sector)

Revenues for the Grocery Products Sector totalled $170.1 million for the fiscal year ended March 31, 2007, a $5.9 million increase compared to the previous fiscal year. The increase is due to a combination of higher Canadian sales volumes and the inclusion of Rondeau, partly offset by a reduction in sales volumes from our co-packing agreements for the manufacturing of products for the US market.

Our Canadian sales volumes showed an increase of 6.4%. This increase is due to the following factors: the inclusion of Rondeau, acquired in July 2006, an improved product offering and a better execution of our marketing programs both at the store level and in our promotional activities. In Canada, despite an ever increasing competition and a static market, we increased our market share.

During the fiscal year, we have actively supported our brands. The sector in which we are present requires innovation and the necessity to constantly adapt our product offering on a seasonal basis. During fiscal 2007, we have introduced 26 new products, including four under the *Rondeau* brand name. As an example, the following products have been introduced under the *Vachon* brand: the gorilla-shaped muffin *Igor*, 100 calories Half *Jos Louis* as well as mini *Half moon* and Maple *Mille Feuilles*. At the beginning of fiscal 2007, we also launched *HOP&GO!* Multigrains available in four different flavours.

In the US, we concentrated our efforts in developing co-packing agreements. Unfortunately our efforts did not bear fruit, as we saw a decline in sales volumes.

EBITDA (Grocery Products Sector)

The EBITDA for our Grocery Products Sector totalled $26.4 million for fiscal 2007, a $0.3 million increase as compared to the last fiscal year. Decreased marketing expenditures in relation to the *HOP&GO!* brand in Ontario and in the Maritimes and the inclusion of Rondeau, acquired on July 28, 2006, increased EBITDA by approximately $5 million. This increase was offset by higher manufacturing costs, mainly related to ingredients, packaging, labor and energy and lower EBITDA resulting from reduced revenues generated by our co-packing agreement for the manufacturing of products for the US market. EBITDA margin went from 15.9% in fiscal 2006 to 15.5% in fiscal 2007. This decrease is the result of the inclusion of revenues from Rondeau, which generates a lower EBITDA margin than the rest of the division. The Grocery Products Sector also incurred in fiscal 2007 approximately $0.6 million of rationalization charges in relation to the closure of our Laval, Quebec facility announced on March 29, 2007. During the prior fiscal years, our investment in fixed assets have allowed us to increase our operational efficiency by different automation and robotization projects. The savings related to these investments have partly offset the increase in the previously mentioned costs.

OUTLOOK (Grocery Products Sector)

The *Vachon* product portfolio has managed not only to retain its clientele but also has showed a slight increase. Even though brand recognition of these products is quite high, we will focus our marketing and sales efforts behind this brand which is the core of the Bakery division. Our main objective remains the same: respond to consumers needs with healthier products in both the indulgent and nutritious products category such as *HOP&GO!* and *Igor* product lines. These products benefit from an excellent reputation and a dedicated consumer base and will receive the necessary attention required for their development.

The product portfolio of fresh cookies and tarts from the acquisition of Rondeau will see the introduction of new flavours. Our attention will mainly be directed towards the penetration of these products in Ontario as well as in Atlantic and Western Canada. In June 2007, we will be closing our fresh cookies manufacturing plant in Laval, Quebec. The activities of that plant will be integrated in our Ste-Marie plant, as announced in March 2007.

Fiscal 2008 will be the third year of our three year program for the development and the redeployment of our brands. As mentioned in the previous fiscal year, our program spending in fiscal 2008 will be identical to the amount spent in fiscal 2007, being $2.5 million with a total representing $10 million over the life of the 3-year program. In the US, we will maintain the same approach and seek to improve the development of our co-packing business.

LIQUIDITY

Cash generated by operating activities before changes in non-cash working capital items amounted to $313.6 million for fiscal 2007, an increase of $48.2 million compared to $265.4 million in fiscal 2006. During fiscal 2007, non-cash working capital items generated $29.9 million, in comparison to $34.2 million generated in fiscal 2006. The higher funds generated from non-cash working capital items in fiscal 2006 were due to inventory reductions in our Canadian and US dairy operations due to lower cheese production in Canada and a lower average block market per pound of cheese in the US. In fiscal 2007, the generation of funds was due mainly to reduced inventories as a result of improved inventory management in our Canadian and Argentinean dairy operation.

In **investing activities**, the Company acquired in fiscal 2007 the activities of De Lucia, Rondeau and Dansco for a combined purchase price of $31.8 million. The Company added $76.1 million in fixed assets, of which nearly 22% 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 on target when compared to our original fiscal 2007 budget of $76 million. The Company also disposed of unused assets in fiscal 2007 for total proceeds of $3.8 million.

As for **financing activities** in fiscal 2007, the Company increased the use of its bank loans by $93.7 million, essentially for the Land O'Lakes West Coast Acquisition, which occurred immediately following fiscal 2007. In fiscal 2007, the Company also repaid $33.8 million of long-term debt, issued shares for a cash consideration of $20.9 million, as part of the stock option plan, purchased share capital totalling $50.7 million in accordance with the normal course issuer bid, and paid $80.7 million in dividends.

FINANCIAL RESOURCES

As at March 31, 2007, the Company's working capital stood at $521.1 million, an increase of $97.5 million compared to the $423.6 million at March 31, 2006. The increase is attributed to the significant accumulation of cash and cash equivalents generated by our operations in fiscal 2007. Our interest bearing debt[1]-to-equity ratio improved to 0.08 as at March 31, 2007, compared to 0.17 as at March 31, 2006. The improvement is due to the strong cash flows generated from operations in fiscal 2007. As our financial position continues to improve, we do not foresee any additional working capital requirements.

For fiscal 2008, the Company expects to add about $118 million to fixed assets, with approximately $72 million marked 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 $84 million in fiscal 2008. The increase in depreciation expense in comparison to fiscal 2007 is the result of capital expenditures undertaken in prior fiscal years and the additional depreciation expense from acquisitions completed in the current and prior fiscal years. All funds required for the additions to fixed assets will be generated from Company operations. As at March 31, 2007, the Company had no significant commitments related to fixed asset acquisitions.

The Company currently has at its disposal bank credit facilities of approximately $357 million, $139.0 million of which are drawn. The Company also had $276.9 million of cash and cash equivalents, for which $254 million was used for the Land O'Lakes West Coast Acquisition on April 2, 2007. Should the need arise, the Company can make additional financing arrangements to pursue growth through acquisitions.

BALANCE SHEET

In comparison to March 31, 2006, the main balance sheet items as at March 31, 2007 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$1.1546 per US dollar as at March 31, 2007, compared to CND$1.1671 per US dollar as at March 31, 2006. The conversion rate of our Argentinean operations' balance sheet items in Argentina pesos was CND$0.3691 per Argentina peso as at March 31, 2007 compared to CND$0.3775 per Argentina peso as at March 31, 2006. 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 De Lucia, Rondeau and Dansco.

[1] Net of cash and cash equivalents.

During fiscal 2007, the current portion of long-term debt of $35.0 million reported on our March 31, 2006 balance sheet was paid. This amount related to the US$30.0 million senior note. Our net cash position increased from $50.0 million as at March 31, 2006, to $137.9 million as at March 31, 2007. The change in foreign currency translation adjustment listed under shareholders' equity varied due to the appreciation of the Canadian dollar. The Company's total assets stood at $2.488 billion as at March 31, 2007, compared to $2.254 billion as at March 31, 2006.

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, 2007	Issued as at May 28, 2007
Common shares	Unlimited	103,676,917	103,782,700
Preferred shares	Unlimited	None	None
Stock options		4,855,608	5,536,393

The Company announced on November 7, 2005 its intention to purchase, by way of a normal course issuer bid (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 could have purchased for cancellation up to 5,256,369 common shares. This represented 5% of its 105,127,391 issued and outstanding common shares as of October 28, 2005. These purchases could have been 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 could not have purchased more than 2% of the issued and outstanding common shares in any 30-day period. The consideration, which was in cash, which the Company paid for any common shares acquired by it under the Bid was the market price of such common shares at the time of acquisition.

