Management's Statement of Responsibility for Financial Reporting

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

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

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

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is comprised solely of unrelated directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit 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, whose report follows.

(signed)
Lino Saputo, Jr.
President and
Chief Executive Officer

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

Auditors' Report to the Shareholders of Saputo Inc.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2004 and 2003 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)
Deloitte & Touche LLP
Chartered Accountants
Laval, Québec
May 21, 2004

Consolidated Statements of Earnings

Years ended March 31 (in thousands of dollars, except per share amounts)	2004	2003
Revenues	$ 3,570,190	$ 3,398,112
Cost of sales, selling and administrative expenses	3,166,933	3,045,317
Earnings before interest, depreciation and income taxes	403,257	352,795
Depreciation of fixed assets (Note 3)	66,038	70,889
Operating income	337,219	281,906
Interest on long-term debt	34,792	43,672
Other interest (Note 10)	1,218	(1,351)
Earnings before income taxes	301,209	239,585
Income taxes (Note 11)	88,844	65,857
Net earnings	$ 212,365	$ 173,728
Earnings per share (Note 12)		
Net earnings		
Basic	$ 2.05	$ 1.68
Diluted	$ 2.03	$ 1.66

Consolidated Statements of Retained Earnings

Years ended March 31 (in thousands of dollars)	2004	2003
Retained earnings, beginning of year	$ 546,667	$ 409,648
Net earnings	212,365	173,728
Dividends	(47,661)	(36,709)
Retained earnings, end of year	$ 711,371	$ 546,667

Consolidated Balance Sheets

As at March 31 (in thousands of dollars)	2004	2003
ASSETS		
Current assets		
Cash	$ 7,874	$ -
Receivables	287,012	239,366
Inventories	420,660	392,852
Income taxes	9,348	24,290
Future income taxes	14,877	12,854
Prepaid expenses and other assets	13,838	18,383
	753,609	687,745
Portfolio investment (Note 2)	53,991	55,991
Fixed assets (Note 3)	661,183	627,841
Goodwill (Note 4)	524,856	550,630
Trademarks (Note 4)	26,076	-
Other assets (Note 5)	46,422	39,618
Future income taxes	3,411	8,861
	$ 2,069,548	$ 1,970,686
LIABILITIES		
Current liabilities		
Bank overdraft	$ -	$ 1,236
Bank loans (Note 6)	82,367	17,592
Accounts payable and accrued liabilities	295,124	245,188
Income taxes	26,020	44,403
Future income taxes	8,927	-
Current portion of long-term debt (Note 7)	43,969	110,000
	456,407	418,419
Long-term debt (Note 7)	327,942	411,135
Employee future benefits (Note 14)	13,941	13,937
Future income taxes	114,429	110,691
	912,719	954,182
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	469,262	464,331
Contributed surplus (Note 9)	4,411	1,475
Retained earnings	711,371	546,667
Foreign currency translation adjustment	(28,215)	4,031
	1,156,829	1,016,504
	$ 2,069,548	$ 1,970,686

On behalf of the Board

(signed)
Lino Saputo, Director

(signed)
Louis A. Tanguay, Director

Consolidated Statements of Cash Flows

Years ended March 31 (in thousands of dollars)	2004	2003
Cash flows related to the following activities:		
Operating		
Net earnings	$ 212,365	$ 173,728
Items not affecting cash		
Stock based compensation	2,936	1,475
Depreciation of fixed assets	66,038	70,889
Gain on disposal of fixed assets	(680)	(404)
Future income taxes	20,630	4,435
	301,289	250,123
Changes in non-cash operating working capital items	(13,717)	(26,591)
	287,572	223,532
Investing		
Business acquisitions (Note 13)	(99,994)	-
Portfolio investment	2,000	-
Additions to fixed assets	(90,446)	(70,591)
Proceeds on disposal of fixed assets	5,926	4,060
Other assets	(4,677)	3,614
	(187,191)	(62,917)
Financing		
Bank loans	63,945	(11,315)
Repayment of long-term debt	(110,099)	(122,565)
Issuance of share capital for a cash consideration	4,931	4,509
Employee future benefits	4	990
Dividends	(47,661)	(36,709)
	(88,880)	(165,090)
Increase (decrease) in cash	11,501	(4,475)
Effect of exchange rate changes on cash	(2,391)	(1,613)
(Bank overdraft) cash, beginning of year	(1,236)	4,852
Cash (bank overdraft), end of year	$ 7,874	$ (1,236)
Supplemental information		
Interest paid	$ 33,889	$ 38,805
Income taxes paid	$ 70,095	$ 43,079

