

Management's  
Discussion and Analysis



Consolidated  
Financial Statements

**2014**

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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, 2014. It should be read while referring to the audited consolidated financial statements and accompanying notes. The accounting policies of Saputo Inc. (Company or Saputo) for financial years ended March 31, 2014, 2013 and 2012 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, 2014 and June 5, 2014, 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, 2014, can be obtained on SEDAR at [www.sedar.com](http://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

## Our Company

Saputo is one of the top ten dairy processors in the world, the largest in Canada, the third in Argentina and the fourth in Australia. In the US, the Company ranks among the top three cheese producers and is one of the largest producers of extended shelf-life and cultured dairy products.

## Our Business



## Our Network



## Selected Consolidated Financial Information

Years ended March 31 (in thousands of CDN dollars, except per share amounts and ratios)	<b>2014</b>	2013	2012
<b>STATEMENT OF EARNINGS DATA</b>			
<b>Revenues</b>			
Canada	3,653,512	3,578,083	3,522,801
USA	4,489,938	2,849,244	2,541,429
International	1,089,439	870,350	866,140
	<b>9,232,889</b>	<b>7,297,677</b>	<b>6,930,370</b>
<b>Operating Costs Excluding Depreciation, Amortization, Acquisition, Restructuring and Other Costs</b>			
Canada	3,196,137	3,101,907	3,051,589
USA	4,020,124	2,504,988	2,243,811
International	996,283	830,010	804,039
	<b>8,212,544</b>	<b>6,436,905</b>	<b>6,099,439</b>
<b>Adjusted EBITDA<sup>1</sup></b>			
Canada	457,375	476,176	471,212
USA	469,814	344,256	297,618
International	93,156	40,340	62,101
	<b>1,020,345</b>	<b>860,772</b>	<b>830,931</b>
<i>Adjusted EBITDA margin (%)</i>	<i>11.1%</i>	<i>11.8%</i>	<i>12.0%</i>
<b>Depreciation and Amortization</b>			
Canada	53,734	57,940	53,772
USA	85,027	53,901	43,670
International	7,846	4,788	4,501
	<b>146,607</b>	<b>116,629</b>	<b>101,943</b>
Acquisition costs	9,459	9,646	–
Restructuring costs	30,739	32,631	–
Other costs	5,465	–	–
Impairment of goodwill	–	–	125,000
Interest on long-term debt	53,239	29,896	23,081
Other financial charges	15,846	4,203	1,569
<b>Earnings before income taxes</b>	<b>758,990</b>	<b>667,767</b>	<b>579,338</b>
Income taxes	225,024	185,846	198,498
<b>Net earnings</b>	<b>533,966</b>	<b>481,921</b>	<b>380,840</b>
<b>Net earnings margin (%)</b>	<b>5.8%</b>	<b>6.6%</b>	<b>5.5%</b>
Attributable to:			
Shareholders of Saputo Inc.	533,097	481,921	380,840
Non-controlling interest	869	–	–
	<b>533,966</b>	<b>481,921</b>	<b>380,840</b>

Years ended March 31 (in thousands of CDN dollars, except per share amounts and ratios)	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net earnings	<b>533,966</b>	481,921	380,840
Acquisition costs (net of income taxes of \$270 and \$3,531 for 2014 and 2013, respectively)	<b>9,189</b>	6,115	–
Restructuring costs (net of income taxes of \$10,851 and \$10,034 for 2014 and 2013, respectively)	<b>19,888</b>	22,597	–
Other costs (net of income taxes of \$1,534)	<b>3,931</b>	–	–
Impairment of goodwill	–	–	125,000
Adjusted net earnings <sup>2</sup>	<b>566,974</b>	510,633	505,840
Adjusted net earnings margin (%)	<b>6.1%</b>	7.0%	7.3%
Attributable to:			
Shareholders of Saputo Inc.	<b>566,105</b>	510,633	505,840
Non-controlling interest	<b>869</b>	–	–
	<b>566,974</b>	510,633	505,840
<b>PER SHARE DATA</b>			
Adjusted earnings per share <sup>2</sup>	<b>2.90</b>	2.58	2.51
Adjusted diluted earnings per share <sup>2</sup>	<b>2.87</b>	2.55	2.47
Earnings per share	<b>2.73</b>	2.44	1.89
Diluted earnings per share	<b>2.70</b>	2.41	1.86
Dividends declared per share	<b>0.92</b>	0.84	0.76
<b>BALANCE SHEET DATA</b>			
Total assets	<b>6,356,892</b>	5,193,640	3,599,120
Interest bearing debt <sup>3</sup>	<b>2,060,014</b>	1,686,988	402,369
Equity	<b>2,839,160</b>	2,305,672	2,105,686
<b>STATEMENT OF CASH FLOWS DATA</b>			
Net cash generated from operations	<b>656,310</b>	645,792	522,987
Amount of additions to property, plant and equipment, net of proceeds on disposal	<b>223,371</b>	177,336	105,716
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>ADJUSTED EARNINGS PER SHARE<sup>2</sup></b>	<b>\$2.90</b>	\$2.58	\$2.51
<b>EARNINGS PER SHARE</b>	<b>\$2.73</b>	\$2.44	\$1.89
<b>ACQUISITION, RESTRUCTURING AND OTHER COSTS<sup>4,5</sup></b>	<b>\$0.17</b>	\$0.14	\$0.62

(1) Adjusted EBITDA is a non-IFRS measure (refer to page 6) and is defined as earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and other costs.  
(2) 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 6 of this Management's Discussion and Analysis for the definition of these terms.

(3) Net of cash and cash equivalents.

(4) Per share amount (basic).

(5) Other costs include impairment of goodwill for fiscal 2012.

## FINANCIAL ORIENTATION

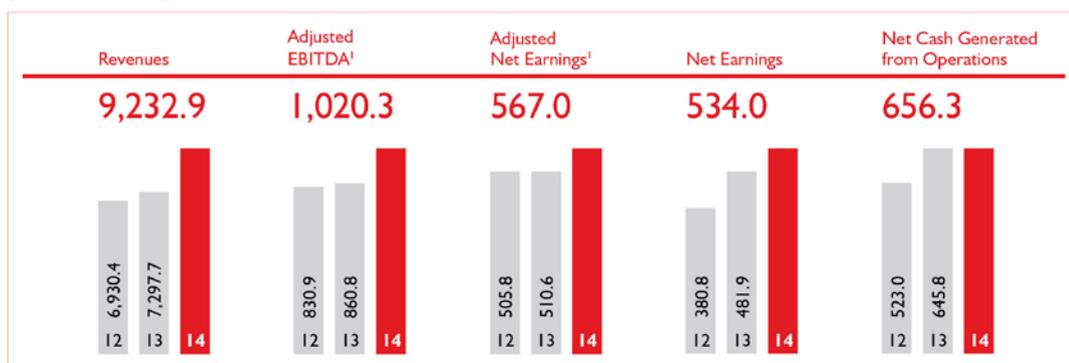
Saputo's objectives are to create shareholder value and enhance profitability. The Company operates in a competitive and challenging global economic environment. We remain focused on growth, both internally and through acquisitions, to further expand in existing and new markets and reinforce our global presence in emerging markets. 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 solid balance sheet and capital structure, supplemented by a high level of cash generated by operations and low debt levels. Our financial flexibility allows growth through targeted acquisitions and enables the Company to face possible economic challenges. In fiscal 2014, the Company continued to strategically invest in capital projects, expand its activities in new and existing markets, increase its dividend and 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 2014

The following are highlights and key performance measures for fiscal 2014:

- Adjusted net earnings<sup>1</sup> totalled \$567.0 million, up 11.0%.
- Net earnings totalled \$534.0 million, up 10.8%.
- Acquisition, restructuring and other costs in fiscal 2014 decreased net earnings by \$33.0 million (\$0.17 basic and diluted earnings per share).
- Adjusted earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and other costs (adjusted EBITDA<sup>1</sup>) totalled \$1,020.3 million, up 18.5%.
- Revenues reached \$9.233 billion, up 26.5%.
- Net cash generated from operations totalled \$656.3 million, up 1.6%.
- As of April 1, 2013, the Company realigned its reporting structure consistent with its operating structure and reports under three geographic sectors: the Canada Sector, the USA Sector and the International Sector. The comparative figures have been reclassified to reflect this reporting structure.
- During the third quarter, the Company announced a takeover bid to buy all the shares of Warrnambool Cheese & Butter Factory Company Holdings Limited (Warrnambool Acquisition), a dairy processor in Australia. At the closing of the bid on February 12, 2014, the Company held an 87.92% interest in Warrnambool shares and its operations are consolidated since January 21, 2014.
- In the United States (US), the average block market<sup>2</sup> per pound of cheese increased by US\$0.15 compared to fiscal 2013, increasing revenues.
- In the US, market factors positively impacted EBITDA as compared to fiscal 2013.
- The acquisition of Morningstar Foods, LLC (Morningstar Acquisition) on January 3, 2013, renamed Saputo Dairy Foods USA, LLC (Dairy Foods Division (USA)), contributed to revenues and EBITDA in the USA Sector for the full fiscal year.
- The fluctuation of the Canadian dollar had a positive impact on revenues and EBITDA of the USA Sector while negatively impacting revenues and EBITDA of the International Sector in fiscal 2014.

(in millions of CDN dollars)



<sup>1</sup> Adjusted net earnings and adjusted EBITDA represent non-IFRS measures. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 6 of this Management's Discussion and Analysis for the definition of these terms.

<sup>2</sup> "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.

## OUTLOOK

In fiscal 2015, 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.

## 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 EBITDA, adjusted net earnings and adjusted earnings per share, that hold no standardized meaning under IFRS. These non-IFRS measurements are therefore not likely to be comparable to similarly titled or described measures in use by other publicly traded companies nor do they indicate that excluded items are non-recurring.

Adjusted EBITDA represents earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and other costs. Adjusted net earnings is defined by the Company as net earnings prior to the inclusion of acquisition, restructuring, and other costs, net of applicable income taxes, if any. Adjusted earnings per share is defined as adjusted net earnings attributable to shareholders of Saputo Inc. per basic and diluted common share. The most comparable IFRS financial measures to the ones used by the Company are earnings before interest, income taxes, depreciation and amortization, as well as net earnings and earnings per share (basic and diluted).

Adjusted EBITDA, adjusted net earnings and adjusted earnings per share, as used by Management, provide greater precision and comparability with regards to the Company's ongoing operation. They also provide readers with a representation of the activities considered of greater relevance to the Company's financial performance through the inclusion of additional financial information that can be used to identify trends or additional disclosures that provide information into the manner in which the Company is operated. Non-IFRS measures also provide greater comparability to the Company's prior year results.

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)*

	2014			2013		
	Total	Per Share Basic	Diluted	Total	Per Share Basic	Diluted
Net earnings	533,966	2.73	2.70	481,921	2.44	2.41
Acquisition costs	9,189	0.05	0.05	6,115	0.03	0.03
Restructuring costs	19,888	0.10	0.10	22,597	0.11	0.11
Other	3,931	0.02	0.02	-	-	-
Adjusted net earnings	566,974	2.90	2.87	510,633	2.58	2.55

## CONSOLIDATED RESULTS

### CONSOLIDATED SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

Fiscal years	2014	2013
Market factors <sup>1 2</sup>	20	9
Inventory write-down	-	(3)
US currency exchange <sup>1</sup>	19	2

<sup>1</sup> As compared to the previous fiscal year.

<sup>2</sup> 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 \$9.233 billion, an increase of \$1.935 billion or 26.5%, compared to \$7.298 billion in fiscal 2013. Revenues in the USA Sector increased by approximately \$1.641 billion. The inclusion of the Dairy Foods Division (USA) for a full fiscal year, and a higher average block market per pound of cheese of US\$1.88 in fiscal 2014, compared to US\$1.73 in fiscal 2013, offset lower sales volumes. Revenues from the Canada Sector increased by approximately \$75 million in comparison to last fiscal year. Higher selling prices in accordance with the increase in the cost of milk as raw material, as well as increased sales volumes in the Dairy Division (Canada) explain the increased revenues in this Sector. Revenues from the International Sector increased by approximately \$219 million, due to higher international selling prices and an increase in sales volumes, as well as the inclusion of revenues from the Warrnambool Acquisition since January 21, 2014. A positive effect on revenues by the weakening of the Canadian dollar in comparison to the US dollar in fiscal 2014 was partially offset by the negative effect of its strengthening versus the Argentinian peso.

**Consolidated adjusted earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and other costs (Adjusted EBITDA<sup>1</sup>)** amounted to \$1.020 billion in fiscal 2014, an increase of \$159.5 million or 18.5% compared to \$860.8 million for fiscal 2013. The EBITDA of the USA Sector amounted to \$469.8 million, an increase of \$125.5 million, in comparison to \$344.3 million for last fiscal year. The inclusion of the Dairy Foods Division (USA) for the full fiscal year more than offset lower sales volumes and an increase in ingredients, fuel and other operational costs, as well as the negative impact of the revised milk pricing formula in California during fiscal 2014. The average block market per pound of cheese for fiscal 2014 was US\$1.88 as compared to US\$1.73 for the previous fiscal year. This increase of the block market per pound of cheese for fiscal 2014 had a favourable impact on the realization of inventories in contrast to last fiscal year, in addition to positively affecting the absorption of fixed costs. The relationship between the average block market per pound of cheese and the cost of milk as raw material was less favourable as compared to fiscal 2013. The combination of these market factors, including reduced profitability associated with higher commodity prices in the Dairy Foods Division (USA), increased EBITDA by approximately \$20 million. The weakening of the Canadian dollar in fiscal 2014 added approximately \$19 million to the USA Sector EBITDA.

EBITDA for the Canada Sector totalled \$457.4 million in fiscal 2014, a decrease of \$18.8 million in comparison to \$476.2 million for last fiscal year. This decrease is mainly attributable to an increasingly competitive market resulting in a partial absorption of higher ingredients, packaging, and other costs, as compared to fiscal 2013. This decrease is partially offset by a combination of a better product mix and higher sales volumes in the Dairy Division (Canada). The Bakery Division EBITDA increased slightly, as compared to fiscal 2013.

EBITDA for the International Sector totalled \$93.2 million in fiscal 2014, an increase of \$52.9 million in comparison to \$40.3 million in fiscal 2013. EBITDA of the Dairy Division (Argentina) increased, as compared to fiscal 2013, mainly due to higher selling prices in the export market and increased sales volumes. Also contributing to this increase is the EBITDA derived from the Warrnambool Acquisition since January 21, 2014. EBITDA for the Dairy Ingredients Division remained stable compared to fiscal 2013. Included in the results of fiscal 2013 was an inventory write-down of \$2.5 million.

The consolidated adjusted EBITDA margin decreased to 11.1% in fiscal 2014, as compared to 11.8% in fiscal 2013, resulting from lower EBITDA in the Canada Sector as well as lower EBITDA margins in the USA Sector due to the Dairy Foods Division (USA).

**Depreciation and amortization** totalled \$146.6 million in fiscal 2014, an increase of \$30.0 million, compared to \$116.6 million in fiscal 2013. The increase is mainly due to the inclusion of the Dairy Foods Division (USA) for a full year as compared to one quarter in fiscal 2013. Also, it reflects variations in the depreciable asset bases and fluctuations in foreign exchange between the Canadian dollar and both the US dollar and Argentinian peso.

In fiscal 2014, the Company incurred **acquisition costs** relating to the Warrnambool Acquisition, which closed on February 12, 2014, and the acquisition of the fluid milk activities of Scotsburn Co-Operative Services Limited (Scotsburn Acquisition), completed on April 14, 2014, totalling \$9.5 million (\$9.2 million after tax), **restructuring costs** in relation to plant closures in the United States and Canada totalling \$30.7 million (\$19.9 million after tax), as well as **other costs** totalling \$5.5 million (\$3.9 million after tax) relating to amendments to pension plans for executive officers. In connection with these restructuring costs, the Company has incurred \$7.8 million in severance costs, \$0.8 million in other closure costs and \$22.1 million in impairment charges to property, plant and equipment.

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 these restructuring costs for fiscal 2013, the Company 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 other charges.

**Net interest expense** amounted to \$69.1 million in fiscal 2014, compared to \$34.1 million in fiscal 2013. The increase is mainly attributed to a higher level of debt resulting from the Morningstar and Warrnambool Acquisitions.

**Income taxes** totalled \$225.0 million in fiscal 2014, as compared to \$185.8 million in fiscal 2013, for an effective tax rate of 29.6% in fiscal 2014 as compared to 27.8% for the previous year. Excluding acquisition, restructuring and other costs in both fiscal years, the tax rates would have been 29.5% and 28.1%, 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 2014 totalled \$534.0 million, an increase of \$52.1 million or 10.8% compared to \$481.9 million in fiscal 2013. This increase is due to the factors mentioned above.

**Adjusted net earnings**<sup>1</sup> for fiscal 2014 totalled \$567.0 million, an increase of \$56.4 million or 11.0% compared to \$510.6 million in fiscal 2013. This increase is due to the factors mentioned above, without considering acquisition, restructuring and other costs.

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<sup>1</sup> Adjusted EBITDA and adjusted net earnings represent non-IFRS measures. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 6 of this Management's Discussion and Analysis for the definition of these terms.

## INFORMATION BY SECTOR

### CANADA SECTOR

(in millions of CDN dollars)

<b>Fiscal years</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Revenues	<b>3,653.5</b>	3,578.1	3,522.8
EBITDA	<b>457.4</b>	476.2	471.2

The Canada Sector includes the Dairy Division (Canada) and the Bakery Division. The Bakery Division represents less than 5% of the Sector's revenues.

In fiscal 2014, the Canada Sector benefitted from increased sales volumes and a favourable product mix in the cheese category, offsetting an unfavourable product mix in the fluid milk category. These increases were offset mainly by higher ingredients costs throughout the year. The strategy for growth in Canada continued to be the same in fiscal 2014. Stagnant growth and competitive market conditions required the Company to focus on reviewing overall activities including cost reduction and improvement of operational efficiencies. As such, the Company announced towards the end of fiscal 2014 the restructuring of certain manufacturing activities including the closure of two plants.

#### REVENUES

Revenues from the Canada Sector totalled \$3.654 billion, an increase of \$75.4 million or 2.1% as compared to \$3.578 billion in fiscal 2013. Revenues in the Dairy Division (Canada) increased due to higher selling prices relating to the increase in the cost of milk as raw material and higher sales volumes. Additionally, sales volumes of traditional milk and cheese were higher, while sales volumes of value-added milk and butter decreased. Overall, revenues were positively affected.

