# Dedicated Everyday

2010 ANNUAL REPORT

Saputo

# WHEN DEDICATION LEADS TO SUCCESS

**By being dedicated everyday,** Saputo's 9,800 employees contribute to the success of the Company. Since its humble beginnings, Saputo Inc. has grown to become the 12th largest dairy processor in the world, the largest in Canada, the 3rd largest in Argentina, among the top 3 cheese producers in the United States and the largest snack-cake manufacturer in Canada.

**By being dedicated everyday,** we process approximately 6 billion litres of raw milk per year and are determined to reach new heights. We remain focused on being better and stronger through optimization of our activities, product innovation and acquisitions.

**By being dedicated everyday,** we strive to provide consumers with high quality products including cheese, fluid milk, yogurt, dairy ingredients and snack-cakes. Our major brands such as *Saputo, Alexis de Portneuf, Armstrong, Baxter, Dairyland, Danscorella, De Lucia, Dragone, DuVillage 1860, Frigo Cheese Heads, Kingsey, La Paulina, Neilson, Nutrilait, Ricrem, Stella, Treasure Cave, HOP&GO!, Rondeau* and *Vachon* are well-known and distributed in over 40 countries worldwide.

## OUR ORGANIZATION

### 2 SECTORS

**DAIRY PRODUCTS**

- **CANADA, EUROPE AND ARGENTINA (CEA) DAIRY PRODUCTS SECTOR**
  - DAIRY PRODUCTS DIVISION (CANADA)
  - DAIRY PRODUCTS DIVISION (EUROPE)
  - DAIRY PRODUCTS DIVISION (ARGENTINA)
- **USA DAIRY PRODUCTS SECTOR**
  - DAIRY PRODUCTS DIVISION (USA)

**GROCERY PRODUCTS**

- BAKERY DIVISION

### 5 DIVISIONS

- DAIRY PRODUCTS DIVISION (CANADA)
- DAIRY PRODUCTS DIVISION (EUROPE)
- DAIRY PRODUCTS DIVISION (ARGENTINA)
- DAIRY PRODUCTS DIVISION (USA)
- BAKERY DIVISION

Saputo Inc. (Company or Saputo) is a publicly traded company whose shares are listed on the Toronto Stock Exchange under the symbol SAP.

| | DAIRY PRODUCTS SECTOR | | GROCERY PRODUCTS SECTOR |
|---|---|---|---|
| As at March 31, 2010 | CEA | USA | |
| NUMBER OF PLANTS | 30 | 15 | 1 |
| NUMBER OF EMPLOYEES | 5,990 | 2,927 | 936 |
| % REVENUES | 64.5 | 32.8 | 2.7 |

*COVER PICTURE: Sylvain Boivin, Dave Robinette and Jean-Christophe Plouffe, Production, Mont-Laurier, QC, Canada*
*Employees in background: Francis Beauchamp, Alain Doré and Luc Lachaine, Production, Mont-Laurier, QC, Canada*

## TABLE OF CONTENTS

01 Highlights ] I-IV Operating Review ] 04 Message from the Chairman of the Board ]
06 Message from the President and Chief Executive Officer ] 10 Social Responsibility ] Shareholder Information, Management's Analysis, Consolidated Financial Statements and Notes to Consolitated Financial Statements are presented in the document entitled *Management's Statements*.

# HIGHLIGHTS

| Fiscal years ended March 31<br>(in thousands of Canadian (CDN) dollars, except per share amounts and ratios) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Revenues** | | | |
| Dairy Products Sector | | | |
| CEA | $ 3,745,930 | $ 3,323,541 | $ 2,966,293 |
| USA | 1,906,189 | 2,304,613 | 1,927,983 |
| | 5,652,119 | 5,628,154 | 4,894,276 |
| Grocery Products Sector | 158,463 | 165,109 | 164,624 |
| | $ 5,810,582 | $ 5,793,263 | $ 5,058,900 |
| **Earnings before interest, depreciation, amortization and income taxes (EBITDA)[1]** | | | |
| Dairy Products Sector | | | |
| CEA | $ 457,895 | $ 378,898 | $ 363,365 |
| USA | 218,375 | 152,006 | 145,478 |
| | 676,270 | 530,904 | 508,843 |
| Grocery Products Sector | 15,801 | 16,895 | 17,201 |
| | $ 692,071 | $ 547,799 | $ 526,044 |
| Net earnings | $ 382,714 | $ 278,948 | $ 288,200 |
| Cash flows generated by operations | $ 583,615 | $ 467,288 | $ 291,062 |
| Working capital | $ 355,684 | $ 166,728 | $ 416,292 |
| Total assets | $ 3,253,451 | $ 3,499,103 | $ 2,733,476 |
| Interest bearing debt[2] | $ 387,543 | $ 713,001 | $ 282,704 |
| Shareholders' equity | $ 2,028,598 | $ 1,972,348 | $ 1,619,160 |
| **Per share[3]** | | | |
| Net earnings | | | |
| Basic | $ 1.85 | $ 1.35 | $ 1.40 |
| Diluted | $ 1.83 | $ 1.34 | $ 1.38 |
| Dividends declared[4] | $ 0.58 | $ 0.56 | $ 0.48 |
| Book value | $ 9.78 | $ 9.52 | $ 7.86 |
| **Financial ratios** | | | |
| Interest bearing debt/Shareholders' equity | 0.19 | 0.36 | 0.17 |
| Return on average shareholders' equity | 19.1% | 15.5% | 18.3% |

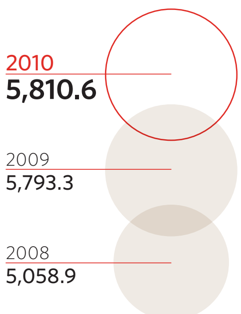
[1] Measurement of results not in accordance with Generally Accepted Accounting Principles.
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, depreciation, amortization and income taxes. EBITDA is not a measure of performance as defined by Generally Accepted Accounting Principles in Canada, and consequently may not be comparable to similar measurements presented by other companies. Reference is made to the section entitled "Measurement of results not in accordance with Generally Accepted Accounting Principles".

[2] Net of cash and cash equivalents.

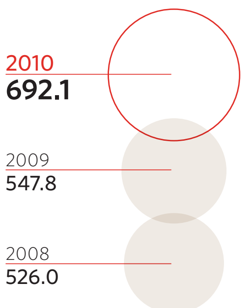
[3] All references to number and prices of Common Shares for fiscal 2008 herein have been adjusted to reflect the 100% stock dividend declared on December 10, 2007, which had the same effect as a two-for-one stock split.

