Saputo

2013
Annual Report

Management's Discussion and Analysis

Consolidated Financial Statements

2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The goal of the management report is to analyze the results of and the financial position for the year ended March 31, 2013. It should be read while referring to the audited consolidated financial statements and accompanying notes. The accounting policies of Saputo Inc. (Company or Saputo) are in accordance with International Financial Reporting Standards (IFRS). All dollar amounts are in Canadian dollars, unless otherwise indicated. This report takes into account material elements between March 31, 2013 and June 5, 2013, the date on which this report was approved by Saputo's Board of Directors. Additional information about the Company, including the annual information form for the year ended March 31, 2013, can be obtained on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of securities laws. These statements are based, among other things, on Saputo's assumptions, expectations, estimates, objectives, plans and intentions as of the date hereof regarding projected revenues and expenses, the economic, industry, competitive and regulatory environments in which the Company operates or which could affect its activities, its ability to attract and retain customers and consumers, as well as the availability and cost of milk and other raw materials and energy supplies, its operating costs and the pricing of its finished products on the various markets in which it carries on business.

These forward-looking statements include, among others, statements with respect to the Company's short and medium term objectives, outlook, business projects and strategies to achieve those objectives, as well as statements with respect to the Company's beliefs, plans, objectives and expectations. The words "may", "should", "will", "would", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective", "continue", "propose" or "target", or the negative of these terms or variations of them, the use of conditional tense or words and expressions of similar nature, are intended to identify forward-looking statements.

By their nature, forward-looking statements are subject to a number of inherent risks and uncertainties. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking statements. As a result, the Company 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 actual results to differ materially from current expectations are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risks and Uncertainties" section of this Management's Discussion and Analysis.

Forward-looking statements are based on Management's current estimates, expectations and assumptions, which Management believes are reasonable as of the date hereof, and, accordingly, are subject to changes after such date. You should not place undue importance on forward-looking statements and should not rely upon this information as of any other date.

Except as required under applicable securities legislation, Saputo does not undertake to update or revise these forward-looking statements, whether written or verbal, that may be made from time to time by itself or on its behalf, whether as a result of new information, future events or otherwise.

Global overview

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Our Company

Saputo is one of the top ten dairy processors in the world, the largest in Canada, the third largest in Argentina and among the top three cheese producers in the United States.

Our Business

SAPUTO HAS 12,000 EMPLOYEES in plants, distribution networks and offices across three countries, operating its business and reporting its results through two sectors.

TOTAL REVENUES BY SECTOR[1] (%)		TOTAL REVENUES BY DIVISION (%)
DAIRY PRODUCTS SECTOR 98%	CEA DAIRY PRODUCTS SECTOR (Canada, Europe, Argentina) 56%	DAIRY PRODUCTS DIVISION (CANADA, EUROPE)[2] 50%
		DAIRY PRODUCTS DIVISION (ARGENTINA) 6%
	USA DAIRY PRODUCTS SECTOR 42%	DAIRY PRODUCTS DIVISION (USA) 42%
GROCERY PRODUCTS SECTOR 2%	2%	BAKERY DIVISION 2%

TOTAL REVENUES **$7.3 billion**

(1) With the Morningstar Acquisition, the percentage of total revenues by sector, on an annual *pro forma* basis, would have been 48% in the CEA Dairy Products Sector, 51% in the USA Dairy Products Sector and 1% in the Grocery Products Sector.
(2) Includes Europe 1%.

Our Network

TOTAL DAIRY PRODUCTS REVENUES (%)

SAPUTO DAIRY PRODUCTS are available in all market segments.

RETAIL 52%	Sales are made to supermarket chains, mass-merchandisers, convenience stores, independent retailers, warehouse clubs and specialty cheese boutiques under company-owned or customer brand names.
FOODSERVICE 34%	Sales are made to broadline distributors, as well as to restaurants and hotels, under company-owned or customer brand names. Through its Canadian distribution network, Saputo also offers products manufactured by third parties.
INDUSTRIAL 14%	Sales are made to food processors that use Saputo's products as ingredients to manufacture their products.

SAPUTO GROCERY PRODUCTS

Saputo's grocery products, which include mainly snack-cakes, are sold in Canada almost exclusively in the retail segment through supermarket chains, independent retailers, and warehouse clubs. Branded products are available on a small scale in the US and through co-packing agreements, the Company manufactures customer brand name products for third parties in the US.

Selected Consolidated Financial Information

Years ended March 31 (in thousands of CDN dollars, except per share amounts and ratios)	**2013**	2012	2011
STATEMENT OF EARNINGS DATA			
Revenues			
Dairy Products Sector			
CEA[1]	**4,091,356**	4,054,516	3,837,188
USA	**3,069,179**	2,741,813	2,024,455
	7,160,535	6,796,329	5,861,643
Grocery Products Sector	**137,142**	134,041	141,289
	7,297,677	6,930,370	6,002,932
Operating Costs Excluding Depreciation, Amortization, Acquisition and Restructuring			
Dairy Products Sector			
CEA	**3,592,389**	3,539,730	3,343,346
USA	**2,721,320**	2,438,408	1,742,567
	6,313,709	5,978,138	5,085,913
Grocery Products Sector	**123,196**	121,301	128,738
	6,436,905	6,099,439	5,214,651
EBITDA[2]			
Dairy Products Sector			
CEA	**498,967**	514,786	493,842
USA	**347,859**	303,405	281,888
	846,826	818,191	775,730
Grocery Products Sector	**13,946**	12,740	12,551
	860,772	830,931	788,281
EBITDA margin (%)	***11.8%***	*12.0%*	*13.1%*
Depreciation and Amortization			
Dairy Products Sector			
CEA	**55,822**	52,574	51,870
USA	**53,901**	43,670	48,318
	109,723	96,244	100,188
Grocery Products Sector	**6,906**	5,699	5,793
	116,629	101,943	105,981
Acquisition costs	**9,646**	–	–
Restructuring costs	**32,631**	–	–
Impairment of goodwill	**–**	125,000	–
Impairment of portfolio investment	**–**	–	13,600
Interest on long-term debt	**29,896**	23,081	23,211
Other financial charges	**4,203**	1,569	663
Earnings before income taxes	**667,767**	579,338	644,826
Income taxes	**185,846**	198,498	194,775
Net earnings	**481,921**	380,840	450,051
Net earnings margin (%)	***6.6%***	*5.5%*	*7.5%*

Years ended March 31 (in thousands of CDN dollars, except per share amounts and ratios)	**2013**	2012	2011
Net earnings	**481,921**	380,840	450,051
Acquisition costs (net of income taxes of $3,531)	**6,115**	–	–
Restructuring costs (net of income taxes of $10,034)	**22,597**	–	–
Impairment of goodwill	**–**	125,000	–
Impairment of portfolio investment (net of income taxes of $2,000)	**–**	–	11,600
Adjusted net earnings[3]	**510,633**	505,840	461,651
Adjusted net earnings margin (%)	***7.0%***	*7.3%*	*7.7%*
PER SHARE DATA			
Adjusted earnings per share[3]	**2.58**	2.51	2.24
Adjusted diluted earnings per share[3]	**2.55**	2.47	2.21
Earnings per share	**2.44**	1.89	2.18
Diluted earnings per share	**2.41**	1.86	2.15
Dividends declared per share	**0.84**	0.76	0.64
BALANCE SHEET DATA			
Total assets	**5,193,640**	3,599,120	3,578,331
Interest bearing debt[4]	**1,686,988**	402,369	471,578
Shareholders' equity	**2,305,672**	2,105,686	2,072,635
STATEMENT OF CASH FLOWS DATA			
Net cash generated from operations	**645,792**	522,987	588,520
Amount of additions to property, plant and equipment, net of proceeds on disposal	**177,336**	105,716	105,822

	2013	2012	2011
ADJUSTED EARNINGS PER SHARE[3]	**$2.58**	$2.51	$2.24
EARNINGS PER SHARE	**$2.44**	$1.89	$2.18
	Acquisition and restructuring	Goodwill	Portfolio investment
ACQUISITION, RESTRUCTURING AND IMPAIRMENT COSTS[5]	**$0.14**	$0.62	$0.06

(1) Canada, Europe and Argentina Dairy Products Sector.
(2) EBITDA is defined as earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and impairment costs.
(3) Adjusted net earnings and adjusted earnings per share (basic and diluted) are non-IFRS measures. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 7 of this Management's Discussion and Analysis for the definition of theses terms.
(4) Net of cash and cash equivalents.
(5) Per share amount (basic).

FINANCIAL ORIENTATION

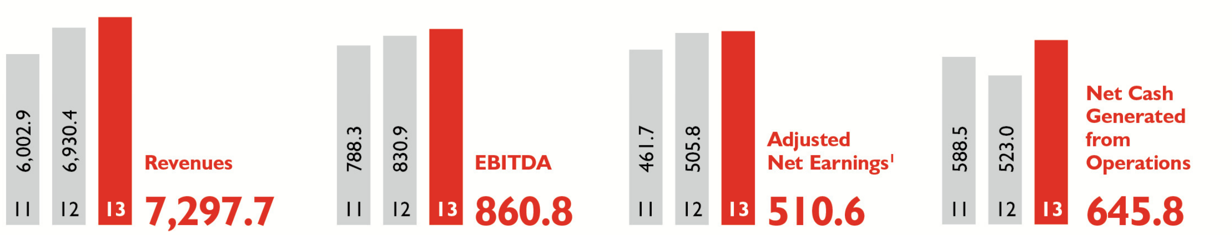
Objectives for the Company remain to grow organically and through acquisitions in order to expand existing markets in addition to establishing a global presence, while creating shareholder value. To achieve these objectives, the Company continues to practice strict discipline in cost management and operational efficiency and to remain a prudent operator and financial manager. Additionally, the Company remains proactive in evaluating possible acquisitions and potential growth markets. Saputo benefits from a strong balance sheet, supplemented by a high level of cash generated by operations and low debt levels and its financial flexibility allows growth through targeted acquisitions and enables the Company to face possible economic changes. In the current fiscal year, the Company continued to strategically invest in capital projects, expanded its activities, increased its dividend payouts, and continued to effectively manage cash by purchasing back its own shares through its normal course issuer bid.