Notes to the Consolidated Financial Statements

Years ended March 31

(tabular amounts are in thousands of dollars except information on options)

1. Significant Accounting Policies

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

Use of Estimates

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

Consolidated Financial Statements

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.

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 bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

Fixed Assets

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

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

Goodwill and Trademarks

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.

New Accounting Policy

On May 1, 2003, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants regarding “Disposal of long-lived assets and discontinued operations”, which establishe standards for the recognition, measurement, presentation and disclosure of the disposal of long-lived assets and discontinued operations. This new standard was applied prospectively. (See Note 3 for required disclosures.)

1. Significant Accounting Policies (cont'd)

Employee Future Benefits

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using estimates of expected return on plan assets, rates of compensation increase, retirement ages of employees and expected health care costs and other post-retirement benefits. 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 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 to receive benefits under the plans. For valuing defined benefits pension plan assets, the Company uses market values.

Revenue Recognition

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

Foreign Currency Translation

The balance sheet accounts of the self-sustaining companies operating in the United States and Argentina were translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts were translated into Canadian dollars using the average monthly exchange rates in effect during the fiscal years. 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 and Argentina. The change in the foreign currency translation account during the year ended March 31, 2004 principally resulted from the increase in value of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of Canadian companies were translated into Canadian dollars using the exchange rates at the end of the year for 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.

	2004	2003
Foreign currency gain	$ 315	$ 383

Stock Based Compensation

The Company adopted prospectively the Canadian Institute of Chartered Accountants recommendations on stock based compensation and other stock based payments, effective April 1, 2002. The use of 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.

2. Portfolio Investment

	2004	2003
21% share capital interest in Dare Holdings Ltd.	$ 53,991	$ 55,991

The portfolio investment is recorded at cost less the excess of dividends received over the Company's share in accumulated earnings.

The dividend of $2,000,000 received during the year was accounted for as a reduction of the cost of the investment and the $2,000,000 dividend received in 2003 was included in revenues.

3. Fixed Assets

	2004			2003		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 33,932	$ -	$ 33,932	$ 33,050	$ -	$ 33,050
Buildings	253,394	56,013	197,381	237,627	48,158	189,469
Furniture, machinery and equipment	677,945	258,036	419,909	634,027	233,923	400,104
Rolling stock	10,714	4,375	6,339	8,785	3,567	5,218
Held for sale	3,622	-	3,622	-	-	-
	$ 979,607	$ 318,424	$ 661,183	$ 913,489	$ 285,648	$ 627,841

Fixed assets held for sale represent mainly machinery, equipment and buildings of the Canadian Dairy products sector that will be disposed of as a result of certain plant closures. A $1,000,000 write-down to fair value of these assets was recorded during the year. This charge is included in depreciation of fixed assets.

4. Goodwill and Trademarks

	2004			2003		
	Dairy products sector	Grocery products sector	Total	Dairy products sector	Grocery products sector	Total
Goodwill						
Balance, beginning of year	$ 386,117	$ 164,513	$ 550,630	$ 407,862	$ 164,513	$ 572,375
Foreign currency translation adjustment	(27,123)	-	(27,123)	(21,745)	-	(21,745)
Business acquisitions (Note 13)	1,349	-	1,349	-	-	-
Balance, end of year	$ 360,343	$ 164,513	$ 524,856	$ 386,117	$ 164,513	$ 550,630
Trademarks (Note 13)						
Business acquisitions	$ 27,330	$ -	$ 27,330	$ -	$ -	$ -
Foreign currency translation adjustment	(1,254)	-	(1,254)	-	-	-
	$ 26,076	$ -	$ 26,076	$ -	$ -	$ -

5. Other Assets

	2004	2003
Net accrued pension plan asset	$ 37,517	$ 29,553
Other	8,905	10,065
	$ 46,422	$ 39,618

6. Bank Loans

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $241,000,000. These bank loans are available in Canadian dollars or the equivalent in other currencies and bear interest at rates based on lenders' prime rates plus a maximum of 0.6% or LIBOR or bankers' acceptances rate plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company.