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

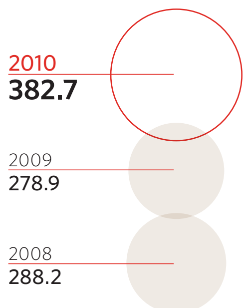
REVENUES
(in millions of CDN dollars)



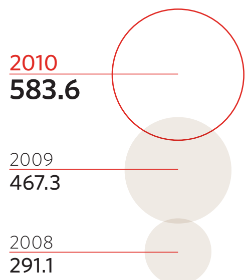

EBITDA
(in millions of CDN dollars)




NET EARNINGS
(in millions of CDN dollars)




CASH FLOWS GENERATED BY OPERATIONS
(in millions of CDN dollars)



**OPERATING REVIEW**

# CEA Dairy Products Sector

## THE SUM OF SMALL EVERYDAY ACTIONS RESULTS IN LONG TERM ACHIEVEMENTS

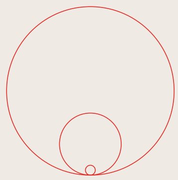
The Dairy Products Division (Canada) manufactures 32% of all natural cheese and processes 35% of all fluid milk in Canada.

### DAIRY PRODUCTS DIVISION (CANADA)

While the market remained stable, the Division maintained its focus on efficiency driven actions. The acquisition of Neilson Dairy has started to yield logistics benefits and the Division serves customers with higher fill rate standards while optimizing delivery schedules.

Several initiatives were implemented to maximize the benefits of previous capital investments. These included initiatives aimed at improving filling utilization, packaging rates per minute as well as the sourcing of packaging and raw materials.

The Division also increased its capacity in specialty cheese operations to address the volume growth experienced by this segment. Sales were expanded on a national basis contributing to the growth of specialty cheese consumption.



REVENUES (%) PER MARKET SEGMENT
Dairy Products Division (Canada)

70% RETAIL
26% FOODSERVICE
4% INDUSTRIAL

**Saputo was the official supplier of packaged dairy products for the Vancouver 2010 Olympic and Paralympic Winter Games and sponsored five athletes who participated in the Games.**

A website and a media campaign including some social media networks were developed to follow their journey and to create excitement among employees and consumers. In addition, Saputo advertised its partnership with the 2010 Winter Games on packaging, truck trailers as well as via numerous promotions with retailers.

vancouver 2010
OFFICIAL SUPPLIER

*Manon Gagnon, Production, Gaétan Moisan, Packaging, and Pauline Doyon, Production, St-Raymond, QC, Canada*

The Dairy Products Division (Argentina) processes an average of 2 million litres of raw milk daily, which accounts for approximately 8% of all milk processed in the country.

## DAIRY PRODUCTS DIVISION (EUROPE)

The Division implemented a new mozzarella production process in the United Kingdom (UK) and completed its capital investments to optimize cheese making processes. The Division also rationalized a leased facility within the Heiden plant in Germany in order to improve operational costs.

## DAIRY PRODUCTS DIVISION (ARGENTINA)

The Division expanded its internal storage capacity to reduce reliance on outside providers as well as decrease logistic costs. This upgrade enabled the Division to improve customer service and provide flexibility.

Moreover, the Division improved its grated cheese operations to respond to market demand while achieving better productivity and improving workplace safety.

The Division strengthened its position in the domestic market through continual investments in marketing initiatives to support sales of *La Paulina* products.

NEW PRODUCTS

CANADA

Launch of 3 ***Alexis de Portneuf*** blue cheeses.

Introduction of ***Neilson*** organic milk and lactose free milk.

Launch of ***Armstrong*** natural cheese and colby cheese slices.

Launch of ***Saputo*** new smoked bocconcini.

Introduction of fresh marble cheese curds under the ***Kingsey*** brand.

Launch of a new ***Alexis de Portneuf*** brie ***Bonaparte*** flavoured with apricot and maple syrup.

ARGENTINA

Introduction of ***La Paulina*** cream cheese, grated cheese and tybo.

*Eraldo Fermin Faurie, Pasteurization and Carlos Antonio Bechis, Maintenance, Tio Pujio, Argentina*

MARKETING INITIATIVES

CANADA

Introduction of new packaging for ***Neilson Dairy Oh!*** and ***Dairyland*** organic milk.

Media campaigns to promote ***Armstrong*** cheeses, ***Saputo*** Mediterranean cheeses and ***International Delight**** coffee creamers.

Launch of a free magazine, ***Ingredients Etc.***, featuring recipes using ***Saputo*** products.

Promotional campaign for ***Saputo*** DHA[1] family products supporting ***Dairy Oh!*** milk and ***Lil' Ones*** yogurt.

ARGENTINA

TV campaign featuring ***La Paulina*** grated cheese.

Promotional campaign supporting ***La Paulina*** cheeses.

Launch of a revamped ***La Paulina*** website.

*Trademark used under license
[1] Docosahexaenoic acid

# USA Dairy Products Sector

Anthony Burk, Production, Waupun, WI, USA

The Dairy Products Division (USA) produces approximately 9% of all natural cheese in the United States (US).

NEW PRODUCTS

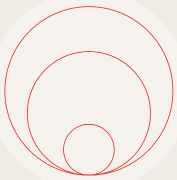
Launch of ***Frigo Cheese Heads Superstring***, a string cheese fortified with Vitamins A & D and added calcium.

Introduction of a New York blend, low moisture mozzarella cheese and part-skim mozzarella cheese, for the foodservice segment.

## DAIRY PRODUCTS DIVISION (USA)

The Division continued to improve and simplify its production processes during fiscal 2010. Initiatives such as upgrading refrigeration systems, installing new equipment, implementing new technologies and increasing whey recovery allowed the Division to increase production and reduce packaging for both cheese and dairy ingredient products. These improvements resulted in higher quality products, enhanced consistency and increased efficiency.

The Division completed the acquisition of the activities of F&A Dairy of California, Inc. This transaction included a facility producing mozzarella, provolone and whey products. Its integration into the Saputo structure is progressing well and the capital improvement plan should be completed during fiscal 2011.



VOLUME (%) PER MARKET SEGMENT
Dairy Products Division (USA)

49% FOODSERVICE

36% RETAIL

15% INDUSTRIAL

Karla Holback and Kenneth Miller, Production, Waupun, WI, USA

# Grocery Products Sector

Réjean Lemelin and Huguette Giguère, Production, Ste-Marie, QC, Canada

## BAKERY DIVISION

The Division's productivity was increased through a better control of product weight, line speed, rationalization of stock-keeping units (SKU) and extension of product shelf-life, resulting in a reduction of losses and improved planning enabling the Division to close its Québec facility as well as 23 thrift stores.

Logistics were also optimized with the standardization of boxes and cases and the reorganization of distribution networks in Ontario and Western Canada, resulting in increased cost efficiency.

MARKETING INITIATIVES

Enhanced packaging and marketing initiatives to support ***Stella***, ***Alto*** and ***Saputo*** products in the foodservice segment.

Marketing merchandising featuring ***Black Creek*** premium cheddar.

Promotional support for number 1 retail brands ***Frigo Cheese Heads*** in the cheese string category and ***Treasure Cave*** in the blue cheese category[1].

Launch of a revamped website for ***Stella*** cheeses and for ***Frigo Cheese Heads***.

[1] Source: IRI Total US FDMW, latest 12 weeks, ending March 21, 2010.

The Bakery Division is Canada's top snack-cake manufacturer and caters mainly to retail segment clients.