The Sector 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 Division (Canada) continued to be the leading segment with 64% of revenues, a 2% decrease from last year. In fiscal 2014, fluid milk per capita consumption decreased by approximately 3%, while the cream category increased by 5%. Cheese consumption increased slightly and butter consumption showed a slight decrease, when compared to the previous fiscal year. Despite decreased overall consumption, the Division's investment strategy in the value-added category continued to pay off. The Division is the leading processor in Canada in organic milk and lactose-reduced milk, and these sub-categories show 11% and 6% national market growth. 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 33% of revenues in the Dairy Division (Canada), a 1% increase compared to last fiscal year. The Company's 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 3% of revenues in the Dairy Division (Canada), a 1% increase compared to last fiscal year. In fiscal 2014, 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.

The Bakery Division revenues increased slightly as compared to fiscal 2013, due primarily to an increase in sales volumes in Canada.

#### EBITDA

EBITDA for the Canada Sector totalled \$457.4 million for the year ended March 31, 2014 as compared to \$476.2 million in fiscal 2013, representing a decrease of \$18.8 million or 3.9%. The EBITDA margin decreased to 12.5% from 13.3% in fiscal 2013.

EBITDA decreased in the Dairy Division (Canada) compared to the previous fiscal year mainly due to an increasingly competitive market resulting in a partial absorption of higher ingredients, packaging and other costs. This decrease was partially offset by an increase in sales volumes, a favourable product mix, and an increase in selling prices as compared to fiscal 2013.

The Bakery Division EBITDA increased slightly in fiscal 2014 resulting from favourable operating efficiencies in sales and manufacturing, in addition to a decrease in operating expenses.

## **OUTLOOK**

Fiscal 2015 will bring another year of continuous challenges in Canada due to the competitive nature of the market. Despite these difficult conditions, the Dairy Division (Canada) will continue to pursue volume growth in commodity and specialty-type cheeses and in the fluid milk category. The Division will seek opportunities in the value-added milk category, which offers growth potential, and one in which the Company is well-positioned. 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.

The Division will complete, in the first quarter of fiscal 2015, the project to consolidate distribution activities of the Greater Montreal area into one distribution center located in Saint-Laurent, Québec. This initiative was announced in fiscal 2013 and is a result of the Company's ongoing evaluation of activities aimed at cost reduction and productivity enhancements.

The recent Scotsburn Acquisition will enable the Dairy Division (Canada) to increase its presence in Atlantic Canada. The Division will evaluate opportunities and possible synergies in an effort to improve and expand its product offerings to all customers.

In fiscal 2015, we will close three facilities as announced in fiscal 2013 and 2014. These measures are part of the Company's continual effort to pursue additional efficiencies and decrease costs. Annual after tax savings should be approximately \$8 million, of which approximately \$6 million 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.

Production capacity continues to be evaluated in line with the objective to reduce excess production capacity at the Canada Sector plants, which, at March 31, 2014, stood at 27% and 34% in cheese and fluid milk activities, respectively.

## USA SECTOR

(in millions of CDN dollars)

<b>Fiscal years</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Revenues	4,489.9	2,849.2	2,541.4
EBITDA	469.8	344.3	297.6

### SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

<b>Fiscal years</b>	<b>2014</b>	<b>2013</b>
Market factors <sup>1 2</sup>	20	9
US currency exchange <sup>1</sup>	19	2

<sup>1</sup> As compared to the previous fiscal year.

<sup>2</sup> 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)

<b>Fiscal years</b>	<b>2014</b>	<b>2013</b>
Average block market per pound of cheese	1.882	1.728
Closing block price <sup>1</sup> per pound of cheese	2.385	1.693
Average whey market price <sup>2</sup> per pound	0.590	0.560
Spread <sup>3</sup>	0.036	0.044
US average exchange rate to Canadian dollar <sup>4</sup>	1.052	1.001

<sup>1</sup> 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.

<sup>2</sup> Average whey powder market price is based on Dairy Market News published information.

<sup>3</sup> 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.

<sup>4</sup> Based on Bank of Canada published information.

The USA Sector includes the Cheese Division (USA) and the Dairy Foods Division (USA).

Fiscal 2014 marked a full year's contribution from the Dairy Foods Division (USA). This business complements the activities of the Cheese Division (USA). Through this acquisition, the Company benefits from the Dairy Foods Division's national manufacturing and distribution footprint. This transaction expanded product offerings to customers in the US and broadened the range of Saputo's future acquisition opportunities. In fiscal 2014, the Sector continued to benefit from capital expenditures completed in the current and prior fiscal years.

For fiscal 2014, the average block market per pound of cheese opened at US\$1.69 and increased to US\$2.39 by the end of the fiscal year. In March 2014, the average block market per pound of cheese hit a record high of US\$2.43. Given the continued high demand for dairy exports, market prices increased throughout fiscal 2014 resulting in higher averages in comparison to the prior fiscal year. For fiscal 2014, the average block market per pound of cheese was US\$1.88 compared to US\$1.73 for fiscal 2013. Additionally, the revised milk pricing formula in California enacted by the California Department of Food and Agriculture (CDFA) negatively impacted results of the Cheese Division (USA).

In fiscal 2014, we continued initiatives aimed at increasing our capacity, efficiency and flexibility in cheese manufacturing. We also improved whey processing and increased drying capabilities.

## REVENUES

Revenues for the USA Sector totalled \$4.490 billion in fiscal 2014, an increase of \$1.641 billion or 57.6% in comparison to \$2.849 billion in fiscal 2013. The inclusion of a complete fiscal year's revenues derived from the Dairy Foods Division (USA) was the main reason for the revenue increase. A higher average block market per pound of cheese of US\$1.88 in fiscal 2014, in comparison to US\$1.73 in fiscal 2013, increased revenues by approximately \$129 million, offsetting lower sales volumes. The weakening of the Canadian dollar increased revenues by approximately \$164 million.

The retail segment contributed 42% of total USA Sector revenues, down from 44% in fiscal 2013. 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 Cheese Division continued to gain distribution and marketing share by introducing several product line extensions including *Frigo Cheese Heads Premium Snacking Cheeses*, *Frigo Cheese Heads Cheese & Meat Combos* and *Treasure Cave Flavored Blue Cheeses*. The Dairy Foods Division benefitted from positive trends in the private label category through the introduction of new products and continued to surpass market growth in such categories as ESL creams/creamers, value-added milk and cultured products. 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 contributed 52% of total revenues, as compared to 46% in fiscal 2013. The Dairy Foods Division (USA) drives up the percentage of this segment since it is foodservice oriented. Traffic counts continued in an upward trend during the fiscal year, helping the foodservice segment increase sales volumes. To continue the enhancement of our brand equity for our premium brand of mozzarella, as well as increase awareness of our specialty cheese segment in the foodservice channel, the Division offered various trade incentives in fiscal 2014. The segment continued to see interest in new products developed to provide a value alternative to customers. These new offerings demonstrated repeat business from foodservice customers. Targeted specifically to the pizza operator segment and the national chain restaurant accounts, marketing support included print media, direct mail and web advertising, as well as broker / distributor incentives to entice additional business. Business with restaurants benefitted from continued growth of beverage programs within quick serve restaurant chains. The Dairy Foods Division (USA) selling approach affords us an advantage in dealing with restaurant chains. We continue to work with these customers on new menu offerings. We are the leading dairy provider to large national broad line distributors as well as regional foodservice distributors, supplying private label brands of half-n-half creamers, whipping cream, cottage cheese and sour cream.

The industrial segment includes cheese sales and accounted for 6% of revenues versus 10% in fiscal 2013. In fiscal 2013, sales volumes were lower mainly due to a decrease in sales to government-sponsored programs and market competitiveness. In fiscal 2014, the industrial segment worked with key customers to ensure our product recipes met the appropriate customer applications.

## EBITDA

EBITDA totalled \$469.8 million for fiscal 2014, an increase of \$125.5 million or 36.5% in comparison to \$344.3 million in fiscal 2013. The inclusion of a complete fiscal year's results from the Dairy Foods Division (USA) increased EBITDA as compared to fiscal 2013. Also contributing to the EBITDA increase was the favourable market factors and initiatives undertaken by the Cheese Division (USA) in the prior and current fiscal years with regards to improved operational efficiencies. Partially offsetting the EBITDA increase were higher ingredients, fuel and other costs as well as, lower sales volumes, and the negative impact of higher milk costs resulting from the revised milk pricing formula in California.

The block market per pound of cheese steadily increased throughout fiscal 2014. The average block market per pound of cheese for fiscal 2014 was US\$1.88 as compared to US\$1.73 for the previous fiscal year. During the current fiscal year, the block price opened at US\$1.69 and closed at US\$2.39, an increase of US\$0.70, compared to opening at US\$1.49 and closing at US\$1.69, an increase of US\$0.20, for the previous fiscal year. This positive difference for fiscal 2014 had a favourable impact on the realization of inventories and the higher average block market positively affected the absorption of fixed costs. The relationship between the average block market per pound of cheese and the cost of milk as raw material was less favourable in comparison to fiscal 2013. The combination of these market factors, including reduced profitability associated with higher commodity prices in the Dairy Foods Division (USA), increased EBITDA by approximately \$20 million. The weakening of the Canadian dollar in fiscal 2014 added approximately \$19 million to the USA Sector's EBITDA.

## **OUTLOOK**

In fiscal 2015, the Company will continue the integration of the Dairy Foods Division (USA) and will focus on implementing the Company's processes and systems. The Sector intends to capitalize on the Division's national manufacturing and distribution footprint and benefit from possible synergies. An analysis of administrative and information technology will be done in order to effectively integrate central functions, streamline systems, and adopt an efficient working environment.

Additionally, in fiscal 2015, we will attempt to recuperate lost volumes in the Cheese Division (USA) and also we should benefit from the effort of our International Sector, towards growing the export sales market.

The Cheese Division (USA) plans to continue to gain distribution and market share for its premium lines of snack cheeses and flavoured blue cheese offerings.

The closure of two plants in fiscal 2015, which was announced in March 2014, is in line with the Company's continual review of operations in order to maximize return on capital and seek additional efficiencies. Annual after tax savings should be approximately \$3 million.

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.

## INTERNATIONAL SECTOR

(in millions of CDN dollars)

<b>Fiscal years</b>	<b>2014</b>	2013	2012
Revenues	<b>1,089.4</b>	870.4	866.2
EBITDA	<b>93.2</b>	40.3	62.1

### **SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA**

(in millions of CDN dollars)

<b>Fiscal years</b>	<b>2014</b>	2013
Inventory write-down	-	(3)

The International Sector includes the Dairy Division (Argentina), the Dairy Division (Australia), and the Dairy Ingredients Division. The Dairy Ingredients Division includes national and export ingredients sales from the North American divisions, as well as cheese exports from these same divisions. The Dairy Division (Europe) ceased operations in the first quarter of fiscal 2014, as announced in late fiscal 2013, and its results are included in the comparative figures.

### **REVENUES**

Revenues for the International Sector totalled \$1.089 billion for the fiscal year ended March 31, 2014, an increase of \$219.0 million or 25.2% as compared to \$870.4 million in fiscal 2013. This increase is due to higher selling prices, mainly in the export market and increased sales volumes in both the domestic and export markets in the Dairy Division (Argentina). Also contributing to this increase is the inclusion of revenues from the Dairy Division (Australia) since January 21, 2014. The Dairy Ingredients Division's revenues were higher as compared to fiscal 2013 due to a favourable product mix offsetting lower ingredient sales volumes. Included in fiscal 2013 were the revenues from the Dairy Division (Europe), which ceased operations in the first quarter of fiscal 2014, reducing revenues by approximately \$54 million. The strengthening of the Canadian dollar versus the Argentinean peso decreased revenues by approximately \$78 million.

### **EBITDA**

EBITDA for the International Sector amounted to \$93.2 million, a \$52.9 million increase as compared to \$40.3 million for fiscal 2013. The Argentinian operations contributed to the EBITDA increase due to favourable selling prices, mainly in the export market, in addition to an increase in sales volumes, as compared to last fiscal year. Also contributing to this increase was the inclusion of EBITDA from the Dairy Division (Australia) since January 21, 2014. In the Dairy Ingredients Division, a better product mix was offset by increases in costs as compared to last fiscal year. Included in the results of fiscal 2013 was an inventory write-down of \$2.5 million.

### **OUTLOOK**

The International Sector will continue to pursue sales volume growth in existing markets, as well as develop additional international markets from its operations in Argentina for which we increased capacity over the last two years. Also, we will pursue growth of cheese export sales volumes out of the Cheese Division (USA). The inclusion of the Dairy Division (Australia) has given the International Sector an additional platform and will be key for the long-term growth of this Sector as a dairy player on a global scale. We intend to accelerate growth in Australia, by making necessary capital investments and devoting resources to increase manufacturing capacity, grow milk intake and create new opportunities. 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 capital spending, dividends, business acquisitions, debt repayments and share repurchase. 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)*

<b>Fiscal years</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Cash generated from operating activities	<b>881,485</b>	842,889	754,733
Net cash generated from operating activities	<b>656,310</b>	645,792	522,987
Cash used for investing activities	<b>(672,146)</b>	(1,625,000)	(87,117)
Cash generated from (used for) financing activities	<b>4,934</b>	868,762	(368,828)
(Decrease) increase in cash and cash equivalents	<b>(10,902)</b>	(110,446)	67,042

Cash generated from **operating activities** amounted to \$881.5 million for fiscal 2014, an increase of \$38.6 million compared to \$842.9 million in fiscal 2013 due mainly to an increase in EBITDA, partially offset by higher depreciation and amortization, interest and income taxes. Changes in non-cash operating working capital items used \$129.4 million of cash compared to \$4.4 million used in fiscal 2013, mainly as a result of increases in accounts receivable and inventory as compared to last fiscal year. The increase in accounts receivable is mainly due to a higher average block price in the US and higher selling prices in the international market. Inventory increased mainly due to the higher cost of milk in the US and higher inventory levels in the International Sector. Net cash generated by operating activities amounted to \$656.3 million for fiscal 2014, compared to \$645.8 million in fiscal 2013.

For **investing activities**, the Company used \$672.1 million in fiscal 2014; \$449.6 million was disbursed for the Warrnambool Acquisition and \$223.6 million was disbursed for additions to property, plant and equipment, which exceeds depreciation of \$134.1 million by approximately \$90 million, mainly related to specific and strategic projects. Of these additions, 27% went into the replacement of property, plant and equipment and 73% to both implement new technologies and to expand and increase certain manufacturing capacities.

**Financing activities** generated \$4.9 million in fiscal 2014. Long-term debt increased by \$390.0 million, in relation to the Warrnambool Acquisition. During fiscal 2014, \$175.0 million was reimbursed as part of long-term repayment obligations. The Company issued shares for a cash consideration of \$41.9 million as part of the stock option plan, paid \$175.3 million in dividends and \$154.4 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 \$77.8 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 beyond what is currently available through existing arrangements.

*(in thousands of CDN dollars, except ratio)*

<b>Fiscal years</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Current assets	<b>1,895,846</b>	1,512,556	1,399,464
Current liabilities	<b>1,725,094</b>	1,226,647	902,441
Working capital	<b>170,752</b>	285,909	497,023
Working capital ratio	<b>1.10</b>	1.23	1.55

The working capital ratio is an indication of the Company's 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 a higher current portion of long-term debt maturing in fiscal 2015 and an increase in bank loans resulting from the Warrnambool Acquisition.

## 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)*

<b>Fiscal years</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	<b>39,346</b>	43,177	144,137
Bank loans	<b>310,066</b>	181,865	166,631
Long-term debt	<b>1,789,294</b>	1,548,300	379,875
Total equity	<b>2,839,160</b>	2,305,672	2,105,686
Interest-bearing <sup>1</sup> debt-to-equity ratio	<b>0.73</b>	0.73	0.19
Number of common shares	<b>195,068,912</b>	196,619,440	199,037,565
Number of stock options	<b>8,448,481</b>	8,375,931	8,484,524

<sup>1</sup> Net of cash and cash equivalents.

The Company had \$39.3 million of cash and cash equivalents, an available bank term loan of \$110 million and available bank credit facilities of approximately \$875 million, \$310.1 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 23, 2014, 195,305,729 common shares and 10,247,519 stock options were outstanding.

### NORMAL COURSE ISSUER BIDS

The Company announced on November 7, 2012 its intention to purchase, by way of a normal course issuer bid (Bid), for cancellation purposes, up to 9,850,532 common shares, which represented 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 were 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 paid for common shares acquired by it on the open market under the Bid was in cash at the market price of such shares at the time of acquisition. Purchases made by way of private agreements under the Bid were 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 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, 2013 its intention to purchase, by way of a new normal course issuer bid (New Bid), for cancellation purposes, up to 9,708,299 common shares, which represents 5% of its 194,165,996 issued and outstanding common shares as of October 31, 2013 over a 12-month period beginning on November 15, 2013 and ending on November 14, 2014. 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, 2014, the Company purchased 3,251,800 common shares, at prices ranging from \$46.46 to \$49.55 per share, under the Bids (4,261,400 common shares at prices ranging from \$39.44 to \$49.01 per share for the year ended March 31, 2013).

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	393,600	24,558	418,158
1-2 years	213,819	17,395	231,214
2-3 years	1,181,875	11,755	1,193,630
3-4 years	-	8,919	8,919
4-5 years	-	6,816	6,816
More than 5 years	-	16,494	16,494
	1,789,294	85,937	1,875,231

### **LONG-TERM DEBT**

As described in Note 10 to the consolidated financial statements, the Company's long-term debt is comprised of unsecured term bank loan facilities of \$1.4 billion, maturing in December 2016, which bear interest at lenders' prime rates plus a maximum of 1.00%, or bankers' acceptance rates plus 0.85%, up to a maximum of 2.00%, depending on a financial ratio of the Company and are subject to quarterly repayments of \$57.1 million. Long-term debt is also comprised of unsecured senior notes of \$55.3 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, 2014 varied mainly due to the Warnnambool Acquisition on January 21, 2014, and the weakening of the Canadian dollar versus the US dollar in comparison to March 31, 2013.

The conversion rate of the US operations' balance sheet items in US currency was CDN\$1.1055 per US dollar as at March 31, 2014, compared to CDN\$1.0160 per US dollar as at March 31, 2013. The conversion rate of the Argentinian operations' balance sheet items in Argentinian currency was CDN\$0.1380 per Argentinian peso as at March 31, 2014, compared to CDN\$0.1983 per Argentinian peso as at March 31, 2013. 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 \$138.7 million as at March 31, 2013, to negative \$270.7 million as at March 31, 2014, mainly resulting from the consolidation of the Warnnambool Acquisition as well as from other general use. The change in foreign currency translation adjustment recorded in other comprehensive income varied due to the strengthening of the US dollar.

