2012 ANNUAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AND

CONSOLIDATED FINANCIAL STATEMENTS

Saputo

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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, 2012. It should be read while referring to the audited consolidated financial statements and accompanying notes. The accounting policies of Saputo Inc. (Company or Saputo) are in accordance with International Financial Reporting Standards (IFRS). All dollar amounts are in Canadian dollars, unless otherwise indicated. This report takes into account material elements between March 31, 2012 and June 5, 2012, the date of this report, on which it was approved by the Board of Directors of Saputo. Additional information about the Company, including the annual information form for the year ended March 31, 2012, can be obtained on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

By their nature, forward-looking statements are subject to a number of inherent risks and uncertainties. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking statements. As a result, the Company cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause actual results to differ materially from current expectations are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risks and Uncertainties" section of this Management's Discussion and Analysis.

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

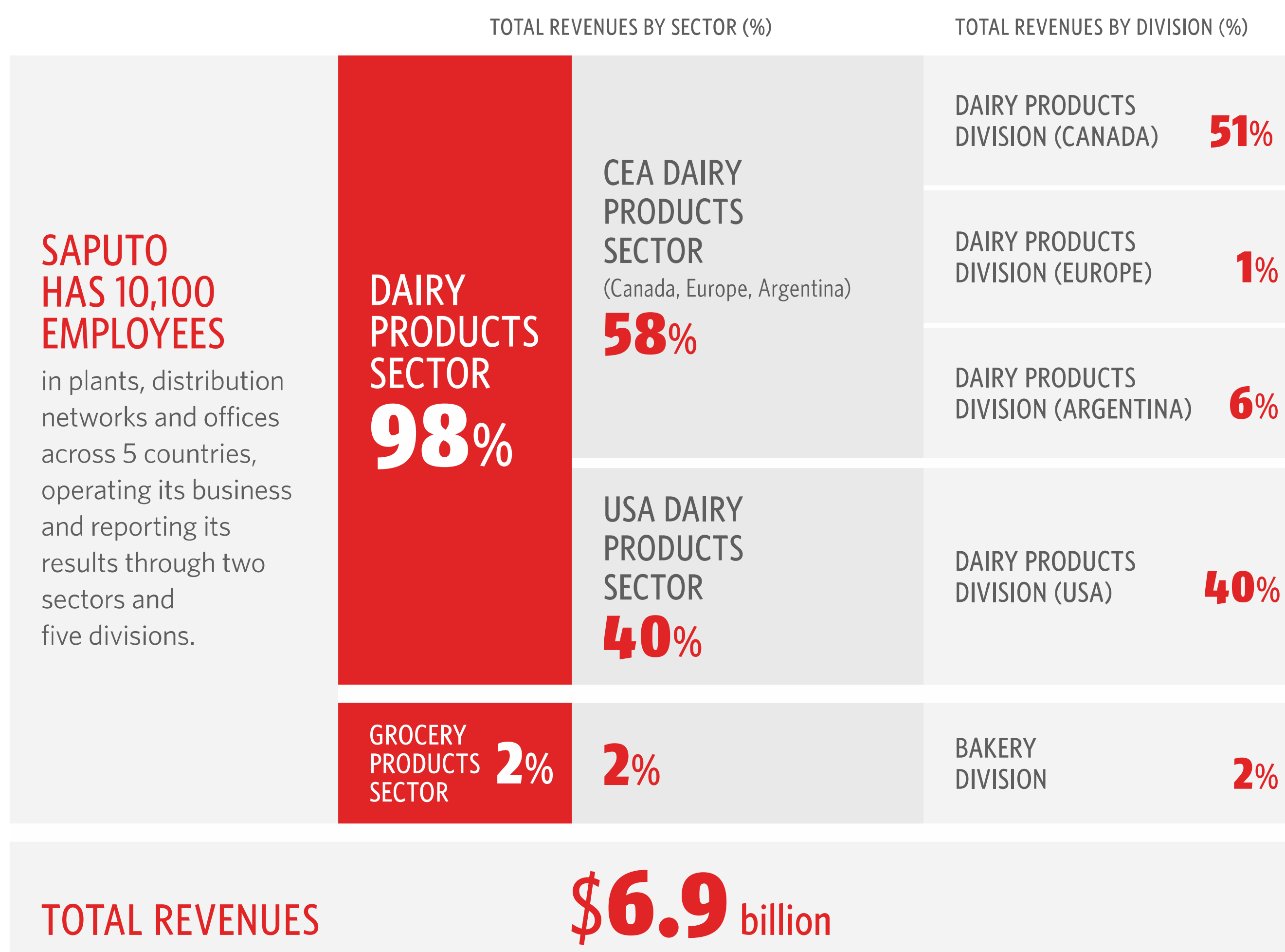
Except as required under applicable securities legislation, Saputo does not undertake to update or revise these forward-looking statements, whether written or verbal, that may be made from time to time by itself or on its behalf, whether as a result of new information, future events or otherwise.

GLOBAL OVERVIEW

OUR COMPANY

Saputo is the twelfth largest dairy processor in the world, the largest dairy processor in Canada, among the top three cheese producers in the US, the third largest dairy processor in Argentina and the largest snack-cake manufacturer in Canada.

OUR BUSINESS



OUR NETWORK

TOTAL DAIRY PRODUCTS REVENUES (%)

SAPUTO DAIRY PRODUCTS

are available in all market segments.

RETAIL 53%

Sales are made to supermarket chains, mass-merchandisers, convenience stores, independent retailers, warehouse clubs and specialty cheese boutiques under its own brand names, as well as under private labels. Products manufactured for and sold within this segment include dairy products and non-dairy products, such as non-dairy creamers, juices and drinks.

FOODSERVICE 31%

Sales are made to broadline distributors, as well as to restaurants and hotels, under its own brand names and various private labels. Through its Canadian distribution network, Saputo also offers non-dairy products manufactured by third parties. The Company also produces dairy blends, mainly for the ice cream market.

INDUSTRIAL 16%

Sales are made to food processors that use Saputo's products as ingredients to manufacture their products. The Company produces cheese, as well as dairy ingredients, such as lactose, whey powder and whey protein.

SAPUTO GROCERY PRODUCTS

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Years ended March 31 (in thousands of CDN dollars, except per share amounts and ratios)	2012	2011	2010[4]
STATEMENT OF EARNINGS DATA			
REVENUES			
Dairy Products Sector			
CEA[1]	4,054,516	3,837,188	3,745,930
USA	2,741,813	2,024,455	1,906,189
	6,796,329	5,861,643	5,652,119
Grocery Products Sector	134,041	141,289	158,463
	6,930,370	6,002,932	5,810,582
OPERATING COSTS EXCLUDING DEPRECIATION AND AMORTIZATION			
Dairy Products Sector			
CEA	3,539,730	3,343,346	3,288,035
USA	2,438,408	1,742,567	1,687,814
	5,978,138	5,085,913	4,975,849
Grocery Products Sector	121,301	128,738	142,662
	6,099,439	5,214,651	5,118,511
EBITDA[2]			
Dairy Products Sector			
CEA	514,786	493,842	457,895
USA	303,405	281,888	218,375
	818,191	775,730	676,270
Grocery Products Sector	12,740	12,551	15,801
	830,931	788,281	692,071
EBITDA margin (%)	*12.0%*	*13.1%*	*11.9%*
DEPRECIATION AND AMORTIZATION			
Dairy Products Sector			
CEA	52,574	51,870	54,843
USA	43,670	48,318	49,844
	96,244	100,188	104,687
Grocery Products Sector	5,699	5,793	8,819
	101,943	105,981	113,506
OPERATING INCOME			
Dairy Products Sector			
CEA	462,212	441,972	403,052
USA	259,735	233,570	168,531
	721,947	675,542	571,583
Grocery Products Sector	7,041	6,758	6,982
	728,988	682,300	578,565
Impairment of goodwill	125,000	–	–
Impairment of portfolio investment	–	13,600	–
Interest on long-term debt	23,081	23,211	29,901
Other financial charges	1,569	663	5,161
Earnings before income taxes	579,338	644,826	543,503
Income Taxes	198,498	194,775	160,789
Net earnings	380,840	450,051	382,714
Net earnings margin (%)	*5.5%*	*7.5%*	*6.6%*