The Company announced on November 7, 2006 its intention to purchase, by way of a new normal course issuer bid (New Bid), for cancellation purposes, some of its common shares through the facilities of the Toronto Stock Exchange, beginning on November 13, 2006.

Under the New Bid, the Company may purchase for cancellation up to 5,179,304 common shares. This represents 5% of its 103,586,089 issued and outstanding common shares as of October 31, 2006. These purchases can be made in accordance with applicable regulations over a maximum period of 12 months beginning on November 13, 2006 and ending on November 12, 2007. The Company cannot purchase more than 2% of the issued and outstanding common shares in any 30-day period. The consideration, which is in cash, which the Company pays for any common shares acquired by it under the New Bid is the market price of such common shares at the time of acquisition.

For the year ended March 31, 2007, the Company purchased for cancellation an aggregate of 1,406,700 common shares at an average of $36.04 for a total of $50.7 million. 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 both bids may be obtained without charge upon request to the Secretary of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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, 2007 totalled $40.0 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, 2007 was 1,300,000 euros. The Company has also outstanding foreign currency contracts in US dollars, of which the total amount as at March 31, 2007 was US$5,000,000.

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, 2007 the market value of these contracts was negative $0.8 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
2008	21	10,038	10,059
2009	–	8,275	8,275
2010	196,282	7,111	203,393
2011	–	6,228	6,228
2012	–	3,482	3,482
Subsequent years	57,730	4,890	62,620
Total	254,033	40,024	294,057

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

Determining the Variability to be Considered in Applying AcG-15

The Canadian Institute of Chartered Accountants (CICA Handbook) Emerging Issues Committee EIC-163, Determining the Variability to be Considered in Applying AcG-15, provides guidance on whether certain arrangements, such as a contract to reduce or eliminate the variability created by certain assets or operations of an entity, should be treated as variable interests or be considered creators of variability when applying CICA Accounting Guideline AcG-15, Consolidation of Variable Interest Entities. The Company prospectively adopted this new recommendation effective April 1, 2006, which had no impact on the Company's consolidated financial statements.

Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date

The CICA Emerging Issues Committee EIC-162, Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date, addresses how to account for compensation costs attributable to a stock-based award for a compensation plan that contains a provision that allows an employee to continue vesting in accordance with stated vesting terms after the employee has retired. The Company prospectively adopted this new recommendation effective April 1, 2006, which had no impact on the Company's consolidated financial statements.

Discontinued Operations

The CICA Emerging Issues Committee EIC-161, Discontinued Operations, provides guidance on the allocation of interest expense and general corporate overhead expenses to discontinued operations. It also states whether an entity should report the results of operations of a component classified as held for sale as discontinued operations if the remaining operations are insignificant. The Company prospectively adopted this new recommendation effective April 1, 2006, which had no impact on the Company's consolidated financial statements.

Future Standards

Accounting Changes

Section 1506 of CICA Handbook, *Accounting Changes*, revises the current standards on changes in accounting policies, estimates or errors. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007. The Company is currently assessing the disclosure impact of this new recommendation on the consolidated financial statements.

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.

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.

Capital Disclosures

Section 1535 of the CICA Handbook, *Capital Disclosures*, establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed. The new section is to be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. 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 no write-down was recorded in fiscal 2007. A write-down of $10.0 million was recorded in 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 2007.

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 2007.

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.

Sensitivity Analysis
Pension Plan 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	(1,740)	N/A	N/A
Effect of a decrease of 1%	N/A	1,740	N/A	N/A
Discount rate				
Effect of an increase of 1%	(22,174)	(1,736)	(1,194)	(20)
Effect of a decrease of 1%	26,134	1,471	1,415	6
Assumed growth rate of overall healthcare costs				
Effect of an increase of 1%	N/A	N/A	1,125	66
Effect of a decrease of 1%	N/A	N/A	(963)	(55)

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 applied for the period ended December 31, 2006 was 5.26%, identical to the rate used in the prior year.

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 10% for fiscal 2008 and, based on the assumptions used, these rates should gradually decline to reach 5.1% in fiscal 2012.

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, 2006 was 4% in cash and short-term investments, 43% in bonds and 53% 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, 2005, the average composition was 6% in cash and short-term investments, 45% in bonds and 49% in shares.

For defined benefit plans, actuarial valuations were performed in December 2003 and 2005, covering all obligations with respect to this type of plan. In light of these valuations, a solvency deficiency of $28.8 million was posted on December 31, 2005. 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 $7.2 million was made in fiscal 2007 ($6.0 million for fiscal 2006). The additional payment required for fiscal 2008 remains to be determined given the actuarial valuation for some pensions plans is currently being performed, as at December 31, 2006. The next evaluation for certain pension plans is scheduled for December 2008.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Future 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 future 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. Availability of raw materials as well as 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 US, Argentina, Germany and the UK 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 US, Argentina, Germany and the UK, 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. Within the retail, foodservice and ingredient market segments, no customer represents more than 10% of our total consolidated sales, except for one retail customer representing 11.2% to which we sell both branded and private label products. 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 May 28, 2007 for the fiscal year ended March 31, 2007. 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 its US, Argentina, Germany and UK operations. Approximately 26% and 5% of sales are realized in the US and in Argentina, respectively. However, the cash flows from these operations act as a natural hedge against exchange risk. Cash flows from the US also constitute a natural hedge against the exchange risk related to debt expressed in US dollars. As at March 31, 2007, the Company's long-term debt was made up of the US senior notes only, which are at a fixed rate throughout their term.

Legislative, Regulatory, Normative and Political Considerations

The Company is subject to local, provincial, state, federal and international laws, regulations, rules and policies as well as to social, economical and political contexts prevailing in places where we conduct our activities. Consequently, the modification or change of any of these elements may have an unfavourable impact on Saputo's results and operations and may require that important expenses be made in order to adapt to or comply with it.

More specifically, 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 plans to grow both organically and through acquisitions. Historically, the Company has grown through acquisitions and should reasonably and in large part rely on new acquisitions to pursue its growth. The ability to properly evaluate the fair value of the businesses being acquired, to properly evaluate the time and human resources required to successfully integrate their activities with these of the Company as well as our capability to realize synergies, improvements and the expected profit and to achieve anticipated returns constitute 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, 2007, 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with management, have concluded after having conducted an evaluation and to the best of their knowledge that, as of March 31, 2007, no change in the Company's internal control over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

SENSITIVITY ANALYSIS 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, 2007. A 1% change in the interest rate would lead to a change in net earnings of approximately $1.0 million, based on the $139.0 million in bank loans outstanding as of March 31, 2007.

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, 2007, the average US dollar conversion was based on CND$1.00 for US$0.88. A fluctuation of CND$0.01 would have resulted in a change of approximately $0.3 million in net earnings, $1.0 million in EBITDA and $11.5 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 GAAP 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

	2007				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada & Other	United States	Total	Products	Total
Operating income	280,923	53,041	333,964	20,252	354,216
Depreciation of fixed assets	36,163	29,849	66,012	6,104	72,116
EBITDA	317,086	82,890	399,976	26,356	426,332

	2006				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada & 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

The 2006 and 2007 quarterly financial information has not been reviewed by an external auditor.