## 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 was a purchase of land and building from a related party totalling \$16,400,000. The acquired property serves as the site for the consolidated distribution activities of the Greater Montreal area as well as the administrative offices of the Dairy 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 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 is a summary of the relevant standards affected and a discussion of the amendments.

### ***IFRS 2, Share-based Payment***

The IASB has amended the definitions of market and vesting conditions and added definitions for performance and service conditions. Vesting conditions are now defined as either service conditions or performance conditions. The amendments also clarify certain other requirements for performance, service, market and non-vesting conditions.

These amendments are effective for annual reporting periods beginning on or after July 1, 2014. Management is still evaluating the impact of these requirements but the adjustments, if any, resulting from these amendments are not likely to be material.

### ***IFRS 3, Business Combinations***

The IASB amended IFRS 3 to clarify that contingent consideration in a business combination, whether an asset or liability, should continue to be measured at fair value at each reporting date regardless of whether the contingent consideration is considered a financial instrument within the scope of IFRS 9 or IAS 39 and regardless of whether it is considered a non-financial asset or liability (changes in fair value shall be included in net earnings).

These amendments are effective for annual reporting periods beginning on or after July 1, 2014. Management does not believe these amendments will have a material impact on the Company's financial statements.

### ***IFRS 8, Operating Segments***

The IASB amended IFRS 8 to require an entity to disclose the judgements in applying the aggregation criteria found in paragraph 12. The standard now requires a brief description of the operating segments that have been aggregated in the present manner and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics.

IFRS 8 has also been amended to clarify that an entity only needs to present a reconciliation between the total reporting segment's assets to the entities' total assets if this information is usually provided to the chief operating decision maker.

These amendments are effective for annual reporting periods beginning on or after July 1, 2014. Management is still analyzing the impact of these amendments but does not expect any significant adjustments to its financial statements.

### ***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. Several amendments have been made to this standard since that date including amendments made in February 2014 relating to hedging requirements

These amendments, along with the adoption of the standard, are effective for annual reporting periods beginning on or after January 1, 2018. Management is currently evaluating the impact of the adoption of this standard, including amendments.

### ***IFRS 13, Fair Value***

The IASB amended the basis for conclusion in IFRS 13 to clarify that the issuance of IFRS 13 (and related amendments to IAS 39, Financial Instruments Recognition and Measurement) does not require discounting of short-term receivables and payables if they are not significant.

This amendment is effective for annual reporting periods beginning on or after July 1, 2014 and is not expected to materially impact the Company's financial statements.

### ***IAS 19, Employee Benefits***

IAS 19 has been amended to clarify that employee (or third party) contributions that are independent of the number of years of service can be deducted from the service cost in the period that the service is rendered and not necessarily allocated over the periods of service. Other contributions made by employees (or third parties) are to be attributed to the periods of service using the plan's contribution formula or on a straight line basis.

This amendment is effective for annual reporting periods beginning on or after July 1, 2014. Management is currently analyzing the impact of the adoption of these amendments.

### ***IAS 24, Related Party Transactions***

IAS 24 clarifies that a management entity providing key management personnel services to a reporting entity is also considered a related party of the reporting entity. Therefore the amounts paid by the reporting entity in relation to those services must also be included in the amounts disclosed in the related party transactions note. Disclosures of the components of the services provided are not required.

This amendment is effective for annual reporting periods beginning on or after July 1, 2014 and is not expected to impact the Company's financial statements.

### ***IAS 36, Impairment of Assets***

In May 2013, the IASB published amendments to IAS 36 no longer requiring the disclosure of the recoverable amounts of each cash generating unit or group of units to which a significant portion of the overall carrying amount of goodwill (or other intangibles with indefinite useful lives) has been allocated. The IASB clarified that this requirement is only applicable in the event of an impairment loss or reversal of an impairment loss.

This amendment is effective for annual reporting periods beginning on or after January 1, 2014 and is not expected to impact the Company's financial statements.

### ***IAS 39, Financial Instruments: Recognition and Measurement***

In June 2013, the IASB published amendments to IAS 39 providing relief from the cessation of hedge accounting where derivatives being used in hedging arrangements are novated under certain circumstances. Previously under IAS 39, novation of derivatives resulted in the cessation of hedge accounting.

This amendment is applicable retrospectively for annual reporting periods beginning on or after January 1, 2014 and is not expected to impact the Company's financial statements.

### ***IAS 40, Investment Property***

The IASB amended this standard to clarify that this standard and IFRS 3, Business Combinations are not mutually exclusive and the application of both standards may be required in the event of an asset acquisition. An entity will need to determine whether the asset acquired meets the definition of investment property while also determining whether the transaction constitutes a business acquisition under IFRS 3.

This amendment is effective for annual reporting periods beginning on or after July 1, 2014 and is not expected to impact the Company's financial statements.

## NEW ACCOUNTING STANDARDS ADOPTED DURING THE YEAR

The following standards were adopted by the Company on April 1, 2013:

### ***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 clarified the requirements for offsetting financial assets and financial liabilities including revised disclosure requirements for financial assets and liabilities that are offset. The effective dates of amendments to IFRS 7 and IAS 32 are for the annual reporting periods beginning on or after January 1, 2013 and January 1, 2014, respectively.

The amendments made under these standards did not affect the Company's financial statements for the year ended March 31, 2014.

### ***IFRS 10, Consolidated Financial Statements***

The IASB issued IFRS 10 in May 2011 which replaced portions of IAS 27, Consolidated and Separate Financial Statements. This new standard became effective for annual reporting periods beginning on or after January 1, 2013 and requires retroactive application. 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.

The adoption of this standard did not impact the Company's financial statement consolidation methods or practices for the year ended March 31, 2014.

### ***IFRS 12, Disclosure of Interests in Other Entities***

The IASB issued IFRS 12 in May 2011 and became 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.

The adoption of this standard resulted in minimal additional disclosures in the Company's March 31, 2014 financial statements. Refer to Note 16 Business Acquisitions and Note 19 Related Party Transactions for further details.

### ***IFRS 13, Fair Value Measurement***

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

The adoption of this standard did not impact any of the calculations or methodologies used by the Company to determine fair value for the period ended March 31, 2014.

### ***IAS 1, Presentation of Financial Statements***

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

The adoption of the amendment within this standard has resulted in the statement of comprehensive income being subdivided retrospectively into items that may be reclassified into net earnings and those that will not be.

### ***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.

The adoption of the amendments within this standard did not impact the Company's March 31, 2014 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. These amendments also required 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 of the adoption of IAS 19 (Revised) did not materially impact the Company's March 31, 2014 financial statements.

## **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. The Audit Committee receives regular reports from Management on these matters. 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, Argentina and Australia, 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, Argentina and Australia, Saputo competes in the dairy industry on a national basis with several regional and national competitors. Saputo also competes in the dairy industry internationally. The Company's performance in all the countries in which it does business 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. One customer represented more than 10% of total consolidated sales for fiscal 2014, with 11.4%. 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, 2014. 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 gases 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, 2014 for the fiscal year ended March 31, 2014. 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, maintain 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 40% of sales are realized in Canada, 49% in the US, and 11% internationally. 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, 2014, 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, 2014, 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, 2014, 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 US CURRENCY FLUCTUATIONS

The debt subject to interest rate fluctuations was \$834.5 million as at March 31, 2014 and consisted of \$310.1 million of bank loans and \$524.4 million of term bank loans. A 1% change in the interest rate would lead to a change in net earnings of approximately \$5.9 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, 2014, the average US dollar conversion was based on CDN\$1.00 for US\$0.948. A fluctuation of CDN\$0.01 would have resulted in a change of approximately \$2.1 million in net earnings, \$4.7 million in EBITDA and \$44.5 million in revenues.

## QUARTERLY FINANCIAL INFORMATION

### 2014 QUARTERLY FINANCIAL INFORMATION - CONSOLIDATED STATEMENT OF EARNINGS

<i>(in thousands of CDN dollars, except per share amounts)</i>					
	Q1	Q2	Q3	Q4	Fiscal 2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
<b>Statement of earnings data</b>					
Revenues	2,173,534	2,230,326	2,343,165	2,485,864	9,232,889
Operating costs excluding depreciation, amortization, acquisition, restructuring and other costs	1,931,438	1,989,938	2,083,127	2,208,041	8,212,544
Earnings before interest, depreciation, amortization, acquisition, restructuring, other costs and income taxes	242,096	240,388	260,038	277,823	1,020,345
Margin %	11.1%	10.8%	11.1%	11.2%	11.1%
Depreciation and amortization	34,278	35,700	37,178	39,451	146,607
Acquisition costs	-	-	-	9,459	9,459
Restructuring costs	-	-	-	30,739	30,739
Other costs	-	-	-	5,465	5,465
Interest on long-term debt	12,913	12,978	12,993	14,355	53,239
Other financial charges	2,380	3,583	4,941	4,942	15,846
Earnings before income taxes	192,525	188,127	204,926	173,412	758,990
Income taxes	55,777	54,830	60,791	53,626	225,024
Net earnings	136,748	133,297	144,135	119,786	533,966
Net margin %	6.3%	6.0%	6.2%	4.8%	5.8%
Acquisition costs (net of income taxes of \$270)	-	-	-	9,189	9,189
Restructuring costs (net of income taxes of \$10,851)	-	-	-	19,888	19,888
Other costs (net of income taxes of \$1,534)	-	-	-	3,931	3,931
Adjusted net earnings <sup>1</sup>	136,748	133,297	144,135	152,794	566,974
Adjusted net earnings margin %	6.3%	6.0%	6.2%	6.1%	6.1%
ATTRIBUTABLE TO:					
Shareholders of Saputo Inc.	136,748	133,297	144,135	151,925	566,105
Non-controlling interest	-	-	-	869	869
	136,748	133,297	144,135	152,794	566,974
Per Share					
Net earnings					
Basic	0.70	0.68	0.74	0.61	2.73
Diluted	0.69	0.67	0.73	0.61	2.70
Adjusted net earnings <sup>1</sup>					
Basic	0.70	0.68	0.74	0.78	2.90
Diluted	0.69	0.67	0.73	0.78	2.87

<sup>1</sup> 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 6 of this Management's Discussion and Analysis for the definition of these terms.

## 2013 QUARTERLY FINANCIAL INFORMATION – CONSOLIDATED STATEMENT OF EARNINGS

<i>(in thousands of CDN dollars, except per share amounts)</i>	Q1	Q2	Q3	Q4	Fiscal 2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
<b>Statement of earnings data</b>					
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, 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 <sup>1</sup>	121,824	129,654	129,974	129,181	510,633
Adjusted net earnings margin %	7.2%	7.4%	7.2%	6.3%	7.0%
<b>Per Share</b>					
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 <sup>1</sup>					
Basic	0.61	0.66	0.66	0.65	2.58
Diluted	0.60	0.65	0.65	0.65	2.55

<sup>1</sup> 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 6 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	2014			
	Q4	Q3	Q2	Q1
Market factors <sup>1 2</sup>	16	9	(17)	12
US currency exchange <sup>1</sup>	9	5	4	1

<sup>1</sup> As compared to the same quarter of the last fiscal year.

<sup>2</sup> 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	2014				2013
	Q4	Q3	Q2	Q1	Q4
Average block market per pound of cheese	2.178	1.836	1.735	1.779	1.668
Closing block price <sup>1</sup> per pound of cheese	2.385	2.000	1.765	1.638	1.693
Average whey market price <sup>2</sup> per pound	0.620	0.570	0.580	0.580	0.580
Spread <sup>3</sup>	0.012	0.044	0.041	0.046	0.017
US average exchange rate to Canadian dollar <sup>4</sup>	1.104	1.042	1.039	1.023	1.009

<sup>1</sup> 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.

<sup>2</sup> Average whey powder market price is based on Dairy Market News published information.

<sup>3</sup> 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.

<sup>4</sup> Based on Bank of Canada published information.

## SUMMARY OF FOURTH QUARTER RESULTS ENDED MARCH 31, 2014

**Consolidated revenues** for the quarter ended March 31, 2014 amounted to \$2.486 billion, an increase of \$432.6 million or 21.1% compared to \$2.053 billion for the same quarter last fiscal year.

The USA Sector revenues increased by approximately \$249 million as compared to the corresponding quarter last fiscal year. A more favourable average block market per pound of cheese in the fourth quarter of US\$2.18 compared to US\$1.67 during the same quarter of fiscal 2013 increased revenues by approximately \$106 million. Contributing to the increase was an increase in sales volumes as well as higher selling prices. The weakening of the Canadian dollar versus the US dollar added approximately \$91 million in revenues as compared to the same quarter last fiscal year.

In the Canada Sector, revenues increased by approximately \$25 million in the fourth quarter as compared to last fiscal year. Higher selling prices relating to the cost of milk as raw material, in addition to increases in sales volumes in both the retail and foodservice segments in Canada were the primary reasons for the increase as compared to last fiscal year. Sales volumes of traditional milk and cheese categories were higher, while value-added milk and butter categories experienced a decrease in sales volumes.

Revenues from the International Sector increased by approximately \$159 million as compared to the corresponding quarter last fiscal year. The Sector benefitted from the contribution of the Dairy Division (Australia) since January 21, 2014. Additionally, selling price increases relating to the cost of milk as raw material in Argentina as well as price increases in dairy ingredients in the international market added to revenues. Sales volume increases in Argentina and a more favourable dairy ingredients product mix offset lower sales volumes in the Dairy Ingredients Division. The Dairy Division (Europe) ceased operations in the first quarter of fiscal 2014, and as a result negatively impacted revenues by approximately \$15 million when compared to last fiscal year.

**Consolidated adjusted earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and other costs (adjusted EBITDA<sup>1</sup>)** totalled \$277.8 million for the quarter ended March 31, 2014, an increase of \$48.1 million or 20.9% compared to the \$229.7 million for the same quarter last fiscal year.

The EBITDA of the USA Sector increased by approximately \$25 million in the fourth quarter compared to the same quarter last fiscal year. An increase in the average block market per pound of cheese to US\$2.18 in the fourth quarter, as compared to US\$1.67 in the same quarter last fiscal year, positively affected the absorption of fixed costs. During the quarter, the block price opened at US\$2.00 and closed at US\$2.39, an increase of US\$0.39, compared to opening at US\$1.76 and closing at US\$1.69, a decrease of US\$0.07 for the same period last fiscal year. This positive difference 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 unfavourable as compared to the same quarter last fiscal year. These combined market factors, including unfavourable margins associated with higher commodity prices in the Dairy Foods Division, increased EBITDA by approximately \$16 million, as compared to the same period last fiscal year. Increased sales volumes and lower promotional costs were offset by higher ingredients, fuel and conversion costs as compared to the same period of the prior fiscal year, negatively affecting EBITDA. The weakening of the Canadian dollar versus the US dollar added approximately \$10 million in EBITDA as compared to the same quarter last fiscal year.

EBITDA for the Canada Sector decreased by approximately \$10 million in comparison to the same quarter last fiscal year. Higher ingredients and operational costs in the Dairy Division (Canada) offset increased sales volumes, in both retail and foodservice segments.

The EBITDA of the International Sector increased by approximately \$33 million for the quarter ended March 31, 2014 in comparison to the same quarter last fiscal year. Contributing to this increase is the inclusion of EBITDA from the Dairy Division (Australia) since January 21, 2014. EBITDA of the Dairy Division (Argentina) increased, as compared to the corresponding period last fiscal year, mainly due to higher selling prices in the export market. This increase was slightly offset by an increase in operational costs.

**Depreciation and amortization** for the quarter ended March 31, 2014 totalled \$39.5 million, an increase of \$3.9 million compared to \$35.6 million for the same quarter last fiscal year. The increase is mainly due to the inclusion of Dairy Division (Australia)'s results beginning on January 21, 2014.

In the fourth quarter of fiscal 2014, the Company incurred **acquisition costs** relating to the Warrnambool Acquisition, which closed on February 12, 2014, and the Scotsburn Acquisition, finalized on April 14, 2014, totalling \$9.5 million (\$9.2 million after tax), **restructuring costs** in relation to plant closures in the United States and Canada totalling \$30.7 million (\$19.9 million after tax), as well as **other costs** totalling \$5.5 million (\$3.9 million after tax) relating to amendments to pension plans for executive officers. In connection with the restructuring costs, the Company has incurred \$7.8 million in severance costs, \$0.8 million in other closure costs and \$22.1 million in impairment charges to property, plant and equipment.

In the last quarter of 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 the restructuring costs, the Company had 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 other charges

**Net interest expense** increased to \$19.3 million compared to \$14.9 million for the corresponding period last fiscal year. The increase is mainly attributed to a higher level of debt resulting from the Warrnambool Acquisition, as well as a general increase in interest rates in Argentina, as compared to the same quarter last fiscal year.

With respect to **income taxes**, the effective tax rate for the current quarter was 30.2% compared to 27.9% for the same quarter last fiscal year, excluding acquisition, restructuring and other costs in fiscal 2014 and restructuring and acquisition costs in fiscal 2013. 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 \$119.8 million for the quarter ended March 31, 2014, an increase of \$19.3 million compared to the net earnings of \$100.5 million for the same quarter last fiscal year. This is due to the factors mentioned above.

**Adjusted net earnings**<sup>1</sup> amounted to \$152.8 million for the quarter ended March 31, 2014, an increase of \$23.6 million compared to the same quarter last fiscal year. This increase is due to the factors mentioned above, without considering acquisition, restructuring and other costs.

During the quarter, the Company added approximately \$80 million in property, plant and equipment, issued shares for a cash consideration of \$17.7 million as part of the stock option plan and paid out \$44.8 million in dividends to its shareholders. For the same quarter, the Company generated net cash from operating activities of \$144.6 million, a decrease from the \$160.1 million generated for the corresponding period last fiscal year.

<sup>1</sup> Adjusted EBITDA and adjusted net earnings represent non-IFRS measures. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 6 of this Management's Discussion and Analysis for the definition of these terms.

## QUARTERLY FINANCIAL INFORMATION

During fiscal 2014, quarterly changes in revenues and EBITDA as compared to fiscal 2013 were affected by the inclusion of a full year's revenue and EBITDA derived from the Morningstar Acquisition, in addition to revenue and EBITDA from the Warrnambool Acquisition on January 21, 2014. Additionally, changes in operational costs, sales volume variances, product mix, and the average block market in the US affected quarterly financial results.