Years ended March 31 (in thousands of CDN dollars, except per share amounts and ratios)	2012	2011	2010[4]
Net earnings	380,840	450,051	382,714
Impairment of goodwill	125,000	–	–
Impairment of portfolio investment (net of income taxes of $2,000)	-	11,600	-
Adjusted net earnings[3]	505,840	461,651	382,714
Adjusted net earnings margin (%)	*7.3%*	*7.7%*	*6.6%*
PER SHARE DATA			
Adjusted earnings per share[3]	2.51	2.24	1.85
Adjusted diluted earnings per share[3]	2.47	2.21	1.83
Earnings per share	1.89	2.18	1.85
Diluted earnings per share	1.86	2.15	1.83
Dividends declared per share	0.76	0.64	0.58
BALANCE SHEET DATA			
Total assets	3,599,120	3,578,331	3,253,451
Interest bearing debt[5]	402,369	471,578	387,543
Shareholders' equity	2,105,686	2,072,635	2,028,598
STATEMENT OF CASH FLOWS DATA			
Net cash generated from operations	522,987	588,520	583,615
Amount of additions to property, plant and equipment, net of proceeds on disposal	105,716	105,822	106,334

[1] Canada, Europe and Argentina Dairy Products Sector.

[2] EBITDA is defined as earnings before interest, income taxes, depreciation, amortization and impairment.

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

[4] Based on Canadian Generally Accepted Accounting Principles (CGAAP).

[5] Net of cash and cash equivalents.

[6] Per share amount (basic).

FINANCIAL ORIENTATION

The Company's objectives, consistent with previous years, are to maintain strict discipline in cost management and operational efficiency, to grow organically and through acquisitions in order to expand existing markets and establish a global presence, while creating shareholder value. Prudent operating and financial management remain key.

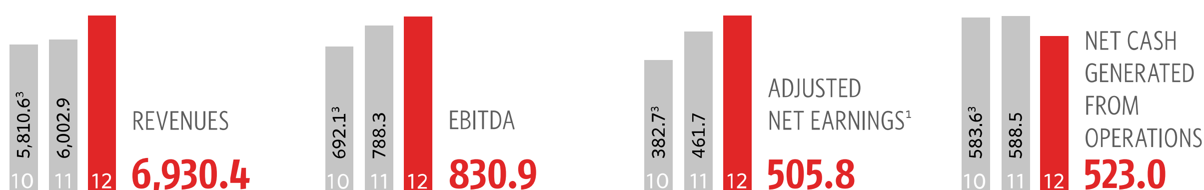
Saputo benefits from a solid balance sheet, supplemented by a high level of cash generated by operations and low debt levels allowing for financial flexibility for growth through targeted acquisitions and to face possible economic changes. In the current fiscal year, the Company continued to strategically invest in capital projects, expanded its activities, increased its payments of dividends, and continued to effectively manage cash by purchasing back its own shares through the use of a normal course issuer bid.

ELEMENTS TO CONSIDER WHEN READING MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL 2012

During fiscal 2012, Saputo attained solid financial performance:

- Adjusted net earnings[1] totalled $505.8 million, up 9.6%.
- Net earnings totalled $380.8 million, down 15.4%.
- Impairment of goodwill in fiscal 2012 decreased net earnings by $125.0 million ($0.62 basic and $0.61 diluted earnings per share).
- Earnings before interest, income taxes, depreciation, amortization and impairment (EBITDA) totalled $830.9 million, up 5.4%.
- Revenues reached $6.930 billion, up 15.4%.
- Net cash generated from operations totalled $523.0 million, down 11.1%.
- The inclusion of the full year's activities of DCI Cheese Company, Inc. acquired on March 25, 2011 (DCI Acquisition) increased both revenues and EBITDA.
- Initiatives undertaken in prior and current fiscal years with regards to improving operational efficiencies positively impacted the results of the USA Dairy Products Sector.
- The dairy ingredients market positively affected both revenues and EBITDA of the USA and Canadian Dairy Products Divisions as compared to fiscal 2011.
- In the United States (US), the average block market[2] per pound of cheese increased by US$0.20 compared to fiscal 2011, increasing revenues.
- In the US, market factors negatively impacted EBITDA.
- The strengthening of the Canadian dollar negatively impacted both revenues and EBITDA of the USA and Argentinian Dairy Products Divisions in fiscal 2012.
- Fiscal 2012 sales volumes for the Dairy Products Divisions increased by 17% in Argentina, 24% in Europe, and 3% in the US, and decreased by 1% in Canada. In the Bakery Division, sales volumes decreased by 4%.

(in millions of CDN dollars)



OUTLOOK

In fiscal 2013, the Company intends to continue seeking new ways to improve its efficiency, while remaining committed to producing quality products, innovation and internal growth. It will continue to analyze its activities, invest in capital projects and identify opportunities. The Company's flexible capital structure and low debt levels allow it to actively evaluate and pursue strategic acquisition opportunities, with the goal of expanding its presence in key markets.

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

MEASUREMENT OF RESULTS NOT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

	2012			2011		
		Per Share			Per Share	
	Total	**Basic**	**Diluted**	Total	Basic	Diluted
Net earnings	**380,840**	**1.89**	**1.86**	450,051	2.18	2.15
Impairment of goodwill	**125,000**	**0.62**	**0.61**	-	-	-
Impairment of portfolio investment (net of income taxes of $2,000)	**-**	**-**	**-**	11,600	0.06	0.06
Adjusted net earnings	**505,840**	**2.51**	**2.47**	461,651	2.24	2.21

CONSOLIDATED RESULTS

CONSOLIDATED SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

Fiscal years	**2012**	2011
Market factors[1] [2]	**(25)**	43
Inventory write-down	**(4)**	(3)
US currency exchange[1]	**(7)**	(21)

[1] As compared to the previous fiscal year.

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

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

Consolidated earnings before interest, income taxes, depreciation, amortization and impairment (EBITDA) amounted to $830.9 million in fiscal 2012, an increase of $42.6 million or 5.4% compared to $788.3 million for fiscal 2011. The EBITDA of the USA Dairy Products Sector amounted to $303.4 million, an increase of $21.5 million, in comparison to $281.9 million for last fiscal year. Initiatives undertaken by the Sector in the prior and current fiscal years in order to improve operational efficiencies, the inclusion of the DCI Acquisition, and increased sales volumes, more than offset increased ingredients and other costs, as well as the negative impact of the revised milk pricing formula in California during fiscal 2012. These combined factors increased EBITDA by approximately $69 million during fiscal 2012 as compared to fiscal 2011. The block market per pound of cheese steadily increased throughout

the first half of fiscal 2012, subsequently decreasing for the rest of the fiscal year. The average block market per pound of cheese for fiscal 2012 was US$1.76 as compared to US$1.56 for the previous fiscal year. The decreasing block market throughout the latter half of the fiscal year unfavourably impacted the realization of inventories. The higher average block market contributed positively to the Sector's absorption of fixed costs. The increase in the dairy ingredients market also positively affected EBITDA in fiscal 2012. The relationship between the average block market per pound of cheese and the cost of milk as raw material was unfavourable in fiscal 2012 in comparison to fiscal 2011. The combination of these market factors had a negative impact of approximately $40 million on EBITDA. Also, included in the results of fiscal 2012 was an inventory write-down of $3.8 million, as compared to $3.0 million in fiscal 2011. The strengthening of the Canadian dollar in fiscal 2012 eroded approximately $7 million from the USA Dairy Products Sector EBITDA.

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

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

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

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

The Company recorded an **impairment of goodwill** in the amount of $125.0 million ($125.0 million after tax) for the Grocery Products Sector reflecting stagnating growth in market wide snack-cake sales (see Note 8 to the consolidated financial statements).

In fiscal 2011, the Company proceeded with an **impairment of portfolio investment** in the amount of $13.6 million, ($11.6 million after tax), following the receipt, in May 2011, of a report from an independent valuator with regards to the fair market value of the Company's portfolio investment (see Note 6 to the consolidated financial statements).