NEW PRODUCTS

Introduction of new ***Vachon*** cakes such as ***Pouding chomeur***, ***Opera*** and ***Cupcakes.***

Launch of ***Igor*** line of products including ***Bagaloo*** Apple Snack, ***Bongo*** Yogurt and Berry Granola Bar as well as ***Canoo*** Hazelnut-Cocoa.

Launch of a series of ***Vachon*** frozen desserts including Chocolat Mirroir, Tiramisu and Soft Apple cakes.

MARKETING INITIATIVES

Introduction of new branding and packaging for all ***Vachon*** products.

Media advertising campaign featuring the new ***Igor*** line of products.

Social media campaign to support ***Vachon Jos Louis*** cakes.

# ACHIEVEMENTS

Saputo products were honoured on many occasions during fiscal 2010.

***La Sauvagine*** and ***La Roche Noire Alexis de Portneuf*** both earned Gold at the event, in the washed rind and the new cheese categories respectively.

***Le Cendrillon Alexis de Portneuf*** was crowned World Champion, all categories combined, at the prestigious World Cheese Awards 2009. ***Le Cendrillon*** was therefore hailed the world's best cheese after competing alongside 2,440 cheeses from 34 countries.

Consumers and customers around the world appreciate the great taste

***Le Fourmier*** and ***Le Bonaparte Alexis de Portneuf*** were both acclaimed among 1,327 products by the American Cheese Society, winning 1st place in the blue-veined and soft ripened cheese categories respectively.


With dedication and passion, Saputo's employees craft high quality products.

The mozzarella whole milk and part skim milk from the Dairy Products Division (USA) both earned silver in their respective category at the World Cheese Awards 2009.

In Argentina, the ***La Paulina*** brand is the favourite soft cheese among consumers with 16% of market share[1] and is the number 1 brand of danbo cheese with 30% of the market share[1].

[1] Source: Kantar World Panel – Consumer Research 2009


of Saputo products distributed under a vast portfolio of brands.

# MESSAGE FROM THE CHAIRMAN OF THE BOARD

ANDRÉ BÉRARD
Corporate Director

LUCIEN BOUCHARD
Senior Partner,
Davies Ward Phillips &
Vineberg LLP

PIERRE BOURGIE
President
and Chief Executive Officer,
Société Financière
Bourgie (1996) Inc.

FRANK A. DOTTORI
President,
Fadco Consulting Inc.
and Managing Director,
Greenfield Ethanol's
Cellulosic Ethanol division

EMANUELE (LINO) SAPUTO
Chairman of the Board

While 2009 was characterized by a worldwide climate of economic uncertainty, we have doubled our efforts and demonstrated our will to continue offering high quality products while remaining a low-cost manufacturer. Thanks to our everyday efforts, I can proudly say we have once more achieved our objectives.

As Chairman of the Board, I would like to congratulate Management as well as the members of the Board of Directors for their excellent work within the precarious economic context. All were up to the challenge and fulfilled their mandate efficiently. Saputo recognizes the importance of being dedicated everyday, and working as a team to overcome unpredictable factors and challenges. We have always valued and supported these principles, which have been more beneficial than ever this year. The ongoing efforts of every single employee, regardless of role or title, contributed undoubtedly to maintaining our efficiency.

The family values and traditions upon which the Company was built remain fundamental aspects of our culture today. Our simple structure enables our employees to work closely as a team and contributes directly to our success.

## BELIEVING IN SOUND GOVERNANCE

The Board of Directors is responsible for the stewardship of the Company and overseeing its management. To help fulfill this mandate, the members of the Board of Directors favour an approach based on the importance of sharing knowledge and experience amongst themselves and with the Management of the Company, while sharing their understanding of the industry and markets in which the Company operates. In this regard, the Board of Directors visits facilities, attends presentations on the industry, on strategic development and other matters of interest and evaluates its work to optimize its contribution to Saputo.

The Board is comprised of 12 directors, of which 10 are independent directors who meet separately from Management following each regular meeting and as needed. The founders of the Company are represented on the Board and the positions of Chairman of the Board and Chief Executive Officer are distinct and held by two non-independent Board members. Consequently, a Lead Director is also appointed to provide independent leadership to the Board of Directors. The Board considers that the value of the equity stake held by the principal shareholder ensures that his interests are aligned with those of all shareholders.

Since our beginnings, we insisted on building foundations strong enough to overcome adverse conditions the industry may face.

ANTHONY M. FATA
President,
Sager Food Products Inc.

JEAN GAULIN
Corporate Director

TONY METI
President,
G.D.N.P. Consulting Services, Inc.

CATERINA MONTICCIOLO, CA,
President,
Julvest Capital Inc.

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

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

LOUIS A. TANGUAY
Corporate Director

The Board of Directors has 2 committees: the Corporate Governance and Human Resources Committee and the Audit Committee. Members of both committees are exclusively independent and have access to the Management team to assist them in carrying out their duties. At each Board meeting, a periodic report is presented by the respective committees' chair, after which a discussion period takes place between the Directors. Therefore, Board members are kept informed on the achievements and projects of each Committee.

The Board believes in the importance of good governance practices, as stated in the Management Proxy Circular, dated June 9, 2010. For additional information concerning the Company's corporate governance practices, please refer to such document.

## RECOGNIZING COLLECTIVE EFFORTS

I am truly thankful to all members of the Board of Directors for their support and assistance. Their expertise and experience enable us to make decisions based on the best interest of Saputo's shareholders.

I am grateful to our clients and business partners and I would like to thank them for their trust and loyalty. We are dedicated to working hard and remaining disciplined in order to reiterate our will to offer the best of Saputo; quality and service wise.

To conclude, I sincerely thank all Saputo employees for their dedication to the Company. With their determination and their contribution, they are key players in our quest for success. Their efforts and desire to take on challenges were key in helping achieve our goals and even enabled us to surpass them.

It is with confidence and enthusiasm that the Board and myself are starting fiscal 2011.

LINO SAPUTO
*Chairman of the Board*

# MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

As the economic downturn struck most parts of the world, we rolled up our sleeves and worked hard daily to overcome the challenge. We faced the issue head on, questioned ourselves and aimed to improve our ways on a day-to-day basis. Thanks to our determination and our ability to work as a team, we grew even stronger and delivered great results.

Once more, we reinforced our commitment to growth and focused on finding ways to improve our operating efficiencies. We endeavoured to evolve through innovation, while keeping in mind the strong fundamental values of Saputo. Our goal is, and has always been, to offer consumers the highest quality products while remaining a low-cost producer and to meet the emerging needs of the market.

Total revenues for fiscal year ended March 31, 2010 reached $5.811 billion, up 0.3% from last fiscal year. Net earnings totalled $382.7 million, compared to $278.9 million for fiscal 2009.

## FOCUSED ON ACHIEVING EXCELLENCE

To remain a worldwide dairy processor, we have to keep pace and surpass ourselves. Throughout fiscal 2010, we have reorganized and improved some of our operations to become more efficient. We have grown organically and through acquisitions, we have developed new strategies and operational processes, and we have sought new ways to be more sustainable.

### DAIRY PRODUCTS DIVISION (CANADA)

Sustained efforts by our dedicated employees around the world contributed to our success.