ELEMENTS TO CONSIDER WHEN READING MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL 2013

Highlights and key performance measures for fiscal 2013 are as follows:

- Adjusted net earnings[1] totalled $510.6 million, up 0.9%.
- Net earnings totalled $481.9 million, up 26.5%.
- Acquisition and restructuring costs in fiscal 2013 decreased net earnings by $28.7 million ($0.14 basic and diluted earnings per share).
- Earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and impairment costs (EBITDA) totalled $860.8 million, up 3.6%.
- Revenues reached $7.298 billion, up 5.3%.
- Net cash generated from operations totalled $645.8 million, up 23.5%.
- On January 3, 2013, the Company completed the acquisition of Morningstar Foods, LLC (Morningstar Acquisition) for a total cash consideration of $1.434 billion, financed through a combination of available cash and a new four-year term bank loan facility of $1.2 billion.
- The Morningstar Acquisition contributed to both revenues and EBITDA in the fourth quarter. On an annual *pro forma* basis, had the acquisition taken place on April 1, 2012, the Company would have recorded approximately $8.6 billion in revenues and approximately $1 billion in EBITDA.
- A more favourable dairy ingredients product mix positively affected both revenues and EBITDA of the USA and Canadian Dairy Products Divisions as compared to fiscal 2012.
- In the United States (US), the average block market[2] per pound of cheese decreased by US$0.03 compared to fiscal 2012, decreasing revenues.
- In the US, market factors positively impacted EBITDA.
- The fluctuation of the Canadian dollar had almost no impact on both revenues and EBITDA of the USA and CEA Dairy Products Sectors in fiscal 2013.
- Fiscal 2013 sales volumes for the Dairy Products Divisions decreased by 3.7% in the US, 1.2% in Argentina, and 0.4% in Canada. In the Bakery Division, sales volumes increased by 1.9%.

(in millions of CDN dollars)



OUTLOOK

In fiscal 2014, the Company intends to continue to improve its efficiencies, while remaining committed to producing quality products, innovation and internal growth. It will continue to analyze its activities, invest in capital projects and identify opportunities. The Company's flexible capital structure and low debt levels allow it to actively evaluate and pursue strategic acquisition opportunities, with the goal of expanding its presence in key markets.

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[1] Adjusted net earnings represents a non-IFRS measure. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 7 of this Management's Discussion and Analysis for the definition of this term.
[2] "Average block market" is the average daily price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME), used as the base price for cheese.

MEASUREMENT OF RESULTS NOT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In certain instances, the Company makes references to terms in evaluating financial performance measures, such as adjusted net earnings and adjusted earnings per share, that hold no standardized meaning under IFRS. These measurements are therefore not likely to be comparable to similarly titled or described measures in use by other publicly traded companies. Adjusted net earnings and adjusted earnings per share are used by Management to evaluate net earnings and earnings per share from ongoing operations, excluding the impact of certain acquisition, restructuring and impairment costs described below, in order to improve comparability of the Company's financial results from one fiscal year to another.

Adjusted net earnings is defined by the Company as net earnings prior to the inclusion of acquisition, restructuring, and impairment costs, net of applicable income taxes, if any. Adjusted earnings per share is defined as adjusted net earnings per Saputo Inc. basic and diluted common share. The most comparable IFRS financial measures to the ones used by the Company are net earnings and earnings per share (basic and diluted).

The table below provides a reconciliation of net earnings and earnings per share (basic and diluted) to adjusted net earnings and adjusted earnings per share.

(in thousands of CDN dollars, except per share amounts)

	2013			2012		
		Per Share			Per Share	
	Total	**Basic**	**Diluted**	Total	Basic	Diluted
Net earnings	**481,921**	**2.44**	**2.41**	380,840	1.89	1.86
Acquisition costs	**6,115**	**0.03**	**0.03**	-	-	-
Restructuring costs	**22,597**	**0.11**	**0.11**	-	-	-
Impairment of goodwill	**-**	**-**	**-**	125,000	0.62	0.61
Adjusted net earnings	**510,633**	**2.58**	**2.55**	505,840	2.51	2.47

CONSOLIDATED RESULTS

CONSOLIDATED SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

Fiscal years	**2013**	2012
Market factors[1] [2]	**9**	(25)
Inventory write-down	**(3)**	(4)
US currency exchange[1]	**2**	(7)

[1] As compared to the previous fiscal year.
[2] Market factors include the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories, the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material as well as market pricing impact related to sales of dairy ingredients.

Consolidated revenues totalled $7.298 billion, an increase of $367.3 million or 5.3%, compared to $6.930 billion in fiscal 2012. Revenues in the USA Dairy Products Sector increased by approximately $327 million. The inclusion of the Morningstar Acquisition and a more favourable dairy ingredients product mix, offset lower sales volumes, increasing revenues by approximately $328 million as compared to last fiscal year. A lower average block market per pound of cheese of US$1.73 in fiscal 2013, compared to US$1.76 in fiscal 2012, decreased revenues by approximately $21 million. Revenues from the CEA Dairy Products Sector increased by approximately $37 million in comparison to last fiscal year. Higher selling prices in both the Canadian and Argentinian operations in accordance with the increase in the cost of milk as raw material, as well as a better product mix from the Canadian Division and a more favourable dairy ingredients product mix, explain the increased revenues in this Sector. These offset lower sales volumes in the export market of the Argentinian Division. The European Division revenues decreased slightly as compared to last fiscal year. Revenues from the Grocery Products Sector increased by approximately $3 million, mainly due to increased sales volumes. A positive effect on revenues by the strengthening of the Canadian dollar in comparison to the Argentinian peso in fiscal 2013 was completely offset by the effect of its weakening versus the US dollar.

Consolidated earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and impairment costs (EBITDA) amounted to $860.8 million in fiscal 2013, an increase of $29.9 million or 3.6% compared to $830.9 million for fiscal 2012. The EBITDA of the USA Dairy Products Sector amounted to $347.9 million, an increase of $44.5 million, in comparison to $303.4 million for last fiscal year. The inclusion of the Morningstar Acquisition, initiatives undertaken by the Sector in the prior and current fiscal years in order to improve operational efficiencies, and a decrease in ingredients and fuel costs, more than offset lower sales volumes, increased promotional and other costs, as well as the negative impact of the revised milk pricing formula in California during fiscal 2013. These combined factors increased EBITDA by approximately $30 million during fiscal 2013 as compared to fiscal 2012. The block market per pound of cheese steadily increased throughout the first half of fiscal 2013, subsequently decreasing for the rest of the fiscal year. The average block market per pound of cheese for fiscal 2013 was US$1.73 as compared to US$1.76 for the previous fiscal year. During the fiscal year, the block price opened at US$1.49 and closed at US$1.69, an increase of US$0.20, compared to opening at US$1.63 and closing at US$1.49, a decrease of US$0.14 for last fiscal year. This net increase for fiscal 2013 had a favourable impact on the realization of inventories in contrast to last fiscal year, where the decreasing block price resulted in an unfavourable impact. The lower average block market negatively affected the absorption of fixed costs. The decrease in the dairy ingredients market negatively affected EBITDA in fiscal 2013. The relationship between the average block market per pound of cheese and the cost of milk as raw material was comparable to fiscal 2012. The combination of these market factors had a positive impact of approximately $9 million on EBITDA. Included in the results of fiscal 2013 is an inventory write-down of $2.5 million, as compared to $3.8 million last fiscal year. The weakening of the Canadian dollar in fiscal 2013 added approximately $2 million to the USA Dairy Products Sector EBITDA.

EBITDA for the CEA Dairy Products Sector totalled $499.0 million in fiscal 2013, a decrease of $15.8 million in comparison to $514.8 million for last fiscal year. This decrease is attributable to less favourable selling prices, mainly in the export market, as well as decreased volumes in the Argentinian Division. This decrease is partially offset by a combination of a better product mix, a more favourable dairy ingredients product mix and lower sales volumes in the Dairy Products Division (Canada). The Dairy Products Division (Europe) EBITDA decreased slightly, as compared to fiscal 2012.

EBITDA for the Grocery Products Sector increased by $1.2 million to $13.9 million in the current fiscal year, from $12.7 million in fiscal 2012. This increase is mainly attributable to higher sales volumes as compared to fiscal 2012.

The consolidated EBITDA margin decreased to 11.8% in fiscal 2013, as compared to 12.0% in fiscal 2012, resulting from the Morningstar Acquisition, which has a lower margin.

Depreciation and amortization totalled $116.6 million in fiscal 2013, an increase of $14.7 million, compared to $101.9 million in fiscal 2012. The increase is mainly due to the inclusion of the Morningstar Acquisition for the fourth quarter of fiscal 2013. Also, it reflects variations in the depreciable asset base and fluctuations in foreign exchange between the Canadian dollar and both the US dollar and Argentinian peso.

In fiscal 2013, the Company incurred **acquisition costs** relating to the Morningstar Acquisition, totalling $9.6 million ($6.1 million after tax), as well as **restructuring costs** in relation to plant closures in Europe and Canada totalling $32.6 million ($22.6 million after tax). In connection with this restructuring, the Company has incurred $7.8 million in severance costs, $2.8 million in other closure costs, $21.7 million in impairment charges to property, plant and equipment, and $0.3 million in impairment charges to goodwill. In fiscal 2012, the Company recorded an **impairment of goodwill** in the amount of $125.0 million ($125.0 million after tax) for the Grocery Products Sector.

Net interest expense amounted to $34.1 million in fiscal 2013, compared to $24.7 million in fiscal 2012. The increase is mainly attributed to a higher level of debt resulting from the Morningstar Acquisition, as compared to last fiscal year.

Income taxes totalled $185.8 million in fiscal 2013, as compared to $198.5 million in fiscal 2012, for an effective tax rate of 27.8% in fiscal 2013 as compared to 34.3% for the previous year. There was no income tax effect on the $125.0 million goodwill impairment in fiscal 2012, which explains the higher income tax rate for fiscal 2012. Excluding acquisition and restructuring costs in fiscal 2013, and impairment of goodwill in fiscal 2012, the tax rates would have been 28.1% and 28.2%, respectively. The 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.

Net earnings for fiscal 2013 totalled $481.9 million, an increase of $101.1 million or 26.5% compared to $380.8 million in fiscal 2012. This increase is due to the factors mentioned above.

Adjusted net earnings[1] for fiscal 2013 totalled $510.6 million, an increase of $4.8 million or 0.9% compared to $505.8 million in fiscal 2012. This increase is due to the factors mentioned above, without considering acquisition, restructuring and impairment costs.