2007 Quarterly Financial Information – Consolidated Statements of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2007 (audited)
Statement of earnings data					
Revenues	$ 981,142	$ 994,145	$ 1,016,989	$ 1,008,704	$ 4,000,980
Cost of sales, selling and administration expenses	888,065	887,378	901,955	897,250	3,574,648
Earnings before interest, income taxes, depreciation, amortization and devaluation	93,077	106,767	115,034	111,454	426,332
Margin %	9.5%	10.7%	11.3%	11.0%	10.7%
Depreciation of fixed assets	18,129	17,652	18,732	17,603	72,116
Operating income	74,948	89,115	96,302	93,851	354,216
Devaluation of portfolio investment	–	–	–	–	–
Interest on long-term debt	5,586	5,739	5,594	5,684	22,603
Other interest	(545)	(760)	(959)	(1,234)	(3,498)
Earnings before income taxes	69,907	84,136	91,667	89,401	335,111
Income taxes	16,643	25,850	27,609	26,542	96,644
Net earnings	$ 53,264	$ 58,286	$ 64,058	$ 62,859	$ 238,467
Net margin %	5.4%	5.9%	6.3%	6.2%	6.0%
Per Share					
Net earnings					
Basic	$ 0.51	$ 0.56	$ 0.62	$ 0.61	$ 2.30
Diluted	$ 0.51	$ 0.56	$ 0.61	$ 0.60	$ 2.28

2006 Quarterly Financial Information – Consolidated Statements of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2006 (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

SUMMARY OF THE FOURTH QUARTER RESULTS ENDED MARCH 31, 2007

Revenues for the quarter ended March 31, 2007 amounted to $1.009 billion, an increase of $38.8 million or 4.0% compared to $969.9 million for the same quarter last year. The increase is attributed mostly to our Canadian and Other Dairy Products Sector, whose revenues increased by approximately $37 million compared to the corresponding period last year. Higher selling prices in our Canadian operations in accordance with the increase in the cost of milk as raw material, increased sales volumes from our Canadian fluid milk activities and Argentinean operations, additional revenues due to a more favourable by-product market, and the inclusion of our German operations, acquired on April 13, 2006, were the main factors responsible for this increase. Revenues from our US Dairy Products Sector remained relatively stable in the fourth quarter of fiscal 2007 in comparison to the same quarter last year. An average block market per pound of cheese of US$1.34 in the current quarter compared to US$1.27 in the same quarter last fiscal year, generated approximately $8 million of additional revenues. The appreciation of the US dollar in the fourth quarter of fiscal 2007 also generated approximately $4 million of additional revenues. These increases were offset by reduced revenues due to lower sales volume in the fourth quarter of fiscal 2007 compared to the same quarter last year. The lower sales volume is due entirely to the closure of our Peru, Indiana facility at the beginning of fiscal 2007. Revenues from our Grocery Products Sector increased by approximately $2 million in the fourth quarter of fiscal 2007 in comparison to the same quarter last year. Additional sales volumes intended for the Canadian market and the inclusion of Rondeau, acquired on July 28, 2006, offset reduced revenues generated by our co-packing agreements for the manufacturing of products for the US market.

Earnings before interest, income taxes, depreciation, amortization, and devaluation totalled $111.5 million for the quarter ended March 31, 2007, an increase of $29.7 million or 36.3% compared to the $81.8 million for the same quarter last year. The increase is mainly attributed to our Canadian and Other Dairy Products Sector, whose EBITDA increased by approximately $23 million in comparison to the same quarter last year. Savings derived from increased efficiencies in our Canadian operations, a more favourable by-product market, and higher sales volumes from our Canadian fluid milk activities and Argentinean operations were the main factors behind this increase. Our Argentinean operations also benefited from lower export tax charges in the current quarter compared to the same quarter last year. Included in the results of the fourth quarter of fiscal 2007 was a rationalization charge of approximately $2.1 million for the closure of our facilities in Vancouver, British Columbia and Boucherville, Quebec. Included in the results of the fourth quarter of fiscal 2006 was a rationalization charge of approximately $1.0 million for the closure of our facility in Harrowsmith, Ontario.

The EBITDA of our US Dairy Products Sector increased by approximately $9 million in the current quarter compared to the same period last year. The increase is due to the measures undertaken by the Company to counteract adverse market conditions, improved operational efficiencies achieved in the current quarter, benefits derived from the revised milk pricing formulas from both the California Department of Agriculture and the US Department of Agriculture and reduced promotional, energy, packaging and ingredients costs, which in aggregate amounted to approximately $15 million. The average block market per pound of cheese between the current quarter and the third quarter of fiscal 2007, in comparison to the same quarters in fiscal 2006, created a favourable impact on the realization of inventories. An average block market per pound of cheese of US$1.34 in the current quarter, compared to US$1.27 in the same quarter last fiscal year, created a better absorption of our fixed costs. The relationship between the average block market per pound of cheese and the cost of milk as raw material was less favorable this quarter compared to the same period last year. Together, these market factors had a negative effect of approximately $9 million on the EBITDA of the fourth quarter of fiscal 2007. Included in the results of the fourth quarter of fiscal 2006, was a rationalization charge of approximately $2.5 million for the closure of our facility in Whitehall, Pennsylvania.

The EBITDA of our Grocery Products Sector decreased by approximately $1.0 million for the quarter ended March 31, 2007 in comparison to the same quarter last fiscal year. The decrease is due to higher raw material and other costs, lower EBITDA resulting from reduced revenues generated by our co-packing agreements for the manufacturing of products for the US market, and rationalization costs of approximately $0.6 million incurred in the current quarter for the closure of our facility in Laval, Quebec. These negative factors offset higher EBITDA due to lower marketing expenditures and the inclusion of Rondeau, acquired on July 28, 2006.

Depreciation expense for the quarter ended March 31, 2007 totalled $17.6 million, an increase of $1.2 million compared to $16.4 million for the same quarter last fiscal year. The increase is due to capital investments undertaken across all divisions, along with additional depreciation expense from the acquisitions completed in the current fiscal year. Net interest expense decreased to $4.5 million compared to $4.9 million for the corresponding period last year, as a result of the long-term debt payment made in fiscal 2007 and interest revenue derived from excess cash on hand in the fourth quarter of fiscal 2007. The effective tax rate for the current quarter was 29.7% compared to 25.3% for the same quarter last year. During the quarter, the Company benefited from a one-time tax reduction of approximately $2 million to adjust future tax balances, due to a reduction in Canadian federal tax rates. 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 Canadian provincial tax rates. Excluding these adjustments, the effective tax rate for the fourth quarter of fiscals 2007 and 2006 were 31.9% and 29.3%, respectively.

During the quarter, the Company added approximately $17 million in fixed assets and acquired the activities of Dansco in the UK for approximately $13 million. The company issued shares for a cash consideration of $11.0 million as part of the stock option plan and paid out $20.7 million in dividends to its shareholders. The Company also increased its bank loans by approximately $99 million in the current quarter in anticipation of the Land O'Lakes West Coast Acquisition in the US during the early stages of fiscal 2008. For the same quarter, the Company generated cash flows of $91.9 million, an increase from the $59.5 million generated for the corresponding period last fiscal year, due essentially to the increased earnings in the fourth quarter of fiscal 2007 in comparison to the same quarter last year. During the fourth quarter of fiscal 2006, 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 fourth quarter of fiscal 2006 by $1.0 million, the amount of dividends received from the investment. Net earnings amounted to $62.9 million for the quarter ended March 31, 2007, an increase of $25.2 million compared to the same quarter last fiscal year.

QUARTERLY FINANCIAL INFORMATION

During fiscal 2007, certain specific circumstances affected the quarterly changes in revenues and earnings before interest, income taxes, depreciation and amortization compared to fiscal 2006.

During the first three quarters of fiscal 2007, the average block market per pound of cheese was lower compared to the same quarters in fiscal 2006. However, 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 in comparison to last fiscal year. The Canadian dollar was also stronger during the first three quarters of fiscal 2007, eroding both revenues and EBITDA. The results of fiscal 2007 included the operations of De Lucia and Rondeau acquired during the first half of fiscal 2007. The Company also acquired the activities of Dansco in the UK at the very end of the fourth quarter of fiscal 2007. The Company incurred approximately $1.3 million and approximately $2.7 million of rationalization charges in the first and fourth quarters of fiscal 2007, respectively. Quarterly earnings directly reflect the effects of the previously mentioned items.