7. Long-Term Debt

	2004	2003
Term bank loan, available in the form of bank advances or bankers' acceptances, repayable by quarterly variable instalments until December 2004, bearing interest at fluctuating rates based on prime rate plus a maximum of 0.6% and bankers' acceptances rates plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. As at March 31, 2004, the term bank loan is comprised of advances of $1,170,000 ($770,000 in 2003) and bankers' acceptances of $42,700,000 ($153,100,000 in 2003)	$ 43,870	$ 153,870
Senior notes		
7.97%, due in November 2006 (US$30,000,000)	39,339	44,034
8.12%, due in November 2009 (US$170,000,000)	222,921	249,526
8.41%, due in November 2014 (US$50,000,000)	65,565	73,390
Other loans, repayable up to 2008 in annual variable instalments	216	315
	371,911	521,135
Current portion	43,969	110,000
	$ 327,942	$ 411,135

Estimated principal payments required in future years are as follows:

2005	$ 43,969
2006	50
2007	39,389
2008	17
2009	-
2010 and subsequent years	288,486
	$ 371,911

8. 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.

	2004	2003
Issued		
103,777,730 common shares (103,460,005 in 2003)	$ 469,262	$ 464,331

317,725 common shares for an amount of $4,931,000 were issued during the year ended March 31, 2004 pursuant to the share option plan.
275,558 common shares for an amount of $4,509,000 were issued during the year ended March 31, 2003 pursuant to the share option plan.

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.

8. Share Capital (cont'd)

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

		2004		2003	
Granting period	Exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
1998	$8.50	125,249	$ 8.50	185,649	$ 8.50
1999	from $16.13 to $18.75	226,180	$ 18.28	298,347	$ 18.29
2000	$19.70	400,164	$ 19.70	445,299	$ 19.70
2001	$13.50	793,069	$ 13.50	884,116	$ 13.50
2002	from $19.00 to $23.00	994,783	$ 19.13	1,060,640	$ 19.12
2003	$30.35	891,072	$ 30.35	910,893	$ 30.35
2004	$22.50	1,315,063	$ 22.50	-	$ -
		4,745,580	$ 20.96	3,784,944	$ 19.99
Options exercisable at year-end		1,566,785	$ 18.12	1,188,048	$ 13.44

Changes in the number of options are as follows:

	2004		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	3,784,944	$ 19.99	3,258,967	$ 16.69
Options granted	1,338,396	$ 22.50	934,965	$ 30.35
Options exercised	(317,725)	$ 15.52	(275,558)	$ 16.36
Options cancelled	(60,035)	$ 23.31	(133,430)	$ 19.40
Balance at end of year	4,745,580	$ 20.96	3,784,944	$ 19.99

As disclosed in Note 1, the Company began prospectively expensing the fair value of stock options granted since April 1, 2002.
The fair value of share purchase options awarded was estimated at $6.31 per option ($8.98 in 2003), using the Black-Scholes option pricing model with the following assumptions:

	2004	2003
Risk-free interest rate:	4.9%	5.0%
Expected life of options:	7 1/2 years	7 1/2 years
Volatility:	27%	20%
Dividend rate:	1.7%	1.4%

The exercise price of these options is $22.50 ($30.35 in 2003), which corresponds to the closing quoted value of the shares on the day preceding the grant date.
A compensation expense of $2,936,000 ($2,571,000 after income taxes) for stock options granted during the year was recorded in the statement of earnings for the year ended March 31, 2004 and $1,475,000 ($1,310,000 after income taxes) was recorded for the year ended March 31, 2003. The effect of this expense on basic and diluted earnings per share was $0.025 for the year ended March 31, 2004, and $0.013 for the year ended March 31, 2003.
Options to purchase 984,055 common shares at a price of $33.05 were also granted on April 1, 2004.