Fiscal 2010 was our first complete fiscal year following the implementation of the new cheese regulations, which came into effect in December 2008. The legal challenge filed by Saputo to contest the new standards was dismissed by the Federal Court of Canada in October 2009, and we filed an appeal, along with another Canadian dairy processor. A decision has yet to be rendered. Due to these new standards, we were obliged to reformulate some of our recipes and abandon the use of certain technologies developed during the course of the past 25 years. These regulations still impacted our production this fiscal year and resulted in some price increases in the market. Nevertheless, the changes allowed us once again to show our ability to face challenges and to adapt to various situations while mitigating the impact on our results.

Fiscal 2010 was also the first complete fiscal year following the acquisition of Neilson Dairy. Its integration is in progress as we expanded the distribution of its brand portfolio and products across Canada. Based on the well-established heritage of *Neilson* in Ontario, we converted our *Dairyland* fluid milk and cream products into the *Neilson* brand in that province. We also ensured that all Saputo customers had access to *Neilson* products across the country.

As part of the continual analysis of our activities and the implementation of measures aimed at improving our operational efficiency, we announced the closure of our Brampton, Ontario plant which will be effective by October 31, 2010. We also announced the consolidation of all the distribution activities of the Greater Toronto Area into one distribution center which should be completed at the end of September 2010.

Dairy consumption in Canada is relatively stable, with the exception of certain niche categories. We anticipated this trend and capitalized on existing and growing categories. Therefore, our specialty cheese group focused on offering a wide variety of quality fine cheeses. In fiscal 2010, one of our products, *Le Cendrillon Alexis de Portneuf*, earned the prestigious title "World's Best Cheese" at the World Cheese Awards 2009 while *La Sauvagine* and *La Roche Noire* both won Gold in their respective category. We also improved our presence in the specialty and single-served flavoured milk categories.

# CORPORATE MANAGEMENT


We periodically introduce new products to the market, thus catering to consumers' ever-changing expectations and growing appetite for new and innovative products. Our growth in the Canadian dairy market is fuelled by innovation and our main strategies consist of satisfying consumers' dynamic needs based on new trends and increasing our sales volumes.

We improved our Canadian Dairy Products Division's operations through various projects aiming at developing better technologies and becoming more efficient. Among them, we upgraded our cheesemaking processes by implementing new optimized techniques developed internally. In one of our facilities, we also integrated an in-house bottle blowing machine enabling us to be more efficient. Besides having a positive impact on the environment, this technology also facilitates logistics and reduces operational delays.

## DAIRY PRODUCTS DIVISION (USA)

Following a challenging fiscal 2009 characterized by significant fluctuations in the block market per pound of cheese and unprecedented price increases in commodities, the US Division anticipated a fresh start for fiscal 2010. During the first six months of fiscal 2010, the average block market[1] per pound of cheese decreased steadily to support levels, before showing signs of a possible recovery during the latter half of fiscal 2010. This momentum continued into the third quarter and suddenly dropped during the last week of December 2009. Downward pressure resulted in the block market per pound of cheese decreasing throughout the fourth quarter. Although it was less volatile as compared to previous fiscal years, the block market per pound of cheese was still below historical levels, creating a challenging environment for our US Division. We are in a better position to face these price fluctuations as a result of acquisitions made in the past years which have improved our whey drying capabilities and provided us with a better balance.

During the fiscal year, we pursued our growth strategy by realizing the Division's third acquisition completed in the past three years, the activities of F&A Dairy of California, Inc., a mozzarella, provolone and whey products manufacturer based in Newman, California. We are currently restructuring some of the acquired operations to adapt to Saputo's operating environment. We also implemented other initiatives such as transferring production lines between facilities in order to increase efficiencies. Furthermore, we increased capacity in some of our plants and completed capital investments in many locations, thereby improving the overall quality and consistency of our products to further satisfy our customers.

To cater to consumers' expectations and needs, we focused on developing new products that meet the emerging trends.

During fiscal 2010, the US government took steps to counterbalance low milk prices which had impacted domestic dairy farmers. Several programs, aimed at providing emergency relief to US dairy farmers, were implemented by the government. In addition, the California Department of Food and Agriculture enacted a temporary change to the milk pricing formula for California milk. This temporary measure was in place from January 1, 2010 to March 31, 2010. These modifications did not have a material effect on the operations of our US Division.

Within the retail segment, the natural cheese category benefitted from volume growth. Indeed, consumers favoured homemade meals in response to the economic context. Private label cheeses, increasingly supported by retailers, replaced branded sales volumes and led to growth in natural cheese consumption as a result of their more competitive pricing. Within the foodservice segment, including the pizza category, consumers' casual dining habits were reduced thus lowering sales volumes which resulted in foodservice operators seeking cost savings.

## DAIRY PRODUCTS DIVISION (ARGENTINA)

In Argentina, we began fiscal 2010 by facing depressed selling prices in the dairy products' export market, which slowly increased during our third and fourth quarters, while milk prices as raw material remained relatively high throughout the year.

The Division continued to work on improving its efficiencies with initiatives aimed at improving its results. Among them, we expanded our internal storage capacity and improved our grated cheese operations.

Over the last year, domestic consumption remained stable. To cater to consumers' expectations and needs, we focused on developing new products that meet emerging trends. Some products were launched during fiscal 2010 and others will be launched in the upcoming years. Furthermore, we strengthened our position in the domestic market by continuing to invest in marketing initiatives supporting sales of *La Paulina* products.

[1] "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.

### DAIRY PRODUCTS DIVISION (EUROPE)

In Europe, dairy producers were confronted by low cheese prices leading the market to deal with excess inventory.

In the UK, since the beginning of the fiscal year, we significantly reduced our milk intake due to the non-competitive cost of milk in relation to the selling price of cheese. As such, we will work towards re-establishing the necessary milk supply relative to our requirements.

Dairy consumption in Europe remained relatively stable. We implemented cost cutting measures to improve profitability while maintaining a well balanced presence within the retail and foodservice segments. We will continue to keep ourselves appraised of the changes in the European market and will adapt our strategy accordingly.

Our flexible approach and our capacity to adapt to various situations enabled us to capitalize on opportunities and deliver positive results.

### BAKERY DIVISION

The Bakery Division is actively seeking new ways to improve efficiency and deliver better results in terms of profitability. Through numerous improvements, product shelf-life was extended, resulting in a better management and causing less returns. As a result, the Québec manufacturing facility and 23 thrift stores were closed. The distribution channels for Ontario and Western Canada have both been revised. In addition, the Division rationalized its stock-keeping units (sku), thus standardizing the products and resulting in production improvements. The Bakery Division benefitted from the lowering of certain ingredient prices while others suffered a price increase. To address this situation, the Division reviewed some of its recipes and found alternatives to mitigate the impact of such price increases.

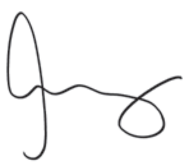
As consumption in the snack-cake products category is rather stable, we developed and launched new products, under the *Igor* brand, within the snack category. Moreover, we introduced a new line of frozen desserts. The Division will continue to identify ways to improve its results and will focus on product development to meet consumers' expectations.