The inclusion of the Warrnambool Acquisition results, in the fourth quarter, increased both revenues and EBITDA. In the Dairy Division (Canada) higher sales volumes and a better product mix were offset by higher costs throughout the year. In the Cheese Division (USA), the higher average block market in fiscal 2014 compared to fiscal 2013 positively affected revenues and had a positive impact on the absorption of fixed costs. The higher block price in the current fiscal year versus last fiscal year had a favourable impact on the realization of inventories. The fluctuation of the Canadian dollar versus the US dollar and the Argentinian peso in fiscal 2014 versus fiscal 2013 had net positive 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, 2013 COMPARED TO MARCH 31, 2012

**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 Sector increased by approximately \$308 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 Canada Sector increased by approximately \$55 million in comparison to the prior fiscal year. Higher selling prices in Canadian operations in accordance with the increase in the cost of milk as raw material, as well as a better product mix in the Dairy Division (Canada) and a more favourable dairy ingredients product mix, explain the increased revenues in this Sector. Bakery Division revenues increased by approximately \$3 million, mainly due to increased sales volumes. Revenues in the International Sector increased approximately \$5 million as compared to the prior fiscal year. Higher selling prices in the Dairy Division (Argentina) in accordance with the increase in the cost of milk as raw material were partially offset by lower sales volumes, mainly in the export market. 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 other 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 Sector amounted to \$344.3 million, an increase of \$46.7 million, in comparison to \$297.6 million for the prior fiscal year. The inclusion of the Dairy Foods Division (USA), initiatives undertaken by the Sector in fiscal 2013 and prior 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 fiscal 2013, 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 the previous fiscal year. This net increase for fiscal 2013 had a favourable impact on the realization of inventories in contrast to the prior 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 for the prior fiscal year. The weakening of the Canadian dollar in fiscal 2013 added approximately \$2 million to the USA Sector EBITDA.

EBITDA for the Canada Sector totalled \$476.2 million in fiscal 2013, an increase of \$5.0 million in comparison to \$471.2 million for the prior fiscal year. This increase is due to higher selling prices in relation to an increase in the cost of milk as raw material and a better product mix, offsetting lower sales volumes in the Dairy Division (Canada). EBITDA for the Bakery Division increased by \$1.2 million to \$13.9 million in fiscal 2013, from \$12.7 million in fiscal 2012. This increase is mainly attributable to higher sales volumes as compared to fiscal 2012.

The International Sector EBITDA decreased to \$40.3 million in fiscal 2013 from \$62.1 million for fiscal 2012. This decrease is attributable to less favourable selling prices, mainly in the export market, as well as decreased volumes in the Dairy Division (Argentina).

The consolidated EBITDA margin decreased to 11.8% in fiscal 2013, as compared to 12.0% in fiscal 2012, resulting from the Dairy Foods Division (USA), 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 Dairy Foods Division (USA) 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 the restructuring costs, 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 Bakery Division.

**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 the prior 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**<sup>1</sup> 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.

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<sup>1</sup> Adjusted net earnings represents a non-IFRS measure. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 6 of this Management's Discussion and Analysis for the definition of this term.

# CONSOLIDATED FINANCIAL STATEMENTS

## MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

*(signed) Lino A. Saputo, Jr.*  
Lino A. Saputo, Jr.  
Chief Executive Officer  
and Vice Chairman of the Board

*(signed) Louis-Philippe Carrière*  
Louis-Philippe Carrière, FCPA, FCA  
Executive Vice President  
Finance and Administration, and Secretary

June 5, 2014

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saputo Inc.

We have audited the accompanying consolidated financial statements of Saputo Inc., which comprise the consolidated balance sheets as at March 31, 2014 and March 31, 2013, and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saputo Inc. as at March 31, 2014 and March 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*(signed) Deloitte LLP*<sup>1</sup>

June 5, 2014  
Montréal, Québec

<sup>1</sup> CPA auditor, CA, public accountancy permit No. A116207

## CONSOLIDATED STATEMENTS OF EARNINGS

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

Years ended March 31	2014		2013	
<b>Revenues</b>	\$	9,232,889	\$	7,297,677
Operating costs excluding depreciation, amortization, acquisition, restructuring and other costs (Note 5)		8,212,544		6,436,905
<b>Earnings before interest, depreciation, amortization, acquisition, restructuring, other costs and income taxes</b>		1,020,345		860,772
Depreciation and amortization (Notes 6 and 7)		146,607		116,629
Acquisition, restructuring and other costs (Note 22)		45,663		42,277
Interest on long-term debt		53,239		29,896
Other financial charges (Note 13)		15,846		4,203
<b>Earnings before income taxes</b>		758,990		667,767
Income taxes (Note 14)		225,024		185,846
<b>Net earnings</b>	\$	533,966	\$	481,921
<b>Attributable to:</b>				
<b>Shareholders of Saputo Inc.</b>		533,097		481,921
<b>Non-controlling interest (Note 16)</b>		869		-
	\$	533,966	\$	481,921
<b>Earnings per share (Note 15)</b>				
Net earnings				
Basic	\$	2.73	\$	2.44
Diluted	\$	2.70	\$	2.41

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of CDN dollars)

Years ended March 31	2014		2013
<b>Net earnings</b>	\$	<b>533,966</b>	\$ 481,921
Other comprehensive income (loss):			
<i>Items that may be reclassified to net earnings:</i>			
Exchange differences arising from foreign currency translation		<b>189,051</b>	24,134
Net unrealized gains (losses) on cash flow hedges <sup>1</sup> (Note 20)		<b>5,672</b>	(3,660)
<i>Items that will not be reclassified to net earnings:</i>			
Actuarial gains (losses) <sup>2</sup> (Note 17)		<b>12,019</b>	(11,514)
<b>Other comprehensive income (loss)</b>		<b>206,742</b>	8,960
<b>Comprehensive income</b>	\$	<b>740,708</b>	\$ 490,881
<b>Attributable to:</b>			
<b>Shareholders of Saputo Inc.</b>	\$	<b>739,355</b>	\$ 490,881
<b>Non-controlling interest (Note 16)</b>		<b>1,353</b>	-
	\$	<b>740,708</b>	\$ 490,881

<sup>1</sup> Net of income taxes (recovery) of \$2,215 (2013 - \$(1,272)).

<sup>2</sup> Net of income taxes (recovery) of \$4,691 (2013 - \$(4,093)).

## CONSOLIDATED STATEMENTS OF EQUITY

(in thousands of CDN dollars, except common shares)

For the year ended March 31, 2014										
	Share capital		Reserves				Retained Earnings	Total	Non-Controlling Interest	Total Equity
	Common Shares (in thousands)	Amount	Foreign Currency Translation	Cash Flow Hedges	Stock Option Plan	Total Reserves				
<b>Balance, beginning of year</b>	196,619	\$ 663,275	\$ (5,730)	\$ (3,660)	\$ 47,439	\$ 38,049	\$ 1,604,348	\$ 2,305,672	\$ -	\$ 2,305,672
Business acquisitions (Note 16)	-	-	-	-	-	-	-	-	61,503	61,503
Net earnings	-	-	-	-	-	-	533,097	533,097	869	533,966
Other comprehensive income	-	-	189,051	5,188	-	194,239	12,019	206,258	484	206,742
Comprehensive income	-	-	-	-	-	-	-	739,355	1,353	740,708
Dividends declared	-	-	-	-	-	-	(175,321)	(175,321)	-	(175,321)
Stock option plan (Note 12)	-	-	-	-	15,851	15,851	-	15,851	-	15,851
Shares issued under stock option plan	1,702	41,861	-	-	-	-	-	41,861	-	41,861
Amount transferred from reserves to share capital upon exercise of options	-	9,114	-	-	(9,114)	(9,114)	-	-	-	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	-	3,257	3,257	-	3,257	-	3,257
Shares repurchased and cancelled	(3,252)	(11,139)	-	-	-	-	(143,232)	(154,371)	-	(154,371)
<b>Balance, end of year</b>	195,069	\$ 703,111	\$ 183,321	\$ 1,528	\$ 57,433	\$ 242,282	\$ 1,830,911	\$ 2,776,304	\$ 62,856	\$ 2,839,160

For the year ended March 31, 2013										
	Share capital		Reserves				Retained Earnings	Total	Non-Controlling Interest	Total Equity
	Common Shares (in thousands)	Amount	Foreign Currency Translation	Cash Flow Hedges	Stock Option Plan	Total Reserves				
Balance, beginning of year	199,038	\$ 629,606	\$ (29,864)	\$ -	\$ 38,836	\$ 8,972	\$ 1,467,108	\$ 2,105,686	\$ -	\$ 2,105,686
Net earnings	-	-	-	-	-	-	481,921	481,921	-	481,921
Other comprehensive income	-	-	24,134	(3,660)	-	20,474	(11,514)	8,960	-	8,960
Comprehensive income	-	-	-	-	-	-	-	490,881	-	490,881
Dividends declared	-	-	-	-	-	-	(161,651)	(161,651)	-	(161,651)
Stock option plan (Note 12)	-	-	-	-	13,701	13,701	-	13,701	-	13,701
Shares issued under stock option plan	1,842	38,468	-	-	-	-	-	38,468	-	38,468
Amount transferred from reserves to share capital upon exercise of options	-	9,003	-	-	(9,003)	(9,003)	-	-	-	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	-	3,905	3,905	-	3,905	-	3,905
Shares repurchased and cancelled	(4,261)	(13,802)	-	-	-	-	(171,516)	(185,318)	-	(185,318)
<b>Balance, end of year</b>	196,619	\$ 663,275	\$ (5,730)	\$ (3,660)	\$ 47,439	\$ 38,049	\$ 1,604,348	\$ 2,305,672	\$ -	\$ 2,305,672

## CONSOLIDATED BALANCE SHEETS

(in thousands of CDN dollars)

As at	March 31, 2014	March 31, 2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 39,346	\$ 43,177
Receivables	807,409	624,553
Inventories (Note 4)	933,232	770,158
Income taxes (Note 14)	30,867	2,786
Prepaid expenses and other assets	84,992	71,882
	<b>1,895,846</b>	<b>1,512,556</b>
<b>Property, plant and equipment (Note 6)</b>	<b>1,928,761</b>	<b>1,617,195</b>
<b>Goodwill (Note 7)</b>	<b>1,954,691</b>	<b>1,569,592</b>
<b>Trademarks and other intangibles (Note 7)</b>	<b>484,830</b>	<b>454,876</b>
<b>Other assets (Note 8)</b>	<b>79,968</b>	<b>29,962</b>
<b>Deferred income taxes (Note 14)</b>	<b>12,796</b>	<b>9,459</b>
<b>Total assets</b>	<b>\$ 6,356,892</b>	<b>\$ 5,193,640</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank loans (Note 9)	\$ 310,066	\$ 181,865
Accounts payable and accrued liabilities	897,222	748,318
Income taxes (Note 14)	124,206	144,064
Current portion of long-term debt (Note 10)	393,600	152,400
	<b>1,725,094</b>	<b>1,226,647</b>
<b>Long-term debt (Note 10)</b>	<b>1,395,694</b>	<b>1,395,900</b>
<b>Other liabilities (Note 11)</b>	<b>48,396</b>	<b>74,101</b>
<b>Deferred income taxes (Note 14)</b>	<b>348,548</b>	<b>191,320</b>
<b>Total liabilities</b>	<b>\$ 3,517,732</b>	<b>\$ 2,887,968</b>
<b>EQUITY</b>		
Share capital	703,111	663,275
Reserves	242,282	38,049
Retained earnings	1,830,911	1,604,348
<b>Equity attributable to shareholders of Saputo Inc.</b>	<b>2,776,304</b>	<b>2,305,672</b>
<b>Non-controlling interest (Note 16)</b>	<b>62,856</b>	<b>-</b>
<b>Total equity</b>	<b>\$ 2,839,160</b>	<b>\$ 2,305,672</b>
<b>Total liabilities and equity</b>	<b>\$ 6,356,892</b>	<b>\$ 5,193,640</b>

On behalf of the Board,

(signed) Emanuele (Lino) Saputo  
Emanuele (Lino) Saputo, C.M., O.Q., D<sup>f</sup> h.c.  
Director

(signed) Tony Meti  
Tony Meti  
Director

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of CDN dollars)

Years ended March 31	2014	2013
<b>Cash flows related to the following activities:</b>		
<b>Operating</b>		
Net earnings	\$ 533,966	\$ 481,921
Adjustments for:		
Stock-based compensation	22,084	17,537
Interest and other financial charges	69,085	34,099
Income tax expense	225,024	185,846
Depreciation and amortization	146,607	116,629
Gain on disposal of property, plant and equipment	(122)	(53)
Restructuring charges related to plant closures	22,096	23,820
Share of joint venture earnings	(1,406)	-
Funding of employee plans in excess of costs	(6,486)	(12,485)
	<b>1,010,848</b>	<b>847,314</b>
Changes in non-cash operating working capital items	(129,363)	(4,425)
Cash generated from operating activities	<b>881,485</b>	<b>842,889</b>
Interest and other financial charges paid	(65,837)	(34,953)
Income taxes paid	(159,338)	(162,144)
Net cash generated from operating activities	<b>656,310</b>	<b>645,792</b>
<b>Investing</b>		
Business acquisition	(449,578)	(1,433,945)
Additions to property, plant and equipment	(223,624)	(178,237)
Proceeds on disposal of property, plant and equipment	253	901
Other	803	(13,719)
	<b>(672,146)</b>	<b>(1,625,000)</b>
<b>Financing</b>		
Bank loans	77,810	21,884
Proceeds from issuance of long-term debt	390,000	1,198,565
Repayment of long-term debt	(175,045)	(38,100)
Issuance of share capital	41,861	38,468
Repurchase of share capital	(154,371)	(190,404)
Dividends	(175,321)	(161,651)
	<b>4,934</b>	<b>868,762</b>
Decrease in cash and cash equivalents	(10,902)	(110,446)
Effect of exchange rate changes on cash and cash equivalents	7,071	9,486
Cash and cash equivalents, beginning of year	43,177	144,137
Cash and cash equivalents, end of year	\$ 39,346	\$ 43,177

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2014 and 2013

(Tabular amounts are in thousands of CDN dollars except information on options, units and shares.)

## NOTE 1 CORPORATE INFORMATION

Saputo Inc. (the Company) is a publicly traded company incorporated and domiciled in Canada. The Company's shares are listed on the Toronto Stock Exchange under the symbol "SAP." The Company produces, markets and distributes a wide array of dairy products from Canada, the United States, Argentina and Australia as well as bakery products in Canada. The address of the Company's head office is 6869, Metropolitan Blvd. East, St-Léonard, Québec, Canada, H1P 1X8. The consolidated financial statements (financial statements) of the Company for the year ended March 31, 2014 comprise the financial results of the Company and its subsidiaries.

The financial statements for the year ended March 31, 2014 have been authorized for issuance by the Board of Directors on June 5, 2014.

## NOTE 2 BASIS OF PRESENTATION

### STATEMENT OF COMPLIANCE

The consolidated annual financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

### BASIS OF MEASUREMENT

The Company's financial statements have been prepared on a going concern basis and applied based on the historical cost principle except for certain assets and liabilities as described in the significant accounting policies section.

### FUNCTIONAL AND PRESENTATION CURRENCY

The Company's financial statements are presented in Canadian dollars, which is also the consolidated entity's functional currency. All financial information has been rounded to the nearest thousand unless stated otherwise.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and entities under its control. Control exists when an entity is exposed, or has rights, to variable returns from its involvement with investees and has the ability to affect those returns through its power over them. All intercompany transactions and balances have been eliminated. Investments over which the Company has effective control are consolidated. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

### CASH AND CASH EQUIVALENTS

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

### INVENTORIES

Finished goods, raw materials and work in process are valued at the lower of cost and net realizable value, cost being determined under the first in, first out method. Borrowing costs are allocated to qualifying inventory where inventory takes a substantial period of time to reach finished goods status.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses and are depreciated using the straight-line method over their estimated useful lives as described below:

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

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Where components of an item of building or furniture, machinery and equipment are individually significant, they are accounted for separately within the categories described above.

Assets held for sale are recorded at the lower of their carrying amount or fair value less costs to sell, and no depreciation is recorded. Assets under construction are not depreciated. Borrowing costs are capitalized to qualifying property, plant and equipment where the period of construction of those assets takes a substantial period of time to get ready for their intended use. Borrowing costs, if incurred, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

For the purposes of impairment testing, property, plant and equipment are tested at the cash-generating unit (CGU) level. Write-downs are included in "depreciation and amortization" presented on the consolidated statements of earnings.

### **GOODWILL, TRADEMARKS AND OTHER INTANGIBLES**

Goodwill represents the excess of the consideration transferred in a given acquisition over the fair value of the identifiable net assets acquired and is initially recorded at that value. Goodwill is subsequently carried at cost less any impairment. Trademarks and other intangibles are initially recorded at their transaction fair values. Trademarks are subsequently carried at cost less any impairment losses. Other intangibles are subsequently carried at cost less accumulated amortization and less impairment losses, if any.

Goodwill and trademarks are not amortized. However they are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. When testing goodwill, the carrying values of the CGU's or group of CGU's including goodwill are compared with their respective recoverable amounts (higher of fair value less costs of disposal and value in use) and an impairment loss, if any, is recognized for the excess.

When testing trademarks and indefinite life intangibles for impairment, the carrying values (including the carrying value of the related CGU's or group of CGU's excluding goodwill) are also compared to their recoverable amounts.

Other intangibles are amortized using the straight-line method over their useful lives which vary from 5 to 15 years and are reviewed for indicators of impairment prior to each reporting period.

Refer to "Impairment Testing of Cash-Generating Units" in Note 7 for a discussion of the CGU levels at which goodwill, trademarks and other intangibles are tested.

### **IMPAIRMENT OF OTHER LONG-LIVED ASSETS**

Other long-lived assets are subject to an "indicators of impairment" test at each reporting period. In the event of an indication of impairment, the asset or group of assets (referred to as CGU's), for which identifiable cash flows that are largely independent of the cash inflows from other assets or group of assets exist, are tested for impairment. An impairment loss is recorded in net earnings when the carrying value exceeds the recoverable amount. The recoverable amount is defined as the greater of fair value less costs of disposal and value in use.

### **BUSINESS COMBINATIONS**

The Company accounts for its business combinations using the acquisition method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount allocated to goodwill.

Significant debt issuance costs directly related to the funding of business acquisitions are included in the carrying value of the debt and are amortized over the related debt term using the effective interest rate method. Acquisition costs are expensed as incurred.

### **NON-CONTROLLING INTEREST**

Non-controlling interests represent equity interest in acquired subsidiaries by third parties. The non-controlling shareholders claim on net assets of the subsidiary is presented as a component within equity. Any share purchases from non-controlling interests after the Company obtains control of a division are treated as transactions with equity owners of the Company. Net earnings and each component of other comprehensive income are attributed to both the owners of the Company and to the non-controlling interest.