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

Income taxes totalled $198.5 million in fiscal 2012, as compared to $194.8 million in fiscal 2011, for an effective tax rate of 34.3% in fiscal 2012 as compared to 30.2% for the previous year. There is no income tax effect on the $125.0 million goodwill impairment, which explains the higher income tax rate for fiscal 2012. Excluding adjustments for impairment of goodwill in fiscal 2012, and of portfolio investment in 2011, the tax rates would have been 28.2% and 29.3%, respectively. The income tax rate varies and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates.

Adjusted net earnings[1] for fiscal 2012 totalled $505.8 million, an increase of $44.1 million or 9.6% compared to $461.7 million in fiscal 2011. This increase is due to the factors mentioned above.

Net earnings for fiscal 2012 totalled $380.8 million, a decrease of $69.3 million or 15.4% compared to $450.1 million in fiscal 2011. This decrease is explained by the impairment of goodwill in the amount of $125.0 million.

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

INFORMATION BY SECTOR

CEA DAIRY PRODUCTS SECTOR

(in millions of CDN dollars)

Fiscal years	**2012**	2011	2010[1]
Revenues	**4,054.5**	3,837.2	3,745.9
EBITDA	**514.8**	493.8	457.9

[1] Based on CGAAP.

SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

Fiscal years	**2012**	2011
Market factors[1] [2]	**15**	6

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

In fiscal 2012, the Dairy Products Division (Canada) continued to review overall activities in order to identify operational efficiencies, reduce operational costs and invest in product categories that offer growth potential. These efforts contributed positively to fiscal 2012 results. The Dairy Products Division (Argentina) contributed positively throughout fiscal 2012, with increased sales volumes and favourable selling prices, mainly in the export market. The Dairy Products Division (Europe) remained stable compared to the previous fiscal year.

REVENUES

Revenues from the CEA Dairy Products Sector totalled $4.055 billion, an increase of $217.3 million or 5.7% as compared to $3.837 billion in fiscal 2011.

Revenues in the Dairy Products Division (Canada) increased by $107.0 million in fiscal 2012, to $3.547 billion. Higher selling prices relating to the increase in the cost of milk as raw material, and a higher dairy ingredients market increased revenues as compared to the preceding fiscal year, offset slightly by lower sales volumes in the fluid milk category.

The Dairy Products Divisions (Europe) and (Argentina) accounted for an increase of approximately $110 million in revenues as compared to fiscal 2011.

Pricing, rebating and discounting practices in all segments in fiscal 2012 remained unchanged from the prior fiscal year.

The Company manufactures approximately 32% of all natural cheese produced in Canada. Saputo's share of total processed fluid milk in Canada is approximately 35%. Saputo remains the leader in the Canadian Dairy Industry in both these categories.

The Dairy Products Division (Canada)'s retail segment continued to be the leading segment with 64% of revenues, unchanged from last year. Similar to last year, most of the commodity product categories within the Canadian dairy market are relatively stable in per capita consumption. The Division's investment strategy in product categories, such as value-added milk, continues to show good growth with products such as micro-filtered milk and organic milk where we are the leading manufacturer in refrigerated dairy cases in Canada. The Division continued to support its leading brands, *Trutaste*, *Dairy Oh!,* and *Milk2GO*, in an effort to pursue growth and market expansion through various promotions and advertising. Saputo has both the #1 and #2 fluid milk brands in the refrigerated dairy case category with *Dairyland* and *Neilson*.

The foodservice segment represented 29% of revenues in the Dairy Products Division (Canada), unchanged from last year. Our customer base consists 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 industrial segment represented 7% of revenues in the Dairy Products Division (Canada), the same when compared to last fiscal year. This segment is comprised of milk, cheese and dairy ingredients sales. Our focus is to ensure that we provide our customers with the right products by meeting their recipes and specifications. This segment also benefitted from favourable dairy market conditions throughout the fiscal year.

Revenues for the Dairy Products Division (Europe) increased during fiscal 2012, as compared to the prior fiscal year. This increase is attributable to higher sales volumes in both the UK and German operations as well as increases in selling prices.

Revenues of the Dairy Products Division (Argentina) also increased in fiscal 2012, as compared to fiscal 2011, as a result of increased sales volumes in both the domestic and export markets. Additionally, the Division benefitted from favourable selling prices, mainly in the export market.

Finally, the appreciation of the Canadian dollar as compared to the previous fiscal year negatively impacted revenues in the CEA Dairy Products Sector by approximately $41 million.

EBITDA

EBITDA for the CEA Dairy Products Sector totalled $514.8 million for the year ended March 31, 2012 as compared to $493.8 million in fiscal 2011, representing an increase of $21.0 million or 4.3%. EBITDA margin decreased to 12.7% from 12.9% in fiscal 2011.

EBITDA increased in the Dairy Products Division (Canada) compared to the previous fiscal year mainly as a result of a more favourable dairy ingredients market. Benefits derived from operational efficiencies were offset by lower sales volumes in the fluid milk category. The dairy ingredients market was more favourable compared to fiscal 2011 by approximately $15 million. Also, during fiscal 2012, the Division realized a gain on sale of property, plant and equipment of approximately $2 million. In fiscal 2011, the Division incurred a charge of approximately $2 million with regards to the recall of certain processed cheese products.

The Dairy Products Division (Europe) EBITDA remained stable in fiscal 2012 in light of the continuing challenges facing the European market. The continued increase in the cost of milk compared to selling prices offset cost reduction measures and streamlining of operations. The Division showed increases in sales volumes in fiscal 2012.

The Dairy Products Division (Argentina) EBITDA increased in fiscal 2012, benefitting from higher sales volumes in the domestic and export market and a better product mix. Also, favourable selling prices, mainly in the export market, compared to the previous fiscal year and better efficiencies within the Division contributed to the increase.

OUTLOOK

In fiscal 2013, we anticipate the competitive dairy market of recent years to continue to be challenging. From an operational standpoint, the Dairy Products Division (Canada) will target volume growth in cheese and dairy ingredient categories as well as recuperating volumes lost in the fluid milk category. We are well positioned to capitalize in fiscal 2013 on opportunities presented in the value-added milk category, which offers expected growth. We will pursue investments in product categories which offer good potential, such as specialty cheeses, for which the intention is to maximize exposure across Canada, with coast-to-coast distribution capabilities. In line with our objective to remain a low cost producer, we will proceed with efforts to maximize benefits derived from the consolidation of manufacturing and distribution activities in the Greater Toronto Area. Innovation has always been a priority, enabling us to offer products that meet the needs of today's consumers. Accordingly, we are allocating resources to product innovation allowing us to forge and secure long-term relationships with both customers and consumers.

The Dairy Products Division (Europe) anticipates that fiscal 2013 will continue to be challenging with respect to obtaining milk supply at prices competitive with the selling price of cheese. Nevertheless, the Division will work towards increasing its sales volume, while improving efficiency of its manufacturing facilities.

The Dairy Products Division (Argentina) will continue to seek volume growth in both the domestic and export markets, while increasing its milk intake. The Division continues to face challenges trying to mitigate the increasing cost of milk as raw material, while remaining competitive with the selling price in the export market. The Division will also continue to focus on improving operational efficiencies.

Production capacity continues to be evaluated in line with the objective to reduce excess production capacity at the CEA Dairy Products Sector plants, which, at March 31, 2012, stood at 28% and 34% in cheese and fluid milk activities, respectively.

USA DAIRY PRODUCTS SECTOR

(in millions of CDN dollars)

Fiscal years	**2012**	2011	2010[1]
Revenues	**2,741.8**	2,024.5	1,906.2
EBITDA	**303.4**	281.9	218.4

[1] Based on CGAAP.

SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

Fiscal years	**2012**	2011
Market factors[1] [2]	**(40)**	37
Inventory write-down	**(4)**	(3)
US currency exchange[1]	**(7)**	(21)

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

OTHER PERTINENT INFORMATION

(in US dollars, except for average exchange rate)

Fiscal years	**2012**	2011
Average block market per pound of cheese	**1.756**	1.563
Closing block price[1] per pound of cheese	**1.490**	1.625
Average whey market price[2] per pound	**0.600**	0.400
Spread[3]	**0.044**	0.120
US average exchange rate to Canadian dollar[4]	**0.992**	1.017

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

In fiscal 2012, the USA Dairy Products Sector benefitted from the DCI Acquisition for the full year. DCI sells and distributes specialty cheeses and holds an important portfolio of import licenses for specialty cheese manufactured abroad. This acquisition complements the Sector's existing activities, in addition to increasing its presence in the specialty cheese category. In fiscal 2012, the Sector also continued to benefit from capital expenditures completed in the current and prior fiscal years. As of the second quarter of fiscal 2012, the Sector began distributing products to west coast customers directly from one of its facilities, as opposed to using third-party facilities, where products were previously warehoused.

During fiscal 2012, the USA Dairy Products Sector benefitted from a higher average block market per pound of cheese and a more favourable dairy ingredients market in comparison to the prior fiscal year. For the fiscal year, the average block market per pound of cheese equalled US$1.76, compared to US$1.56 for fiscal 2011. Given the continued high demand for dairy ingredients, market prices increased throughout the current fiscal year resulting in higher averages in comparison to the prior fiscal year. These increasing markets positively contributed to the results of the USA Dairy Products Sector in fiscal 2012. However, the negative relationship between the average block market per pound of cheese and the cost of milk as raw material, in comparison to the prior fiscal year, offset the contribution from the rising markets. During the second quarter of fiscal 2012, the California Consolidation Stabilization and Marketing Committee rendered its decision on amendments to the class 4b milk pricing formula. Effective on September 1, 2011, the whey factor used in determining the milk pricing formula varies in accordance with changes in the whey market. Prior to this decision, the whey factor was fixed. This change negatively affected the results of the USA Dairy Products Sector.

REVENUES

Revenues for the USA Dairy Products Sector totalled $2.742 billion in fiscal 2012, an increase of $717.4 million or 35.4% in comparison to $2.025 billion in fiscal 2011. The inclusion of revenues derived from the DCI Acquisition, a more favourable dairy ingredients market and higher sales volumes, increased revenues by approximately $608 million as compared to fiscal 2011. A higher average block market per pound of cheese in fiscal 2012 of US$1.76, in comparison to US$1.56 in fiscal 2011, increased revenues by approximately $163 million. The strengthening of the Canadian dollar eroded revenues by approximately $54 million.

There were no changes to pricing, rebating, and discounting practices in all segments as compared to fiscal 2011.

Excluding volumes from the DCI Acquisition, the Sector's sales volumes increased by 3% in fiscal 2012, mainly in the foodservice and industrial segments. The retail, foodservice, and industrial segments, including DCI, accounted for 38%, 47%, and 15% of the Sector's total sales volume respectively, compared to 38%, 48%, and 14%, respectively, in fiscal 2011.

Excluding volumes from the DCI Acquisition, the retail sales volumes decreased slightly mainly due to higher product prices resulting from higher market prices in comparison to last fiscal year. However, the trend towards healthy eating continued to fuel consumption of various string and snack cheese categories. *Frigo Cheese Heads* continues to lead the string cheese brand category in the US market. The Division also leveraged other brand leadership positions to grow consumer awareness and interest. In addition, the DCI Acquisition will further enhance this with product offerings within the specialty cheese category. Marketing initiatives in fiscal 2012 included various on-pack and media-supported promotional tie-ins, as well as numerous in-store promotions. With the DCI Acquisition brand recognition also grew through various social media initiatives.

The foodservice segment benefitted from post recession recovery patterns. Increased traffic counts, in comparison to the prior fiscal years, helped the foodservice segment increase sales volumes. To enhance brand equity and support our premium brand of mozzarella in the foodservice segment, the Division offered various trade incentives in fiscal 2012. The segment also launched new products to provide a value alternative to customers. This new offering received solid interest and repeat business from foodservice customers. Targeted specifically to the pizza operator segment, marketing support included print media, direct mail and web advertising, as well as broker / distributor incentives to entice additional business.

The industrial segment includes cheese and dairy ingredients sales. In fiscal 2012, industrial cheese sales volumes increased mainly due to sales under government-sponsored programs as well as sales in the export market. In fiscal 2012, the industrial segment worked with key customers to ensure our product recipes met the appropriate customer applications. The demand for dairy ingredients, both domestically and internationally, continued to grow in fiscal 2012. Available infrastructure developed over the past fiscal years has enabled the Division to serve, as well as benefit from, the increased demand of dairy ingredients.

EBITDA

EBITDA totalled $303.4 million for fiscal 2012, an increase of $21.5 million or 7.6% in comparison to $281.9 million in fiscal 2011. In fiscal 2012, the Division benefitted from initiatives undertaken by the Company in the prior and current fiscal years with regards to improved operational efficiencies. Additional EBITDA was also generated by the inclusion of the DCI Acquisition, as well as increased sales volumes. These increases offset additional ingredients and other operating costs, as well as the negative impact of higher milk costs resulting from the revised milk pricing formula in California in fiscal 2012. These factors combined increased EBITDA by approximately $69 million.

The block market per pound of cheese increased throughout the first half of fiscal 2012, and subsequently decreased for the remainder of the fiscal year. The decreasing block market throughout the latter half of the current fiscal year had an unfavourable impact on the realization of inventories. The average block market per pound of cheese equalled US$1.76 in fiscal 2012, US$0.20 higher in comparison to US$1.56 in fiscal 2011, resulting in a better absorption of fixed costs. The increase in the average whey market price per pound, from US$0.40 in fiscal 2011 to US$0.60 in fiscal 2012, also positively affected EBITDA. The relationship between the average block market per pound of cheese and the cost of milk as raw material was unfavourable in fiscal 2012, in comparison to fiscal 2011, mainly due to the rising whey market price, which is a factor in determining the product-price formula. These market factors combined had a negative impact of approximately $40 million on EBITDA. Included in the results of fiscal 2012 was an inventory write-down of $3.8 million compared to $3.0 million in fiscal 2011. Both write-downs resulted from a sudden drop in the block market per pound of cheese in their respective fiscal years. The strengthening of the Canadian dollar eroded approximately $7 million in EBITDA.

OUTLOOK

In fiscal 2013, the USA Dairy Products Sector will continue to evaluate opportunities from the DCI Acquisition. This will allow the Sector to further penetrate the specialty cheese category, benefit from possible synergies, as well as improve and expand its product offering to all customers. The Sector will also continue to evaluate opportunities to improve its manufacturing and distribution efficiencies across the US.

In March 2012, the California Consolidation Stabilization and Marketing Committee received petitions to consider amendments to the milk pricing formula. The amendments would increase the whey factor used in calculating the cost of milk. This potential increase is in addition to the change that occurred on September 1, 2011, which negatively impacted the results for fiscal 2012. The hearing was scheduled for May 31, 2012 and June 1, 2012. The USA Dairy Products Sector, along with other cheese manufacturers, is strongly opposing the petition. The Sector will continue to monitor dairy markets and take appropriate decisions to mitigate the impact on its operations.

GROCERY PRODUCTS SECTOR

(in millions of CDN dollars)

Fiscal years	**2012**	2011	2010[1]
Revenues	**134.0**	141.3	158.5
EBITDA	**12.7**	12.6	15.8

[1] Based on CGAAP.

REVENUES

Revenues for the Grocery Products Sector totalled $134.0 million for the fiscal year ended March 31, 2012, a decrease of $7.3 million compared to the previous fiscal year. This decrease is mainly due to lower sales volumes in all regions. The Sector continued its efforts towards increasing sales volumes in the US market and started to show improvements in the latter part of fiscal 2012.

In fiscal 2012, the Sector’s pricing, rebating, and discounting practices remained the same as compared to fiscal 2011.

EBITDA

EBITDA for the Grocery Products Sector amounted to $12.7 million, a $0.1 million increase as compared to the previous fiscal year. Benefits derived from operational initiatives implemented throughout fiscal 2012 and previous years, as well as decreases in operating costs, were almost entirely offset by the impact of decreases in sales volumes and higher ingredient costs.