ANALYSIS OF EARNINGS FOR THE YEAR ENDED MARCH 31, 2006 COMPARED TO MARCH 31, 2005

Saputo's **consolidated revenues** in fiscal 2006 totalled $4.022 billion, an increase of $139.1 million or 3.6 % compared to $3.883 billion posted in fiscal 2005. The increase was 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 fiscal 2005. 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 in fiscal 2006. An average block market per pound of cheese of US$1.42 in fiscal 2006 compared to US$1.67 in fiscal 2005 negatively affected revenues by approximately $136 million. The continued rise in the Canadian dollar in fiscal 2006 eroded approximately $93 million in revenues in comparison to fiscal 2005. These factors offset a 9% sales volume increase achieved by the division throughout fiscal 2006. Revenues from our Grocery Products Sector increased in fiscal 2006 by $5.4 million to $164.2 million from $158.8 million for fiscal 2005. The increase was due to higher selling prices 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 was 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 fiscal 2006. 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 in fiscal 2006 compared to fiscal 2005. 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 the EBITDA of fiscal 2006. The rise of the Canadian dollar eroded approximately $6 million from our fiscal 2006 EBITDA. The US Dairy Products Sector also incurred in fiscal 2006 $3.3 million of rationalization charges in relation to the closure of our plant in Whitehall, Pennsylvania 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 in fiscal 2006 in comparison to fiscal 2005.

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 was 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 fiscal 2005. 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 in fiscal 2006. 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 fiscal 2006 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 fiscal 2005.

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 in fiscal 2006 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 was 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 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.

In fiscal 2006, 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 in fiscal 2006.

Net interest expense amounted to $23.8 million in fiscal 2006, compared to $29.1 million in fiscal 2005. The decrease resulted 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 in fiscal 2006 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. During the first quarter of fiscal year 2007, a proposed change with retroactive effect to a Canadian provincial tax legislation was effectively enacted. A tax assessment for an amount of approximately $12 million was issued as a result of the enactment. The Company has legal basis to believe that it will not have to pay such tax assessment. Therefore, no amount relating to this assessment was included in the March 31, 2006 financial statement.

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 was due to the factors mentioned above.

OUTLOOK

Fiscal 2007 was an excellent example of Saputo aligning all its resources and facing the challenges head on. Our divisions were successful at creating additional value for all stakeholders. As we enter fiscal 2008, the momentum created in the prior fiscal year along with our focus and dedication should allow us to achieve even greater heights.

The Land O'Lakes West Coast Acquisition completed at the beginning of fiscal 2008 will significantly increase our presence in the US market. The additional scale as a result of this acquisition, should create many opportunities to improve our profitability. Part of the fiscal 2008 objective is to analyse our new operations and integrate them within the Saputo culture and values, and improve profitability. We currently have dedicated teams in place to ensure this integration progresses efficiently.

In fiscal 2008, we will proceed with the integration of our UK operations, acquired in late fiscal 2007. We will use this acquisition, along with our German operation, to gain a better understanding of the European market. Our objectives, with regards to our European operations will be to increase efficiencies, expand our client base, and improve overall profitability.

Our Canadian dairy operations will continue to refine their operations in an effort to improve efficiencies. The closures announced during the late stages of fiscal 2007 will help the Canadian dairy operations achieve this goal. With the contribution of our research and development teams, we will also expand our value-added product offering in order to ensure our continued growth.

Given the completion of our capital expenditure program in Argentina, our Dairy Products Division (Argentina) is in good position to generate growth and improve profitability. In fiscal 2008, the division will focus on the cost effectiveness of its overall operation as well as expanding both the domestic and international markets.

Our Grocery Products Sector's objectives for fiscal 2008 will focus on the continued integration of Rondeau, acquired in early fiscal 2007, as well as increasing the areas where its products are marketed and sold. The closure of the Laval facility should allow the division to improve efficiencies and increase overall profitability.

We are in an excellent financial position with a low level of debt and strong cash flows. This will allow us to pursue our growth through acquisition and increase our overall position within the global dairy industry. It is with great enthusiasm that we look to the future.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation and presentation of the consolidated financial statements and the financial information presented in this annual report. This responsibility includes the selection of accounting policies and practices and making judgments and estimates necessary to prepare the consolidated financial statements in accordance with generally accepted accounting principles.

Management has also prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is comprised solely of independent directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Committee. The consolidated financial statements have been audited by the external auditors Deloitte & Touche LLP, whose report follows.

LINO SAPUTO, JR.
President and
Chief Executive Officer

LOUIS-PHILIPPE CARRIÈRE, FCA
Executive Vice President,
Finance and Administration, and Secretary

AUDITORS' REPORT TO THE SHAREHOLDERS OF SAPUTO INC.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2007 and 2006 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants
Montreal, Québec
May 25, 2007

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended March 31 (in thousands of dollars, except per share amounts)	2007	2006
Revenues	$ 4,000,980	$ 4,022,210
Cost of sales, selling and administrative expenses	3,574,648	3,656,245
Earnings before interest, depreciation, income taxes and devaluation	426,332	365,965
Depreciation of fixed assets (Note 3)	72,116	69,361
Operating income	354,216	296,604
Devaluation of portfolio investment (Note 2)	–	10,000
Interest on long-term debt	22,603	24,474
Other interest, net (Note 11)	(3,498)	(644)
Earnings before income taxes	335,111	262,774
Income taxes (Note 12)	96,644	70,672
Net earnings	$ 238,467	$ 192,102
Earnings per share (Note 13)		
Net earnings		
Basic	$ 2.30	$ 1.83
Diluted	$ 2.28	$ 1.82

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended March 31 (in thousands of dollars)	2007	2006
Retained earnings, beginning of year	$ 971,131	$ 884,054
Net earnings	238,467	192,102
Dividends	(80,721)	(72,215)
Excess of purchase price of share capital over carrying value (Note 9)	(43,796)	(32,810)
Retained earnings, end of year	$ 1,085,081	$ 971,131

CONSOLIDATED BALANCE SHEETS

As at March 31 (in thousands of dollars)	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 276,894	$ 91,533
Receivables	324,702	302,112
Inventories	445,992	453,414
Income taxes	6,413	6,736
Future income taxes	13,045	12,098
Prepaid expenses and other assets	23,939	25,979
	1,090,985	891,872
Portfolio investment (Note 2)	42,991	42,991
Fixed assets (Note 3)	691,226	674,695
Goodwill (Note 4)	547,379	544,472
Trademarks (Note 4)	32,340	30,589
Other assets (Note 5)	73,726	67,664
Future income taxes	9,720	1,650
	$ 2,488,367	$ 2,253,933
LIABILITIES		
Current liabilities		
Bank loans (Note 6)	$ 139,001	$ 41,541
Accounts payable and accrued liabilities	343,911	318,239
Income taxes	85,644	73,087
Future income taxes	1,294	369
Current portion of long-term debt (Note 7)	21	35,013
	569,871	468,249
Long-term debt (Note 7)	254,012	256,833
Other liabilities (Note 8)	16,413	16,623
Future income taxes (Note 12)	115,053	109,685
	955,349	851,390
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	511,737	494,250
Contributed surplus (Note 10)	18,864	14,428
Retained earnings	1,085,081	971,131
Foreign currency translation adjustment	(82,664)	(77,266)
	1,533,018	1,402,543
	$ 2,488,367	$ 2,253,933

On behalf of the Board

LINO SAPUTO
Director

LOUIS A. TANGUAY
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31 (in thousands of dollars)	2007	2006
Cash flows related to the following activities:		
Operating		
Net earnings	$ 238,467	$ 192,102
Items not affecting cash		
Stock based compensation	7,917	8,196
Depreciation of fixed assets	72,116	69,361
Gain on disposal of fixed assets	(122)	(1,676)
Devaluation of portfolio investment	–	10,000
Future income taxes	(1,525)	(2,438)
Funding of employee plans in excess of costs	(3,207)	(10,134)
	313,646	265,411
Changes in non-cash operating working capital items	29,855	34,156
	343,501	299,567
Investing		
Business acquisitions (Note 14)	(31,794)	(86,338)
Portfolio investment	–	1,000
Additions to fixed assets	(76,127)	(96,152)
Proceeds on disposal of fixed assets	3,808	3,284
Other assets	(6,124)	(6,072)
	(110,237)	(184,278)
Financing		
Bank loans	93,701	28,081
Repayment of long-term debt	(33,828)	–
Issuance of share capital	20,886	13,689
Repurchase of share capital	(50,677)	(38,008)
Dividends	(80,721)	(72,215)
	(50,639)	(68,453)
Increase in cash and cash equivalents	182,625	46,836
Effect of exchange rate changes on cash and cash equivalents	2,736	3,220
Cash and cash equivalents, beginning of year	91,533	41,477
Cash and cash equivalents, end of year	$ 276,894	$ 91,533

Supplemental information

	2007	2006
Interest paid	$ 19,651	$ 24,689
Income taxes paid	$ 84,868	$ 57,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2007 and 2006
(Tabular amounts are in thousands of dollars except information on options, units and shares.)