[1] Adjusted net earnings represents a non-IFRS measure. Refer to “Measurement of Results not in Accordance with International Financial Reporting Standards” on page 7 of this Management’s Discussion and Analysis for the definition of this term.

INFORMATION BY SECTOR

CEA DAIRY PRODUCTS SECTOR

(in millions of CDN dollars)

Fiscal years	**2013**	2012	2011
Revenues	**4,091.4**	4,054.5	3,837.2
EBITDA	**499.0**	514.8	493.8

SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

Fiscal years	**2013**	2012
Market factors[1 2]	**-**	15
Inventory write-down	**(3)**	-

[1] As compared to previous fiscal year.
[2] Market factors include the international market pricing impact related to sales of dairy ingredients.

In keeping with its long-term growth strategy, the Dairy Products Division (Canada) continued in fiscal 2013 to review overall activities in order to identify operational efficiencies, reduce operational costs and invest in product categories that offer growth potential. These efforts continued to prove beneficial to the Division. The Dairy Products Division (Argentina) was affected by a decrease in selling prices in the export market, and continued efforts to mitigate these unfavourable market conditions. The Dairy Products Division (Europe) was less profitable as compared to the previous fiscal year. In fiscal 2013, the European Division recorded a $2.5 million loss in EBITDA. Towards the end of fiscal 2013, the Company announced the closure of the European operations.

REVENUES

Revenues from the CEA Dairy Products Sector totalled $4.091 billion, an increase of $36.9 million or 0.9% as compared to $4.055 billion in fiscal 2012.

Revenues in the Dairy Products Division (Canada) increased by $48.8 million in fiscal 2013, to $3.596 billion. Higher selling prices relating to the increase in the cost of milk as raw material, a better product mix, as well as a favourable dairy ingredients product mix, increased revenues as compared to the preceding fiscal year.

The Dairy Products Divisions (Europe) and (Argentina) revenues decreased by approximately $12 million as compared to fiscal 2012. Selling price increases relating to the higher cost of milk as raw material in Argentina was offset by lower sales volumes, mainly in the export market, and the effect of the strengthening of the Canadian dollar versus the Argentinian peso.

The Company manufactures approximately 32% of all Canadian natural cheese. Saputo's market share of total fluid milk in Canada is approximately 36%. Saputo remains the leader in the Canadian dairy industry in both these categories.

The retail segment of the Dairy Products Division (Canada) continued to be the leading segment with 63% of revenues, a slight decrease from last year. In fiscal 2013, fluid milk per capita consumption decreased by approximately 1%. Butter and cheese categories remained relatively stable, while cream consumption increased approximately 10% as compared to the previous fiscal year. The Division's investment strategy in product categories, such as value-added milk, continues to show good growth with products such as organic milk where the Company is the leading processor in the refrigerated dairy case in Canada. The Division continued to support its leading brands, *Trutaste*, *Dairy Oh!,* and *Milk2Go*, in an effort to pursue growth and market expansion through various promotions and advertising. Saputo has both the #1 and #2 fluid milk brands in the refrigerated dairy case category with *Dairyland* and *Neilson*. Additionally, the retail segment continued to focus on increasing exposure of the specialty cheese category across Canada.

The foodservice segment represented 30% of revenues in the Dairy Products Division (Canada), a slight increase from last year. Our commitment remains to provide quality service to a customer base consisting mainly of distributors, restaurant chains and pizzerias. Our focus is to ensure that we are the supplier of choice by offering high quality and innovative products to meet the everyday needs of our customers. The Company invests in the foodservice industry, through partnerships with various culinary colleges and the Canadian Culinary Federation, amongst others, thereby investing in future generations that contribute to a strong and healthy outlook for this industry.

The industrial segment represented 7% of revenues in the Dairy Products Division (Canada), the same compared to last fiscal year. This segment is comprised of milk, cheese and dairy ingredients sales. In fiscal 2013, we continued to provide our customers with the right products to meet their recipes' specifications. This segment also benefitted from a favourable dairy ingredients product mix throughout the fiscal year.

Revenues for the Dairy Products Division (Europe) decreased during fiscal 2013, as compared to the prior fiscal year. This decrease is attributable to lower sales volumes.

Revenues of the Dairy Products Division (Argentina) decreased in fiscal 2013, as compared to fiscal 2012, resulting from decreased selling prices and sales volumes in the export market.

Finally, the appreciation of the Canadian dollar as compared to the previous fiscal year negatively impacted revenues in the CEA Dairy Products Sector by approximately $20 million.

EBITDA

EBITDA for the CEA Dairy Products Sector totalled $499.0 million for the year ended March 31, 2013 as compared to $514.8 million in fiscal 2012, representing a decrease of $15.8 million or 3.1%. The EBITDA margin decreased to 12.2% from 12.7% in fiscal 2012.

EBITDA increased in the Dairy Products Division (Canada) compared to the previous fiscal year mainly as a result of a better product mix, a more favourable dairy ingredients product mix and a decrease in ingredients costs. A gain on sale of property, plant and equipment of approximately $2 million was included in the results of fiscal 2012.

The Dairy Products Division (Europe) EBITDA decreased in fiscal 2013 resulting from the continuing challenges facing the European market. The Division recorded a $2.5 million loss in EBITDA.

The Dairy Products Division (Argentina) EBITDA decreased in fiscal 2013, mainly as a result of unfavourable selling prices and lower sales volumes in the export market. Also, in the first quarter of fiscal 2013 an inventory write-down of $2.5 million was recorded due to the drop in selling prices in the export market. These factors offset improved operational efficiencies.

OUTLOOK

The Company anticipates that the dairy market in fiscal 2014 will continue to be challenging. The Dairy Products Division (Canada) will target volume growth in the cheese and dairy ingredients categories, as well as seek volume increases despite declining market trends in the fluid milk category. The Division continues to focus efforts on opportunities presented in the value-added milk category, which offers growth potential. We will pursue investments in product categories such as specialty cheeses, for which the intention is to maximize exposure across Canada, with coast-to-coast distribution capabilities. As part of our continued analysis of activities, we initiated a project to consolidate the distribution activities of the Greater Montreal area into one distribution center located in Saint-Laurent, Québec. This new center will comprise the distribution and logistics activities currently being conducted at our Saint-Laurent, Boucherville and Saint-Léonard locations, as well as some administrative offices of the Canadian Division. Employees have gradually started moving into the new facility and the project is on schedule to be completed in March 2014.

In fiscal 2014, we will proceed with the closure of the Winkler, Manitoba facility as part of the Company's continual analysis of its overall activities aimed at improving its overall efficiency. Additionally, the Division announced the closure of its Warwick, Quebec manufacturing facility, scheduled for June 2014. Production will be integrated into other facilities in the province of Quebec. In connection with these rationalizations, the Company intends to add approximately $36 million in new property, plant and equipment in other Saputo facilities, mainly over the course of fiscal 2014. Annual savings after tax should be approximately $6 million as a result of these restructurings and should commence in fiscal 2015. Innovation has always been a priority, enabling us to offer products that meet the needs of today's consumers. Accordingly, we are allocating resources to product innovation allowing us to forge and secure long-term relationships with both customers and consumers.

The Canadian Dairy Commission (CDC) announced, on May 1, 2013 the creation of a milk class for mozzarella cheese to be used on fresh pizzas. This new class, which is expected to become effective June 1, 2013, should lower costs for restaurants that prepare and cook pizzas on site and should help grow the mozzarella cheese market segment in Canada.

The Dairy Products Division (Europe) will cease operations in the first quarter of fiscal 2014, as announced in late fiscal 2013.

The Dairy Products Division (Argentina) will continue to seek volume growth in both the domestic and export markets, while increasing its milk intake. The Division continues to face challenges relating to the increasing cost of milk as raw material, while remaining competitive with the selling price in the export market. The Division anticipates that the demand for dairy products in the export market will continue to grow. A three-year project began in early fiscal 2013 to gradually increase manufacturing capacity and face further market growth. The Division will also continue to focus on improving operational efficiencies.

Production capacity continues to be evaluated in line with the objective to reduce excess production capacity at the CEA Dairy Products Sector plants, which, at March 31, 2013, stood at 27% and 34% in cheese and fluid milk activities, respectively.

USA DAIRY PRODUCTS SECTOR

(in millions of CDN dollars)

Fiscal years	**2013**	2012	2011
Revenues	**3,069.2**	2,741.8	2,024.5
EBITDA	**347.9**	303.4	281.9

SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

Fiscal years	**2013**	2012
Market factors[1 2]	**9**	(40)
Inventory write-down	**-**	(4)
US currency exchange[1]	**2**	(7)

1 As compared to the previous fiscal year.
2 Market factors include the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories, the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material as well as market pricing impact related to sales of dairy ingredients.

OTHER PERTINENT INFORMATION

(in US dollars, except for average exchange rate)

Fiscal years	**2013**	2012
Average block market per pound of cheese	**1.728**	1.756
Closing block price[1] per pound of cheese	**1.693**	1.490
Average whey market price[2] per pound	**0.560**	0.600
Spread[3]	**0.044**	0.044
US average exchange rate to Canadian dollar[4]	**1.001**	0.992

1 Closing block price is the price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME) on the last business day of the fiscal year.
2 Average whey powder market price is based on Dairy Market News published information.
3 Spread is the average block market per pound of cheese less the result of the average cost per hundredweight of Class III and/or Class 4b milk price divided by 10.
4 Based on Bank of Canada published information.

In fiscal 2013, the USA Dairy Products Sector benefitted from the Morningstar Acquisition, completed at the beginning of the fourth quarter. Morningstar complements the activities of the Dairy Products Division (USA). Through this acquisition, the Company benefits from Morningstar's national manufacturing and distribution footprint. This transaction expands product offering to customers in the United States and broadens the range of Saputo's future acquisition opportunities. In fiscal 2013, the Sector also continued to benefit from capital expenditures completed in the current and prior fiscal years.