### **EMPLOYEE FUTURE BENEFITS**

The cost of pension and other post-retirement benefits is actuarially determined annually on March 31 using the projected benefit method prorated based on years of service and using Management's best estimates of rates of compensation increases, retirement ages of employees and expected health care costs. Current service costs,

### **NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

interest on obligations offset by expected return on assets are expensed in the year. Actuarial gains or losses, the effect of an adjustment, if any, on the maximum amount recognized as an asset and the impact of the minimum funding requirements, are recorded in other comprehensive income (loss) and immediately recognized in retained earnings without subsequent reclassification to the consolidated statements of earnings. The net pension expenditure under defined contribution pension plans is generally equal to the contributions made by the employer.

#### **REVENUE RECOGNITION**

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

#### **FOREIGN CURRENCY TRANSLATION**

The Company's functional currency is the Canadian dollar. Accordingly, the balance sheet accounts of foreign operations are translated into Canadian dollars using the exchange rates at the balance sheet dates and statements of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the periods. The foreign currency translation adjustment (CTA) reserve presented in the consolidated statements of comprehensive income and the consolidated statements of equity, represents accumulated foreign currency gains (losses) on the Company's net investments in companies operating outside Canada. The change in the unrealized gains (losses) on translation of the financial statements of foreign operations for the periods presented resulted mainly from the fluctuation in value of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of the Company and its subsidiaries are translated using the exchange rates at the balance sheet dates for monetary assets and liabilities, and at the prevailing exchange rates at the time of transactions for income and expenses. Non-monetary items are translated at the historical exchange rates. Gains or losses resulting from this translation are included in operating costs.

#### **STOCK-BASED COMPENSATION**

The Company offers an equity settled stock option plan to certain employees within the organization pursuant to which options are granted over a five-year vesting period with a ten-year expiration term. The fair value of each instalment of an award is determined separately and recognized over the vesting period. When stock options are exercised, any consideration paid by employees and the related compensation expense recorded as a stock option plan reserve are credited to share capital.

The Company allocates deferred share units (DSU) to eligible Directors of the Company which are based on the market value of the Company's common shares. DSU are granted on a quarterly basis, vest upon award and entitle Directors to receive a cash payment for the value of the DSU they hold following cessation of functions as a Director of the Company. The Company recognizes an expense in its consolidated statements of earnings and a liability in its consolidated balance sheets for each grant. The liability and related expense is subsequently re-measured at each reporting period.

The Company offers performance share units (PSU) to senior management which are based on the market value of the Company's common shares. The PSU plan is non-dilutive and is settled in cash. These awards are considered cash-settled share-based payment awards. A liability is recognized for the employment service received and is measured initially, on the grant date, at the fair value of the liability. The liability is then subsequently re-measured at each reporting period with any change in value recorded in net earnings. The compensation expense is recognized over the three-year performance cycle.

#### **EARNINGS PER SHARE**

Basic earnings per share is determined by calculating the net earnings attributable to shareholders of Saputo Inc. divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated in the same manner as basic earnings per share except that the weighted average number of outstanding shares is adjusted to reflect the impact of the conversion of potential shares that may have a dilutive impact and is determined independently for each reporting period presented.

#### **RESEARCH AND DEVELOPMENT TAX CREDITS**

The Company benefits from research and development tax credits related to operating costs and property, plant and equipment. These credits are accounted for either as a reduction of operating costs or property, plant and equipment.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### **INCOME TAXES**

Income tax expense represents the sum of current and deferred income tax and is recognized in the consolidated statements of earnings with the exception of items that are recognized in the consolidated statements of comprehensive income or directly in equity.

Current income taxes are determined in relation to taxable earnings for the year and incorporate any adjustments to current taxes payable in respect of previous years.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the carrying amount of an asset or liability in the consolidated balance sheets and its tax basis. They are measured using the enacted or substantively enacted tax rates that are expected to apply when the asset is realized or the liability is settled. A deferred income tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be used.

### **NON-CURRENT ASSETS HELD FOR SALE**

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use. Furthermore, to meet the requirements to be presented as held for sale, the non-current asset or disposal group must be immediately available for sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups and its sale must be highly probable. In order for a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group, and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the asset or disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and any depreciation or amortization normally taken on those items of property, plant and equipment or intangibles is halted.

### **FINANCIAL INSTRUMENTS**

Financial assets and liabilities are initially measured at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, continue to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value.
- Receivables are classified as loans and receivables and are measured at amortized cost.
- Other assets that meet the definition of a financial asset are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost.
- Bank loans, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as other liabilities and are measured at amortized cost, with the exception of the liability related to DSUs and PSUs which is measured at the fair value of common shares on the balance sheet dates.

Certain derivative instruments are utilized by the Company to manage exposure to variations in interest rate payments associated with its unsecured bank term loan facility and to manage foreign exchange rate risks, including foreign exchange forward contracts, currency swaps and interest rate swaps. Derivatives are initially recognized at fair value at the date the derivative contracts, currency swaps are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in net earnings unless the derivative is designated as a hedging instrument.

### **HEDGING**

The Company designates certain financial instruments as cash flow hedges. At the inception of the hedging relationship, the Company formally documents its risk management objective, strategy, term, nature of risk being hedged and identifies both the hedged item and hedging instrument.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Variations in the fair value of cash flow hedges representing gains or losses on the effective portion are recorded in other comprehensive income until the hedged item affects net earnings. Variations in the fair value of cash flow hedges representing gains or losses on the ineffective portion are recorded in net earnings.

The Company formally assesses at inception and quarterly thereafter, the effectiveness of the hedging instruments ability to offset variations in the cash flow risks associated with the hedged item. Where a hedging relationship is no longer effective, hedge accounting is discontinued and any subsequent change in the fair value of the hedging instrument is recognized in net earnings.

### **JOINT VENTURES**

Joint ventures are accounted for using the equity method and represent those entities in which the Company exercises joint control over and for which it is exposed to variable returns from its involvement in the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

### **INVESTMENT PROPERTIES**

Investment properties represent real estate properties owned by the Company that are held to earn rental income and/or for capital appreciation. These properties are recognized initially at cost and then subsequently carried at fair value with any changes recognized in net earnings. Fair values are determined by an independent appraiser.

### **FAIR VALUE HIERARCHY**

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Each level reflects the inputs used to measure the fair values of assets and liabilities:

- Level 1 –Inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 –Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 –One or more significant inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

### **USE OF ESTIMATES AND JUDGEMENTS IN THE APPLICATION OF ACCOUNTING POLICIES**

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.

### **SIGNIFICANT ESTIMATES AND JUDGEMENTS**

#### **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 judgment that 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 the respective current income tax and deferred income tax provisions in the reporting period in which such determination is made.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### ***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 judgement 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 and 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 (please refer to the estimated useful lives table for further details on the useful lives of productive assets). 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 CGU, forecasting future cash flows and in determining other key assumptions such as discount rates and earnings multipliers used for assessing fair value (less costs of disposal) or value in use. Estimates made for goodwill, trademarks and other intangibles can be found in Note 7. 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 discount rate used in determining the carrying value of the obligation and the expected return on assets, 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.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### **EFFECT OF NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET IMPLEMENTED**

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

#### **IFRS 2, Share-based Payment**

The IASB has amended the definitions of market and vesting conditions and added definitions for performance and service conditions. Vesting conditions are now defined as either service conditions or performance conditions. The amendments also clarify certain other requirements for performance, service, market and non-vesting conditions.

These amendments are effective for annual reporting periods beginning on or after July 1, 2014. Management is still evaluating the impact of these requirements but the adjustments, if any, resulting from these amendments are not likely to be material.

#### **IFRS 3, Business Combinations**

The IASB amended IFRS 3 to clarify that contingent consideration in a business combination, whether an asset or liability, should continue to be measured at fair value at each reporting date regardless of whether the contingent consideration is considered a financial instrument within the scope of IFRS 9 or IAS 39 and regardless of whether it is considered a non-financial asset or liability (changes in fair value shall be included in net earnings).

These amendments are effective for annual reporting periods beginning on or after July 1, 2014. Management does not believe these amendments will have a material impact on the Company's financial statements.

#### **IFRS 8, Operating Segments**

The IASB amended IFRS 8 to require an entity to disclose the judgements in applying the aggregation criteria found in paragraph 12. The standard now requires a brief description of the operating segments that have been aggregated in the present manner and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics.

IFRS 8 has also been amended to clarify that an entity only needs to present a reconciliation between the total reporting segment's assets to the entities' total assets if this information is usually provided to the chief operating decision maker.

These amendments are effective for annual reporting periods beginning on or after July 1, 2014. Management is still analyzing the impact of these amendments but does not expect any significant adjustments to its financial statements.

#### **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. Several amendments have been made to this standard since that date including amendments made in February 2014 relating to hedging requirements

These amendments, along with the adoption of the standard, are effective for annual reporting periods beginning on or after January 1, 2018. Management is currently evaluating the impact of the adoption of this standard, including amendments.

#### **IFRS 13, Fair Value**

The IASB amended the basis for conclusion in IFRS 13 to clarify that the issuance of IFRS 13 (and related amendments to IAS 39, Financial Instruments Recognition and Measurement) does not require discounting of short-term receivables and payables if they are not significant.

This amendment is effective for annual reporting periods beginning on or after July 1, 2014 and is not expected to materially impact the Company's financial statements.

#### **IAS 19, Employee Benefits**

IAS 19 has been amended to clarify that employee (or third party) contributions that are independent of the number of years of service can be deducted from the service cost in the period that the service is rendered and not necessarily allocated over the periods of service. Other contributions made by employees (or third parties) are to be attributed to the periods of service using the plan's contribution formula or on a straight line basis.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

This amendment is effective for annual reporting periods beginning on or after July 1, 2014. Management is currently analyzing the impact of the adoption of these amendments.

### ***IAS 24, Related Party Transactions***

IAS 24 clarifies that a management entity providing key management personnel services to a reporting entity is also considered a related party of the reporting entity. Therefore the amounts paid by the reporting entity in relation to those services must also be included in the amounts disclosed in the related party transactions note. Disclosures of the components of the services provided are not required.

This amendment is effective for annual reporting periods beginning on or after July 1, 2014 and is not expected to impact the Company's financial statements.

### ***IAS 36, Impairment of Assets***

In May 2013, the IASB published amendments to IAS 36 no longer requiring the disclosure of the recoverable amounts of each cash generating unit or group of units to which a significant portion of the overall carrying amount of goodwill (or other intangibles with indefinite useful lives) has been allocated. The IASB clarified that this requirement is only applicable in the event of an impairment loss or reversal of an impairment loss.

This amendment is effective for annual reporting periods beginning on or after January 1, 2014 and is not expected to impact the Company's financial statements.

### ***IAS 39, Financial Instruments: Recognition and Measurement***

In June 2013, the IASB published amendments to IAS 39 providing relief from the cessation of hedge accounting where derivatives being used in hedging arrangements are novated under certain circumstances. Previously under IAS 39, novation of derivatives resulted in the cessation of hedge accounting.

This amendment is applicable retrospectively for annual reporting periods beginning on or after January 1, 2014 and is not expected to impact the Company's financial statements.

### ***IAS 40, Investment Property***

The IASB amended this standard to clarify that this standard and IFRS 3, Business Combinations are not mutually exclusive and the application of both standards may be required in the event of an asset acquisition. An entity will need to determine whether the asset acquired meets the definition of investment property while also determining whether the transaction constitutes a business acquisition under IFRS 3.

This amendment is effective for annual reporting periods beginning on or after July 1, 2014 and is not expected to impact the Company's financial statements.

## ***EFFECT OF NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED DURING THE YEAR***

The following standards were adopted by the Company on April 1, 2013:

### ***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 clarified the requirements for offsetting financial assets and financial liabilities including revised disclosure requirements for financial assets and liabilities that are offset. The effective dates of amendments to IFRS 7 and IAS 32 are for the annual reporting periods beginning on or after January 1, 2013 and January 1, 2014, respectively.

The amendments made under these standards did not affect the Company's financial statements for the year ended March 31, 2014.

### ***IFRS 10, Consolidated Financial Statements***

The IASB issued IFRS 10 in May 2011 which replaced portions of IAS 27, Consolidated and Separate Financial Statements. This new standard became effective for annual reporting periods beginning on or after January 1, 2013 and requires retroactive application. 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.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The adoption of this standard did not impact the Company's financial statement consolidation methods or practices for the year ended March 31, 2014.

### ***IFRS 12, Disclosure of Interests in Other Entities***

The IASB issued IFRS 12 in May 2011 and became 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.

The adoption of this standard resulted in minimal additional disclosures in the Company's March 31, 2014 financial statements. Refer to Note 16 Business Acquisitions and Note 19 Related Party Transactions for further details.

### ***IFRS 13, Fair Value Measurement***

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

The adoption of this standard did not impact any of the calculations or methodologies used by the Company to determine fair value for the period ended March 31, 2014.

### ***IAS 1, Presentation of Financial Statements***

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

The adoption of the amendment within this standard has resulted in the statement of comprehensive income being subdivided retrospectively into items that may be reclassified into net earnings and those that will not be.

### ***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.

The adoption of the amendments within this standard did not impact the Company's March 31, 2014 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. These amendments also required 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 of the adoption of IAS 19 (Revised) did not materially impact the Company's March 31, 2014 financial statements.

## NOTE 4 INVENTORIES

	March 31, 2014	March 31, 2013
Finished goods	\$ 651,660	\$ 551,733
Raw materials, work in progress and supplies	281,572	220,971
Inventory write-down	-	(2,546)
<b>Total</b>	<b>\$ 933,232</b>	<b>\$ 770,158</b>

The amount of inventories recognized as an expense in operating costs for the year ended March 31, 2014 is \$7,419,529,000 (\$5,816,940,000 for the year ended March 31, 2013).

For fiscal 2014, no write-down (\$2,546,000 at March 31, 2013) was included as an expense in "Operating costs excluding depreciation, amortization, acquisition, restructuring and other costs" under the caption "Changes in inventories of finished goods and work in process" in Note 5.

## NOTE 5 OPERATING COSTS EXCLUDING DEPRECIATION, AMORTIZATION, ACQUISITION, RESTRUCTURING AND OTHER COSTS

	2014	2013
Changes in inventories of finished goods and work in process	\$ (128,338)	\$ (73,306)
Raw materials and consumables used	6,645,890	5,209,598
Foreign exchange gain	(1,854)	(779)
Employee benefits expense	928,905	745,975
Selling costs	262,558	240,363
Other general and administrative costs	505,383	315,054
<b>Total</b>	<b>\$ 8,212,544</b>	<b>\$ 6,436,905</b>

## NOTE 6 PROPERTY, PLANT AND EQUIPMENT

For the year ended March 31, 2014						
	Land	Buildings	Furniture, machinery and equipment	Rolling stock	Held for sale	Total
<b>Cost</b>						
As at March 31, 2013	\$ 56,186	\$ 585,257	\$ 1,830,466	\$ 5,330	\$ 24,553	\$ 2,501,792
Business acquisition (Note 16)	2,530	23,449	143,514	8,403	-	177,896
Additions	726	74,128	148,800	(30)	-	223,624
Disposals	(18)	(1,607)	(12,953)	(711)	(24,553)	(39,842)
Transfers	(35)	(765)	(6,977)	-	7,777	-
Foreign currency adjustments	1,963	22,688	68,901	411	-	93,963
<b>As at March 31, 2014</b>	<b>\$ 61,352</b>	<b>\$ 703,150</b>	<b>\$ 2,171,751</b>	<b>\$ 13,403</b>	<b>\$ 7,777</b>	<b>\$ 2,957,433</b>
<b>Accumulated depreciation</b>						
As at March 31, 2013	-	166,206	691,378	2,460	24,553	884,597
Depreciation	-	25,760	107,588	715	-	134,063
Disposals	-	(1,590)	(12,918)	(650)	(24,553)	(39,711)
Transfers	-	(423)	(6,507)	-	6,930	-
Impairment	-	8,311	13,785	-	-	22,096
Foreign currency adjustments	-	6,499	21,225	(97)	-	27,627
<b>As at March 31, 2014</b>	<b>\$ -</b>	<b>\$ 204,763</b>	<b>\$ 814,551</b>	<b>\$ 2,428</b>	<b>\$ 6,930</b>	<b>\$ 1,028,672</b>
<b>Net book value at March 31, 2014</b>	<b>\$ 61,352</b>	<b>\$ 498,387</b>	<b>\$ 1,357,200</b>	<b>\$ 10,975</b>	<b>\$ 847</b>	<b>\$ 1,928,761</b>

For the year ended March 31, 2013						
	Land	Buildings	Furniture, machinery and equipment	Rolling stock	Held for sale	Total
<b>Cost</b>						
As at March 31, 2012	\$ 35,841	\$ 422,822	\$ 1,397,380	\$ 7,278	\$ -	\$ 1,863,321
Business acquisition (Note 16)	9,879	100,287	347,252	-	-	457,418
Additions	10,878	62,618	104,531	210	-	178,237
Disposals	(145)	(1,598)	(3,561)	(1,938)	-	(7,242)
Transfers	(634)	(2,657)	(22,819)	(118)	26,228	-
Foreign currency adjustments	367	3,785	7,683	(102)	(1,675)	10,058
<b>As at March 31, 2013</b>	<b>\$ 56,186</b>	<b>\$ 585,257</b>	<b>\$ 1,830,466</b>	<b>\$ 5,330</b>	<b>\$ 24,553</b>	<b>\$ 2,501,792</b>
<b>Accumulated depreciation</b>						
As at March 31, 2012	-	142,577	611,989	3,550	-	758,116
Depreciation	-	24,630	84,115	771	-	109,516
Disposals	-	(1,225)	(3,466)	(1,703)	-	(6,394)
Transfers	-	(655)	(9,343)	(118)	10,116	-
Impairment	-	-	6,035	-	15,674	21,709
Foreign currency adjustments	-	879	2,048	(40)	(1,237)	1,650
<b>As at March 31, 2013</b>	<b>\$ -</b>	<b>\$ 166,206</b>	<b>\$ 691,378</b>	<b>\$ 2,460</b>	<b>\$ 24,553</b>	<b>\$ 884,597</b>
<b>Net book value at March 31, 2013</b>	<b>\$ 56,186</b>	<b>\$ 419,051</b>	<b>\$ 1,139,088</b>	<b>\$ 2,870</b>	<b>\$ -</b>	<b>\$ 1,617,195</b>

The net book value of property, plant and equipment under construction amounts to \$176,045,000 as at March 31, 2014 (\$93,147,000 as at March 31, 2013), and consists mainly of machinery and equipment.