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Use of estimates

In the preparation of financial statements in conformity with Canadian generally accepted accounting principles, management must make estimates such as the useful life, impairment, and depreciation of fixed assets, the valuation of goodwill, portfolio investments, trademarks and future income taxes and certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefits obligation and pension plan assets, and stock based compensation that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses for the period. Actual results could differ from these estimates.

Consolidated financial statements

Investments over which the Company has effective control are consolidated. The interest in the joint venture, that is jointly controlled is accounted for by the proportionate consolidation method. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

Cash and cash equivalents

Cash and cash equivalents consists primarily of unrestricted cash and short-term investments having an initial maturity of three months or less at the time of acquisition.

Inventories

Finished goods and goods in process are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of cost and replacement value, cost being determined under the first-in, first-out method.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted or substantially enacted tax rates that will be in effect when the differences are expected to reverse. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax asset will be realized.

Fixed assets

Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives or by using the following methods:

Buildings	20 to 40 years
Furniture, machinery and equipment	3 to 15 years
Rolling stock	5 to 10 years or based on kilometers traveled

Assets held for sale are recorded at the lower of cost or net realizable value less costs to dispose, and no depreciation is recorded.

Impairment of long-lived assets

In the event indications exist that the carrying amount of long-lived assets may not be recoverable, undiscounted estimated cash flows are projected over their remaining term, and compared to the carrying amount. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge is recorded to reduce the carrying amount to equal projected future discounted cash flows.

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill, trademarks, and business combinations

Goodwill and trademarks are not amortized; however they are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The carrying values of goodwill and trademarks are compared with their respective fair values, and an impairment loss is recognized for the excess, if any. The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount allocated to goodwill.

Employee future benefits

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using estimates of expected return on plan assets, which is based on fair value, rates of compensation increase, retirement ages of employees and expected health care costs and other post-retirement benefits. Current service costs are expensed in the year. In accordance with generally accepted accounting principles, past service costs and the excess of the net actuarial gains or losses related to defined benefit pension plans over 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees entitled to receive benefits under the plans. The Company uses five-year asset smoothing to determine the defined benefit pension costs. In the case where a plan restructuring entails both a plan curtailment and settlement of obligations from the plan, the curtailment is recorded before the settlement.

Revenue recognition

The Company recognizes revenue upon shipment of goods when the title and risk of loss are transferred to customers, price is determinable, and collection is reasonably assured. Revenues are recorded net of sales incentives including volume rebates, shelving or slotting fees, and advertising rebates.

Foreign currency translation

The balance sheet accounts of the self-sustaining companies operating in the United States, Argentina, Germany and the United Kingdom are translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the fiscal years. The foreign currency translation adjustment account presented in shareholders' equity represents accumulated foreign currency gains or losses on the Company's net investments in self-sustaining companies operating in the United States, Argentina, Germany and the United Kingdom. The change in the foreign currency translation account during the year ended March 31, 2007 principally resulted from the increase in value of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of the Company and its subsidiaries are translated using the exchange rates at the end of the year for monetary assets and liabilities and the prevailing exchange rates at the time of transactions for income and expenses. Gains or losses resulting from this translation are included in the statement of earnings.

	2007	2006
Foreign currency gain	$ 855	$ 633

Stock based compensation

The fair value based method of accounting is used to expense stock based compensation awards. This method consists of recording compensation cost to earnings over the vesting period of options granted. When stock options are exercised, any consideration paid by employees and the related compensation expense recorded as contributed surplus are credited to share capital.

Earnings per share

Basic earnings per share are based on the weighted-average number of shares outstanding during the year. The dilutive effect of stock options is determined using the treasury stock method.

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New Accounting Policies

Determining the Variability to be Considered in Applying AcG-15

Effective April 1, 2006, the Company adopted the following new recommendation of the CICA, EIC-163, "Determining the Variability to be Considered in Applying AcG-15", which provides guidance on whether certain arrangements, such as a contract to reduce or eliminate the variability created by certain assets or operations of an entity, should be treated as variable interests or be considered creators of variability when applying CICA Accounting Guideline AcG-15, Consolidation of Variable Interest Entities. This new recommendation had no impact on the Company's consolidated financial statements.

Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date

Effective April 1, 2006, the Company adopted the following new recommendation of the CICA, EIC-162, "Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date", which addresses how to account for compensation costs attributable to a stock-based award for a compensation plan that contains a provision that allows an employee to continue vesting in accordance with stated vesting terms after the employee has retired. This new recommendation had no impact on the Company's consolidated financial statements.

Discontinued Operations

Effective April 1, 2006, the Company adopted the following new recommendation of the CICA, EIC-161, "Discontinued Operations", which provides guidance on the allocation of interest expense and general corporate overhead expenses to discontinued operations. It also states whether an entity should report the results of operations of a component classified as held for sale as discontinued operations if the remaining operations are insignificant. This new recommendation had no impact on the Company's consolidated financial statements.

2. PORTFOLIO INVESTMENT

	2007	2006
21% share capital interest in Dare Holdings Ltd.	$ 42,991	$ 42,991

The portfolio investment is recorded at cost less the excess of dividends received over the Company's share in accumulated earnings. No dividends were received in fiscal 2007. The dividend of $1,000,000 received during fiscal 2006 was accounted for as a reduction of the cost of the investment.

In fiscal 2006, the Company wrote down the investment by $10,000,000 due to a permanent impairment, resulting from the fair value being below the carrying value.

3. FIXED ASSETS

	2007			2006		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 27,666	$ –	$ 27,666	$ 27,084	$ –	$ 27,084
Buildings	278,463	68,750	209,713	249,980	57,799	192,181
Furniture, machinery and equipment	824,427	383,350	441,077	777,635	335,428	442,207
Rolling stock	12,928	7,156	5,772	12,314	6,323	5,991
Held for sale	6,998	–	6,998	7,232	–	7,232
	$1,150,482	$ 459,256	$ 691,226	$1,074,245	$ 399,550	$ 674,695

During the year, a gain on sale of fixed assets held for sale totalling $122,000 ($1,676,000 in 2006) was recorded in cost of sales, selling and administrative expenses. These assets relate mainly to the activities of our Canadian and Other Dairy Products Sector.

During the year, a $3,238,000 ($5,750,000 in 2006) write-down to fair value of certain buildings and machinery and equipment was recorded. This charge is included in depreciation of fixed assets.

Fixed assets held for sale represent mainly machinery, equipment and buildings of the Canadian and US dairy products sector that will be disposed of as a result of certain plant closures.

The book value of fixed assets under construction, that are not being amortized, amounts to $22,518,000 as at March 31, 2007 ($41,465,000 as at March 31, 2006) and consists mainly of machinery and equipment.