For fiscal 2013, the average block market per pound of cheese opened at US$1.49 and increased steadily to a high of US$2.12 at the end of October. Downward pressure resulted in the block market per pound of cheese decreasing throughout the remainder of the fiscal year ending at US$1.69. For the current fiscal year, the average block market per pound of cheese was US$1.73 compared to US$1.76 for fiscal 2012. Following hearings held on May 31, 2012 and June 1, 2012, the California Department of Food and Agriculture (CDFA) rendered a decision to vary the whey factor used in the milk pricing formula with changes in whey market prices, based on a new sliding scale, effective August 1, 2012, which had the effect of increasing the price of milk. Further to this, on January 22, 2013, the CDFA announced a temporary measure to increase prices of certain types of milk, effective February 1, 2013 to May 31, 2013. These changes negatively affected the results of the USA Dairy Products Sector. In fiscal 2013, we began certain initiatives aimed at increasing our capacity, efficiency and flexibility in cheese manufacturing. We are also improving our whey processing and increasing the drying capabilities.

REVENUES

Revenues for the USA Dairy Products Sector totalled $3.069 billion in fiscal 2013, an increase of $327.4 million or 11.9% in comparison to $2.742 billion in fiscal 2012. The inclusion of revenues derived from the Morningstar Acquisition and a more favourable dairy ingredients product mix offset lower sales volumes increasing revenues by approximately $328 million as compared to fiscal 2012. A lower average block market per pound of cheese of US$1.73 in fiscal 2013, in comparison to US$1.76 in fiscal 2012, decreased revenues by approximately $21 million. The weakening of the Canadian dollar increased revenues by approximately $20 million.

Excluding revenues from the Morningstar Acquisition, the Sector's revenues decreased by 3.4% in fiscal 2013, mainly in the retail and industrial segments. The retail, foodservice, and industrial segments accounted for 41%, 43%, and 16% of the Sector's total revenues respectively.

The retail segment revenues, excluding the Morningstar Acquisition, decreased slightly. Despite the overall weak economic trends in retail, two of our retail brands maintained their #1 market share position. *Frigo Cheese Heads* continues to lead the string cheese brand category in the US market and *Treasure Cave* continues to lead the crumbled blue cheese category. The Division also leveraged other brand leadership positions to grow consumer awareness and interest. In addition, DCI Cheese Company, Inc. (DCI Acquisition) enhanced our product offering within the specialty cheese category. Retail marketing programs supported our major brands in the retail cheese category with thematic promotions through print, e-mail, social media advertising and promotional incentives.

The foodservice segment benefitted from economic recovery patterns. Increased traffic counts, in comparison to the prior fiscal years, helped the foodservice segment increase sales volumes. To enhance brand equity and support our premium brand of mozzarella in the foodservice segment, the Division offered various trade incentives in fiscal 2013. The segment also launched new products to provide a value alternative to customers. These new offerings received solid interest and repeat business from foodservice customers. Targeted specifically to the pizza operator segment, marketing support included print media, direct mail and web advertising, as well as broker / distributor incentives to entice additional business.

The industrial segment includes cheese and dairy ingredients sales. In fiscal 2013, industrial cheese sales volumes were lower mainly due to a decrease in sales to government-sponsored programs and market competitiveness. In fiscal 2013, the industrial segment worked with key customers to ensure our product recipes met the appropriate customer applications. The demand for dairy ingredients, both domestically and internationally, continued to grow in fiscal 2013. Available infrastructure developed over the past fiscal years has enabled the Division to respond and benefit from, the increased demand of dairy ingredients.

Including Morningstar, on an annual *pro forma* basis, total retail, foodservice, and industrial segment revenues would have been 40%, 49% and 11% respectively.

EBITDA

EBITDA totalled $347.9 million for fiscal 2013, an increase of $44.5 million or 14.7% in comparison to $303.4 million in fiscal 2012. The inclusion of the Morningstar Acquisition increased EBITDA as compared to fiscal 2012. In fiscal 2013, the Division benefitted from initiatives undertaken by the Company in the prior and current fiscal years with regards to improved operational efficiencies. Additionally, a reduction of ingredients and fuel costs increased EBITDA. These increases offset a decrease in sales volumes, additional promotional and other operating costs, as well as the negative impact of higher milk costs resulting from the revised milk pricing formula in California in fiscal 2012. These combined factors increased EBITDA by approximately $30 million.

The block market per pound of cheese steadily increased throughout the first half of fiscal 2013, subsequently decreasing for the rest of the fiscal year. The average block market per pound of cheese for fiscal 2013 was US$1.73 as compared to US$1.76 for the previous fiscal year. During the current fiscal year, the block price opened at US$1.49 and closed at US$1.69, an increase of US$0.20, compared to opening at US$1.63 and closing at US$1.49, a decrease of US$0.14 for last fiscal year. This net increase for fiscal 2013 had a favourable impact on the realization of inventories, in contrast to last fiscal year, where a decreasing block market resulted in an unfavourable impact. The lower average block market negatively affected the absorption of fixed costs. The decrease in the dairy ingredients market negatively affected EBITDA in fiscal 2013. The relationship between the average block market per pound of cheese and the cost of milk as raw material was comparable to that of fiscal 2012. The combination of these market factors had a positive impact of approximately $9 million on EBITDA. Included in the results of fiscal 2012 was an inventory write-down of $3.8 million. The weakening of the Canadian dollar in fiscal 2013 added approximately $2 million to the USA Dairy Products Sector EBITDA.

OUTLOOK
In fiscal 2014, the Company will continue to benefit from Morningstar's national manufacturing and distribution footprint and focus on possible synergies. Additionally, the Sector will continue to evaluate opportunities from the DCI Acquisition enabling it to further penetrate the specialty cheese category, benefit from possible synergies, as well as improve and expand its product offering to all customers.

The Morningstar Acquisition represents a strategic transaction with sizable annual revenues, operating in a familiar dairy product category, which complements the Company's existing US cheese business. It provides expansion and diversification opportunities in dairy offerings to customers, as well as possibilities to further develop platforms in the United States and other countries. In fiscal 2014, we will continue to evaluate possible synergies stemming from the acquisition, and focus on activities aimed at improving Morningstar's overall efficiencies. Administrative and information technology will also be analysed in order to effectively integrate central functions, streamline systems, and adopt an efficient working environment.

The retail segment will be strengthening our #1 brand leadership in blue cheese by introducing *Treasure Cave* - flavored line extensions. For our #1 brand leadership in snack cheese, we will be introducing a premium line of snack cheeses. We will also be launching a *Frigo Cheese Heads* - Beef and Stick/String product offering.

The Sector will continue to evaluate opportunities to improve efficiencies in both manufacturing and distribution facilities across the US. The Sector will also continue to monitor fluctuations in dairy markets and take appropriate decisions to mitigate the impact on operations.

GROCERY PRODUCTS SECTOR

(in millions of CDN dollars)

Fiscal years	**2013**	2012	2011
Revenues	**137.1**	134.0	141.3
EBITDA	**13.9**	12.7	12.6

REVENUES
Revenues for the Grocery Products Sector totalled $137.1 million for the fiscal year ended March 31, 2013, an increase of $3.1 million compared to the previous fiscal year. This increase is mainly due to higher sales volumes in the Canadian and US markets. The Sector continued its efforts towards increasing sales volumes primarily in the US market.

EBITDA
EBITDA for the Grocery Products Sector amounted to $13.9 million, a $1.2 million increase as compared to the previous fiscal year. Benefits derived from increased sales volumes and operational initiatives implemented throughout fiscal 2013 and previous years were partially offset by increased operating costs.

OUTLOOK
The Grocery Products Sector will continue to focus on increasing sales volumes in the snack-cake category. The main focus for fiscal 2014 is the development of sales in the US market. The Sector will continue to evaluate overall activities in an effort to improve efficiencies.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The intent of this section is to provide insight into the cash and capital management strategies and how they drive operational objectives, as well as to provide details on how the Company manages its liquidity risk to meet its financial obligations as they come due.

The majority of the Company's liquidity needs are funded from cash generated by operations. Principally, these funds are used for business acquisitions, capital spending, dividends, share repurchase and debt repayments. The Company also has bank credit facilities available for general corporate purposes.

The Company's cash flows are summarized in the following table:

(in thousands of CDN dollars)

Fiscal years	**2013**	2012	2011
Cash generated from operating activities	**842,889**	754,733	706,364
Net cash generated from operating activities	**645,792**	522,987	588,520
Cash used for investing activities	**(1,625,000)**	(87,117)	(371,552)
Cash generated from (used for) financing activities	**868,762**	(368,828)	(195,704)
(Decrease) increase in cash and cash equivalents	**(110,446)**	67,042	21,264

Cash generated from **operating activities** amounted to $842.9 million for fiscal 2013, an increase of $88.2 million compared to $754.7 million in fiscal 2012. The change in non-cash working capital is related to a higher usage of non-cash working capital in fiscal 2012 resulting from the increase in the average block market per pound of cheese. Net cash generated from operating activities amounted to $645.8 million compared to $523.0 million in fiscal 2012. This change is mainly attributable to higher income taxes paid during the previous fiscal year.

For **investing activities**, the Company used $1.625 billion in fiscal 2013. An amount of $1.434 billion was disbursed for the Morningstar Acquisition. Also, an amount of $178.2 million was disbursed for additions to property, plant and equipment, which exceeds depreciation of $109.5 million by approximately $70 million, mainly related to specific and strategic projects, particularly in Argentina and Canada. Of these additions, 26% went into the replacement of property, plant and equipment and 74% to both implement new technologies and to expand and increase certain manufacturing capacities.

Financing activities generated $868.8 million in fiscal 2013. Long-term debt increased by $1.199 billion, in relation to the Morningstar Acquisition, of which $38.1 million was reimbursed as part of quarterly repayments. The Company issued shares for a cash consideration of $38.5 million as part of the stock option plan, paid $161.7 million in dividends and $190.4 million for the repurchase of share capital as part of its normal course issuer bids. Also, the Company increased the use of its bank loans by $21.9 million.

LIQUIDITY

Cash and cash equivalents, cash flows generated from operations, and the availability to draw against existing bank credit facilities are expected to enable the Company to meet its liquidity requirements over at least the next twelve months, exclusive of any possible business acquisitions. The Company does not foresee any difficulty in securing financing should it be required beyond what it already has available under existing arrangements.

(in thousands of CDN dollars, except ratio)

Fiscal years	**2013**	2012	2011
Current assets	**1,512,556**	1,399,464	1,291,798
Current liabilities	**1,226,647**	902,441	943,006
Working capital	**285,909**	497,023	348,792
Working capital ratio	**1.23**	1.55	1.37

The Company's working capital ratio is an indication of its ability to cover short-term liabilities with short-term assets, without having excess dormant assets.