9. Contributed Surplus

	2004	2003
Contributed surplus, beginning of year	$ 1,475	$ -
Stock based compensation	2,936	1,475
Contributed surplus, end of year	$ 4,411	$ 1,475

10. Other Interest

	2004	2003
Expense	$ 1,586	$ 726
Income	(368)	(2,077)
	$ 1,218	$ (1,351)

11. Income Taxes

The provision for income taxes is comprised of the following:

	2004	2003
Current income taxes	$ 68,214	$ 61,422
Future income taxes	20,630	4,435
	$ 88,844	$ 65,857

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

	2004	2003
Income taxes, calculated using Canadian statutory income tax rates	$ 101,454	$ 83,200
Adjustments resulting from the following:		
Manufacturing and processing credit	(4,483)	(7,246)
Non-taxable dividend from the portfolio investment	-	(791)
Effect of tax rates of American subsidiaries	4,442	612
Changes in tax laws and rates	(1)	(2,728)
Utilization of tax benefit not previously recognized	(3,501)	-
Other	(9,067)	(7,190)
Provision for income taxes	$ 88,844	$ 65,857

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

	2004	2003
Future income taxes asset		
Accounts payable and accrued liabilities	$ 5,773	$ 5,496
Income tax losses	2,915	4,570
Other	2,306	4,879
	$ 10,994	$ 14,945
Future income taxes liability		
Inventories	$ 6,680	$ -
Fixed assets	94,624	92,064
Net assets of pension plans	7,259	4,999
Other assets	993	557
Portfolio investment	6,506	6,301
	$ 116,062	$ 103,921
Classified in the financial statements as:		
Current future income taxes asset	$ 14,877	$ 12,854
Long-term future income taxes asset	3,411	8,861
Current future income tax liability	(8,927)	-
Long-term future income taxes liability	(114,429)	(110,691)
Net future income taxes liability	$(105,068)	$ (88,976)

11. Income Taxes (cont'd)

Potential Tax Benefits

As of March 31, 2004, the Company has income tax losses of approximately $58,511,000, which may be used to reduce future years' taxable income of its subsidiaries in Argentina. The benefits resulting from these tax losses have not been recognized in the accounts. These losses expire as follows:

2005	$ 10,584,000
2006	$ 9,281,000
2007	$ 12,568,000
2008	$ 26,078,000

12. Earnings per Share

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during each fiscal year: 103,589,621 shares in 2004 and 103,380,203 in 2003.

Diluted earnings per share for the year ended March 31, 2004 have been calculated using 104,817,272 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2004 (103,589,621 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (1,227,651 shares).

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

13. Business Acquisitions

The Company acquired on May 1, 2003 a 51% voting share interest in Gallo Protein 2003, LLC (a joint venture) for a cash consideration of $3,546,000, and acquired on May 23, 2003 the commercial activities of the *Treasure Cave* and *Nauvoo* brands for a cash consideration of $36,510,000. Relating to the Gallo Protein acquisition, the fair values attributed to the assets acquired were $812,000 to working capital, $1,385,000 to fixed assets, and $1,349,000 to goodwill. The fair values attributed to the assets acquired for the commercial activities of the *Treasure Cave* and *Nauvoo* brands were $5,361,000 to working capital, $3,819,000 to fixed assets and $27,330,000 to trademarks. Gallo Protein 2003, LLC operates in the United States and manufactures and markets whey protein isolates and related products from whey protein concentrate. The commercial activities of the *Treasure Cave* and *Nauvoo* brands are related to the manufacturing and commercialization of blue cheese in the United States.

On November 28, 2003, the Company completed the acquisition of 100% of the voting shares of Molfino Hermanos S.A. (Molfino). Molfino is a cheese and dairy products manufacturer operating in Argentina. Total acquisition costs for Molfino amounted to $66,162,000 including cash of $4,395,000 and related acquisition costs to be paid of $1,829,000 for a net consideration paid of $59,938,000. The fair values attributed to the assets acquired were $40,092,000 to fixed assets, $2,166,000 to other assets, and the remainder of $19,509,000 to working capital. The operating results of Molfino are included in the Canada and other Dairy products sector. The allocation of the purchase price is not completed because the Company is still in the process of finalizing the integration plan of this business. The final allocation will be completed in the next fiscal year.