The assets held for sale relate to land, building and equipment in Canada (land and buildings for Canada and Europe for fiscal 2013) as a result of the closure of certain facilities (Note 22) and have been recorded at lower of carrying value and fair value less costs to sell.

## NOTE 7 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES

	For the year ended March 31, 2014			
	Goodwill	Indefinite Life	Definite Life	Total trademarks and other intangibles
		Trademarks and other		
			Other intangibles <sup>1</sup>	
Cost				
As at March 31, 2013	\$ 1,569,592	\$ 291,166	\$ 189,127	\$ 480,293
Business acquisition (Note 16)	257,215	5,921	20,157	26,078
Foreign currency adjustments	127,884	5,121	12,344	17,465
As at March 31, 2014	\$ 1,954,691	\$ 302,208	\$ 221,628	\$ 523,836
Accumulated Amortization				
As at March 31, 2013	-	-	25,417	25,417
Amortization	-	-	12,544	12,544
Foreign currency adjustments	-	-	1,045	1,045
As at March 31, 2014	\$ -	\$ -	\$ 39,006	\$ 39,006
Net book value at March 31, 2014	\$ 1,954,691	\$ 302,208	\$ 182,622	\$ 484,830

	For the year ended March 31, 2013			
	Goodwill	Indefinite Life	Definite Life	Total trademarks and other intangibles
		Trademarks and other		
			Other intangibles <sup>1</sup>	
Cost				
As at March 31, 2012	\$ 733,527	\$ 285,454	\$ 68,187	\$ 353,641
Business acquisition (Note 16)	812,234	4,724	118,454	123,178
Foreign currency adjustments	23,831	988	2,486	3,474
As at March 31, 2013	\$ 1,569,592	\$ 291,166	\$ 189,127	\$ 480,293
Accumulated Amortization				
As at March 31, 2012	-	-	18,186	18,186
Amortization	-	-	7,112	7,112
Foreign currency adjustments	-	-	119	119
As at March 31, 2013	\$ -	\$ -	\$ 25,417	\$ 25,417
Net book value at March 31, 2013	\$ 1,569,592	\$ 291,166	\$ 163,710	\$ 454,876

<sup>1</sup> Other intangibles consists of customer relationships and other definite life intangibles.

### IMPAIRMENT TESTING OF CASH-GENERATING UNITS

#### Goodwill

As of April 1, 2013, the Company realigned its reporting structure consistent with its operating structure and now reports under three geographic sectors. The Canada Sector includes the Dairy Division (Canada) and the Bakery Division. The USA Sector combines the Cheese Division (USA) and the Dairy Foods Division (USA). Finally, the International Sector combines the Dairy Division (Argentina) and the Dairy Ingredients Division and includes the operations of the recently acquired Warrnambool Cheese & Butter Factory Company Holdings Limited (Warrnambool Acquisition), refer to note 16 for further details. The Dairy Ingredients Division includes national and export ingredients sales from the North American divisions as well as cheese exports from these same divisions.

In determining whether goodwill is impaired, the Company is required to estimate the recoverable amount of CGUs or groups of CGUs to which goodwill is allocated. Management considers the sectors below to be CGUs or groups of CGUs as they represent the lowest levels at which goodwill is monitored for internal management purposes, with the exception of \$44,430,000 of goodwill allocated to the Bakery Division within the Canada Sector.

## NOTE 7 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES (CONT'D)

Accordingly, goodwill has been allocated to each CGU or group of CGUs as follows:

Allocation of goodwill	March 31, 2014	March 31, 2013
Canada	\$ 313,494	\$ 313,494
USA	1,370,198	1,256,098
International	270,999	-
	\$ 1,954,691	\$ 1,569,592

The recoverable amounts for the Dairy Division (Canada) and the USA Sector have been estimated using an earnings multiplier valuation model (fair value less costs of disposal). The key assumptions used in this model include earnings multipliers of market comparables applied to the Company's most recent results. For the Bakery Division, the recoverable amount has been estimated using a discounted cash flow model (value in use) which includes key assumptions of forecasted cash flows (over a five-year period), estimated terminal growth rates, pre-tax discount rates and income tax rates.

The Company performed its annual goodwill impairment test at the CGU or group of CGUs level for the Dairy Division (Canada), the USA Sector and the Bakery Division on March 31, 2014. In all cases the recoverable amounts exceeded their respective carrying values including goodwill and therefore, no impairment has been recorded. There are no reasonably possible changes in key assumptions within the Dairy Division (Canada) and USA Sector that would lead to an impairment of goodwill.

### Trademarks

Trademarks are included in the following CGU or group of CGUs:

Allocation of trademarks	March 31, 2014	March 31, 2013
Neilson	\$ 223,200	\$ 223,200
Other	79,008	67,966
	\$ 302,208	\$ 291,166

For purposes of trademarks and other indefinite life intangibles impairment testing, recoverable amounts of the CGU or group of CGUs to which they belong have been estimated using discounted cash flows (value in use) based on the following key assumptions:

- **Cash flows:** Cash flow forecasts for a given trademark are based on earnings before interest, income taxes, depreciation and amortization and are adjusted for a terminal growth rate and income tax rates. The cash flow forecast does not exceed a period of five years with a terminal value calculated as a perpetuity in the final year.
- **Terminal growth rate:** Management uses a terminal growth rate to adjust its forecasted cash flows based on expected increases in inflation and revenue for the products under trademark.
- **Discount rate:** Cash flows are discounted using pre-tax discount rates.

The Company tested its trademarks and other indefinite life intangibles for impairment on March 31, 2014 using value in use (discounted cash flows) to establish recoverable amounts. The recoverable amounts for each trademark and other intangibles not subject to amortization were then compared to their carrying values. In all circumstances, the recoverable amounts exceeded carrying values and therefore no impairment losses were necessary. For definite life intangibles subject to amortization, no indicators of impairment were present for fiscal 2014.

## NOTE 8 OTHER ASSETS

	2014		2013	
Taxes receivable	\$	11,752	\$	10,058
Investment properties		11,517		-
Joint ventures		38,410		-
Other		18,289		19,904
	\$	79,968	\$	29,962

The Company has investment properties held for rental and two joint ventures for which it holds a 50% and 49% interest, respectively. In both joint ventures, the terms of the contract require unanimous consent of all parties in order to direct the significant operations of the ventures. The joint ventures have a June 30th year end and are accounted for under the equity method. The Company recognized, in net earnings, \$1,406,000, representing its share of earnings in the joint venture for the period ended March 31, 2014.

## NOTE 9 BANK LOANS

The Company has available bank credit facilities providing for unsecured bank loans as follows:

Credit Facilities	Maturity	Available for use			Amount drawn	
		Canadian Currency Equivalent	Base Currency		2014	2013
North America-US Currency	July 2019 <sup>1</sup>	143,715	130,000 USD	\$	95,073	\$ -
North America-CDN Currency	July 2019 <sup>1</sup>	409,035	370,000 USD		80,285	116,113
Argentina	Yearly <sup>2</sup>	193,752	1,404,000 ARS		79,487	61,950
Australia	Yearly <sup>3</sup>	128,100	125,000 AUD		55,221	-
Other		-	- EUR		-	3,802
		874,602		\$	310,066	\$ 181,865

<sup>1</sup> Bears monthly interest at rates ranging from lender's prime rates 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. The term of this facility was extended from July 2017 to July 2019 in April 2014.

<sup>2</sup> Bear monthly interest at local rate and can be drawn in ARS or USD.

<sup>3</sup> Bear monthly interest at local rate and can be drawn in AUD.

## NOTE 10 LONG-TERM DEBT

	2014	2013
Unsecured bank term loan facility		
Obtained October 2013 and due in December 2016 (\$500,000,000) <sup>1</sup>	\$ 374,375	\$ -
Obtained December 2012 and due in December 2016 (US tranche \$350,000,000) <sup>2</sup>	179,644	317,500
Obtained December 2012 and due in December 2016 (CDN tranche \$850,000,000) <sup>2</sup>	850,000	850,000
Unsecured senior notes <sup>3</sup>		
8.41%, issued in November 1999 and due in November 2014 (US\$50,000,000)	55,275	50,800
5.34%, issued in June 2009 and due in June 2014	110,000	110,000
5.82%, issued in June 2009 and due in June 2016	220,000	220,000
	\$ 1,789,294	\$ 1,548,300
Current portion	393,600	152,400
	\$ 1,395,694	\$ 1,395,900
Principal repayments are as follows:		
Less than 1 year	\$ 393,600	\$ 152,400
1-2 years	213,819	313,200
2-3 years	1,181,875	150,000
3-4 years	-	932,700
4-5 years	-	-
More than 5 years	-	-
	\$ 1,789,294	\$ 1,548,300

<sup>1</sup> Bears monthly interest at rates ranging from lender's prime plus a maximum of 1%, or bankers' acceptance rates plus 0.85% up to a maximum of 2%, depending on a financial ratio of the Company. \$110,000,000 is available for drawdown until December 2014.

<sup>2</sup> Bear monthly interest at rates ranging from lender's prime plus a maximum of 1% or LIBOR or bankers' acceptance rates plus 0.85% up to a maximum of 2%, depending on a financial ratio of the Company. Effective February 4, 2013, the Company entered into an interest rate swap to fix its rate for the total term of the US dollar tranche and for \$700,000,000 of the Canadian dollar tranche unsecured bank term loan facility. The effective fixed interest rate is 1.58% (plus applicable spread) for the Canadian dollar tranche and 0.31% (plus applicable spread) on the US dollar tranche.

<sup>3</sup> Interest payments are semi-annual.

## NOTE 11 OTHER LIABILITIES

	2014		2013	
Employee benefits (Note 17)	\$	33,204	\$	56,110
Derivative financial liabilities (Note 20)		2,671		4,932
Other		12,521		13,059
	\$	48,396	\$	74,101

## NOTE 12 SHARE CAPITAL

### AUTHORIZED

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

	March 31, 2014		March 31, 2013	
ISSUED				
195,068,912 common shares (196,619,440 common shares in 2013)	\$	703,111	\$	663,275

1,701,272 common shares (1,843,275 in 2013) were issued during the year ended March 31, 2014 for an amount of \$41,861,000 (\$38,468,000 in 2013) pursuant to the share option plan. For the year ended March 31, 2014, the amount transferred from stock option plan reserve was \$9,114,000 (\$9,003,000 in 2013).

Pursuant to the normal course issuer bid, which began on November 15, 2012, and expired on November 14, 2013, the Company was authorized to repurchase for cancellation up to 9,850,532 of its common shares. Under the new normal course issuer bid that became effective on November 15, 2013, and expiring on November 14, 2014, the Company is authorized to repurchase, for cancellation purposes, up to 9,708,299 of its common shares. During the year ended March 31, 2014, the Company repurchased 3,251,800 common shares, at prices ranging from \$46.46 to \$49.55 per share, relating to the normal course issuer bids. The excess of the purchase price over the carrying value of the shares in the amount of \$143,232,000 was charged to retained earnings. During the year ended March 31, 2013, the Company repurchased 4,261,400 common shares, at prices ranging from \$39.44 to \$49.01 per share, relating to the normal course issuer bids. The excess of the purchase price over the carrying value of the shares in the amount of \$171,516,000 was charged to retained earnings.

### SHARE OPTION PLAN

The Company has an equity settled share option plan to allow for the purchase of common shares by key employees and officers of the Company. The total number of common shares which may be issued pursuant to this plan as at March 31, 2014 cannot exceed 17,935,823 common shares. As at March 31, 2014, 9,487,342 common shares are issuable under this plan in addition to the 8,448,481 common shares underlying options outstanding. Options granted prior to July 31, 2007 may be exercised at a price equal to the closing quoted value of the common shares on the day preceding the grant date. Options granted thereafter may be exercised at a price not less than the weighted average market price for the five trading days immediately preceding the date of grant. The options vest at 20% per year and expire ten years from the grant date.

## NOTE 12 SHARE CAPITAL (CONT'D)

Options issued and outstanding as at year end are as follows:

Granting period	Exercise price	March 31, 2014		March 31, 2013	
		Number of options	Number of exercisable options	Number of options	Number of exercisable options
2005	\$ 16.53	6,288	6,288	205,006	205,006
2006	\$ 18.08	204,270	204,270	325,312	325,312
2007	\$ 16.35	370,406	370,406	517,401	517,401
2008	\$ 23.09	448,497	448,497	659,563	659,563
2009	\$ 27.81	561,948	561,948	886,992	613,624
2010	\$ 21.40	1,018,821	651,357	1,379,093	595,818
2011	\$ 29.32	1,163,843	562,494	1,374,698	421,162
2012	\$ 43.22	1,032,972	355,875	1,165,370	215,574
2013	\$ 42.96	1,728,243	299,500	1,862,496	-
2014	\$ 51.10	1,913,193	-	-	-
		<b>8,448,481</b>	<b>3,460,635</b>	8,375,931	3,553,460

Changes in the number of outstanding options are as follows:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	8,375,931	\$ 30.78	8,484,524	\$ 25.92
Options granted	2,065,269	\$ 51.10	1,884,991	\$ 42.96
Options exercised	(1,701,272)	\$ 24.61	(1,843,275)	\$ 20.87
Options cancelled	(291,447)	\$ 44.88	(150,309)	\$ 30.93
Balance, end of year	<b>8,448,481</b>	<b>\$ 36.51</b>	8,375,931	\$ 30.78

The exercise price of the options granted in fiscal 2014 is \$51.10, which corresponds to the weighted average market price for the five trading days immediately preceding the date of grant (\$42.96 in fiscal 2013).

The weighted average fair value of options granted in fiscal 2014 was estimated at \$11.53 per option (\$10.26 in fiscal 2013), using the Black Scholes option pricing model with the following assumptions:

	2014	2013
<b>Weighted average:</b>		
Risk-free interest rate	1.34%	1.63%
Expected life of options	5.5 years	5.5 years
Volatility	26.96%	28.28%
Dividend rate	1.66%	1.76%

A compensation expense of \$15,851,000 (\$13,568,000 net of taxes) relating to stock options was recorded in the statement of earnings for the year ended March 31, 2014 and \$13,701,000 (\$12,029,000 net of taxes) was recorded for the year ended March 31, 2013.

Options to purchase 2,062,826 common shares at a price of \$55.48 per share were granted on April 1, 2014.

### DEFERRED SHARE UNIT PLAN FOR DIRECTORS

In accordance with the deferred share unit plan, all eligible Directors of the Company are allocated annually a fixed amount of deferred share units which are granted on a quarterly basis. Additionally, Directors receive quarterly remuneration either in cash or deferred share units, at the choice of each Director. If a Director elects to receive deferred share units, the number of deferred share units varies as it is based on the market value of the Company's common shares. When they cease to be a Director of the Company, a cash payment equal to the market value of the accumulated deferred share units will be disbursed. The liability relating to these units is adjusted by taking the number

## NOTE 12 SHARE CAPITAL (CONT'D)

of units outstanding multiplied by the market value of common shares at the Company's year end. The variation of the liability is recorded as an expense under "Operating costs excluding depreciation, amortization, acquisition, restructuring and other costs".

	2014		2013	
	Units	Liability	Units	Liability
Balance, beginning of year	243,110	\$ 13,111	255,349	\$ 11,533
Annual grant	20,000	1,003	19,333	904
Board compensation	13,675	683	14,320	663
Payment to directors	(55,061)	(2,836)	(45,892)	(1,961)
Variation due to change in stock price	-	951	-	1,972
Balance, end of year	221,724	\$ 12,912	243,110	\$ 13,111

In fiscal 2014, the Company renewed its equity forward contract on 220,000 Saputo Inc. common shares with a notional value of \$12,248,874 (\$11,348,436 in 2013) to mitigate the compensation costs associated with its deferred share unit plan. The Company recognized a gain of \$543,840 (gain of \$1,632,389 in fiscal 2013) reducing the expense associated with the deferred share unit plan upon the re-measurement of the equity forward contract ended in March 2014 and a gain of \$144,383 on the equity forward contract renewed until March 2015.

### PERFORMANCE SHARE UNIT PLAN

In fiscal 2013, the Company established a PSU plan to form part of long-term incentive compensation, together with the options for senior management. The PSU plan is non-dilutive and is settled in cash only. Under the PSU plan, each performance cycle shall consist of three fiscal years of the Company. At the time of the grant of a PSU, the Company determines the performance criteria which must be met. Following completion of a three-year performance cycle, the PSUs for which the performance criteria have been achieved will vest and the value that will be paid out is the price of the common shares at such time, multiplied by the number of PSUs for which the performance criteria have been achieved. The amount potentially payable to eligible employees is recognized as a payable and is revised at each reporting period. The expense is included in employee benefits under the "Operating costs excluding depreciation, amortization, acquisition, restructuring and other costs" caption.

	2014		2013	
	Units	Liability	Units	Liability
Balance, beginning of year	66,885	\$ 2,108	-	\$ -
Annual grant	80,126	2,866	67,392	2,120
Cancelled	(10,597)	(522)	(507)	(12)
Payment	(286)	(14)	-	-
Variation due to change in stock price	-	1,251	-	-
Balance, end of year	136,128	\$ 5,689	66,885	\$ 2,108

On April 1, 2014, 166,860 PSU's were granted at a price of \$55.48 per unit (\$51.10 in 2013).

During the first quarter of fiscal 2014, the Company entered into an equity forward contract on 25,000 Saputo Inc. common shares with a notional value of \$1,223,743 to mitigate the compensation costs associated with its performance share unit plan. The Company recognized a gain of \$142,508 reducing the expense associated with the performance share unit plan upon the settlement of the equity forward contract ending in March 2014. In March 2014, the Company renewed this equity forward contract with a notional value of \$1,391,918 and entered into a new equity forward contract on an additional 150,000 Saputo Inc. common shares with a notional value of \$8,215,395. Gains of \$16,407 and \$232,981 were recognized on the equity forward contracts of 25,000 and 150,000 Saputo Inc. common shares, respectively.