OUTLOOK

The Grocery Products Sector will continue to focus on increasing sales volumes in the snack-cake and frozen categories. The main focus for fiscal 2013 is the development of sales in the US market. The Sector will continue to evaluate overall activities in an effort to improve efficiencies.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

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

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

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

(in thousands of CDN dollars)

Fiscal years	**2012**	2011	2010[1]
Cash generated from operating activities	**754,733**	706,364	583,615
Net cash generated from operating activities	**522,987**	588,520	583,615
Cash used for investing activities	**(87,117)**	(371,552)	(172,912)
Cash used for financing activities	**(368,828)**	(195,704)	(391,504)
Increase in cash and cash equivalents	**67,042**	21,264	19,199

[1] Based on CGAAP.

Cash generated by **operating activities** amounted to $754.7 million for fiscal 2012, an increase of $48.3 million compared to $706.4 million in fiscal 2011. The change in non-cash working capital items as compared to last fiscal year is attributed to a higher average block market in the US. Net cash generated from operating activities amounted to $523.0 million compared to $588.5 million in fiscal 2011. This change is mainly attributable to the increase in income taxes paid during the year which is primarily due to the increase of the prior year taxable income for which payment of taxes were made mostly in the first quarter of fiscal 2012.

For **investing activities**, the Company used $87.1 million in fiscal 2012. An amount of $118.6 million was disbursed for additions to property, plant and equipment, of which 28% went into the replacement of property, plant and equipment and 72% to implement new technologies, as well as to expand and increase certain manufacturing capacities. The Company also used $10.3 million to finalize the DCI Acquisition. Proceeds from disposals of portfolio investment and property, plant and equipment generated cash in the amount of $27.7 and $12.9 million, respectively.

For **financing activities** in fiscal 2012, the Company issued shares for a cash consideration of $25.3 million as part of the stock option plan, paid $147.1 million in dividends and $241.7 million for the repurchase of share capital as part of the normal course issuer bids. Also, the Company decreased the use of its bank loans by $5.3 million.

LIQUIDITY

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

(in thousands of CDN dollars, except ratio)

Fiscal years	**2012**	2011	2010[1]
Current assets	**1,399,464**	1,291,798	1,046,378
Current liabilities	**902,441**	943,006	690,694
Working capital	**497,023**	348,792	355,684
Working capital ratio	**1.55**	1.37	1.51

[1] Based on CGAAP.

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

The increase in the working capital ratio is mainly attributed to more cash generated by operations, increased receivables in line with increasing sales, higher inventory levels and more income taxes paid during the year.

CAPITAL MANAGEMENT

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

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

Fiscal years	**2012**	2011	2010[2]
Cash and cash equivalents	**144,137**	77,491	54,819
Bank loans	**166,631**	170,589	61,572
Long-term debt	**379,875**	378,480	380,790
Shareholders' equity	**2,105,686**	2,072,635	2,028,598
Interest-bearing[1] debt-to-equity ratio	**0.19**	0.23	0.19
Number of common shares	**199,037,565**	203,830,505	207,425,823
Number of stock options	**8,484,524**	8,674,238	9,413,750

[1] Net of cash and cash equivalents.
[2] Based on CGAAP.

The Company had $144.1 million of cash and cash equivalents and available bank credit facilities of approximately $646 million, $166.6 million of which were drawn. See Note 10 to the consolidated financial statements that describes the 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 25, 2012, 199,221,014 common shares and 10,004,042 stock options were outstanding.

NORMAL COURSE ISSUER BIDS

The Company announced on November 4, 2010 its intention to purchase, by way of a normal course issuer bid (Bid), for cancellation purposes, some of its common shares through the facilities of the Toronto Stock Exchange, beginning on November 15, 2010. Under the Bid, the Company was authorized to purchase for cancellation up to 10,315,947 common shares. This represented 5% of its 206,318,943 issued and outstanding common shares as of October 31, 2010. Purchases were made in accordance with applicable regulations over a maximum period of 12 months beginning on November 15, 2010 and ending on November 14, 2011. The cash consideration, which the Company paid for common shares acquired by it under the Bid was the market price of such common shares at the time of acquisition. 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 9, 2011 its intention to purchase, by way of a new normal course issuer bid (New Bid), for cancellation purposes, some of its common shares through the facilities of the Toronto Stock Exchange, beginning on November 15, 2011. Under the New Bid, the Company may purchase for cancellation up to 10,030,630 common shares. This represented 5% of its 200,612,607 issued and outstanding common shares as of October 31, 2011. These purchases can be made in accordance with applicable regulations over a maximum period of 12 months beginning on November 15, 2011 and ending on November 14, 2012. The cash consideration, which the Company pays for any common shares acquired by it under the New Bid is the market price of such common shares at the time of acquisition. 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, 2012, the Company purchased 6,061,700 common shares, at prices ranging from $36.46 to $47.57 per share, under the Bids (5,875,775 common shares at prices ranging from $31.90 to $43.50 per share for the year ended March 31, 2011).

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

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 11 to the consolidated financial statements describes the Company's commitment to repay long-term debt, and Note 19 to the consolidated financial statements describes its lease commitments.

(in thousands of CDN dollars)

	Long-term debt	Minimum lease	Total
Less than 1 year	-	17,332	17,332
1-2 years	-	14,598	14,598
2-3 years	159,875	11,465	171,340
3-4 years	-	9,447	9,447
4-5 years	220,000	5,746	225,746
More than 5 years	-	18,775	18,775
	379,875	77,363	457,238

LONG-TERM DEBT

As described in Note 11 to the consolidated financial statements, the Company's long-term debt is comprised of unsecured senior notes in the amount of $49.9 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

In comparison to March 31, 2011, the main balance sheet items as at March 31, 2012 varied due to the weakening of the Canadian dollar versus the US dollar and a higher block market in the US, affecting working capital items. In addition, income taxes payable were lower this fiscal year compared to fiscal 2011 as there was an increase in the amount of taxes paid during the year, mainly due to the increase of prior year's taxable income for which payment of taxes were made mostly in the first quarter of fiscal 2012. Also, the Company disposed of its portfolio investment for $27.7 million and recorded a goodwill impairment of $125.0 million (see Notes 6 and 8 to the consolidated financial statements).

The conversion rate of the US operations' balance sheet items in US currency was CDN$0.9975 per US dollar as at March 31, 2012, compared to CDN$0.9696 per US dollar as at March 31, 2011. The conversion rate of the Argentinian operations' balance sheet items in Argentinian currency was CDN$0.2282 per Argentinian peso as at March 31, 2012, compared to CDN$0.2337 per Argentinian peso as at March 31, 2011. 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 increased from negative $93.1 million as at March 31, 2011, to negative $22.5 million as at March 31, 2012, mainly due to the cash generated from operating activities. The change in foreign currency translation adjustment listed under other comprehensive income varied due to the strengthening of the US dollar.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has certain off-balance sheet arrangements, consisting primarily of leasing certain premises, as well as certain lease agreements for equipment and rolling stock. These agreements are recorded as operating leases. Future minimum lease payments as at March 31, 2012 totalled $77.4 million ($83.6 million as at March 31, 2011). Saputo uses certain derivative financial instruments in specific situations. In the normal course of business, the Canadian operations import some products and the management of foreign exchange risk occasionally led the Company to make certain foreign currency forward contract purchases in Euros and US dollars, which amounted to US$5.5 million as at March 31, 2012 (0.6 million Euros as at March 31, 2011). The Company does not use derivative financial instruments for speculation.

The Company periodically enters into forward contracts to protect itself against price fluctuations on certain commodities when it has secured a commitment to sell a finished product. As at March 31, 2012, the market value of these contracts was negative $0.8 million (positive $2.6 million as at March 31, 2011).

Additionally, in fiscal 2012, the Company entered into an equity forward contract on 220,000 Saputo Inc. common shares with a notional value of approximately $9 million to mitigate the fair-value exposure related to deferred share units. This represents approximately 86% of deferred share units outstanding. The Company recognized a gain of approximately $0.4 million, reducing the expense associated with the deferred share unit plan upon the re-measurement of the equity forward contract at March 31, 2012.