4. GOODWILL AND TRADEMARKS

	2007			2006		
	Dairy products sector	Grocery products sector	Total	Dairy products sector	Grocery products sector	Total
Goodwill						
Balance, beginning of year	$ 379,959	$ 164,513	$ 544,472	$ 342,687	$ 164,513	$ 507,200
Foreign currency translation adjustment	(2,405)	–	(2,405)	(9,032)	–	(9,032)
Business acquisitions (Note 14)	395	4,917	5,312	46,304	–	46,304
Balance, end of year	$ 377,949	$ 169,430	$ 547,379	$ 379,959	$ 164,513	$ 544,472
Trademarks						
Balance, beginning of year	$ 30,589	$ –	$ 30,589	$ 24,054	$ –	$ 24,054
Foreign currency translation adjustment	(249)	–	(249)	(845)	–	(845)
Business acquisitions (Note 14)	–	2,000	2,000	7,380	–	7,380
Balance, end of year	$ 30,340	$ 2,000	$ 32,340	$ 30,589	$ –	$ 30,589

5. OTHER ASSETS

	2007	2006
Net accrued pension plan asset (Note 15)	$ 54,326	$ 50,606
Taxes receivable	12,626	9,370
Other	6,774	7,688
	$ 73,726	$ 67,664

6. BANK LOANS

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $357,000,000. The North American bank loans are available mainly in US dollars or the equivalent in other currencies and bear interest at rates based on lenders' prime rates plus a maximum of 0.25% or LIBOR or bankers' acceptances rate plus 0.50% up to a maximum of 1.125%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. Part of the total short-term bank credit facilities is available for the Argentina business and bears interest at local market rates.

7. LONG-TERM DEBT

	2007	2006
Senior notes		
7.97%, repaid in 2007 (US$30,000,000)	$ –	$ 35,013
8.12%, due in November 2009 (US$170,000,000)	196,282	198,407
8.41%, due in November 2014 (US$50,000,000)	57,730	58,355
Other loans, repayable in 2008	21	71
	254,033	291,846
Current portion	21	35,013
	$ 254,012	$ 256,833

Estimated principal payments required in future years are as follows:

2008	$ 21
2009	–
2010	196,282
2011	–
2012	–
2013 and subsequent years	57,730
	$ 254,033

8. OTHER LIABILITIES

	2007	2006
Employee future benefits (Note 15)	$ 9,430	$ 9,101
Other	6,983	7,522
	$ 16,413	$ 16,623

9. SHARE CAPITAL

Authorized

The authorized share capital of the Company consists of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares may be issued in one or more series, the terms and privileges of each series to be determined at the time of their creation.

	2007	2006
Issued		
103,676,917 common shares (104,114,555 in 2006)	$ 511,737	$ 494,250

969,062 common shares (682,173 in 2006) for an amount of $20,886,000 ($13,689,000 in 2006) were issued during the year ended March 31, 2007 pursuant to the share option plan. For share options granted since April 1, 2002, the amount previously accounted for as an increase to contributed surplus was also transferred to share capital upon the exercise of options. For the year ended March 31, 2007, the amount transferred from contributed surplus was $3,481,000 ($1,863,000 in 2006).

Pursuant to the normal course issuer bid, which began on November 11, 2005, the Company could have purchased for cancellation up to 5,256,369 common shares until November 10, 2006. Pursuant to the new normal course issuer bid, which began on November 13, 2006, the Company may purchase for cancellation up to 5,179,304 common shares until November 12, 2007. During the year ended March 31, 2007, the Company purchased 1,406,700 (1,094,900 in 2006) common shares at prices ranging from $34.75 to $38.00 per share ($32.39 to $35.94 in 2006). The excess of the purchase price over the carrying value of the shares in the amount of $43,796,000 ($32,810,000 in 2006) was charged to retained earnings.

Share option plan

The Company established a share option plan to allow for the purchase of common shares by key employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 14,000,000 common shares. Options may be exercised at a price equal to the closing quoted value of the shares on the day preceding the grant date. The options vest at 20% per year and expire ten years from the grant date.

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

	2007			2006	
Granting period	Exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
1998	$ 8.50	19,000	$ 8.50	62,226	$ 8.50
1999	from $16.13 to $18.75	53,140	$ 18.43	95,236	$ 18.33
2000	$ 19.70	106,949	$ 19.70	179,238	$ 19.70
2001	$ 13.50	263,402	$ 13.50	410,797	$ 13.50
2002	from $19.00 to $23.00	419,205	$ 19.04	685,335	$ 19.10
2003	$ 30.35	542,594	$ 30.35	701,465	$ 30.35
2004	$ 22.50	798,755	$ 22.50	1,012,030	$ 22.50
2005	$ 33.05	727,313	$ 33.05	831,135	$ 33.05
2006	$ 36.15	827,932	$ 36.15	901,781	$ 36.15
2007	$ 32.70	1,097,318	$ 32.70	–	$ –
		4,855,608	$ 28.64	4,879,243	$ 26.35
Options exercisable at end of year		2,011,821	$ 24.03	2,077,799	$ 21.28

Changes in the number of options are as follows:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	4,879,243	$ 26.35	4,797,915	$ 23.62
Options granted	1,141,225	$ 32.70	914,952	$ 36.15
Options exercised	(969,062)	$ 21.55	(682,173)	$ 20.07
Options cancelled	(195,798)	$ 30.25	(151,451)	$ 27.37
Balance at end of year	4,855,608	$ 28.64	4,879,243	$ 26.35

9. SHARE CAPITAL (cont'd)

The fair value of share purchase options granted was estimated at $9.78 per option ($10.21 in 2006), using the Black-Scholes option pricing model with the following assumptions:

	2007	2006
Risk-free interest rate:	4.2%	4.0%
Expected life of options:	5 years	5 years
Volatility:	35%	31%
Dividend rate:	2.5%	2.0%

The exercise price of these options is $32.70 ($36.15 in 2006), which corresponds to the closing quoted value of the shares on the day preceding the grant date.

A compensation expense of $7,917,000 ($6,958,000 after income taxes) relating to stock options was recorded in the statement of earnings for the year ended March 31, 2007 and $8,196,000 ($7,455,000 after income taxes) was recorded for the year ended March 31, 2006.

The effect of this expense on basic and diluted earnings per share was $0.07 for the year ended March 31, 2007, and $0.07 for the year ended March 31, 2006.

Options to purchase 889,586 common shares at a price of $46.18 were also granted on April 1, 2007.

Deferred share units plan for directors

Since April 1, 2004, all eligible directors of the company are allocated annually a fixed amount of deferred share units (annual grant) which are granted on a quarterly basis in accordance with the deferred share units plan. Also, the directors have a choice to receive either cash or deferred units for their compensation. The number of units issued to each director is based on the market value of the Company's common shares at each grant date. As directors cease their functions with the Company, a cash payment equal to the market value of the accumulated deferred share units will be disbursed. The liability relating to these units is adjusted by taking the number of units outstanding multiplied by the market value of common shares at the Company's year-end. The variation of the liability is recorded as an expense by the Company.

	2007		2006	
	Units	Liability	Units	Liability
Beginning of year	27,904	$ 1,009	11,213	$ 448
Annual Grant	8,000	309	8,000	282
Board compensation	6,821	323	8,691	367
Increase (decrease) due to change in stock price	–	541	–	(88)
End of year	42,725	$ 2,182	27,904	$ 1,009

10. CONTRIBUTED SURPLUS

	2007	2006
Contributed surplus, beginning of year	$ 14,428	$ 8,095
Stock based compensation	7,917	8,196
Amount transferred to share capital	(3,481)	(1,863)
Contributed surplus, end of year	$ 18,864	$ 14,428

11. OTHER INTEREST

	2007	2006
Expense	$ 4,055	$ 2,174
Income	(7,553)	(2,818)
	$ (3,498)	$ (644)

12. INCOME TAXES

The provision for income taxes is comprised of the following:

	2007	2006
Current income taxes	$ 98,169	$ 73,110
Future income taxes	(1,525)	(2,438)
	$ 96,644	$ 70,672

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

	2007	2006
Income taxes, calculated using Canadian statutory income tax rates	$ 108,415	$ 82,569
Adjustments resulting from the following:		
Effect of tax rates of foreign subsidiaries	685	108
Changes in tax laws and rates	(6,058)	1,448
Benefit arising from investment in subsidiaries	(8,033)	(8,901)
Other	1,635	(4,552)
Provision for income taxes	$ 96,644	$ 70,672