## DEDICATED EVERYDAY TO REACH NEW HEIGHTS

Now that we have reached our goal to become a world-class dairy processor, we will draw from this inspiration to keep on giving the best of ourselves. Over the next year, we will focus on finding ways to optimize our activities, concentrate our efforts on product innovation and continue to look for acquisition opportunities that would bring added value to our current operations. We are proud to deliver quality products while remaining a low cost dairy processor. We will keep in mind consumers' and customers' expectations and needs and we will work as a team to achieve our objectives.

By being dedicated everyday, we were ready to overcome the challenges presented by the difficult economic context of this fiscal year. The willingness and the daily efforts demonstrated by our team proved that even through difficult times, we can find ways to become bigger, better and stronger. Our flexible approach and our capacity to adapt to various situations enabled us to capitalize on opportunities and deliver positive results.

We have always favoured a strategy based on day-to-day operations and it has proven to be successful. Our small everyday actions have led to favourable results and helped us become more efficient. All dairy processors have access to the same raw material and equipment, what distinguishes us are our dedicated employees, who, themselves, state our family traditions and values as the number one reason to work at Saputo. We will stay dedicated to our values and we will pursue our quest for success.



LINO A. SAPUTO, JR.
*President and Chief Executive Officer*

# Dedicated to building a better society, everyday

By contributing economically, acting respectfully towards the environment and by being socially involved, Saputo demonstrates that the values upon which it was founded remain an integral part of its corporate culture.

As the Company cares about the future of generations to come, sustainability is an essential part of its daily operations. The importance of preserving the environment, seeking ways to develop processes to optimize the use of raw materials, minimize chemical usage, packaging, energy consumption or transportation are all part of Saputo's responsible business approach. Compliance with laws and international norms are also at the core of the Company's priorities.

Furthermore, Saputo contributes to the betterment of communities through partnerships and sponsorships. Through its involvement, the Company supports many initiatives aimed at promoting a healthy lifestyle including both sound eating habits and physical activity.

*Ariel Fernando Celayes, Quality Control, and Jose Abel Galeano, Production, Tio Pujio, Argentina*

# Prioritizing a **Favourable Work Environment**

At Saputo, the 9,800 employees, working in 5 countries, are considered our most valuable asset. By being dedicated everyday and working together to achieve collective goals, they are an essential part of Saputo's success. Saputo believes that offering employees a favourable work environment allows them to excel.

Saputo provides good working conditions by offering internal advancement opportunities, enabling its employees to learn and grow through personal development programs and achieve their full potential. Various teaching methods such as in-class with instructors, e-learning, one-to-one mentoring or a day training on the job have been implemented over the years to meet learning needs of employees. Saputo encourages its employees to build on their strengths and to take on new challenges and responsibilities in a stimulating and rewarding work environment. The Company, which focuses on the importance of open communication and teamwork, also counts on a management coaching program to support its culture.

Moreover, Saputo relies on strong principles providing a workplace free from any form of violence and constraint such as harassment, whether psychological or sexual, or discrimination based on race, national or ethnic origin, color, religion, age, sex, sexual orientation, matrimonial status, civil status, or physical or mental handicap. These principles are defined in a Code of Ethics, which is distributed to all employees and to which they must adhere. With regards to labour relations, Saputo complies with applicable local laws and regulations, and respects the right of employees to form representative organizations.

As the employees' and their families' well-being is important to Saputo, fringe benefit programs, including collective insurance programs and retirement plans are available. Also, 49% of employees elected to participate in the Company's employee share ownership plan. Providing employees with good working conditions has always been a priority at Saputo and over the years, it has shown that a favourable work environment leads to great results for both parties. The average number of years of service is approximately 10 years.

Employees are the cornerstone of Saputo's success, which is why the Company promotes open communication and internal advancement.

WORKFORCE DATA As at March 31, 2010

| | DAIRY PRODUCTS DIVISION | | | | BAKERY DIVISION |
|---|---|---|---|---|---|
| EMPLOYEES | CANADA | EUROPE | ARGENTINA | USA | |
| NUMBER OF PERMANENT | 4,324 | 123 | 875 | 2,771 | 750 |
| NUMBER OF PART TIME | 419 | 5 | 9 | 23 | 150 |
| NUMBER OF TEMPORARY | 202 | 6 | 27 | 132 | 36 |
| AVERAGE AGE | 41 | 39 | 38 | 42 | 44 |
| AVERAGE YEARS OF SERVICE | 10 | 7 | 12 | 9 | 9 |

# Health and Safety, a Key Concern

By working as a team, every single employee contributes to the evolution of the Company and is important to its success. Saputo attaches great importance to their security. Having high standards such as pursuing the goal to attain an injury-free work environment allows members of the Saputo organization to fulfill their duties while remaining positive and motivated.

In Argentina, the Division focused its efforts on integrating safety procedures into their core processes and have reduced the Total Recordable Accident Frequency Rate and the Lost Time Rate compared to previous year. This was achieved by implementing various measures such as dedicating Environmental Health & Safety teams to provide training on operating procedures and changes to ergonomically improve the workplace.

Furthermore, within the US Division, safety training and safety audits have been performed reducing the Total Recordable Accident Frequency Rate by 11.4% and the Lost Time Rate by 22.6% versus the previous year, while the Bakery Division reduced its rates by 15.9% and 32.2%, respectively.

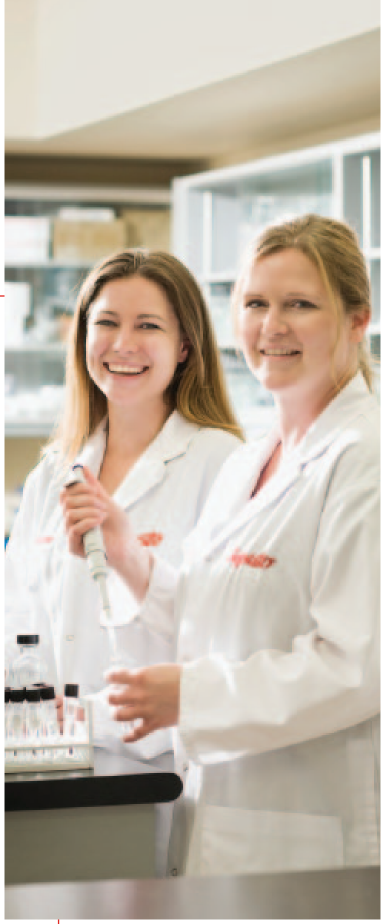
With high levels of commitment and communication throughout its operations, Saputo is open to recommendations to improve the welfare of the employees. Saputo believes that engaging employees from all levels to take responsibility to protect their own well-being and their colleagues' fosters a healthy working environment. This mindset encourages knowledge retention by employees and the transmission of such knowledge to future Company employees.

At Saputo, health and safety govern actions.

The Tulare - Bardsley, California and Reedsburg and Monroe, Wisconsin plants have not had a Lost Time Accident in more than 2 years.

In Argentina, the Division reduced the Total Recordable Accident Frequency Rate by 43% and the Lost Time Rate by 48% compared to the previous year.