14. 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 are paid by employees and contributions by the Company are based on recommendations from independent actuaries.

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

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

Financial position of the plans

	2004		2003	
	Defined benefit pension plans	Other benefit plans	Defined benefit pension plans	Other benefit plans
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	$ 142,145	$ -	$ 163,003	$ -
Acquisitions during the year	-	-	893	-
Actual return on plan assets	15,914	-	(9,709)	-
Employer contributions	5,548	1,061	698	777
Employee contributions	1,129	111	1,129	71
Benefits paid	(11,767)	(1,172)	(13,684)	(848)
Foreign currency loss	(239)	-	(185)	-
Fair value of plan assets at end of year	152,730	-	142,145	-
Changes in accrued benefits obligation				
Benefits obligation at beginning of year	154,890	20,683	154,735	19,175
Acquisitions during the year	-	-	893	-
Current service cost	4,188	914	4,125	799
Interest cost	10,187	64	10,008	276
Benefits paid	(11,767)	(1,172)	(13,684)	(848)
Actuarial (gains) losses	8,295	(3,213)	(940)	1,281
Amendments and divestitures	-	338	-	-
Foreign currency gain	(333)	-	(247)	-
Benefits obligation at end of year	165,460	17,614	154,890	20,683
Deficit	(12,730)	(17,614)	(12,745)	(20,683)
Unamortized actuarial losses	60,797	2,260	55,715	2,610
Unamortized past service cost	761	(344)	802	(456)
Foreign currency loss	-	-	(1,146)	-
Unamortized transitional obligation	(12,215)	1,757	(13,370)	4,592
Asset (liability) as at the measurement date	36,613	(13,941)	29,256	(13,937)
Employer contributions made from the measurement date to the end of the year	904	-	297	-
Net asset (liability) recognized in the balance sheet	$ 37,517	$ (13,941)	$ 29,553	$ (13,937)

The net accrued benefit asset is included in other assets presented in the balance sheet (Note 5).

14. Employee Pension and Other Benefit Plans (cont'd)

	2004		2003	
	Pension plans	Other benefit plans	Pension plans	Other benefit plans
Employee benefit plans expense				
Defined benefit plans				
Current service cost	$ 3,058	$ 584	$ 3,025	$ 694
Interest cost	10,187	1,216	10,058	1,341
Expected return on plan assets	(13,522)	-	(14,010)	-
Amortization of transitional obligation	(1,156)	377	(1,155)	460
Amortization of past service cost	91	(50)	89	37
Curtailment of plans	(1,146)	-	-	-
Amortization of actuarial gain	681	(305)	70	(13)
Provision for decrease in value	-	-	67	-
	(1,807)	1,822	(1,856)	2,519
Defined contribution plans	8,712	-	8,531	-
	$ 6,905	$ 1,822	$ 6,675	$ 2,519
Weighted average assumptions				
Discount rate of obligation	6.25%	6.25%	6.75%	6.75%
Expected long-term rate of return on plan assets	7.90%	N/A	7.90%	N/A
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 5.5% to 7% annual rate of increase was used for health, life insurance and dental plan costs for the year 2005 and this rate is assumed to decrease gradually to 5.3% in 2007 and remain at that level thereafter.

15. 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:

2005	$ 16,585
2006	8,941
2007	7,471
2008	5,093
2009	4,392
Subsequent years	3,600
	$ 46,082

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.

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

16. Financial Instruments and Risk Management

a) Fair Value of Financial Instruments

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

The fair value of long-term debt, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions, is $445,133,000 ($604,385,000 in 2003).

b) Credit Risk

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

c) Interest Rate Risk

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

The Company occasionally enters into interest swap contracts to hedge against exposures to increases in interest rates. As at March 31, 2004, the Company had entered into an interest swap contract at a rate of 5.08% covering $34,700,000 of long-term debt. This contract expires in December 2004. As at March 31, 2004, an amount of $556,000 would be necessary to settle this contract.

d) Currency Risk

In the normal course of Canadian operations, the Company enters into certain foreign currency transactions. The Company manages its currency risks by occasionally entering into foreign currency contracts. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 500,000 euros.