The decrease in the working capital ratio is mainly attributed to the decrease of cash and cash equivalents resulting from the Morningstar Acquisition and the current portion of long-term debt.

CAPITAL MANAGEMENT

The Company's capital strategy requires a well-balanced financing structure in order to maintain the flexibility required to implement growth initiatives, while allowing it to pursue disciplined capital investments and maximize shareholder value.

(in thousands of CDN dollars, except ratio and number of shares and options)

Fiscal years	**2013**	2012	2011
Cash and cash equivalents	**43,177**	144,137	77,491
Bank loans	**181,865**	166,631	170,589
Long-term debt	**1,548,300**	379,875	378,480
Shareholders' equity	**2,305,672**	2,105,686	2,072,635
Interest-bearing[1] debt-to-equity ratio	**0.73**	0.19	0.23
Number of common shares	**196,619,440**	199,037,565	203,830,505
Number of stock options	**8,375,931**	8,484,524	8,674,238

[1] Net of cash and cash equivalents.

The Company had $43.2 million of cash and cash equivalents and available bank credit facilities of approximately $681 million, $181.9 million of which were drawn. See Note 9 to the consolidated financial statements for details of the Company's bank loans.

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 issuance. No preferred shares were outstanding. As at May 24, 2013, 196,871,790 common shares and 10,181,814 stock options were outstanding.

NORMAL COURSE ISSUER BIDS

The Company announced on November 9, 2011 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 15, 2011. Under the Bid, the Company was authorized to purchase for cancellation up to 10,030,630 common shares, which represented 5% of its 200,612,607 issued and outstanding common shares as of October 31, 2011. These purchases were made in accordance with applicable regulations over a maximum period of 12 months beginning on November 15, 2011 and ending on November 14, 2012. The Company further announced on June 5, 2012 that it had amended the Bid, to enable the Company to also repurchase its common shares under the Bid other than by open market transactions, as may be permitted by the TSX, and under applicable laws, including by way of private agreements under an issuer bid exemption order issued by a securities regulatory authority in Canada. Purchases made on the open market would continue to be at the prevailing market price at the time of acquisition. Purchases made by way of private agreements would be at a discount to the prevailing market price of the common shares at the time of the acquisition, as provided in the exemption order. In connection with the Bid, the Company established an automatic purchase plan, which enabled the Company to provide standard instructions regarding the repurchase of common shares during self-imposed blackout periods.

The Company announced on November 7, 2012 its intention to purchase, by way of a new normal course issuer bid (New Bid), for cancellation purposes, up to 9,850,532 common shares, which represents 5% of its 197,010,649 issued and outstanding common shares as of October 31, 2012 over a 12-month period beginning on November 15, 2012 and ending on November 14, 2013. These purchases are made by means of open market transactions through the facilities of the TSX or such other means as may be permitted by the TSX and under applicable laws, including by way of exempt offers and private agreements under an issuer bid exemption order issued by a securities regulatory authority in Canada. The consideration that the Company pays for any common shares acquired by it on the open market under the New Bid is in cash at the market price of such shares at the time of acquisition. Purchases made by way of private agreements under the New Bid are at a discount to the prevailing market price of the common shares at the time of the acquisition, as provided in the relevant exemption order. In connection with the New Bid, the Company established an automatic purchase plan, which enables the Company to provide standard instructions regarding the repurchase of common shares during self-imposed blackout periods.

During the year ended March 31, 2013, the Company purchased 4,261,400 common shares, at prices ranging from $39.44 to $49.01 per share, under the Bids (6,061,700 common shares at prices ranging from $36.46 to $47.57 per share for the year ended March 31, 2012).

The Company believes that the purchase of its own shares may, under appropriate circumstances, be a responsible investment of available funds.

CONTRACTUAL OBLIGATIONS

The Company manages and continually monitors its commitments and contractual obligations to ensure that these can be met with funding provided by operations and capital structure optimization.

The Company's contractual obligations consist of commitments to repay certain long-term debts and leases of premises, equipment and rolling stock. Note 10 to the consolidated financial statements describes the Company's commitment to repay long-term debt, and Note 18 to the consolidated financial statements describes its lease commitments.

(in thousands of CDN dollars)

	Long-term debt	Minimum lease	Total
Less than 1 year	**152,400**	**21,736**	**174,136**
1-2 years	**313,200**	**16,103**	**329,303**
2-3 years	**150,000**	**12,549**	**162,549**
3-4 years	**932,700**	**8,520**	**941,220**
4-5 years	**-**	**6,890**	**6,890**
More than 5 years	**-**	**18,615**	**18,615**
	1,548,300	**84,413**	**1,632,713**

LONG-TERM DEBT

As described in Note 10 to the consolidated financial statements, the Company's long-term debt is comprised of a new four-year term bank loan facility of $1.199 billion, maturing in December 2016, which bears interest at rates ranging from lender's prime plus a maximum of 1% or LIBOR or banker's acceptance rate plus 0.85% up to a maximum of 2% depending on a financial ratio of the Company. Also, the long-term debt is comprised of unsecured senior notes in the amount of $50.8 million (US$50 million) issued at an interest rate of 8.41% maturing November 2014; $110.0 million issued at an interest rate of 5.34% maturing June 2014; and $220.0 million issued at an interest rate of 5.82% maturing June 2016.

MINIMUM PAYMENTS ON OPERATING LEASES

The Company has long-term operating leases for premises, equipment and rolling stock.

BALANCE SHEET

The main balance sheet items as at March 31, 2013 varied mainly due to the Morningstar Acquisition on January 3, 2013, and the weakening of the Canadian dollar versus the US dollar in comparison to March 31, 2012.

The conversion rate of the US operations' balance sheet items in US currency was CDN$1.016 per US dollar as at March 31, 2013, compared to CDN$0.9975 per US dollar as at March 31, 2012. The conversion rate of the Argentinian operations' balance sheet items in Argentinian currency was CDN$0.1983 per Argentinian peso as at March 31, 2013, compared to CDN$0.2282 per Argentinian peso as at March 31, 2012. The weakening of the Canadian dollar versus the US dollar resulted in higher values recorded for the balance sheet items of the foreign operations and was partially offset by the strengthening of the Canadian dollar versus the Argentinian peso.

The net cash (cash and cash equivalents less bank loans) position decreased from negative $22.5 million as at March 31, 2012, to negative $138.7 million as at March 31, 2013, mainly resulting from the cash used for the Morningstar Acquisition. The change in foreign currency translation adjustment recorded in other comprehensive income varied due to the strengthening of the US dollar.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has certain off-balance sheet arrangements, consisting primarily of leased premises, as well as lease agreements for equipment and rolling stock. These agreements are recorded as operating leases. Future minimum lease payments as at March 31, 2013 totalled $84.4 million ($77.4 million as at March 31, 2012). The Company uses certain derivative financial instruments in specific situations. The Company occasionally purchases foreign currency forward contracts in Euros and US dollars, in order to mitigate foreign currency risk associated with the import of certain products. The notional value of these contracts is 0.7 million Euros as at March 31, 2013 (US$5.5 million as at March 31, 2012). The Company does not use derivative financial instruments for speculative purposes.

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. See Note 18 to the consolidated financial statements that discuss the Company's guarantees.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Company receives and provides goods, and services from and to companies subject to control or significant influence through ownership by its principal shareholder. These goods and services are of an immaterial amount and compensated by a consideration equal to their fair value, comparable to similar arms' length transactions. The goods and services that are received consist of office space rental, travel arrangements, transportation of goods, and lodging. Included in the transactions with related parties for fiscal 2013 is a purchase of land and building from a related party totalling $16,400,000. The acquired property will be the site for the consolidated distribution activities of the Greater Montreal area as well as the administrative offices of the Dairy Products Division (Canada). The consideration paid was equal to the fair value. Transactions with key management personnel (comprised of directors and named executive officers: the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the three most highly compensated executive officers) are also considered related party transactions and consist of salaries, bonuses, options, performance share units and payments under the deferred share unit plan. The goods and services that are provided consist of services and dairy products. Refer to Note 19 to the consolidated financial statements for further information on the related party transactions.

ACCOUNTING STANDARDS

CRITICAL ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires Management to make certain judgements and estimates about transactions and carrying values that are fulfilled at a future date. Judgements and estimates are subject to fluctuations due to changes in internal and/or external factors and are continuously monitored by Management. A discussion of the judgements and estimates that could have a material effect on the financial statements is provided below.

Allowance for Doubtful Accounts

Management reviews its accounts receivable at the end of each reporting period and estimates balances which may be deemed to be uncollectible in the future. This review requires the use of assumptions and takes into consideration certain factors, such as historical collection trends and past due amounts for each customer balance. In the event that future collections differ from estimated provisions, future earnings will be affected.

Income Taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the consolidated provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters differs from the amounts that were initially recorded, such differences will impact the results for the reporting period and their respective current income tax and deferred income tax provisions in the reporting period in which such determination is made.

Deferred Income Taxes

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

Goodwill, Trademarks, Other Intangibles and Business Combinations

Goodwill, trademarks and other intangibles have principally arisen as a result of business combinations. The acquisition method, which also requires significant estimates and judgements, is used to account for these business combinations. As part of the allocation process in a business combination, estimated fair values are assigned to the net assets acquired, including trademarks and other intangibles. These estimates are based on forecasts of future cash flows, estimates of economic fluctuations and an estimated discount rate. The excess of the purchase price over the estimated fair value of the net assets acquired is then assigned to goodwill. In the event that actual net assets fair values are different from estimates, the amounts allocated to the net assets, and specifically to trademarks and other intangibles, could differ from what is currently reported. This would then have a pervasive impact on the carrying value of goodwill. Differences in estimated fair values would also have an impact on the amortization of definite life intangibles.

Property, Plant and Equipment

Critical judgement is necessary in the selection and application of accounting policies and useful lives as well as the determination of which components are significant and how they are allocated. Management has determined that the use of the straight-line method of amortization is the most appropriate as its facilities are operating at a similar output potential on a year-to-year basis, which indicates that production is constant. It is Management's best estimate that the useful lives and policies adopted adequately reflect the flow of resources and the economic benefits required and derived in the use and servicing of these long-lived productive assets.