*Dario Ardelio Jesus Bonavia, Hygiene and Security, and Susana Del Carmen Gomez, Health and Safety, Tio Pujio, Argentina*



*Carolyn Quehl and Donna Demeulenaere, Quality Control, Tavistock, ON, Canada*

# Mastering **Quality**

Quality related issues are always a priority to ensure consumer satisfaction.

That is why Saputo's quality programs and procedures are essential to its activities.

As part of Saputo's heritage, providing consumers with high quality products has always been the ultimate goal. Consumers trust Saputo's brands and associate its products with excellence and reliability. Maintaining high quality standards comes with hard work and care of every facet of the process. This approach requires the support of every department before a product receives the Saputo stamp of approval. That is why the Company adheres to programs such as HACCP (Hazard Analysis Critical Control Point).

Moreover, the SQF (Safe Quality Food) program, a leading global food safety and quality certification and management system, is being implemented within 14 plants in the US Division. The program provides independent certification that a supplier's food safety and quality management system complies with international and domestic food safety regulations.

Product quality should not be compromised and satisfying consumers remains essential. Saputo works towards customer satisfaction and is dedicated to answer consumers' queries via its websites and toll-free numbers.

Saputo maintains its dedication to excellence and to crafting high quality products.

# Focusing on the Environment

Saputo is dedicated to pursuing **environmentally responsible business practices** and is continuously seeking improvement in its environmental performance.

Saputo focuses on initiatives aimed at reducing the impact of its operations on the environment. Employees recognize that efforts dedicated to efficiently managing resources reduce the Company's environmental footprint and decrease overall costs. For instance, the St-Hyacinthe, Québec facility reduced its daily water consumption by 10% via a recuperation project, thus saving 55 million litres of total water used within the plant annually. The Fond du Lac, Wisconsin plant integrated a more efficient Cleaning in Place (CIP) system with the installation of silos to capture cow water from the milk evaporators, resulting in savings of 1 million gallons of potable city water each month.

The Company also uses reverse osmosis (RO) permeate, a by-product from whey filtration processes, as a pre-rinse during the CIP of equipment or silos. Plants have realized the cost benefits of reducing their potable water intake which has a positive impact on the environment.

As environment protection and water scarcity are becoming growing concerns, Saputo set, throughout fiscal 2010, a primary focus on gathering information from its operations to evaluate the impact of its energy and potable water usage on the environment. Understanding these facets has enabled the Company to evaluate its greenhouse gas emissions.

Through the validation of its environmental footprint and the measurement of the critical parts of its manufacturing processes, Saputo should be able to evaluate its products' life cycle during fiscal 2011.

## RESPONSIBLE ENERGY CONSUMPTION

By adopting environmentally responsible business practices, Saputo encourages entrepreneurship among its employees, who seek opportunities to improve the Company's way of operating. As part of its sustainability strategy, Saputo is dedicated to the conservation of energy and the natural resources which are used for its day-to-day operations.

The optimization project implemented in St-Hyacinthe, Québec, has reduced the water consumption equivalent to the yearly average household usage of 184 Canadian homes.

In Fond du Lac, Wisconsin, the plant reduced its yearly water consumption equivalent to the volume of 18 Olympic size pools.

*Tom Pleshek, Maintenance, Black Creek, WI, USA*

Reduction in greenhouse gas emissions equates to energy efficiency improvements. With this in mind, the Company's plants have embarked on initiatives to reduce these emissions from both direct and indirect business operations. In the US Division, the Paige plant, California, received an Environmental Leadership Award from Southern California Edison for the installation of a new large capacity evaporative condenser, allowing the plant to gain energy savings of 2 million kWh.

At Saputo, projects in all divisions are evaluated to ensure that not only the return on investment is adequate, but also that sound judgement is used so that throughput energy is maximized while reducing the resources required to achieving continuous growth. Acting responsibly with respect to total energy utilized throughout the Company is important. Saputo also believes that embedding carbon footprinting into its processes is essential to understanding the environmental impact of the products' life cycle.

Saputo has elected to participate in the Carbon Disclosure Project and will be disclosing information such as Scope 1 (direct emissions) and Scope 2 (indirect emissions). For more information about Saputo's emissions, please visit www.cdproject.net.

## SOUND USE OF MATERIALS

Being efficient through simplicity has always been true to Saputo's core values. The Company's sustainable strategy and practice are to produce more while minimizing waste, as well as maximizing the use of raw materials while maintaining or even improving the quality of products. At Saputo's plant in Burnaby, British Columbia, the packaging department integrated an in-house bottle blowing machine which reduces overall raw material wastes and transportation. Through the innovative packaging process, the annual reduction in diesel consumption from transportation equates to approximately 24,000 litres per year. This simple modification to the process and sound use of raw materials not only reduces wastes but also increases the plant's productivity. The Fond du Lac and Lena plants, Wisconsin, upgraded their packaging equipment, generating close to 17,000 lbs of plastic stretch wrap savings a year.

The California plants generated over $1 million in energy savings during the last fiscal year.

At the Paige plant, California, 4,666,441 kWh were saved during the last fiscal year, which is the equivalent of powering an average of 364 homes per year in the US, or a carbon footprint reduction of 2,800 tons.

In Burnaby, British Columbia, 47,000 kg of Low Density Polyethylene (LDPE) plastic bags have been eliminated during the last fiscal year due to the implementation of an in-house bottling process, resulting in the elimination of approximately 110 tons of $CO_2$ to the atmosphere.

*Natalie Cholowski, Quality Control, and Henryk Sokolnicki, Production, Burnaby, BC, Canada*

# Community Outreach

Saputo places great importance on contributing to the betterment of the communities where it operates by focusing on the **development of youth**, whether in terms of **sports**, **nutrition** or **entrepreneurship**.

Giving back to the community is fundamental to Saputo's values. During fiscal 2010, the Company played an important role in encouraging sports at all levels, proudly supporting talented athletes, who are dedicated everyday to be the best in their respective discipline. Their determination, courage and perseverance enable them to be commendable sport ambassadors and role models for the general public.

As part of its partnership with the 2010 Winter Olympic and Paralympic Games in Vancouver, Saputo was the official supplier of packaged dairy products both distributed and sold during the Games. In addition, Saputo sponsored five athletes who participated in the Games: Jennifer Heil and Chloé Dufour-Lapointe, Freestyle Skiing – Moguls, Dasha Gaiazova, Cross-Country Skiing, Dominique Maltais, Snowboard Cross and Valérie Maltais, Short-track Speed Skating.

Saputo continues its partnership with the Quebec Foundation for Athletic Excellence (FAEQ), supporting 25 talented athletes in various disciplines such as cross-country skiing, cycling, diving, freestyle skiing – moguls, speed skating, soccer, weightlifting, wheelchair basketball and wrestling. The FAEQ bursaries enable athletes to combine sports at national and international levels and academics.

Representing an excellent way to stay healthy and active, soccer is also accessible and promotes values such as teamwork, leadership and respect. That is why Saputo is deeply involved in this sport, notably by being one of the founding partners of the Montréal Impact professional soccer team, champion of the United Soccer Leagues in 2009, and through its implication with the Québec Soccer Federation. With its rising popularity, soccer is considered to be the most praised sport by future generations, thus Saputo proudly contributes to its development. During fiscal 2010, the Company sponsored the *Club 9 de Julio*, an Argentinean soccer school where hundreds of children play daily, allowing the Club to buy materials in order to improve their installations.