## NOTE 13 OTHER FINANCIAL CHARGES

	2014	2013
Finance costs	\$ 16,249	\$ 4,719
Finance income	(403)	(516)
	\$ 15,846	\$ 4,203

## NOTE 14 INCOME TAXES

Income tax expense is comprised of the following:

	2014	2013
Current tax expense	\$ 122,545	\$ 150,127
Deferred tax expense	102,479	35,719
Income tax expense	\$ 225,024	\$ 185,846

### RECONCILIATION OF THE EFFECTIVE TAX RATE

The effective income tax rate was 29.6% in 2014 (27.8% in 2013). The Company's income tax expense differs from the one calculated by applying Canadian statutory rates for the following reasons:

	2014	2013
Earnings before tax	\$ 758,990	\$ 667,767
Income taxes, calculated using Canadian statutory income tax rates of 26.3% (26% in 2013)	199,621	173,532
Adjustments resulting from the following:		
Effect of tax rates for foreign subsidiaries and other deductions	41,383	30,103
Changes in tax laws and rates	819	143
Benefit arising from investment in subsidiaries	(20,073)	(14,781)
Manufacturing and processing deduction	(332)	(2,842)
Acquisition cost	2,241	-
Stock-based compensation	2,650	2,566
Effect of loss on restructuring cost	-	(7,154)
Tax losses for which no deferred income tax assets was recognized	837	7,043
Adjustments in respect of prior years	(1,619)	(2,670)
Other	(503)	(94)
Income tax expense	\$ 225,024	\$ 185,846

During the year, as a result of the increase in the Canadian corporation tax rate, the statutory tax rate has increased by approximately 0.3%.

### INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

Income tax on items recognized in other comprehensive income in 2014 and 2013 were as follows:

	2014	2013
Deferred tax benefit (expense) on actuarial losses (gains) on employee benefit obligations	\$ (4,691)	\$ 4,093
Deferred tax benefit (expense) on cash flow hedges loss (gain)	(2,215)	1,272
Total income tax recognized in other comprehensive income	\$ (6,906)	\$ 5,365

### INCOME TAX RECOGNIZED IN EQUITY

Income tax on items recognized in equity in 2014 and 2013 were as follows:

	2014	2013
Excess tax benefit that results from the excess of the deductible amount over the stock-based compensation recognised in net earnings	\$ 3,257	\$ 3,905
Total income tax recognized in equity	\$ 3,257	\$ 3,905

### CURRENT TAX ASSETS AND LIABILITIES

	2014	2013
Current tax assets	\$ 30,867	\$ 2,786
Current tax liabilities	(124,206)	(144,064)
Current tax liabilities (net)	\$ (93,339)	\$ (141,278)

## NOTE 14 INCOME TAXES (CONT'D)

### DEFERRED TAX BALANCES

	2014	2013
Deferred tax assets	\$ 12,796	\$ 9,459
Deferred tax liabilities	(348,548)	(191,320)
Deferred tax liabilities (net)	\$ (335,752)	\$ (181,861)

### DEFERRED TAX ASSETS AND LIABILITIES

The movement of deferred tax assets and liabilities are shown below:

	Balance April 1, 2013	Charged/ Credited to net earnings	Charged/ Credited to other comprehensive income or equity	Acquisitions	Translation and other	Balance March 31, 2014
<b>Deferred tax asset</b>						
Accounts payable and accrued liabilities	\$ 28,375	\$ 2,951	\$ -	\$ 13,327	\$ 281	\$ 44,934
Income tax losses	5,218	(528)	-	-	101	4,791
Net assets of pension plans	13,670	(1,606)	(4,691)	-	83	7,456
	\$ 47,263	\$ 817	\$ (4,691)	\$ 13,327	\$ 465	\$ 57,181
<b>Deferred tax liabilities</b>						
Inventories	\$ 14,109	\$ 28,415	\$ -	\$ 320	\$ 2,200	\$ 45,044
Property, plant and equipment	175,762	39,838	-	29,147	13,195	257,942
Other	36,753	35,043	2,215	9,116	4,320	87,447
Long-term debt	2,500	-	-	-	-	2,500
	\$ 229,124	\$ 103,296	\$ 2,215	\$ 38,583	\$ 19,715	\$ 392,933

	Balance April 1, 2012	Charged/ Credited to net earnings	Charged/ Credited to other comprehensive income or equity	Acquisitions	Translation and other	Balance March 31, 2013
<b>Deferred tax asset</b>						
Accounts payable and accrued liabilities	\$ 19,953	\$ 5,396	\$ -	\$ 3,583	\$ (557)	\$ 28,375
Income tax losses	12,210	(7,058)	-	-	66	5,218
Net assets of pension plans	13,017	(3,462)	4,093	-	22	13,670
	\$ 45,180	\$ (5,124)	\$ 4,093	\$ 3,583	\$ (469)	\$ 47,263
<b>Deferred tax liabilities</b>						
Inventories	\$ 5,099	\$ 8,934	\$ -	\$ -	\$ 76	\$ 14,109
Property, plant and equipment	166,861	7,259	-	-	1,642	175,762
Other	19,911	14,402	(1,272)	3,583	129	36,753
Long-term debt	2,500	-	-	-	-	2,500
	\$ 194,371	\$ 30,595	\$ (1,272)	\$ 3,583	\$ 1,847	\$ 229,124

## NOTE 15 EARNINGS PER SHARE

	2014	2013
Net earnings attributable to shareholders of Saputo Inc.	\$ 533,097	\$ 481,921
Weighted average number of common shares outstanding	195,123,232	197,589,714
Dilutive options	2,551,443	2,731,407
Weighted average diluted number of common shares outstanding	197,674,675	200,321,121
Basic earnings per share	\$ 2.73	\$ 2.44
Diluted earnings per share	\$ 2.70	\$ 2.41

When calculating diluted earnings per share for the year ended March 31, 2014, 1,913,193 options (no options for the year ended March 31, 2013) were excluded from the calculation because their exercise price is higher than the average market value for the year.

Shares purchased under the normal course issuer bid were excluded from the calculation of earnings per share as of the date of purchase.

## NOTE 16 BUSINESS ACQUISITIONS

### Warrnambool Cheese & Butter Factory Company Holdings

On October 7, 2013, the Company announced its takeover bid for the Australian dairy company Warrnambool Cheese & Butter Factory Company Holdings Limited in order to expand its international footprint. Warrnambool is an Australian public company, listed on the Australian Securities Exchange (ASX) and is one of the largest milk processors in Australia. Warrnambool produces a range of dairy products for domestic and export markets. Its products include cheese, butter and butter blends, milk, cream and dairy ingredients.

On January 21, 2014, the Company reached a controlling interest of 52.702% and began consolidating Warrnambool's results into its International Sector as its Dairy Division (Australia).

The Company continued to increase its ownership interest in Warrnambool shares subsequent to the control date and pursuant to the terms of the takeover bid culminating in a relevant interest of 87.92% on February 12, 2014 when the offer closed and reflecting a total cash consideration of \$449,577,800.

The purchase price, funded out of the Company's committed bank term loan and bank loan, was allocated to the identifiable assets acquired and liabilities assumed based on the fair values presented below. The final allocation of the purchase price will be completed in the next fiscal year.

## NOTE 16 BUSINESS ACQUISITIONS (CONT'D)

		2014	
		Warrnambool Cheese & Butter Factory Company Holdings	
Assets acquired	Cash and cash equivalents	\$	4,369
	Receivables		66,268
	Inventories		131,604
	Prepaid expenses and other assets		5
	Property, plant and equipment		177,896
	Goodwill		257,215
	Trademarks and other intangibles		26,078
	Other assets		43,416
Liabilities assumed	Bank loans		(71,023)
	Accounts payable and accrued liabilities		(88,134)
	Income taxes		(10,744)
	Other liabilities		(613)
	Deferred income taxes		(25,256)
Net assets acquired		\$	511,081
	Non-controlling interest		(61,503)
		\$	449,578
Consideration	Cash	\$	59,578
	Long-term debt		390,000
	Total consideration	\$	449,578

The non-controlling interest of \$61,503,000, recognized on the date control was obtained, has been measured based on fair value and represents the number of shares owned by third parties multiplied by the share price of AU\$9.40 paid by the Company.

Recognized goodwill consists of an assembled workforce and expected growth opportunities in both domestic and international markets.

### Morningstar Foods, LLC

On January 3, 2013, the Company completed the purchase of Morningstar Foods, LLC (Morningstar) for a total cash consideration of \$1,433,945,000 pursuant to the terms and conditions of a Membership Interest Purchase Agreement.

Morningstar produces a variety of dairy and non-dairy extended shelf-life (ESL) products, including creams and creamers, ice cream mixes, whipping cream, aerosol whipped toppings, iced coffee, half and half, value-added milks, as well as cultured products such as sour cream and cottage cheese. These products are manufactured under a wide array of company-owned or customer brand names, and are sold throughout the US via an internal sales force and independent brokers. Morningstar serves the needs of retailers, national quick-serve restaurant chains, grocery stores, mass merchandisers and distributors across the United States.

The acquisition of Morningstar complements the activities of the Cheese Division (USA). Through this acquisition, the Company benefits from Morningstar's national manufacturing and distribution footprint. This transaction expands product offerings to customers in the United States and broadens the range of the Company's future acquisition opportunities. These expected synergies, along with the benefits associated with an assembled workforce represent the major qualitative factors comprising goodwill.

The purchase price was allocated based on the fair values of the identifiable assets acquired and liabilities assumed as follows:

## NOTE 16 BUSINESS ACQUISITIONS (CONT'D)

		2013	
		Morningstar Foods, LLC	
Assets acquired	Cash and cash equivalents	\$	7
	Receivables		71,264
	Inventories		64,985
	Prepaid expenses and other assets		6,661
	Property, plant and equipment		457,418
	Goodwill		812,234
	Trademarks and other intangibles		123,178
	Other assets		3,200
Liabilities assumed	Accounts payable and accrued liabilities		(96,268)
	Other liabilities		(8,734)
Net assets acquired		\$	1,433,945
Consideration	Cash	\$	235,380
	Long-term debt		1,198,565
Total consideration		\$	1,433,945

## NOTE 17 EMPLOYEE PENSION AND OTHER BENEFITS PLANS

The Company sponsors various post-employment benefit plans. These include pension plans, both defined contribution and defined benefit plans, and other post-employment benefits. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans.

### **Defined Contribution Plans**

The Company offers and participates in defined contribution pension plans of which 92% of its active employees are members. The net pension expense under these types of plans is generally equal to the contributions made by the employer and constitutes an expense for the year in which they are due. For fiscal 2014, the defined contribution expenses for the Company amounted to \$31,114,000 compared to \$22,434,000 for fiscal 2013.

### **Defined Benefit Plans**

The Company participates in defined benefit pension plans in which the remaining active employees are members. Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years.

The registered pension plans must comply with statutory funding requirements in the province or state in which they are registered. Funding valuations are required on an annual or triennial basis, depending on the jurisdiction, and employer contributions must include amortization payments for any deficit, over a period of 5 to 15 years. Contribution holidays are allowed and subject to certain thresholds. Other non-registered pension plans and benefits other than pension are not subject to any minimum funding requirements.

## NOTE 17 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

The cost of these pension benefits earned by employees is actuarially determined using the projected benefits method prorated on services and using a discount rate based on high quality corporate bonds and Management's assumptions bearing on, among other things, rates of compensation increase and retirement age of employees. All of these estimates and assessments are formulated with the help of external consultants. The plan assets and benefit obligations were valued as at March 31 with the assistance of the Company's external actuaries. The Company also offers complementary retirement benefits programs, such as health insurance, life insurance and dental plans to eligible employees and retired employees. The Company expects to contribute approximately \$5,682,000 to its defined benefit plans in 2015. The Company's net liability for post-employment benefit plans comprises the following:

	Pension	Other	March 31, 2014	Pension	Other	March 31, 2013
Present value of funded obligation	\$ 259,187	\$ -	\$ 259,187	\$ 251,003	\$ -	\$ 251,003
Fair value of assets	254,353	-	254,353	218,808	-	218,808
Present value of net obligations for funded plans	4,834	-	4,834	32,195	-	32,195
Present value of unfunded obligations	12,828	10,757	23,585	5,904	11,252	17,156
Present value of net obligations	17,662	10,757	28,419	38,099	11,252	49,351
Asset ceiling test	4,785	-	4,785	421	-	421
Impact of minimum funding requirement	-	-	-	6,338	-	6,338
Accrued pension/benefit cost as at						
March 31	22,447	10,757	33,204	44,858	11,252	56,110
Employee benefit amounts on the balance sheet:						
Liabilities	22,447	10,757	33,204	44,858	11,252	56,110
Assets	-	-	-	-	-	-
Net liability	\$ 22,447	\$ 10,757	\$ 33,204	\$ 44,858	\$ 11,252	\$ 56,110

The changes in the present value of the defined benefit obligations are as follows:

	Pension	Other	March 31, 2014	Pension	Other	March 31, 2013
Defined benefit obligation, beginning of year	\$ 256,907	\$ 11,252	\$ 268,159	\$ 233,789	\$ 10,666	\$ 244,455
Current service costs	6,447	26	6,473	5,204	24	5,228
Past service cost generated during the year <sup>1</sup>	5,465	-	5,465	-	-	-
Contribution by plan participants	766	-	766	789	-	789
Interest cost	10,682	461	11,143	10,905	488	11,393
Actuarial (gains) losses from change in experience	(1,404)	(1,259)	(2,663)	1,762	(52)	1,710
Actuarial (gains) losses from change in economic assumptions	(547)	(2)	(549)	15,530	691	16,221
Actuarial losses from change in demographic assumptions	11,216	1,003	12,219	-	126	126
Business acquisition	-	-	-	2,927	-	2,927
Effect of settlement <sup>2</sup>	(5,137)	-	(5,137)	-	-	-
Exchange differences	877	18	895	177	8	185
Benefits paid	(13,257)	(742)	(13,999)	(14,176)	(699)	(14,875)
Defined benefit obligation, end of year	\$ 272,015	\$ 10,757	\$ 282,772	\$ 256,907	\$ 11,252	\$ 268,159

<sup>1</sup> An amendment was made to pension plans for executive officers in fiscal 2014.

<sup>2</sup> In December 2013, two plans with inactive employees only were terminated and annuities were purchased to release the plan from its liability.

The changes in the fair value of plan assets are as follows:

	Pension	Other	March 31, 2014	Pension	Other	March 31, 2013
Fair value of plan assets, beginning of year	\$ 218,808	\$ -	\$ 218,808	\$ 193,221	\$ -	\$ 193,221
Expected return	9,347	-	9,347	9,217	-	9,217
Actuarial gains	23,461	-	23,461	12,694	-	12,694
Administration costs	(565)	-	(565)	(588)	-	(588)
Contributions by employer	20,489	742	21,231	15,750	699	16,449
Contributions by participants	766	-	766	789	-	789
Effects of settlement <sup>1</sup>	(5,300)	-	(5,300)	-	-	-
Business acquisition	-	-	-	1,780	-	1,780
Exchange differences	604	-	604	121	-	121
Benefits paid	(13,257)	(742)	(13,999)	(14,176)	(699)	(14,875)
Fair value of plan assets, end of year	\$ 254,353	\$ -	\$ 254,353	\$ 218,808	\$ -	\$ 218,808

<sup>1</sup> In December 2013, two plans with inactive employees only were terminated and annuities were purchased to release the plan from its liability.

## NOTE 17 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

Actual return on plans assets amounted to a gain of \$32,243,000 in fiscal 2014 compared to a gain of \$21,323,000 in fiscal year 2013.

The fair value of plan assets, which do not include assets of the Company, consist of the following:

	March 31, 2014	March 31, 2013
Bonds	39%	42%
Equity instruments	58%	55%
Cash and short-term investments	3%	3%
	100%	100%

The expenses recognized below are included in "Operating costs excluding depreciation, amortization, acquisition, restructuring, and other costs" within employee benefits expense (refer to Note 5) and are detailed as follows:

	Pension	Other	March 31, 2014	Pension	Other	March 31, 2013
Employer current service cost	\$ 6,447	\$ 26	\$ 6,473	\$ 5,204	\$ 24	\$ 5,228
Employer past service cost	5,465	-	5,465	-	-	-
Effect of settlement	164	-	164	-	-	-
Administration costs	565	-	565	588	-	588
interest costs	10,682	461	11,143	10,905	488	11,393
Interest on effect of asset ceiling	13	-	13	14	-	14
Interest on effect of liability arising from minimum funding	269	-	269	12	-	12
Expected return on plan assets	(9,347)	-	(9,347)	(9,217)	-	(9,217)
Defined benefits plans expense	\$ 14,258	\$ 487	\$ 14,745	\$ 7,506	\$ 512	\$ 8,018

The Company recognizes actuarial gains and losses in the period in which they occur, for all its defined benefit plans. These actuarial gains and losses are recognized in other comprehensive income and are presented below:

	Pension	Other	March 31, 2014	Pension	Other	March 31, 2013
Net gains (losses) during the year	\$ 14,196	\$ 258	\$ 14,454	\$ (4,598)	\$ (765)	\$ (5,363)
Effect of the asset ceiling test	(4,351)	-	(4,351)	(124)	-	(124)
Effect of impact of additional liability arising from the minimum funding requirement	6,607	-	6,607	(6,066)	-	(6,066)
Amount recognized in other comprehensive income	16,452	258	16,710	(10,788)	(765)	(11,553)

Weighted average assumptions used in computing the benefit obligations at the balance sheet date are as follows:

	March 31, 2014	March 31, 2013
Discount rate	4.25%	4.22%
Duration of the obligation	12.3	12.3
Future salary increases	3.00%	3.00%

The impact of an increase and a decrease of 0.5% on the discount rate would be \$19,300,000 and \$17,300,000 respectively. Also, an increase or a decrease of 1% on the future salary assumptions would be approximately \$3,000,000 on the obligation and a one year increase or decrease in life expectancy would represent approximately \$6,700,000.

Weighted average assumptions used in computing the net periodic pension cost for the year are as follows:

	March 31, 2014	March 31, 2013
Discount rate	4.22%	4.74%
Future salary increases	3.00%	3.00%

For measurement purposes, a 3.5% to 7% annual rate of increase was used for health, life insurance and dental plan costs for the year. In comparison, during the previous year, a 5.23% to 9% annual rate was used.

Assumed medical cost trend rates have an effect on the amounts recognized in profit or loss. A one percentage point change in the assumed medical cost trend rates would have marginal impact on cost and obligations.

## NOTE 18 COMMITMENTS AND CONTINGENCIES

### LEASES

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

Less than 1 year	\$	24,558
1-2 years		17,395
2-3 years		11,755
3-4 years		8,919
4-5 years		6,816
More than 5 years		16,494
	\$	85,937

The Company guarantees to certain lessors a portion of the residual value of certain leased assets with respect to operations which mature until 2017. If the market value of leased assets, at the end of the respective operating lease term, is inferior to the guaranteed residual value, the Company is obligated to indemnify the lessors, specific to certain conditions, for the shortfall up to a maximum value. The Company believes that the potential indemnification will not have a significant effect on the financial statements.