The Company's exposure to the derivative financial instruments used is not affected by changing economic conditions, since these instruments are generally held until maturity. Notes 19 and 21 to the consolidated financial statements describe the Company's off-balance sheet arrangements.

GUARANTEES

From time to time, the Company enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or disposals, agreements, which by nature may provide for indemnification to third parties. These indemnification provisions may be in connection with breach of representations and guarantees and for future claims for certain liabilities, including liabilities related to tax and environmental issues. The terms of these indemnification provisions vary in duration. See Note 19 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 market value, comparable to similar arms' length transactions. The goods and services that are received consist of office rental of space, travel arrangements, transportation of goods, and lodging. Transactions with key management personnel (comprised of Directors and named executive officers: the CEO, CFO and the three most highly compensated executive officers) are also considered related party transactions and consist of salaries, bonuses, options and payments under the deferred share unit plan. The goods and services that are provided consist of services and dairy products. See Note 20 to the consolidated financial statements that describe the related party transactions.

ACCOUNTING STANDARDS

CRITICAL ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES

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

Allowance for Doubtful Accounts

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

Income Taxes

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

Deferred Income Taxes

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

Goodwill, Trademarks, Other Intangibles and Business Combinations

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

Property, Plant and Equipment
Critical judgement is necessary in the selection and application of accounting policies and useful lives as well as the determination of which components are significant and how they are allocated. Management has determined that the use of the straight-line method of amortization is the most appropriate as its facilities are operating at a similar output potential on a year-to-year basis, which indicates that production is constant. It is Management's best estimate that the 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 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 8 of the consolidated financial statements. Other long-lived assets are tested only when indicators of impairment are present.

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

FUTURE STANDARDS

The International Accounting Standards Board (IASB) made several revisions as part of its continuing improvements project. Below are a summary of the relevant standards affected and a discussion of the amendments. The Company has not yet determined the impact on the financial statements of the adoption of the revised accounting standards described below.

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

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

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

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

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

IAS 1, Presentation of Financial Statements

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

IAS 19 (Revised), Employee Benefits

The IASB amended IAS 19 in June 2011 in order to eliminate the option of deferring the recognition of gains and losses, to improve disclosure of risks that are assumed by a company that offers a defined benefit plan to its employees and to improve the presentation of changes in assets and liabilities resulting from defined benefit plans including requiring remeasurements to be presented in other comprehensive income. These revisions are effective for fiscal years beginning on or after January 1, 2013.

RISKS AND UNCERTAINTIES

The main risks and uncertainties the Company is exposed to are presented hereafter. The Board of Directors delegated to the Audit Committee the responsibility to study and evaluate the risk factors inherent to the Company and ensure that appropriate measures are in place to enable Management to identify and manage these risk factors effectively. In this regard, the Audit Committee and the Board of Directors 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 of Directors.

While risk management is part of the Company's transactional, operational and strategic decisions, as well as the Company's overall management approach, it does not guarantee that events or circumstances will not occur which could negatively affect its 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 cheese products in the US, Argentina and Europe, as well as dairy ingredients and cheese 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, Germany and the UK, Saputo competes in the dairy industry on a national basis with several regional and national competitors. The Company's performance in all the countries in which it operates will be dependent on its ability to continue to offer quality products at competitive prices.

CONSOLIDATION OF CLIENTELE

During the last few years, there has been important consolidation in the food industry in all market segments. Given that Saputo serves these segments, the consolidation within the industry has resulted in a decrease in the number of customers and an increase in the relative importance of some customers. Two customers represented more than 10% of total consolidated sales for fiscal 2012, which represented 12.1% and 10.1%. 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, 2012. 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, Europe and other major markets. Furthermore, issues with suppliers regarding pricing or performance of the goods and services they supply or the inability of suppliers to supply the required volumes of such goods and services in a timely manner could impact the Company's financial condition and performance. Any such impact will depend on the effectiveness of the Company's contingency plan.

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

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

ENVIRONMENT
Saputo's business and operations are subject to environmental laws and regulations, including those relating to permitting requirements, wastewater discharges, air emissions (greenhouse gas and other), releases of hazardous substances and remediation of contaminated sites. The Company believes that its operations are in compliance, in all material respects, with such environmental laws and regulations, except as disclosed in the Annual Information Form dated June 5, 2012 for the fiscal year ended March 31, 2012. Compliance with these laws and regulations requires that the Company continues 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. In order to constantly adapt to these changes, the Company innovates and develops new products.

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

FINANCIAL RISK EXPOSURES
Saputo has financial risk exposure to varying degrees relating to the currency of each of the countries where it operates. Approximately 53% of sales are realized in Canada, 40% in the US, and 7% in Argentina. Cash flows from operations in each of the countries where Saputo operates act as a natural hedge against the exchange risks related to debt denominated in such countries' currency. The level of the financial risk exposure related to currency will depend on its ability to maintain this natural hedge or any other protection mechanism.

INTEREST RATE AND ACCESS TO CAPITAL MARKET
Saputo's interest bearing debt is subject to interest rate fluctuation. Although, the Company currently has relatively low level of indebtedness, it may require additional debt financing in the future to fund acquisitions that may be affected by interest rate fluctuation. The impact on the Company's results will depend on its ability to maintain mechanisms to protect against such interest rate fluctuation. 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 to or comply with it. More specifically, the production and distribution of food products are subject to federal, state, provincial and local laws, rules, regulations and policies and to international trade agreements, all of which provide a framework for Saputo's operations. The impact of new laws and regulations, stricter enforcement or interpretations or changes to enacted laws and regulations will depend on its ability to adapt and comply. Saputo is currently in compliance with all important government 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 evaluate 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 Chief Executive Officer and the Chief Financial Officer 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 Chief Executive Officer and the Chief Financial Officer, together with Management, after evaluating the effectiveness of the Company's disclosure controls and procedures as at March 31, 2012, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

INTERNAL CONTROLS OVER FINANCIAL REPORTING
The Chief Executive Officer and the Chief Financial Officer 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 Chief Executive Officer and the Chief Financial Officer, together with Management, after evaluating the effectiveness of the Company's internal control over financial reporting as at March 31, 2012, have concluded that the Company's internal control over financial reporting was effective.

The Chief Executive Officer and the Chief Financial Officer, together with Management, have concluded, after having conducted an evaluation and to the best of their knowledge that, as at March 31, 2012, no change in the Company's internal control over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

SENSITIVITY ANALYSIS OF INTEREST RATE AND THE US CURRENCY FLUCTUATIONS

The debt subject to interest rate fluctuations was $166.6 million as at March 31, 2012 and consisted of bank loans. A 1% change in the interest rate would lead to a change in net earnings of approximately $1.1 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, 2012, the average US dollar conversion was based on CDN$1.00 for US$0.99. A fluctuation of CDN$0.01 would have resulted in a change of approximately $1.7 million in net earnings, $3.6 million in EBITDA and $19.6 million in revenues.

QUARTERLY FINANCIAL INFORMATION

2012 QUARTERLY FINANCIAL INFORMATION - CONSOLIDATED STATEMENT OF EARNINGS

(in thousands of CDN dollars, except per share amounts)	**1st Quarter** (unaudited)	**2nd Quarter** (unaudited)	**3rd Quarter** (unaudited)	**4th Quarter** (unaudited)	**Fiscal 2012** (audited)
Statement of earnings data					
Revenues	1,638,995	1,791,407	1,796,466	1,703,502	6,930,370
Operating costs excluding depreciation and amortization	1,429,367	1,578,340	1,589,185	1,502,547	6,099,439
Earnings before interest, depreciation, amortization, impairment and income taxes	209,628	213,067	207,281	200,955	830,931
Margin %	12.8%	11.9%	11.5%	11.8%	12.0%
Depreciation and amortization	24,609	24,972	25,642	26,720	101,943
Operating income	185,019	188,095	181,639	174,235	728,988
Impairment of goodwill	-	-	-	125,000	125,000
Interest on long-term debt	5,719	5,791	5,817	5,754	23,081
Other financial charges	547	2,753	(1,153)	(578)	1,569
Earnings before income taxes	178,753	179,551	176,975	44,059	579,338
Income taxes	52,187	52,471	47,204	46,636	198,498
Net earnings (loss)	126,566	127,080	129,771	(2,577)	380,840
Net margin %	7.7%	7.1%	7.2%	-0.2%	5.5%
Impairment of goodwill	-	-	-	125,000	125,000
Adjusted net earnings[1]	126,566	127,080	129,771	122,423	505,840
Adjusted net earnings margin %	7.7%	7.1%	7.2%	7.2%	7.3%
Per Share					
Net earnings					
Basic	0.62	0.63	0.64	0.00	1.89
Diluted	0.61	0.61	0.64	0.00	1.86
Adjusted net earnings[1]					
Basic	0.62	0.63	0.64	0.62	2.51
Diluted	0.61	0.61	0.64	0.61	2.47