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

	2007	2006
Future income tax asset		
Accounts payable and accrued liabilities	$ 6,895	$ 5,872
Income tax losses	10,681	12,839
Portfolio Investment	1,151	1,832
Other	7,272	4,699
	$ 25,999	$ 25,242
Future income tax liability		
Inventories	$ 5,863	$ 875
Fixed assets	82,757	89,627
Net assets of pension plans	13,423	14,333
Other assets	6,596	3,273
Long-term debt	10,942	13,440
	$ 119,581	$ 121,548
Classified in the financial statements as:		
Current future income tax asset	$ 13,045	$ 12,098
Long-term future income tax asset	9,720	1,650
Current future income tax liability	(1,294)	(369)
Long-term future income tax liability	(115,053)	(109,685)
Net future income tax liability	$ (93,582)	$ (96,306)

Potential tax benefits

As of March 31, 2007, in addition to the income tax losses recorded, the Company has income tax losses of approximately $26,357,000 ($40,423,000 in 2006) which may be used to reduce future years' taxable income of its subsidiaries in Argentina. These losses expire as follows:

2008	$ 26,357,000

13. EARNINGS PER SHARE

	2007	2006
Net earnings	$ 238,467	$ 192,102
Weighted average number of common shares outstanding	103,720,154	104,698,601
Dilutive options	727,728	813,052
Dilutive number of common shares outstanding	104,447,882	105,511,653
Basic earnings per share	$ 2.30	$ 1.83
Diluted earnings per share	$ 2.28	$ 1.82

When calculating dilutive earnings per share in 2006, 901,781 options were excluded from the calculation because their exercise price is higher than the average market value. In 2007, no options were excluded from the calculation.

Shares purchased during the year under both normal course issuer bids were excluded from the calculation of earnings per share as of the date of purchase.

14. BUSINESS ACQUISITIONS

On April 13, 2006, the Company acquired the activities of Spezialitäten-Käserei De Lucia GmbH (a German cheese manufacturer producing Italian cheese specialties) for a cash consideration of $7,086,000, which was attributed mainly to fixed assets.

On July 28, 2006, the Company acquired the activities of Boulangerie Rondeau Inc. and Biscuits Rondeau Inc. (a fresh tart and cookie manufacturer operating in Canada) for a cash consideration of $12,545,000. The fair values attributed to the assets acquired were $1,218,000 to working capital, $4,410,000 to fixed assets, $4,917,000 to goodwill, and $2,000,000 to trademarks.

On March 23, 2007, the Company acquired the activities of Dansco Dairy Products Limited (a United Kingdom manufacturer producing mainly mozzarella) for a cash consideration of $12,163,000. The fair values attributed to the assets acquired were $3,935,000 to working capital, and $8,228,000 to fixed assets. The final allocation of the purchase price will be completed in the next fiscal year.

On April 18, 2005, the Company acquired the activities of Fromage Coté S.A. and Distributions Kingsey Inc. (a cheese manufacturer operating in Canada) for a cash consideration of $53,421,000. The fair values attributed to the assets acquired were $11,040,000 to working capital, $11,375,000 to fixed assets, $23,626,000 to goodwill, and $7,380,000 to trademarks.

On May 27, 2005, the Company acquired the activities of Schneider Cheese, Inc. (a cheese manufacturer operating in the United States) for a cash consideration of $32,917,000. The fair values attributed to the assets acquired were $4,718,000 to working capital, $5,521,000 to fixed assets and $22,678,000 to goodwill.

15. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

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

Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years or the career salary. Contributions paid by employees and contributions by the Company are based on recommendations from independent actuaries. Actuarial valuations were performed in December 2003 and 2005. The measurement date of pension plan assets and liabilities is December 31.

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

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

Financial position of the plans

	2007		2006	
	Defined benefit pension plans	Other benefit plans	Defined benefit pension plans	Other benefit plans
Changes in accrued benefit obligations				
Benefits obligation at beginning of year	$ 200,370	$ 13,001	$ 175,635	$ 20,586
Current service cost	7,096	256	5,960	467
Interest cost	10,339	658	10,354	912
Benefits paid	(14,612)	(1,144)	(13,018)	(1,591)
Actuarial losses (gains)	(3,225)	406	21,030	672
Amendments and divestitures	–	–	530	(7,951)
Foreign currency gain	(30)	(34)	(121)	(94)
Benefits obligation at end of year	199,938	13,143	200,370	13,001
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	175,819	–	163,487	–
Actual return on plan assets	19,254	–	14,225	–
Employer contributions	11,563	944	10,071	1,373
Employee contributions	1,150	200	1,150	218
Benefits paid	(14,613)	(1,144)	(13,018)	(1,591)
Foreign currency loss	(27)	–	(96)	–
Fair value of plan assets at end of year	193,146	–	175,819	–
Funded status				
Deficit, end of year	(6,792)	(13,143)	(24,551)	(13,001)
Unamortized actuarial losses	67,104	2,251	82,260	2,113
Unamortized past service cost	1,081	231	1,196	262
Valuation allowance	(181)	–	–	–
Unamortized transitional obligation	(8,749)	1,169	(9,905)	1,365
Asset (liability) as at the measurement date	52,463	(9,492)	49,000	(9,261)
Employer contributions made from the measurement date to the end of the year	1,863	62	1,606	160
Net asset (liability) recognized in the balance sheet	$ 54,326	$ (9,430)	$ 50,606	$ (9,101)

All defined benefit pension plans present an accrued benefit obligations in excess of plan assets.

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

Employee benefit plans expense

	2007		2006	
	Pension plans	Other benefit plans	Pension plans	Other benefit plans
Defined benefit plans				
Employer current service cost	$ 5,946	$ 56	$ 4,809	$ 249
Interest cost on benefits obligation	10,339	658	10,354	912
Actual return on plan assets	(19,254)	–	(14,225)	–
Actual losses (gains)	(3,225)	406	21,030	687
Plan amendments	–	–	530	39
Curtailment and settlement of plans	–	–	–	(5,291)
Unadjusted benefits expense taking into account the long-term nature of the cost	(6,194)	1,120	22,498	(3,404)
Difference between expected return and actual return on plan assets	6,538	–	1,737	–
Difference between amortized past service costs and plan amendments for the year	115	31	(415)	16
Difference between net actuarial loss recognized and actual actuarial loss on benefits obligation	8,608	(140)	(17,659)	(504)
Transitional obligation amortization	(1,156)	196	(1,156)	197
Defined benefit plan expense before valuation allowance	7,911	1,207	5,005	(3,695)
Valuation allowance	181	–	–	–
Defined benefit plan expense	8,092	1,207	5,005	(3,695)
Defined contribution plan expense	11,929	–	11,093	–
Total benefit plan expense	$ 20,021	$ 1,207	$ 16,098	$ (3,695)

For the year ended March 31, 2007, the Company's total expense for all its employee benefits plans was $ 21,229,000 ($12,403,000 in 2006) and the total Company contributions to the employee benefits plans was $ 24,436,000 ($22,537,000 in 2006).

Weighted average assumptions				
To determine benefits obligation at the end of year:				
Discount rate	5.26%	5.35%	5.26%	5.31%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
To determine benefit plan expense:				
Discount rate	5.26%	5.31%	6.00%	6.00%
Expected long-term rate of return on plan assets	7.31%	N/A	7.32%	N/A
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 7% to 10% annual rate of increase was used for health, life insurance and dental plan costs for the year 2008 and this rate is assumed to decrease gradually to 5.1% in 2012. In comparison, during the previous year, a 7% to 12% annual rate was used for the year 2007 and that rate was assumed to decrease gradually to 6% in 2011.

16. COMMITMENTS AND CONTINGENCIES

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

2008	$ 10,038
2009	8,275
2010	7,111
2011	6,228
2012	3,482
Subsequent years	4,890
	$ 40,024

The Company is defendant to certain claims arising from the normal course of its business. The Company believes that the final resolution of these claims will not have a material adverse effect on its earnings or financial position. During the fiscal year, a proposed change with retroactive effect to Canadian provincial tax legislation was effectively enacted. A tax assessment for an amount of approximately $12,000,000 was issued as a result of the enactment. The Company has legal basis to believe that it will not have to pay such tax assessment. Therefore, no amount relating to this assessment has been included in the March 31, 2007 financial statements.