### CLAIMS

The Company is a defendant to certain claims arising from the normal course of its business. The Company is also a defendant in certain claims and/or assessments from tax authorities in various jurisdictions. The Company believes that the final resolution of these claims and/or assessments will not have a material adverse effect on its earnings or financial position.

### INDEMNIFICATIONS

The Company from time to time offers indemnifications to third parties in the normal course of its business, in connection with business or asset acquisitions or dispositions. These indemnification provisions may be in connection with breach of representations and warranties, and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration. At March 31, 2014, given that the nature and amount of such indemnifications depend on future events, the Company is unable to reasonably estimate its maximum potential liability under these agreements. The Company has not made any significant indemnification payments in the past, and as at March 31, 2014 and March 31, 2013, the Company has not recorded a liability associated with these indemnifications.

## NOTE 19 RELATED PARTY TRANSACTIONS

The Company receives and provides goods and services which consist of rent, travel, transport, lodging and management services from and to companies subject to control or significant influence through ownership by its principal shareholder. These transactions, which are not significant to the Company's financial position or financial results, are made in the normal course of business and have been recorded at the fair value, consistent with market values for similar transactions.

Transactions with key management personnel (salaries, bonuses, options, and payments under the PSU and DSU plans) are also considered related party transactions. Management defines key management personnel as named executive officers: the CEO, CFO and the three most highly compensated executive officers of the Company whom are among those persons having responsibility and authority for controlling, overseeing and planning the activities of the Company, as well as the Company's Directors.

## NOTE 19 RELATED PARTY TRANSACTIONS (CONT'D)

Transactions with related parties are as follows:

	2014	2013
Entities subject to control or significant influence through ownership by its principal shareholder	\$ 2,742	\$ 19,497
Key management personnel		
Directors	2,422	2,355
Named Executive Officers	18,680	11,944
	\$ 23,844	\$ 33,796

Included in the transactions with related parties for fiscal 2013 was a purchase of land and building from a related party totalling \$16,400,000. The acquired property is the site for the consolidated distribution activities of the Greater Montreal area as well as the administrative offices of the Dairy Division (Canada). The transaction was recorded at fair value.

Dairy products and other services provided by the Company were the following:

	2014	2013
Entities subject to control or significant influence through ownership by its principal shareholder	\$ 372	\$ 370

Outstanding receivables and accounts payable and accrued liabilities for the transactions above are the following:

	Receivables		Accounts payable and accrued liabilities	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Entities subject to control or significant influence through ownership by its principal shareholder	\$ 55	\$ 43	\$ 25	\$ 32
Key management personnel				
Directors	-	-	12,912	13,111
Named executive officers	-	-	16,698	9,397
	\$ 55	\$ 43	\$ 29,635	\$ 22,540

The amounts payable to the Directors consist entirely of balances payable under the Company's DSU plan. Refer to Note 12 for further details. The amounts payable to named executive officers consist of short-term employee benefits, share-based awards and post-retirement benefits.

### KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation expense for transactions with the Company's key management personnel consists of the following:

	2014	2013
Directors		
Cash-settled payments	\$ 737	\$ 788
Stock-based compensation	1,685	1,567
	\$ 2,422	\$ 2,355
Named executive officers		
Short-term employee benefits	8,254	7,931
Post-employment benefits	6,520	808
Stock-based compensation	3,906	3,205
	\$ 18,680	\$ 11,944
Total compensation	\$ 21,102	\$ 14,299

## NOTE 19 RELATED PARTY TRANSACTIONS (CONT'D)

### **SUBSIDIARIES**

The Company's subsidiaries are wholly owned with the exception of Warrnambool (Note 16) for which a 12.08% non-controlling interest exists. The following information summarizes the Company's significant subsidiaries which produce a wide array of dairy products including cheese, fluid milk, extended shelf-life milk and cream products, cultured products and dairy ingredients:

	Percentage Owned	Location
Saputo Cheese USA Inc.	100.00%	USA
Saputo Dairy Products Canada G.P.	100.00%	Canada
Saputo Dairy Foods USA, LLC	100.00%	USA
Warrnambool Cheese & Butter Factory Company Holdings Limited	87.92%	Australia
Molfino Hermanos S.A.	100.00%	Argentina

## NOTE 20 FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including credit risk, liquidity risk, price risk (including commodity price risk), foreign exchange risk and interest rate risk. These financial instruments are subject to normal credit conditions, financial controls and risk management and monitoring strategies.

Occasionally, the Company may enter into derivative financial instrument transactions in order to mitigate or hedge risks in accordance with risk objectives and strategies. The Company does not enter into these arrangements for speculative purposes.

### **CREDIT RISK**

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents and receivables.

Cash equivalents consist mainly of short-term investments. The Company has deposited these cash equivalents in reputable financial institutions.

The Company also offers credit to its customers in the normal course of business for trade receivables. Credit valuations are performed on a regular basis and reported results take into account allowances for potential bad debts.

Due to its large and diverse customer base and its geographic diversity, the Company has low exposure to credit risk concentration with respect to customer's receivables. There are no receivables from any individual customer that exceeded 10% of the total balance of receivables as at March 31, 2014 and March 31, 2013. However one customer represented more than 10% of total consolidated sales for the year ended March 31, 2014, with 11.4% (two customers with 11.2% and 10.7% in 2013).

Allowance for doubtful accounts and past due receivables are reviewed by Management at each balance sheet date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of receivable balances from each customer taking into account historic collection trends of past due accounts. Receivables are written off once determined not to be collectible.

On average, the Company will generally have 10% of receivables that are due beyond normal terms, but are not impaired. The carrying amount of receivables is reduced by an allowance account and the amount of the loss is recognized in the statement of earnings within operating costs. Subsequent recoveries of amounts previously written off are credited against operating costs in the statement of earnings. However, Management does not believe that these allowances are significant.

### **LIQUIDITY RISK**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 21 relating to capital disclosures. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the normal course of business.

## NOTE 20 FINANCIAL INSTRUMENTS (CONT'D)

### **INTEREST RATE RISK**

The Company is exposed to interest rate risks through its financial obligations that bear variable interest rates.

Bank loans bear interest at fluctuating rates and thereby expose the Company to interest rate risk on cash flows associated to interest payments. The senior notes bear interest at fixed rates and, as a result, no interest rate risk exists on these cash flows.

The bank term loan bears interest at variable rates and thereby exposes the Company to interest rate risk on cash flows associated to interest payments. As a result of such interest rate risk, the Company entered into interest rate swap agreements on February 4, 2013 for the total term of the bank term loan facility in which the Company agreed to exchange variable interest payments for fixed rate payments at specified intervals. The notional amount upon which the swaps are based represent equal amounts to those outstanding with regards to the unsecured bank term loan facility. The effective fixed interest rate is 1.58% (plus applicable spread) for the Canadian dollar tranche and 0.31% (plus applicable spread) on the US dollar tranche. Refer to Note 10 for further details on the unsecured bank term loan facility. The Company has designated these interest rate swaps as cash flow hedges of interest rate risk in accordance with its risk management strategy.

On March 31, 2014, the cash flow hedges of interest rate risk were assessed to be highly effective and accordingly, an unrealized gain of \$1,668,000 (net of tax of \$593,000) was recorded in other comprehensive income. These cash flow hedges were also deemed to be highly effective in March 31, 2013 and an unrealized loss of \$3,660,000 (net of tax of \$1,272,000) was recorded in other comprehensive income (and an associated liability) as a result. The amounts recorded in the statement of comprehensive income are transferred to the statement of net earnings to offset interest on long-term debt when the interest expense is recorded in net earnings.

For the fiscal year ended March 31, 2014, the interest expense on long-term debt totalled \$53,239,000 (\$29,896,000 in March 31, 2013). The interest accrued on March 31, 2014 was \$6,801,000 (\$6,836,000 at March 31, 2013).

As at March 31, 2014, the net amount exposed to short-term rates fluctuations was approximately \$834,446,000. Based on this exposure, an assumed 1% increase in the interest rate would have an unfavourable impact of approximately \$5,875,000 on net earnings with an equal but opposite effect for an assumed 1% decrease.

### **FOREIGN EXCHANGE RISK**

The Company operates internationally and is exposed to foreign exchange risk resulting from various foreign currency transactions. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the functional currency of the Company's business unit that is party to the transaction. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 72,700,000 Australian dollars (700,000 Euros in 2013) and an outstanding currency swap contract of US\$8,700,000.

The Company is mainly exposed to US dollar fluctuations. The following table details the Company's sensitivity to a 1% weakening of the Canadian dollar against the US dollar on net earnings and comprehensive income. For a 1% appreciation of the Canadian dollar against the US dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

	2014		2013	
Change in net earnings	\$	2,094	\$	1,599
Change in comprehensive income	\$	25,723	\$	22,852

As a result of the Warrnambool Acquisition (Note 16), Saputo Inc. became party to cash flow hedges that were entered into by the Company's subsidiary in order to reduce exposure to fluctuations in foreign currency risk. Warrnambool entered into forward exchange contracts to sell US dollars and buy Australian dollars. The cash flows associated to these currency swaps are expected to come due within the next 12 months. As at March 31, 2014, the cash flow hedges were highly effective and accordingly, the Company recognized a gain of \$4,004,000 (net of tax of \$1,622,000) in other comprehensive income (and an associated asset).

## NOTE 20 FINANCIAL INSTRUMENTS (CONT'D)

### COMMODITY PRICE RISK

The Company occasionally enters into contracts to hedge against fluctuations in the price of commodities. Outstanding contracts as at the balance sheet date had a positive fair value of approximately \$162,000 (positive fair value of approximately \$175,000 at March 31, 2013). The Company does not use hedge accounting for these transactions.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash and cash equivalents, receivables, bank loans, accounts payable and accrued liabilities. The table below shows the fair value and the carrying value of other financial instruments as at March 31, 2014 and March 31, 2013. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	March 31, 2014		March 31, 2013	
	Fair value	Carrying value	Fair value	Carrying value
<b>Cash flow hedges</b>				
Interest rate swaps	\$ (2,671)	\$ (2,671)	\$ (4,932)	\$ (4,932)
Foreign exchange forward contracts	140	140	-	-
<b>Derivatives not designated in a formal hedging relationship</b>				
Currency swaps	\$ 3	\$ 3	\$ -	\$ -
Commodity futures contracts	162	162	-	-
<b>Long-term debt (Level 3)</b>	<b>1,808,190</b>	<b>1,789,294</b>	1,583,380	1,548,300

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at March 31, 2014, classified using the fair value hierarchy described in Note 3.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 39,346	\$ -	\$ -	\$ 39,346
Interest rate swaps	-	-	(2,671)	(2,671)
Foreign exchange forward contracts	-	-	140	140
Currency swaps	-	3	-	3
Commodity futures contracts	-	162	-	162
Investment properties	-	-	11,517	11,517
	\$ 39,346	\$ 165	\$ 8,986	\$ 48,497

Fair values of other assets, long-term debt and derivative financial instruments are determined using discounted cash flow models based on market inputs prevailing at the balance sheet date and are also obtained from financial institutions. Where applicable, these models use market-based observable inputs including interest-rate-yield curves, volatility of certain prices or rates and credit spreads. If market based observable inputs are not available, judgement is used to develop assumptions used to determine fair values. The fair value estimates are significantly affected by assumptions including the amount and timing of estimated future cash flows and discount rates. The Company's derivatives transactions are accounted for on a fair value basis.

## NOTE 21 CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategies and undertake selective acquisitions, while at the same time taking a conservative approach towards financial leverage and management of financial risk. An additional objective is to provide an adequate return to its shareholders. Furthermore, the Company believes that the purchases of its own shares may, under appropriate circumstances, be a responsible use of its capital.

The Company's capital is composed of net debt and equity. Net debt consists of long-term debt and bank loans, net of cash and cash equivalents. The Company's primary use of capital is to finance acquisitions.

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to equity. The net debt-to-equity ratios as at March 31, 2014 and March 31, 2013 are as follows:

	2014		2013	
Bank loans	\$	310,066	\$	181,865
Long-term debt		1,789,294		1,548,300
Cash and cash equivalents		(39,346)		(43,177)
Net debt	\$	2,060,014	\$	1,686,988
Equity	\$	2,839,160	\$	2,305,673
Net debt-to-equity		0.73:1		0.73:1

The Company has existing credit facilities which require a quarterly review of financial ratios and the Company is not in violation of any such ratios as at March 31, 2014.

The Company is not subject to capital requirements imposed by a regulator.

## NOTE 22 ACQUISITION, RESTRUCTURING AND OTHER COSTS

Acquisition, restructuring and other costs are summarized as follows:

	2014		2013	
Acquisition costs	\$	9,459	\$	9,646
Restructuring costs		30,739		32,631
Other costs		5,465		-
Total	\$	45,663	\$	42,277

### Acquisition Costs

As a result of the Warrnambool Acquisition (Note 16) and the acquisition of the fluid milk activities of Scotsburn Co-Operative Services Limited (Note 25), the Company incurred acquisition costs of \$9,459,000 (\$9,189,000 after tax) in fiscal 2014.

In fiscal 2013, the Company incurred acquisition costs of \$9,646,000 (\$6,115,000 after tax) in relation to the Morningstar Acquisition.

## NOTE 22 ACQUISITION, RESTRUCTURING AND OTHER COSTS (CONT'D)

### Restructuring Costs

In fiscal 2014, the Company announced the closures of four facilities. The first facility was closed in May 2014 and the final closures will occur in June 2014 and December 2015.

Costs associated with the closures recorded in fiscal 2014 and 2013 are summarized in the table below.

	2014	2013
Write down of non-current assets	22,096	21,709
Severance	7,796	7,776
Other	847	3,146
Total	30,739	32,631

The write down of non-current assets consists mainly of impairment charges to property, plant and equipment to bring them to the lower of carrying value and fair value less costs of disposal. The total after tax costs for fiscal 2014 are \$19,888,000 (\$22,597,000 in fiscal 2013).

The restructuring costs represent Management's best estimates of the expenses required to restructure these operations. Liabilities related to severance expenditures have been classified as provisions and grouped within current and non-current liabilities on the balance sheet.

### Other Costs

Effective April 1, 2014, amendments to the supplementary retirement plans for executive officers were made and the Company incurred \$5,465,000 (\$3,931,000 after tax) of additional costs.

## NOTE 23 SEGMENTED INFORMATION

As of April 1, 2013, the Company realigned its reporting structure consistent with its operating structure and reports under three geographic sectors. The Canada Sector includes the Dairy Division (Canada) and the Bakery Division. The USA Sector combines the Cheese Division (USA) and the Dairy Foods Division (USA). Finally, the International Sector combines the Dairy Division (Argentina), the Dairy Ingredients Division and the Dairy Division (Australia), refer to note 16 for further details. The Dairy Ingredients Division includes national and export ingredients sales from the North American divisions, as well as cheese exports from these same divisions.

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

The accounting policies of the sectors are the same as those described in Note 3 relating to significant accounting policies. The Company does not have any intersector sales.

### Information on operating sectors

Years ended March 31	2014	2013
		<i>(Reclassified)</i>
<b>Revenues</b>		
Canada	\$ 3,653,512	\$ 3,578,083
USA	4,489,938	2,849,244
International	1,089,439	870,350
	<b>\$ 9,232,889</b>	<b>\$ 7,297,677</b>
<b>Earnings before interest, depreciation, amortization, acquisition, restructuring, other costs and income taxes</b>		
Canada	\$ 457,375	\$ 476,176
USA	469,814	344,256
International	93,156	40,340
	<b>\$ 1,020,345</b>	<b>\$ 860,772</b>
<b>Depreciation and amortization</b>		
Canada	\$ 53,734	\$ 57,940
USA	85,027	53,901
International	7,846	4,788
	<b>\$ 146,607</b>	<b>\$ 116,629</b>
Acquisition, restructuring and other costs	45,663	42,277
Financial charges, net	69,085	34,099
<b>Earnings before income taxes</b>	<b>758,990</b>	<b>667,767</b>
Income taxes	225,024	185,846
<b>Net earnings</b>	<b>\$ 533,966</b>	<b>\$ 481,921</b>

## NOTE 23 SEGMENTED INFORMATION (CONT'D)

### Geographic information

	March 31, 2014	March 31, 2013 (reclassified)
<b>Changes to non-current assets</b>		
Canada	\$ 54,003	\$ 28,666
USA	192,145	1,436,995
International	533,814	15,767
	<b>\$ 779,962</b>	<b>\$ 1,481,428</b>
<b>Total Assets</b>		
Canada	\$ 1,832,350	\$ 1,772,537
USA	3,491,056	3,151,454
International	1,033,486	269,649
	<b>\$ 6,356,892</b>	<b>\$ 5,193,640</b>
<b>Net book value of property, plant and equipment</b>		
Canada	\$ 584,443	\$ 523,570
USA	1,075,784	1,005,942
International	268,534	87,683
	<b>\$ 1,928,761</b>	<b>\$ 1,617,195</b>
<b>Total liabilities</b>		
Canada	\$ 2,151,568	\$ 1,896,512
USA	919,097	850,468
International	447,067	140,988
	<b>\$ 3,517,732</b>	<b>\$ 2,887,968</b>

## NOTE 24 DIVIDENDS

During the year ended March 31, 2014, the Company paid dividends totalling \$175,321,820, or \$0.92 per share (\$161,651,170, or \$0.84 per share for the year ended March 31, 2013).

## NOTE 25 SUBSEQUENT EVENTS

On January 17, 2014, the Company announced that it had entered into an agreement to acquire the fluid milk activities of Scotsburn Co-Operative Services Limited based in Atlantic Canada ("Scotsburn Fluid Milk Business"). Scotsburn Fluid Milk Business is a Nova Scotia cooperative that will continue its other activities such as its frozen ice cream and frozen novelties business.

The purchase price of \$61 million, on a debt-free basis excludes approximately \$8 million of working capital items and was paid in cash by drawing on available credit lines. The acquisition was finalized on April 14, 2014.

The Scotsburn Fluid Milk Business operates two fluid milk processing facilities located in Sydney, Nova Scotia, and Mount Pearl, Newfoundland and employs an aggregate of approximately 400 people in Atlantic Canada. Its operations consist of manufacturing, selling, marketing, distributing and merchandising of products such as fluid milk, cream, sour cream, ice cream mix and cottage cheese, mainly under the *Scotsburn* brand. The Scotsburn Fluid Milk Business generates annual sales of approximately \$160 million and about \$8 million of earnings before interest, taxes, depreciation and amortization. This transaction will enable Saputo's Dairy Division (Canada) to increase its presence in Atlantic Canada.