2011 QUARTERLY FINANCIAL INFORMATION – CONSOLIDATED STATEMENT OF EARNINGS

(in thousands of CDN dollars, except per share amounts)	**1st Quarter** (unaudited)	**2nd Quarter** (unaudited)	**3rd Quarter** (unaudited)	**4th Quarter** (unaudited)	**Fiscal 2011** (audited)
Statement of earnings data					
Revenues	1,436,148	1,550,741	1,534,788	1,481,255	6,002,932
Operating costs excluding depreciation and amortization	1,244,834	1,339,379	1,343,673	1,286,765	5,214,651
Earnings before interest, depreciation, amortization, impairment and income taxes	191,314	211,362	191,115	194,490	788,281
Margin %	13.3%	13.6%	12.5%	13.1%	13.1%
Depreciation and amortization	26,347	26,505	27,016	26,113	105,981
Operating income	164,967	184,857	164,099	168,377	682,300
Impairment of portfolio investment	-	-	-	13,600	13,600
Interest on long-term debt	5,802	5,846	5,876	5,687	23,211
Other financial charges	817	(369)	212	3	663
Earnings before income taxes	158,348	179,380	158,011	149,087	644,826
Income taxes	46,630	53,577	45,904	48,664	194,775
Net earnings	111,718	125,803	112,107	100,423	450,051
Net margin %	7.8%	8.1%	7.3%	6.8%	7.5%
Impairment of portfolio investment (net of income taxes of $2,000)	-	-	-	11,600	11,600
Adjusted net earnings[1]	111,718	125,803	112,107	112,023	461,651
Adjusted net earnings margin %	7.8%	8.1%	7.3%	7.6%	7.7%
Per Share					
Net earnings					
Basic	0.54	0.60	0.55	0.49	2.18
Diluted	0.53	0.60	0.54	0.48	2.15
Adjusted net earnings[1]					
Basic	0.54	0.60	0.55	0.55	2.24
Diluted	0.53	0.60	0.54	0.54	2.21

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

SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

(in millions of CDN dollars)

Fiscal year	2012			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Market factors[1] [2]	(24)	(4)	(10)	13
Inventory write-down	-	(4)	-	-
US currency exchange[1]	3	-	(5)	(5)

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

OTHER PERTINENT INFORMATION

(in US dollars, except for average exchange rate)

Fiscal years	2012				2011
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter
Average block market per pound of cheese	1.522	1.760	2.006	1.736	1.695
Closing block price[1] per pound of cheese	1.490	1.563	1.720	2.130	1.625
Average whey market price[2] per pound	0.630	0.650	0.590	0.520	0.450
Spread[3]	0.017	0.023	0.040	0.094	0.126
US average exchange rate to Canadian dollar[4]	1.002	1.023	0.976	0.969	0.986

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

SUMMARY OF THE FOURTH QUARTER RESULTS ENDED MARCH 31, 2012

Consolidated revenues for the quarter ended March 31, 2012 amounted to $1.704 billion, an increase of $222.2 million or 15.0% compared to $1.481 billion for the same quarter last fiscal year.

In the CEA Dairy Products Sector, revenues increased by approximately $88 million in the fourth quarter as compared to last fiscal year. This is due to higher sales volumes in the Argentinian Division, a more favourable product mix in the Canadian Division and additional revenues generated by price increases in relation to the higher cost of milk in the Canadian and Argentinian Divisions. Also, a more favourable dairy ingredients market in Canada contributed to this increase. The European Division revenues also increased slightly. Finally, the strengthening of the Canadian dollar against the Argentinian peso eroded revenues by approximately $8 million as compared to the same quarter last fiscal year.

The USA Dairy Products Sector revenues increased by approximately $131 million as compared to the corresponding quarter last fiscal year. Inclusion of the DCI Acquisition, a more favourable dairy ingredients market and higher sales volumes increased revenues by approximately $159 million as compared to the same quarter last fiscal year. A less favourable average block market per pound of cheese in the fourth quarter of US$1.52 compared to US$1.69 during the same quarter of fiscal 2011 decreased revenues by approximately $37 million. Finally, the weakening of the Canadian dollar added approximately $9 million in revenues as compared to the same quarter last fiscal year.

Revenues from the Grocery Products Sector increased by approximately $3 million in the fourth quarter of fiscal 2012 in comparison to the same quarter last fiscal year. This increase is due to higher sales volumes as compared to the same quarter last fiscal year.

Consolidated EBITDA totalled $201.0 million for the quarter ended March 31, 2012, an increase of $6.5 million or 3.3% compared to the $194.5 million for the same quarter last fiscal year.

EBITDA for the CEA Dairy Products Sector increased by approximately $9 million in comparison to the same quarter last fiscal year. This increase is explained mainly by a more favourable dairy ingredients market and volume increases in the Argentinian Division, both in the domestic and export markets. Partially offsetting these increases is higher ingredient costs in both Canada and Argentina as compared to the same period last fiscal year. The Dairy Products Division (Europe) EBITDA remained stable in the fourth quarter as compared to the same quarter last fiscal year.

The EBITDA of the USA Dairy Products Sector decreased by approximately $6 million in the fourth quarter compared to the same quarter last fiscal year. A decrease in the average block market per pound of cheese to US$1.52 in the fourth quarter, as compared to US$1.69 in the same quarter last fiscal year, negatively affected the absorption of fixed costs, and had an unfavourable impact on the realization of inventories. Additionally, a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material compared to the same quarter last fiscal year also decreased EBITDA. Conversely, a more favourable dairy ingredients market partially offset these decreases. These combined market factors decreased EBITDA by approximately $29 million as compared to the same period last fiscal year. The Sector benefitted from the initiatives undertaken in prior and current fiscal years with regards to improved operational efficiencies, offsetting higher ingredient and other costs. Included in the current quarter is EBITDA derived from the DCI Acquisition. Finally, a decision rendered by the California Consolidation Stabilization and Marketing Committee on amendments to the class 4b milk pricing formula during the year increased milk costs in the fourth quarter as compared to the corresponding period last fiscal year. These factors together positively affected EBITDA by approximately $17 million as compared to the same quarter last fiscal year. Also included in the fourth quarter of fiscal 2011 was an inventory write-down of $3.0 million due to a sudden drop in the block market per pound of cheese. The weakening of the Canadian dollar during the quarter added approximately $3 million in EBITDA.

The EBITDA of the Grocery Products Sector increased by approximately $4 million for the quarter ended March 31, 2012 in comparison to the same quarter last fiscal year. This increase is mainly attributable to higher sales volumes and lower operating costs as compared to the corresponding quarter last fiscal year.

Depreciation and amortization for the quarter ended March 31, 2012 totalled $26.7 million, an increase of $0.6 million compared to $26.1 million for the same quarter last fiscal year. The increase is mainly due to a higher level of capital expenditures in the fourth quarter for the Dairy Products Division (Canada).

The Company recorded an **impairment of goodwill** in the amount of $125.0 million ($125.0 million after tax) for the Grocery Product Sector reflecting stagnating growth in market wide snack-cake sales (see Note 8 to the consolidated financial statements).

In the last quarter of fiscal 2011, the Company proceeded with an **impairment of portfolio investment** for an amount of $13.6 million ($11.6 million after tax), following the receipt, in May 2011, of a report from an independent valuator with regards to the fair market value of the Company's portfolio investment (see Note 6 to the consolidated financial statements).