As a healthy and balanced lifestyle includes both physical activity and sound eating habits, Saputo partnered with Breakfast Clubs of Canada to promote good eating habits in elementary schools. The organization enables over 200,000 children to participate in a school breakfast program, providing them with nutritious food to start their day off right. Saputo also contributed to food banks in selected Canadian, American and Argentinean regions, by making monetary and product donations.

Moreover, Saputo supported the Make-A-Wish Foundation of America in the US, which enables children with life-threatening medical conditions to make one of their dreams come true.

With its involvement in the community, Saputo wishes to act as a role model for its employees and encourage them to get involved in their own neighbourhood with its Corporate Matching Program. Through this initiative, donations made by employees to non-profit organizations are matched by the Company.

## Savouring our athletes' passion

Congratulations to our five Saputo sponsored athletes who participated in the Vancouver 2010 Winter Olympic Games.


Jennifer Heil, Freestyle Skiing – Moguls, won Canada's 1st medal at the Games.

2010 ANNUAL REPORT

# Management's Analysis

AND

# Consolidated Financial Statements

Saputo

# TABLE OF CONTENTS


MANAGEMENT'S ANALYSIS

| | |
|---|---|
| Caution Regarding Forward-Looking Statements | 3 |
| Global Overview | 3 |
| Financial Orientation | 4 |
| Elements to Consider when Reading Management's Analysis for Fiscal 2010 | 4 |
| Selected Consolidated Financial Information | 6 |
| Information by Sector | |
| CEA Dairy Products Sector | 8 |
| USA Dairy Products Sector | 11 |
| Grocery Products Sector | 13 |
| Liquidity, Financial and Capital Resources | 14 |
| Contractual Obligations | 16 |
| Balance Sheet | 16 |
| Off-Balance Sheet Arrangements | 16 |
| Guarantees | 17 |
| Related Party Transactions | 17 |
| Accounting Standards | 17 |
| Critical Accounting Policies and Use of Accounting Estimates | 22 |
| Risks and Uncertainties | 23 |
| Disclosure Controls and Procedures | 26 |
| Internal Controls over Financial Reporting | 26 |
| Sensitivity Analysis of Interest Rate and the US Currency Fluctuations | 26 |
| Measurement of Results not in Accordance with Generally Accepted Accounting Principles | 26 |
| 2009 and 2010 Quarterly Financial Information | 28 |
| Summary of the Fourth Quarter Results Ended March 31, 2010 | 30 |
| Quarterly Financial Information | 31 |
| Analysis of Earnings for the Year Ended March 31, 2009 Compared to March 31, 2008 | 32 |
| Outlook | 33 |
| CONSOLIDATED FINANCIAL STATEMENTS | 34 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | 39 |

# MANAGEMENT'S ANALYSIS

The goal of the management report is to analyze the results of and the financial position for the year ended March 31, 2010. It should be read while referring to audited consolidated financial statements and accompanying notes. Saputo Inc.'s (Company or Saputo) accounting policies are in accordance with Canadian Generally Accepted Accounting Principles of the Canadian Institute of Chartered Accountants. All dollar amounts are in Canadian dollars unless otherwise indicated. This report takes into account material elements between March 31, 2010 and June 9, 2010, 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, 2010, can be obtained on sedar at www.sedar.com.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report, including the "Outlook" section, contains forward-looking statements within the meaning of securities laws. These statements are based, among others, on Saputo's current assumptions, expectations, estimates, objectives, plans and intentions regarding projected revenues and expenses, the economic and industry environments in which the Company operates or which could affect its activities, its ability to attract and retain clients and consumers as well as its operating costs, raw materials and energy supplies which are subject to a number of risks and uncertainties. Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. 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 throughout this Management Analysis and, in particular, in "Risks and Uncertainties". Forward-looking information contained in this report, including the "Outlook" section, is based on Management's current estimates, expectations and assumptions, which Management believes are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Except as required under applicable securities legislation, Saputo does not undertake to update these forward-looking statements, whether written or oral, 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

Fiscal 2010 was a successful year for Saputo.

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.

Saputo operates its business through two sectors and five divisions, the Dairy Products Sector and the Grocery Products Sector. The Canada, Europe and Argentina (CEA) Dairy Products Sector is composed of the Dairy Products Division (Canada), the Dairy Products Division (Europe) and the Dairy Products Division (Argentina); the USA Dairy Products Sector is composed of the Dairy Products Division (USA) and the Grocery Products Sector is composed of the Bakery Division. The Dairy Products Sector accounts for 97.3% of consolidated revenues, and the Grocery Products Sector, for 2.7% of consolidated revenues. Saputo manufactures almost all of the products it commercializes.

Saputo's dairy products are available in all segments of the food market: retail, foodservice and industrial. The retail segment accounts for 58% of total revenues within the Dairy Products Sector. Sales are made to supermarket chains, mass-merchandisers, convenience stores, independent retailers, warehouse clubs and specialty cheese boutiques under 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.

The foodservice segment accounts for 31% of total revenues within the Dairy Products Sector. Sales are made to broad line distributors as well as 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.

The industrial segment accounts for 11% of total revenues within the Dairy Products Sector. Sales are made to food processors that use Saputo's products as ingredients to manufacture their products. The Company produces dairy ingredients such as lactose, whey powder and whey protein in its Canadian, USA and Argentinean facilities. Saputo supplies various international clients with cheese, lactose, whey powder and protein.

Saputo's grocery products are sold in Canada almost exclusively in the retail segment through supermarket chains, independent retailers, and warehouse clubs. Products are also available on a small-scale in the US, through co-packing agreements whereby the Company manufactures products for third parties under brand names owned by such parties. Products manufactured and sold within this Sector include snack-cakes, pies, cereal bars and fresh cookies.

## FINANCIAL ORIENTATION

The Company's objectives are to exercise strict discipline in cost management and operational efficiency as well as push the limits of innovation, while capitalizing on opportunities to expand existing markets and global presence to enhance shareholder wealth. This past fiscal year, Saputo successfully navigated in an unpredictable economy affected by a financial downturn, by using prudent operating and financial management. Additionally, the Company continued to expand its presence in the US with the acquisition of the activities of F&A Dairy of California, Inc. (F&A Dairy Acquisition) on July 20, 2009, in line with its growth strategy, and is close to completing the integration of the fiscal 2009 acquisitions.

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 to face possible economic changes and growth through targeted acquisitions. In the past fiscal year, the Company continued to strategically invest in capital projects, reduced its debt, 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 (NCIB).