Indemnifications

The Company from time to time offers indemnifications to third parties in the normal course of its business, in connection with business or asset acquisitions or dispositions. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration. At March 31, 2007, given that the nature and amount of such indemnifications depend on future events, the Company is unable to reasonably estimate its maximum potential liability under these agreements. The Company has not made any significant indemnification payments in the past, and as at March 31, 2007 and 2006, the Company has not recorded a liability associated with these indemnifications.

Leases

The Company guarantees to certain lessors a portion of the residual value of certain leased assets with respect to operating which mature until 2013. If the market value of leased assets, at the end of the respective operating lease term, is inferior to the guaranteed residual value, the Company is obligated to indemnify the lessor, specific to certain conditions, for the shortfall up to a maximum value. The Company believes that the potential indemnification will not have a significant effect on the consolidated financial statements.

17. RELATED PARTY TRANSACTIONS

The Company receives and provides services from companies subject to significant influence through ownership by its principal shareholder. These transactions were made in the normal course of business and have been recorded at the exchange amount which corresponds to the fair market value. All amounts are included in cost of sales, selling and administrative expenses on the statement of earnings.

Services received were the following:

	2007	2006
Rent, travel and lodging expenses	$ 2,164	$ 1,937
Management fees for compensation of the Chairman of the Board	500	500
	$ 2,664	$ 2,437
Services provided were the following:		
Management fees for services provided by the Company	$ 175	$ 175

There are no amounts receivable or payable with respect to these transactions as at March 31, 2007 and 2006.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The fair value of cash and cash equivalents, receivables, bank loans and accounts payable and accrued liabilities corresponds to their carrying value due to their short-term maturity.

The fair value of long-term debt, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions, is $277,505,000 ($318,292,000 in 2006).

b) Credit risk

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The Company does not have any credit risk concentration.

c) Interest rate risk

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

The Company occasionally enters into interest swap contracts to hedge against exposures to increases in interest rates. As at March 31, 2007, the Company had no outstanding interest swap contracts.

d) Currency risk

In the normal course of Canadian operations, the Company enters into certain foreign currency transactions. The Company manages its currency risks by occasionally entering into foreign currency contracts. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 1,300,000 euros (1,800,000 euros in 2006) and $5,000,000 US.

The Company realizes approximately 26% and 5% of its sales in the United States and Argentina, respectively, and is therefore exposed to currency exchange fluctuations.

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

e) Price commodities risk

The Company occasionally enters into hedging contracts to hedge against fluctuations on the price of certain commodities. Outstanding contracts as at the balance sheet date had a negative fair value of $756,000 (positive fair value of $1,800,000 in 2006).

19. SEGMENTED INFORMATION

The Company has two operating segments, Dairy Products and Grocery Products.

The dairy products sector principally includes the production and distribution of cheeses and fluid milk. The activities of this sector are carried out in Canada, United States, Argentina, Germany and the United Kingdom.

The grocery products sector consists of the production and marketing of mainly snack-cakes. Total assets of this sector include the portfolio investment.

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

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

Revenues are attribuable to countries based upon manufacturing origin.

19. SEGMENTED INFORMATION (cont'd)

Information on operating sectors

	2007			2006		
	Canada and other	United States	Total	Canada and other	United States	Total
Revenues						
Dairy products	$2,794,099	$1,036,830	$3,830,929	$2,651,402	$1,206,601	$3,858,003
Grocery products	170,051	–	170,051	164,207	–	164,207
	$2,964,150	$1,036,830	$4,000,980	$ 2,815,609	$1,206,601	$4,022,210
Earnings before interest, depreciation, income taxes, and devaluation						
Dairy products	$ 317,086	$ 82,890	$ 399,976	$ 261,593	$ 78,300	$ 339,893
Grocery products	26,356	–	26,356	26,072	–	26,072
	$ 343,442	$ 82,890	$ 426,332	$ 287,665	$ 78,300	$ 365,965
Depreciation of fixed assets						
Dairy products	$ 36,163	$ 29,849	$ 66,012	$ 34,146	$ 29,881	$ 64,027
Grocery products	6,104	–	6,104	5,334	–	5,334
	$ 42,267	$ 29,849	$ 72,116	$ 39,480	$ 29,881	$ 69,361
Operating income						
Dairy products	$ 280,923	$ 53,041	$ 333,964	$ 227,447	$ 48,419	$ 275,866
Grocery products	20,252	–	20,252	20,738	–	20,738
	$ 301,175	$ 53,041	$ 354,216	$ 248,185	$ 48,419	$ 296,604
Devaluation of portfolio investment			–			10,000
Interest			19,105			23,830
Earnings before income taxes			335,111			262,774
Income taxes			96,644			70,672
Net earnings			$ 238,467			$ 192,102

19. SEGMENTED INFORMATION (cont'd)

Geographic information

	2007				2006			
	Canada	Argentina & Europe	United States	Total	Canada	Argentina & Europe	United States	Total
Revenues								
Dairy products	$2,566,645	$ 227,454	$1,036,830	$3,830,929	$2,473,045	$ 178,357	$1,206,601	$3,858,003
Grocery products	170,051	–	–	170,051	164,207	–	–	164,207
	$2,736,696	$ 227,454	$1,036,830	$4,000,980	$2,637,252	$ 178,357	$1,206,601	$4,022,210
Total assets								
Dairy products	$1,014,705	$ 206,145	$ 961,923	$2,182,773	$1,116,636	$ 148,157	$ 695,881	$1,960,674
Grocery products	305,594	–	–	305,594	293,259	–	–	293,259
	$1,320,299	$ 206,145	$ 961,923	$2,488,367	$1,409,895	$ 148,157	$ 695,881	$2,253,933
Net book value of fixed assets								
Dairy products	$ 332,980	$ 102,073	$ 209,666	$ 644,719	$ 336,772	$ 70,863	$ 226,433	$ 634,068
Grocery products	46,507	–	–	46,507	40,627	–	–	40,627
	$ 379,487	$ 102,073	$ 209,666	$ 691,226	$ 377,399	$ 70,863	$ 226,433	$ 674,695
Additions to fixed assets								
Dairy products	$ 24,264	$ 28,588	$ 15,699	$ 68,551	$ 42,569	$ 29,798	$ 18,503	$ 90,870
Grocery products	7,576	–	–	7,576	5,282	–	–	5,282
	$ 31,840	$ 28,588	$ 15,699	$ 76,127	$ 47,851	$ 29,798	$ 18,503	$ 96,152
Goodwill								
Dairy products	$ 156,324	$ 395	$ 221,230	$ 377,949	$ 156,324	$ –	$ 223,635	$ 379,959
Grocery products	169,430	–	–	169,430	164,513	–	–	164,513
	$ 325,754	$ 395	$ 221,230	$ 547,379	$ 320,837	$ –	$ 223,635	$ 544,472

20. SUBSEQUENT EVENTS

On April 2, 2007, the Company acquired the activities of Land O'Lakes West Coast industrial cheese business in the US for a cash consideration of $254,000,000. The fair values attributed to the assets acquired were $24,000,000 to working capital, $225,000,000 to fixed assets, and $5,000,000 to goodwill. The final allocation of the purchase price will be completed in the next fiscal year.

21. COMPARATIVE AMOUNTS

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

SHAREHOLDER INFORMATION

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General Annual Meeting of Shareholders
Tuesday, July 31, 2007, at 11 a.m.
Laval Room, Hotel Sheraton Laval
2440 Autoroute des Laurentides
Laval, Québec, Canada H7T 1X5

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Corporate Communications
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External Auditors
Deloitte & Touche LLP, Montréal, Québec

Dividend Policy
Saputo Inc. declares quarterly cash dividends on common shares at $0.20 per share, representing a yearly dividend of $0.80 per share. The balance of corporate earnings is reinvested to finance the growth of the Company's business.

The Board of Directors may review the Company's dividend policy from time to time based on financial position, operating results, capital requirements and such other factors as are deemed relevant by the Board in its sole discretion.

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