Impairment of Assets

Significant estimates and judgements are required in testing goodwill, trademarks and other intangibles and other long-lived assets for impairment. Management uses estimates or exercises judgement in assessing indicators of impairment, defining a cash-generating unit, forecasting future cash flows and determining discount rates and earnings multipliers used for assessing fair value (less selling costs) or value in use. Estimates made for goodwill, trademarks and other intangibles can be found in Note 7 of the consolidated financial statements. Other long-lived assets are tested only when indicators of impairment are present.

Employee Future Benefits

The Company is the sponsor to both defined benefit and defined contribution plans, which provide pension and other post-employment benefits to its employees. Several estimates and assumptions are required with regards to the determination of the defined benefit expense and its related obligation, such as the expected return on assets available to fund the obligation, the discount rate used in determining the carrying value of the obligation, the expected health care cost trend rate, the expected mortality rate, etc. Actual results will normally differ from expectations. These gains or losses are presented in the consolidated statements of comprehensive income.

FUTURE STANDARDS

The International Accounting Standards Board (IASB) made several revisions as part of its continuing improvements project. Below are a summary of the relevant standards affected and a discussion of the amendments.

IFRS 7, Financial Instruments Disclosures and IAS 32 Financial Instruments Presentation

The IASB issued amendments to IFRS 7 and IAS 32 in December 2011 which clarifies the requirements for offsetting financial assets and financial liabilities including revised disclosure requirements for financial assets and liabilities that are offset. The amendments to IFRS 7 and IAS 32 are effective for annual reporting periods beginning on or after January 1, 2013 and January 1, 2014 respectively.

The amendments made under these standards are not expected to materially affect the Company's financial statements due to the lack of offsetting arrangements contemplated within these requirements.

IFRS 9, Financial Instruments

The IASB issued IFRS 9 in November 2009 with the long-term goal of replacing IAS 39 Financial Instruments: Recognition and Measurement, and is effective for annual reporting periods beginning on or after January 1, 2015. The issuance of this IFRS represents the first phase of the long-term project and provides guidance on the classification and measurement of financial assets and liabilities.

Management has not yet evaluated the impact of this standard on the Company's financial statements.

IFRS 10, Consolidated Financial Statements

The IASB issued IFRS 10 in May 2011 which replaces portions of IAS 27 Consolidated and Separate Financial Statements. This new standard will be effective for annual reporting periods on or after January 1, 2013 and must be applied retroactively. IFRS 10 establishes principles for the preparation and presentation of consolidated financial statements and specifically identifies the criteria for the inclusion of another entity into the set of consolidated financial statements by establishing control as the most relevant basis for consolidation.

This standard will not have a material impact on the Company's financial statements given that the Company wholly-owns equity and voting interests of its subsidiaries.

IFRS 12, Disclosure of Interests in Other Entities

The IASB issued IFRS 12 in May 2011 and is effective for annual reporting periods on or after January 1, 2013. This new standard requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities along with the effects of those interests on its financial position, financial performance and cash flows.

Management does not expect these disclosures to have a material impact on the Company's financial statements.

IFRS 13, Fair Value Measurement

The IASB issued IFRS 13 in May 2011 and is effective for annual reporting periods beginning on or after January 1, 2013. This IFRS defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures regarding fair value measurements.

Management does not expect the implementation of this standard to have a material impact on the Company's financial statements.

IAS 1, Presentation of Financial Statements

The IASB amended IAS 1 in June 2011 incorporating revisions to reflect new requirements for the presentation of earnings and other comprehensive income within their respective statements. IAS 1 now requires items within other comprehensive income be classified separately within that statement where they will be subsequently reclassified to the statement of earnings. These revisions are effective for annual reporting periods beginning on or after July 1, 2012.

The adoption of this standard will result in the statement of comprehensive income being classified into items that will be reclassified into net earnings and those that will permanently remain in comprehensive income.

IAS 16, Property, Plant and Equipment

The IASB amended IAS 16 in May 2012 effective for annual reporting periods on or after January 1, 2013 requiring the presentation of spare parts, servicing equipment and stand-by equipment as property, plant and equipment when they meet the definition of property, plant and equipment in accordance with IAS 16. In the event they do not meet the definition, they are required to be presented as inventory.

Management does not expect the implementation of this standard to have a material impact on the Company's financial statements.

IAS 19 (Revised), Employee Benefits

The IASB revised IAS 19 in June 2011 in order to require a company to use the same discount rate in both its calculation of the defined benefit obligation and the expected return on plan assets. The amendment also requires the inclusion of administrative expenses in current service costs. Disclosure requirements were also amended to require additional disclosures for defined benefit pension plans in order to improve disclosure of risks that are assumed by a company that offers these types of plans. These revisions are effective for annual reporting periods beginning on or after January 1, 2013.

The impact to the Company's March 31, 2013 financial statements had the revised IAS 19 been adopted on April 1, 2012 would be an increase of approximately $4,200,000 to employee benefits expenses included in "Operating costs excluding depreciation and amortization".

RISKS AND UNCERTAINTIES

The main risks and uncertainties the Company is exposed to are presented hereafter. The Board of Directors (the Board) delegated to the Audit Committee the responsibility to study and evaluate the risk factors inherent to the Company and ensure that appropriate measures are in place to enable Management to identify and manage these risk factors effectively. In this regard, the Audit Committee and the Board have adopted and implemented certain policies and procedures which are reviewed at least annually. An annual detailed presentation on all risk factors identified, as well as periodic presentations, are made by Management to the Audit Committee and, as required, to the Board.

While risk management is part of the Company's transactional, operational and strategic decisions, as well as the Company's overall management approach, risk management does not guarantee that events or circumstances will not occur which could negatively affect the Company's financial condition and performance.

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 be introduced into products or packaging. The occurrence of such a problem could result in a costly product recall and serious damage to Saputo's reputation for product quality.

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 customers. Availability of raw materials as well as variations in the price of foodstuffs can therefore influence the Company's 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 products in the US and Argentina, as well as in 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 results will depend on its ability to implement mechanisms to reduce them.

COMPETITION

The food processing industry is extremely competitive. The Canadian dairy industry is highly competitive and is comprised of three major competitors, including Saputo. In the US and Argentina, Saputo competes in the dairy industry on a national basis with several regional and national competitors. The Company's performance in all the countries in which it operates will be dependent on its ability to continue to offer quality products at competitive prices.

CONSOLIDATION OF CLIENTELE

During the last few years, there has been important consolidation in the food industry in all market segments. Given that Saputo serves these segments, the consolidation within the industry has resulted in a decrease in the number of customers and an increase in the relative importance of some customers. Two customers represented more than 10% of total consolidated sales for fiscal 2013, which represented 11.2% and 10.7%. The Company's ability to continue to service its customers in all the markets that it serves will depend on the quality of its products and services as well as price.

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 considers that it has low exposure to concentration of credit risk with respect to accounts receivable from customers due to its large and diverse customer base operating in three segments, retail, foodservice and industrial, and its geographic diversity. There are no accounts receivable from any individual customer that exceeded 10% of the total balance of accounts receivable as at March 31, 2013. The allowance for bad debts and accounts receivable due is reviewed regularly by Management. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into consideration historic collection trends of past due accounts.

SUPPLIER CONCENTRATION

The Company purchases goods and services from a limited number of suppliers as a result of consolidation within the industries in which these suppliers operate in North America and other major markets. Furthermore, issues with suppliers regarding pricing or performance of the goods and services they supply or the inability of suppliers to supply the required volumes of such goods and services in a timely manner could impact the Company's financial condition and performance. Any such impact will depend on the effectiveness of the Company's contingency plan.

UNANTICIPATED BUSINESS DISRUPTION

Major events, such as equipment failure, health pandemics and natural disasters, could lead to unanticipated business disruption of any or certain of the Company's manufacturing facilities. The effect would be more significant if the Company's larger manufacturing facilities are affected, in which case, the failure to find alternative suppliers or to replace lost production capacity in a timely manner could negatively affect the Company's financial condition and performance.

ECONOMIC ENVIRONMENT

The Company's operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and consequently, impact the Company's sales and profitability.

ENVIRONMENT

Saputo's business and operations are subject to environmental laws and regulations, including those relating to permitting requirements, wastewater discharges, air emissions (greenhouse gas and other), releases of hazardous substances and remediation of contaminated sites. The Company believes that its operations are in compliance, in all material respects, with such environmental laws and regulations, except as disclosed in the Annual Information Form dated June 5, 2013 for the fiscal year ended March 31, 2013. Compliance with these laws and regulations requires that the Company continue to incur operating and maintenance costs and capital expenditures, including to control potential impacts of its operations on local communities. Future events such as changes in environmental laws and regulations or more vigorous regulatory enforcement policies could have a material adverse effect on the financial position of Saputo and could require additional expenditures to achieve or maintain compliance.

CONSUMER TRENDS

Demand for the Company's products is subject to changes in consumer trends. These changes may affect earnings. The impact of these changes will depend on the Company's ability to innovate and develop new products.

INTELLECTUAL PROPERTY

As the Company is involved in the production, sale and distribution of food products, it relies on brand recognition and loyalty from its clientele in addition to relying on the quality of its products. Also, as innovation forms part of the Company's growth strategy, its research and development teams develop new technologies, products and process optimization methods. The Company therefore takes measures to protect and enforce its intellectual property. Any infringement to its intellectual property could damage its value and limit the Company's ability to compete. In addition, Saputo may have to engage in litigation in order to protect its rights which could result in significant costs.

FINANCIAL RISK EXPOSURES

Saputo has financial risk exposure to varying degrees relating to the currency of each of the countries where it operates. Approximately 52% of sales are realized in Canada, 42% in the US, and 6% in Argentina. Cash flows from operations in each of the countries where Saputo operates act as a natural hedge against the exchange risks related to debt denominated in such countries' currency. The level of the financial risk exposure related to currency will depend on its ability to maintain this natural hedge or any other protection mechanism.

INTEREST RATE AND ACCESS TO CAPITAL MARKET

Saputo's interest bearing debt is subject to interest rate fluctuations. The impact on the Company's results will depend on its ability to maintain mechanisms to protect against such interest rate fluctuations. The Company's growth is driven mainly by acquisitions and is dependent on access to liquidity in the capital market.