The Company realizes approximately 35% of its sales in the United States and is therefore exposed to currency exchange fluctuations.

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

e) Price Commodities Risk

The Company occasionally enters into hedging contracts to hedge against fluctuations on the price of certain commodities. Outstanding contracts as at the balance sheet date had a fair value of $2,600,000.

17. Segmented Information

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, in Argentina and the United States.

The Grocery products sector consists of the production and marketing of snack cakes. Total assets of this sector includes 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 make any intersector sales.

Information on operating sectors

	2004			2003		
	Canada and other	United States	Total	Canada and other	United States	Total
Revenues						
Dairy products	$ 2,161,852	$ 1,240,954	$ 3,402,806	$ 2,017,383	$ 1,212,810	$ 3,230,193
Grocery products	167,384	-	167,384	167,919	-	167,919
	$ 2,329,236	$ 1,240,954	$ 3,570,190	$ 2,185,302	$ 1,212,810	$ 3,398,112
Earnings before interest, depreciation and income taxes						
Dairy products	$ 209,855	$ 160,887	$ 370,742	$ 199,561	$ 120,069	$ 319,630
Grocery products	32,515	-	32,515	33,165	-	33,165
	$ 242,370	$ 160,887	$ 403,257	$ 232,726	$ 120,069	$ 352,795
Depreciation of fixed assets						
Dairy products	$ 29,854	$ 31,550	$ 61,404	$ 29,697	$ 35,704	$ 65,401
Grocery products	4,634	-	4,634	5,488	-	5,488
	$ 34,488	$ 31,550	$ 66,038	$ 35,185	$ 35,704	$ 70,889
Operating income						
Dairy products	$ 180,001	$ 129,337	$ 309,338	$ 169,864	$ 84,365	$ 254,229
Grocery products	27,881	-	27,881	27,677	-	27,677
	$ 207,882	$ 129,337	337,219	$ 197,541	$ 84,365	281,906
Interest			36,010			42,321
Earnings before income taxes			301,209			239,585
Income taxes			88,844			65,857
Net earnings			$ 212,365			$ 173,728

Geographic information

	2004				2003		
	Canada	Argentina	United States	Total	Canada	United States	Total
Revenues							
Dairy products	$ 2,117,390	$ 44,462	$ 1,240,954	$ 3,402,806	$ 2,017,383	$ 1,212,810	$ 3,230,193
Grocery products	167,384	-	-	167,384	167,919	-	167,919
	$ 2,284,774	$ 44,462	$ 1,240,954	$ 3,570,190	$ 2,185,302	$ 1,212,810	$ 3,398,112
Total assets							
Dairy products	$ 932,552	$ 89,138	$ 756,236	$ 1,777,926	$ 861,176	$ 824,759	$ 1,685,935
Grocery products	291,622	-	-	291,622	284,751	-	284,751
	$ 1,224,174	$ 89,138	$ 756,236	$ 2,069,548	$ 1,145,927	$ 824,759	$ 1,970,686
Net book value of fixed assets							
Dairy products	$ 305,134	$ 41,805	$ 274,368	$ 621,307	$ 276,036	$ 312,164	$ 588,200
Grocery products	39,876	-	-	39,876	39,641	-	39,641
	$ 345,010	$ 41,805	$ 274,368	$ 661,183	$ 315,677	$ 312,164	$ 627,841
Additions to fixed assets							
Dairy products	$ 63,713	$ 315	$ 21,295	$ 85,323	$ 42,694	$ 22,080	$ 64,774
Grocery products	5,123	-	-	5,123	5,817	-	5,817
	$ 68,836	$ 315	$ 21,295	$ 90,446	$ 48,511	$ 22,080	$ 70,591
Goodwill							
Dairy products	$ 132,698	$ -	$ 227,645	$ 360,343	$ 132,698	$ 253,419	$ 386,117
Grocery products	164,513	-	-	164,513	164,513	-	164,513
	$ 297,211	$ -	$ 227,645	$ 524,856	$ 297,211	$ 253,419	$ 550,630