Net interest expense decreased to $5.2 million compared to $5.7 million for the corresponding period last fiscal year. The decrease is mainly attributed to the effect of the unrealized gain on a foreign currency denominated intercompany advance in Canada. This advance is not part of a net investment in a foreign subsidiary, as such the offsetting unrealized loss is included in the currency translation adjustment account resulting from the conversion of the US subsidiary's financial statements to Canadian dollars.

With respect to **income taxes**, the effective tax rate for the current quarter was 27.6% compared to 28.7% for the same quarter last fiscal year, excluding adjustments for impairment of goodwill in 2012 and portfolio investment in 2011. 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.

Adjusted net earnings[1] amounted to $122.4 million for the quarter ended March 31, 2012, an increase of $10.4 million compared to the same quarter last fiscal year. This increase is due to the factors mentioned above.

Net loss amounted to $2.6 million for the quarter ended March 31, 2012, a decrease of $103.0 million compared to the same quarter last fiscal year. This decrease is explained by the $125.0 million impairment of goodwill.

During the quarter, the Company added approximately $40.0 million in property, plant and equipment, issued shares for a cash consideration of $7.8 million as part of the stock option plan, purchased share capital for $49.2 million in accordance with the Company's normal course issuer bid and paid out $37.9 million in dividends to its shareholders. For the same quarter, the Company generated net cash from operating activities of $162.4 million, an increase from the $132.1 million generated for the corresponding period last fiscal year.

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

QUARTERLY FINANCIAL INFORMATION

During fiscal 2012, quarterly changes in revenues and EBITDA as compared to fiscal 2011 were affected by the DCI Acquisition, by Company initiatives targeted to improve productivity and efficiencies and specific market conditions. The inclusion of the full year's activities from the DCI Acquisition increased both revenues and EBITDA throughout fiscal 2012. Initiatives from prior and current fiscal years more than offset increased costs, positively affecting EBITDA. The higher average block market in fiscal 2012 compared to fiscal 2011 positively affected revenues and resulted in a better absorption of fixed costs, positively affecting EBITDA. A more favourable dairy ingredients market throughout the year increased both revenues and EBITDA. The favourable whey market price throughout the year negatively affected the relationship between the average block market per pound of cheese and the cost of milk as raw material, since the whey price is a factor in determining the product-price formula. Also there was a negative impact on the realization of inventories. Both of these factors negatively affected EBITDA. The strengthening of the Canadian dollar in fiscal 2012 versus fiscal 2011 eroded 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, 2011 COMPARED TO MARCH 31, 2010

Consolidated revenues totalled $6.003 billion, an increase of $192.3 million or 3.3% compared to $5.811 billion for fiscal 2010. The USA Dairy Products Sector revenues increased by approximately $119 million. This was mainly due to a higher average block market per pound of cheese of US$1.56 in fiscal 2011, compared to US$1.35 in fiscal 2010, increasing revenues by approximately $191 million. Increased sales volumes, a full year's contribution to revenues by the activities of F&A Dairy of California, Inc., acquired on July 20, 2009 (F&A Dairy Acquisition), and more favourable dairy ingredients markets contributed to revenues as compared to the prior fiscal year. These factors combined accounted for an increase of approximately $74 million in revenues. Revenues from the CEA Dairy Products Sector increased by approximately $91 million in comparison to the prior fiscal year. Higher selling prices in both the Canadian and Argentinian operations in accordance with the increase in the cost of milk as raw material, as well as increased sales volumes from Argentinian activities, explain the increased revenues in this Sector. These offset lower sales volumes from the Canadian operations. Revenues from the Grocery Products Sector decreased by approximately $17 million mainly due to lower sales volumes. The strengthening of the Canadian dollar in fiscal 2011 eroded approximately $174 million in revenues in comparison to fiscal 2010.

Consolidated earnings before interest, income taxes, depreciation, amortization and impairment (EBITDA) amounted to $788.3 million in fiscal 2011, an increase of $96.2 million or 13.9% compared to the $692.1 million for fiscal 2010. The EBITDA of the USA Dairy Products Sector amounted to $281.9 million, an increase of $63.5 million in comparison to $218.4 million for fiscal 2010. Initiatives undertaken by the Sector in fiscal 2011 and prior fiscal years in order to improve operational efficiencies, increased sales volumes and the full year's inclusion of the F&A Dairy Acquisition, more than offset increased fuel, promotional and ingredients costs during fiscal 2011. These combined factors increased EBITDA by approximately $48 million during fiscal 2011 as compared to fiscal 2010. The block market per pound of cheese steadily increased throughout fiscal 2011. The average for the year ended March 31, 2011 was US$1.56 as compared to US$1.35 for the prior fiscal year. The higher average block market contributed positively to the Sector's absorption of fixed costs. The increasing block market throughout the fiscal year favourably impacted the realization of inventories. The increase in the dairy ingredients market also positively affected EBITDA in fiscal 2011. The relationship between the average block market per pound of cheese and the cost of milk as raw material was unfavourable in fiscal 2011 in comparison to fiscal 2010. The combination of these market factors had a positive impact of approximately $37 million on EBITDA of fiscal 2011. Also, included in the results of fiscal 2011 was an inventory write-down of $3.0 million as compared to $2.1 million in fiscal 2010. The strengthening of the Canadian dollar in fiscal 2011 eroded approximately $21 million of the USA Dairy Products Sector EBITDA.

EBITDA for the CEA Dairy Products Sector totalled $493.8 million in fiscal 2011, an increase of $35.9 million in comparison to $457.9 million for fiscal 2010. This increase was mainly attributed to operational efficiencies, a more favourable dairy ingredients market and lower costs from the Canadian operations, as compared to the prior fiscal year. EBITDA included a charge of approximately $2 million in relation to a product recall in fiscal 2011 and a rationalization charge of $3.4 million in fiscal 2010. The Argentinian operations contributed to the EBITDA increase through higher sales volumes and favourable selling prices mainly in the export market as compared to the prior fiscal year. The Dairy Products Division (Europe) improved its EBITDA slightly in fiscal 2011 mainly through increased efficiencies and cost cutting measures despite lower sales volumes and the continuing challenges facing the European market, particularly the constant increase of the cost of milk compared to selling prices.

EBITDA for the Grocery Products Sector decreased by $3.2 million to $12.6 million in fiscal 2011, from $15.8 million in fiscal 2010. This decrease was mainly due to lower sales volumes and increased trade program expenses. These negative factors were partially offset by the benefits derived from operational initiatives implemented throughout fiscal 2011 and prior years.

The consolidated EBITDA margin increased to 13.1% in fiscal 2011 as compared to 11.9% in fiscal 2010 mainly due to the Dairy Products Sector.

Depreciation and amortization totalled $106.0 million in fiscal 2011, a decrease of $7.5 million over $113.5 million in fiscal 2010. This was mainly due to the strengthening of the Canadian dollar throughout fiscal 2011 compared to the prior fiscal year. Included in the fiscal 2010 depreciation and amortization expense was an impairment amount of $2.6 million related to the closure of the Brampton, Ontario fluid milk plant and the consolidation of the Toronto, Ontario distribution activities.

The Company proceeded with an **impairment of portfolio investment** for an amount of $13.6 million, negatively affecting net earnings before income taxes ($11.6 million after tax), following the receipt, in May 2011, of a report from an independent valuator with regard to the fair market value of the Company's portfolio investment.

Net interest expense amounted to $23.9 million in fiscal 2011 compared to $35.1 million in fiscal 2010. The decrease was attributed to a lower level of long-term debt with the reimbursement of senior notes in the third quarter of fiscal 2010 and lower bank loans for most of fiscal 2011.

Income taxes totalled $194.8 million in fiscal 2011 as compared to $160.8 million in fiscal 2010 for an effective tax rate of 30.2% in fiscal 2011 as compared to 29.6% for the prior year. 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.

Adjusted net earnings[1] for fiscal 2011 totalled $461.7 million, an increase of $79.0 million or 20.6% compared to $382.7 million in fiscal 2010.

Net earnings for fiscal 2011 totalled $450.1 million, an increase of $67.4 million or 17.6% compared to $382.7 million in fiscal 2010. This increase was due to the factors mentioned above.

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