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 Saputo conducts its 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 or comply. 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 the Company's ability to adapt, comply and mitigate. Saputo is currently in compliance with all important laws and regulations and maintains all important permits and licenses in connection with its 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 devote the time and human resources required to successfully integrate their activities with those of the Company as well as the 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. The Company's performance will be dependent on its ability to continue to offer quality products at competitive prices.

INFORMATION SYSTEMS

The Company is increasingly dependent upon integrated information technology applications for its business. The main risks relate to confidentiality, data integrity and interruption of computer services. Therefore, any failure of these applications or communication networks or security failures with respect to data centres or networks may impede or slow down production, delay or taint certain decisions and result in financial losses for the Company. In addition, any accidental or intentional loss of data that would be used by third parties may have adverse effects on the Company's activities and its results.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to Management in a timely manner so that information required to be disclosed under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The CEO and the CFO, together with Management, after evaluating the effectiveness of the Company's disclosure controls and procedures as at March 31, 2013, have concluded that the Company's disclosure controls and procedures were effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and the CFO are responsible for establishing and maintaining internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and the CFO, together with Management, after evaluating the effectiveness of the Company's internal control over financial reporting as at March 31, 2013, have concluded that the Company's internal control over financial reporting was effective.

The CEO and the CFO, together with Management, have concluded, after having conducted an evaluation and to the best of their knowledge that, as at March 31, 2013, 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 debt subject to interest rate fluctuations was $181.9 million as at March 31, 2013 and consisted of bank loans. A 1% change in the interest rate would lead to a change in net earnings of approximately $1.3 million. Canadian and 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, 2013, the average US dollar conversion was based on CDN$1.00 for US$0.999. A fluctuation of CDN$0.01 would have resulted in a change of approximately $1.5 million in net earnings, $3.8 million in EBITDA and $30.0 million in revenues.

QUARTERLY FINANCIAL INFORMATION

2013 QUARTERLY FINANCIAL INFORMATION - CONSOLIDATED STATEMENT OF EARNINGS

(in thousands of CDN dollars, except per share amounts)	Q1 (unaudited)	Q2 (unaudited)	Q3 (unaudited)	Q4 (unaudited)	Fiscal 2013 (audited)
Statement of earnings data					
Revenues	**1,698,335**	**1,745,372**	**1,800,644**	**2,053,326**	**7,297,677**
Operating costs excluding depreciation, amortization, acquisition and restructuring	**1,495,322**	**1,529,757**	**1,588,180**	**1,823,646**	**6,436,905**
Earnings before interest, depreciation, amortization, acquisition, restructuring, impairment and income taxes	**203,013**	**215,615**	**212,464**	**229,680**	**860,772**
Margin %	**12.0%**	**12.4%**	**11.8%**	**11.2%**	**11.8%**
Depreciation and amortization	**27,227**	**27,083**	**26,751**	**35,568**	**116,629**
Acquisition costs	**-**	**-**	**-**	**9,646**	**9,646**
Restructuring costs	**-**	**-**	**-**	**32,631**	**32,631**
Interest on long-term debt	**5,756**	**5,820**	**5,805**	**12,515**	**29,896**
Other financial charges	**601**	**672**	**585**	**2,345**	**4,203**
Earnings before income taxes	**169,429**	**182,040**	**179,323**	**136,975**	**667,767**
Income taxes	**47,605**	**52,386**	**49,349**	**36,506**	**185,846**
Net earnings	**121,824**	**129,654**	**129,974**	**100,469**	**481,921**
Net margin %	**7.2%**	**7.4%**	**7.2%**	**4.9%**	**6.6%**
Acquisition costs (net of income taxes of $3,531)	**-**	**-**	**-**	**6,115**	**6,115**
Restructuring costs (net of income taxes of $10,034)	**-**	**-**	**-**	**22,597**	**22,597**
Adjusted net earnings[1]	**121,824**	**129,654**	**129,974**	**129,181**	**510,633**
Adjusted net earnings margin %	**7.2%**	**7.4%**	**7.2%**	**6.3%**	**7.0%**
Per Share					
Net earnings					
Basic	**0.61**	**0.66**	**0.66**	**0.51**	**2.44**
Diluted	**0.60**	**0.65**	**0.65**	**0.51**	**2.41**
Adjusted net earnings[1]					
Basic	**0.61**	**0.66**	**0.66**	**0.65**	**2.58**
Diluted	**0.60**	**0.65**	**0.65**	**0.65**	**2.55**

2012 QUARTERLY FINANCIAL INFORMATION – CONSOLIDATED STATEMENT OF EARNINGS

(in thousands of CDN dollars, except per share amounts)	Q1 (unaudited)	Q2 (unaudited)	Q3 (unaudited)	Q4 (unaudited)	Fiscal 2012 (audited)
Statement of earnings data					
Revenues	1,638,995	1,791,407	1,796,466	1,703,502	6,930,370
Operating costs excluding depreciation and amortization	1,429,367	1,578,340	1,589,185	1,502,547	6,099,439
Earnings before interest, depreciation, amortization, impairment and income taxes	209,628	213,067	207,281	200,955	830,931
Margin %	12.8%	11.9%	11.5%	11.8%	12.0%
Depreciation and amortization	24,609	24,972	25,642	26,720	101,943
Impairment of goodwill	-	-	-	125,000	125,000
Interest on long-term debt	5,719	5,791	5,817	5,754	23,081
Other financial charges	547	2,753	(1,153)	(578)	1,569
Earnings before income taxes	178,753	179,551	176,975	44,059	579,338
Income taxes	52,187	52,471	47,204	46,636	198,498
Net earnings (loss)	126,566	127,080	129,771	(2,577)	380,840
Net margin %	7.7%	7.1%	7.2%	-0.2%	5.5%
Imparment of goodwill	-	-	-	125,000	125,000
Adjusted net earnings[1]	126,566	127,080	129,771	122,423	505,840
Adjusted net earnings margin %	7.7%	7.1%	7.2%	7.2%	7.3%
Per Share					
Net earnings					
Basic	0.62	0.63	0.64	0.00	1.89
Diluted	0.61	0.61	0.64	0.00	1.86
Adjusted net earnings[1]					
Basic	0.62	0.63	0.64	0.62	2.51
Diluted	0.61	0.61	0.64	0.61	2.47

[1] Adjusted net earnings and adjusted earnings per share (basic and diluted) are non-IFRS measures. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 7 of this Management's Discussion and Analysis for the definition of these terms.

SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA
(in millions of CDN dollars)

Fiscal year	2013			
	Q4	**Q3**	**Q2**	**Q1**
Market factors[1 2]	**5**	**8**	**10**	**(14)**
Inventory write-down	**-**	**-**	**-**	**(3)**
US currency exchange[1]	**-**	**(3)**	**2**	**3**

[1] As compared to the same quarter of the last fiscal year.
[2] Market factors include the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories, the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material as well as market pricing impact related to sales of dairy ingredients.

OTHER PERTINENT INFORMATION

(in US dollars, except for average exchange rate)

Fiscal years	2013				2012
	Q4	**Q3**	**Q2**	**Q1**	Q4
Average block market per pound of cheese	**1.668**	**1.955**	**1.750**	**1.539**	1.522
Closing block price[1] per pound of cheese	**1.693**	**1.760**	**2.075**	**1.650**	1.490
Average whey market price[2] per pound	**0.580**	**0.620**	**0.550**	**0.500**	0.630
Spread[3]	**0.017**	**0.028**	**0.060**	**0.072**	0.017
US average exchange rate to Canadian dollar[4]	**1.009**	**0.991**	**0.995**	**1.010**	1.002

[1] Closing block price is the price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME) on the last business day of each quarter.
[2] Average whey powder market price is based on Dairy Market News published information.
[3] Spread is the average block market per pound of cheese less the result of the average cost per hundredweight of Class III and/or Class 4b milk price divided by 10.
[4] Based on Bank of Canada published information.

SUMMARY OF THE FOURTH QUARTER RESULTS ENDED MARCH 31, 2013

Consolidated revenues for the quarter ended March 31, 2013 amounted to $2.053 billion, an increase of $349.8 million or 20.5% compared to $1.704 billion for the same quarter last fiscal year.

The USA Dairy Products Sector revenues increased by approximately $372 million as compared to the corresponding quarter last fiscal year. The inclusion of the Morningstar Acquisition offset a less favourable dairy ingredients product mix and lower sales volumes, increasing revenues by approximately $338 million. A more favourable average block market per pound of cheese in the fourth quarter of US$1.67 compared to US$1.52 during the same quarter of fiscal 2012 increased revenues by approximately $30 million. The fluctuation of the Canadian dollar added approximately $4 million in revenues as compared to the same quarter last fiscal year.

In the CEA Dairy Products Sector, revenues decreased by approximately $22 million in the fourth quarter as compared to last fiscal year. Lower sales volumes in the Canadian Division in addition to a less favourable dairy ingredients product mix contributed to this decrease. Price increases in relation to the price of raw milk in the Argentinian Division partially offset this decrease. The European Division revenues also decreased slightly. Finally, the strengthening of the Canadian dollar against the Argentinian peso eroded revenues by approximately $7 million as compared to the same quarter last fiscal year.

Revenues from the Grocery Products Sector decreased by approximately $1 million in the fourth quarter of fiscal 2013 in comparison to the same quarter last fiscal year. This decrease is mainly related to slightly lower sales volumes as compared to the same quarter last fiscal year.

Consolidated earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring, and impairment costs (EBITDA) totalled $229.7 million for the quarter ended March 31, 2013, an increase of $28.7 million or 14.3% compared to the $201.0 million for the same quarter last fiscal year.

The EBITDA of the USA Dairy Products Sector increased by approximately $29 million in the fourth quarter compared to the same quarter last fiscal year. The additional EBITDA derived from the Morningstar Acquisition, offset lower sales volumes, higher operational and promotional costs and the impact of higher milk costs resulting from the revised milk pricing formula in California. These factors combined positively affected EBITDA by approximately $23 million as compared to the same quarter last fiscal year. An increase in the average block market per pound of cheese to US$1.67 in the fourth quarter, as compared to US$1.52 in the same quarter last fiscal year, positively affected the absorption of fixed costs, and had a favourable impact on the realization of inventories. The relationship between the average block market per pound of cheese and the cost of milk as raw material was comparable to the same quarter last fiscal year and did not affect EBITDA. Conversely, a less favourable dairy ingredients market negatively affected EBITDA as compared to the same period last fiscal year. These combined market factors increased EBITDA by approximately $5 million as compared to the same period last fiscal year.

EBITDA for the CEA Dairy Products Sector decreased by approximately $1 million in comparison to the same quarter last fiscal year. Benefits derived from lower ingredients and other operational costs were partially offset by a less favourable dairy ingredients product mix in Canada. In Argentina, lower sales volumes and selling prices, mainly in the export market, negatively affected EBITDA. The Dairy Products Division (Europe) recorded a $1.1 million loss in EBITDA in the fourth quarter.

The EBITDA of the Grocery Products Sector increased by approximately $1 million for the quarter ended March 31, 2013 in comparison to the same quarter last fiscal year. This increase is mainly attributable to lower operating costs more than offsetting the effect of lower sales volumes as compared to the corresponding quarter last fiscal year.

Depreciation and amortization for the quarter ended March 31, 2013 totalled $35.6 million, an increase of $8.9 million compared to $26.7 million for the same quarter last fiscal year. The increase is mainly due to the inclusion of Morningstar's results for the fourth quarter of fiscal 2013.

In the fourth quarter of fiscal 2013, the Company incurred **acquisition costs** for the Morningstar Acquisition, totalling $9.6 million ($6.1 million after tax), as well as **restructuring costs** in relation to plant closures in Europe and Canada totalling $32.6 million ($22.6 million after tax). In connection with this restructuring, the Company has incurred $7.8 million in severance costs, $2.8 million in other closure costs, $21.7 million in impairment charges to property, plant and equipment, and $0.3 million in impairment charges to goodwill. In the fourth quarter of fiscal 2012, the Company recorded an **impairment of goodwill** in the amount of $125.0 million ($125.0 million after tax) for the Grocery Products Sector.

Net interest expense increased to $14.9 million compared to $5.2 million for the corresponding period last fiscal year. The increase is mainly attributed to a higher level of debt resulting from the Morningstar Acquisition, as compared to the same quarter last fiscal year.

With respect to **income taxes**, the effective tax rate for the current quarter was 27.9% compared to 27.6% for the same quarter last fiscal year, excluding acquisition and restructuring costs in fiscal 2013 and impairment of goodwill in fiscal 2012. The 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.

Net earnings amounted to $100.5 million for the quarter ended March 31, 2013, an increase of $103.1 million compared to the net loss of $2.6 million for the same quarter last fiscal year**.** This is due to the factors mentioned above.

Adjusted net earnings[1] amounted to $129.2 million for the quarter ended March 31, 2013, an increase of $6.8 million compared to the same quarter last fiscal year. This increase is due to the factors mentioned above, without considering acquisition, restructuring and impairment costs.

During the quarter, the Company added approximately $82 million in property, plant and equipment, issued shares for a cash consideration of $12.5 million as part of the stock option plan, purchased share capital for $58.2 million in accordance with the Company's normal course issuer bid and paid out $41.3 million in dividends to its shareholders. For the same quarter, the Company generated net cash from operating activities of $160.1 million, a slight decrease from the $162.4 million generated for the corresponding period last fiscal year.

[1] Adjusted net earnings represents a non-IFRS measure. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 7 of this Management's Discussion and Analysis for the definition of this term.

QUARTERLY FINANCIAL INFORMATION

During fiscal 2013, quarterly changes in revenues and EBITDA as compared to fiscal 2012 were affected by the Morningstar Acquisition, by changes in operational costs, by sales volumes, product mix, and by the average block market in the US.

The inclusion of the Morningstar Acquisition results in the fourth quarter increased both revenues and EBITDA. Increases in operational costs in the US Division offset cost decreases in the Canadian Division. The lower average block market in fiscal 2013 compared to fiscal 2012 negatively affected revenues and had a negative impact on the absorption of fixed costs. The ascending block price in the current fiscal year versus a descending block price in the last fiscal year had a favourable impact on the realization of inventories. A more favourable dairy ingredients product mix increased both revenues and EBITDA. In addition, the impact of higher milk costs resulting from the revised milk pricing formula in California had a negative impact on the results. The fluctuation of the Canadian dollar versus the US dollar and the Argentinian peso in fiscal 2013 versus fiscal 2012 had an immaterial impact on both revenues and EBITDA. The quarterly earnings directly reflect the effects of the previously mentioned items.

ANALYSIS OF EARNINGS FOR THE YEAR ENDED MARCH 31, 2012 COMPARED TO MARCH 31, 2011

Consolidated revenues totalled $6.930 billion, an increase of $927.4 million or 15.4%, compared to $6.003 billion in fiscal 2011. Revenues in the USA Dairy Products Sector increased by approximately $717 million. The inclusion of the DCI Cheese Company Inc. (DCI Acquisition), a more favourable dairy ingredients market and higher sales volumes increased revenues as compared to the preceding fiscal year. These factors combined accounted for an increase of approximately $608 million in revenues. Additionally, a higher average block market per pound of cheese of US$1.76 in fiscal 2012, compared to US$1.56 in fiscal 2011, increased revenues by approximately $163 million. Revenues from the CEA Dairy Products Sector increased by approximately $217 million in comparison to the preceding fiscal year. Higher selling prices in both the Canadian and Argentinian operations in accordance with the increase in the cost of milk as raw material, as well as increased sales volumes from the Argentinian Division and a more favourable dairy ingredients market, explain the increased revenues in this Sector. These offset lower sales volumes from the Canadian Division. Revenues from the Grocery Products Sector decreased by approximately $7 million, mainly due to lower sales volumes. The strengthening of the Canadian dollar in fiscal 2012 eroded approximately $95 million in revenues in comparison to fiscal 2011.

Consolidated earnings before interest, income taxes, depreciation, amortization and impairment (EBITDA) amounted to $830.9 million in fiscal 2012, an increase of $42.6 million or 5.4% compared to $788.3 million for fiscal 2011. The EBITDA of the USA Dairy Products Sector amounted to $303.4 million, an increase of $21.5 million, in comparison to $281.9 million for the preceding fiscal year. Initiatives undertaken by the Sector in fiscal 2012 and the prior years in order to improve operational efficiencies, the inclusion of the DCI Acquisition, and increased sales volumes, more than offset increased ingredients and other costs, as well as the negative impact of the revised milk pricing formula in California during fiscal 2012. These combined factors increased EBITDA by approximately $69 million during fiscal 2012 as compared to fiscal 2011. The block market per pound of cheese steadily increased throughout the first half of fiscal 2012, subsequently decreasing for the rest of the fiscal year. The average block market per pound of cheese for fiscal 2012 was US$1.76 as compared to US$1.56 for the previous fiscal year. The decreasing block market throughout the latter half of fiscal 2012, unfavourably impacted the realization of inventories. The higher average block market contributed positively to the Sector's absorption of fixed costs. The increase in the dairy ingredients market also positively affected EBITDA in fiscal 2012. The relationship between the average block market per pound of cheese and the cost of milk as raw material was unfavourable in fiscal 2012 in comparison to fiscal 2011. The combination of these market factors had a negative impact of approximately $40 million on EBITDA. Also, included in the results of fiscal 2012 was an inventory write-down of $3.8 million, as compared to $3.0 million in fiscal 2011. The strengthening of the Canadian dollar in fiscal 2012 eroded approximately $7 million in EBITDA from the USA Dairy Products Sector.

EBITDA for the CEA Dairy Products Sector totalled $514.8 million in fiscal 2012, an increase of $21.0 million in comparison to $493.8 million for the preceding fiscal year. This increase was mainly attributed to a more favourable dairy ingredients market in the Dairy Products Division (Canada). Fiscal 2011 EBITDA includes a charge of approximately $2 million in relation to a product recall. The Argentinian operations contributed to the EBITDA increase through higher sales volumes and favourable selling prices mainly in the export market, as compared to fiscal 2011. The Dairy Products Division (Europe) EBITDA remained stable, as compared to fiscal 2011.

EBITDA for the Grocery Products Sector increased by $0.1 million to $12.7 million in fiscal 2012, from $12.6 million in fiscal 2011. Benefits derived from operational initiatives implemented throughout fiscal 2012 and previous years as well as reductions in operating costs were almost totally offset by decreases in sales volumes and higher ingredients costs.

The consolidated EBITDA margin decreased to 12.0% in fiscal 2012, as compared to 13.1% in fiscal 2011, mainly due to a proportionate increase in USA Dairy Products Sector sales, which had a slightly lower margin as compared to CEA Dairy Products Sector sales.

Depreciation and amortization totalled $101.9 million in fiscal 2012, a decrease of $4.1 million, compared to $106.0 million in fiscal 2011. This reflects variations in the depreciable asset base and fluctuations in foreign exchange between the Canadian dollar and both the US dollar and Argentinian peso.

The Company recorded an **impairment of goodwill** in the amount of $125.0 million ($125.0 million after tax) for the Grocery Products Sector reflecting stagnating growth in market wide snack-cake sales.

In fiscal 2011, the Company proceeded with an **impairment of portfolio investment** in the amount of $13.6 million, ($11.6 million after tax), following the receipt, in May 2011, of a report from an independent valuator with regards to the fair market value of the Company's portfolio investment.

Net interest expense amounted to $24.7 million in fiscal 2012, compared to $23.9 million in fiscal 2011. The increase was mainly attributed to higher level of bank loans resulting from the DCI Acquisition on March 25, 2011, as compared to the preceding fiscal year.

Income taxes totalled $198.5 million in fiscal 2012, as compared to $194.8 million in fiscal 2011, for an effective tax rate of 34.3% in fiscal 2012 as compared to 30.2% for the previous year. There was no income tax effect on the $125.0 million goodwill impairment, which explains the higher income tax rate for fiscal 2012. Excluding adjustments for impairment of goodwill in fiscal 2012, and of portfolio investment in 2011, the tax rates would have been 28.2% and 29.3%, respectively. The 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.

Net earnings for fiscal 2012 totalled $380.8 million, a decrease of $69.3 million or 15.4% compared to $450.1 million in fiscal 2011. This decrease was due to the factors mentioned above.

Adjusted net earnings[1] for fiscal 2012 totalled $505.8 million, an increase of $44.1 million or 9.6% compared to $461.7 million in fiscal 2011. This increase was due to the factors mentioned above without considering the impairment of goodwill in the amount of $125.0 million.

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[1] Adjusted net earnings represents a non-IFRS measure. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 7 of this Management's Discussion and Analysis for the definition of this term.