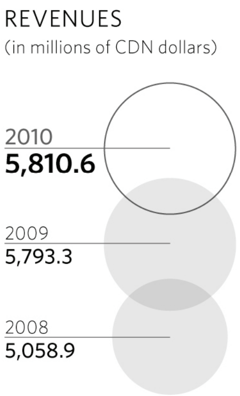
## ELEMENTS TO CONSIDER WHEN READING MANAGEMENT'S ANALYSIS FOR FISCAL 2010

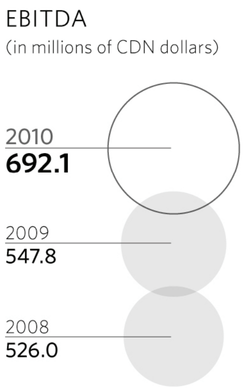
During fiscal 2010, Saputo experienced a good financial performance:

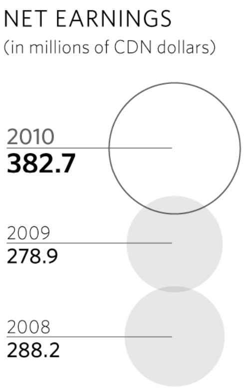
- Net earnings totalled $382.7 million, up 37.2%
- Earnings before interest, income taxes, depreciation and amortization (EBITDA) totalled $692.1 million, up 26.3%
- Revenues reached $5.811 billion, up 0.3%
- Cash flows generated by operations totalled $583.6 million, up 24.9%

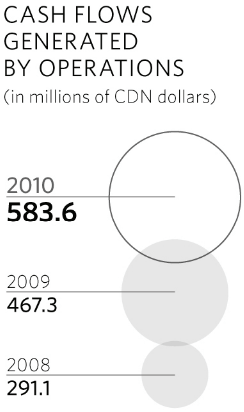
The Company had improved results in both the CEA and the USA Dairy Products Sectors in fiscal 2010. The results from the CEA Dairy Products Sector benefitted mainly from the full year contribution of the acquired activities of Neilson Dairy (Neilson Dairy Acquisition) which was completed on December 1, 2008. Benefits from various cost-cutting initiatives and additional sales volumes also contributed favourably to the results. Furthermore, the benefits from volume increases in the Argentinean operations were totally negated throughout the year due to the high cost of milk as raw material versus lower selling prices, mainly in the export market. The Dairy Products Division (Europe) experienced improvements resulting from better efficiencies, despite lower sales volumes and high milk prices. Included in the results of fiscal 2009 is an inventory write down related to the European and Argentinean Divisions.

Improved results in the USA Dairy Products Sector were due to several factors including benefits derived from the initiatives undertaken by the Company in prior and current fiscal years with regards to improved operational efficiencies as well as the implementation of various selling price initiatives. Additionally, a reduction in the cost of ingredients, as well as changes to the milk pricing formula made by the United States Department of Agriculture (USDA) in the third quarter of fiscal 2009 and the inclusion of the F&A Dairy Acquisition all positively contributed to the results in the USA Dairy Products Sector. The average block market per pound of cheese equalled US$1.35 in fiscal 2010, a US$0.36 decrease in comparison to US$1.71 for fiscal 2009. This decrease in the block market resulted in a less favourable absorption of fixed costs. The relationship between the average block market per pound of cheese and the cost of milk as raw material was also less favourable in fiscal 2010 in comparison to fiscal 2009. The increasing block market throughout the current fiscal year had a favourable impact on the realization of inventories, especially in the final two quarters of fiscal 2010, in comparison to the same two quarters of fiscal 2009. An increase in the dairy ingredients market also positively affected the results for fiscal 2010. Included in the results of fiscal 2009 is a rationalization charge for the closure of the Hinesburg, Vermont manufacturing facility and an inventory write down charge.



# SELECTED CONSOLIDATED FINANCIAL INFORMATION

| Years ended March 31<br>(in thousands of Canadian (CDN) dollars, except per share amounts and ratios) | | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **Statement of earnings data** | | | | |
| Revenues | Dairy Products Sector | | | |
| | CEA[1] | $ 3,745,930 | $ 3,323,541 | $ 2,966,293 |
| | USA | 1,906,189 | 2,304,613 | 1,927,983 |
| | | 5,652,119 | 5,628,154 | 4,894,276 |
| | Grocery Products Sector | 158,463 | 165,109 | 164,624 |
| | | $ 5,810,582 | $ 5,793,263 | $ 5,058,900 |
| Cost of sales, selling and administrative expenses | | | | |
| | Dairy Products Sector | | | |
| | CEA | $ 3,288,035 | $ 2,944,643 | $ 2,602,928 |
| | USA | 1,687,814 | 2,152,607 | 1,782,505 |
| | | 4,975,849 | 5,097,250 | 4,385,433 |
| | Grocery Products Sector | 142,662 | 148,214 | 147,423 |
| | | $ 5,118,511 | $ 5,245,464 | $ 4,532,856 |
| EBITDA[2] | Dairy Products Sector | | | |
| | CEA | $ 457,895 | $ 378,898 | $ 363,365 |
| | USA | 218,375 | 152,006 | 145,478 |
| | | 676,270 | 530,904 | 508,843 |
| | Grocery Products Sector | 15,801 | 16,895 | 17,201 |
| | | $ 692,071 | $ 547,799 | $ 526,044 |
| | *EBITDA margin (%)* | 11.9% | 9.5% | 10.4% |
| Depreciation and amortization | Dairy Products Sector | | | |
| | CEA | $ 54,843 | $ 41,560 | $ 36,810 |
| | USA | 49,844 | 58,849 | 34,780 |
| | | 104,687 | 100,409 | 71,590 |
| | Grocery Products Sector | 8,819 | 7,875 | 7,844 |
| | | $ 113,506 | $ 108,284 | $ 79,434 |
| Operating income | Dairy Products Sector | | | |
| | CEA | $ 403,052 | $ 337,338 | $ 326,555 |
| | USA | 168,531 | 93,157 | 110,698 |
| | | 571,583 | 430,495 | 437,253 |
| | Grocery Products Sector | 6,982 | 9,020 | 9,357 |
| | | $ 578,565 | $ 439,515 | $ 446,610 |
| Interest on long-term debt | | 29,901 | 20,684 | 18,806 |
| Other interest, net of interest income | | 5,161 | 11,031 | 6,538 |
| Earnings before income taxes | | 543,503 | 407,800 | 421,266 |
| Income taxes | | 160,789 | 128,852 | 133,066 |
| Net earnings | | $ 382,714 | $ 278,948 | $ 288,200 |
| Net earnings margin (%) | | 6.6% | 4.8% | 5.7% |
| Net earnings per share | | $ 1.85 | $ 1.35 | $ 1.40 |
| Diluted net earnings per share | | $ 1.83 | $ 1.34 | $ 1.38 |
| Dividends declared per share | | $ 0.58 | $ 0.56 | $ 0.48 |
| **Balance sheet data** | | | | |
| Total assets | | $ 3,253,451 | $ 3,499,103 | $ 2,733,476 |
| Interest bearing debt[3] | | $ 387,543 | $ 713,001 | $ 282,704 |
| Shareholders' equity | | $ 2,028,598 | $ 1,972,348 | $ 1,619,160 |
| **Statement of cash flows data** | | | | |
| Cash flows generated by operations | | $ 583,615 | $ 467,288 | $ 291,062 |
| Amount of additions to fixed assets, net of proceeds on disposal | | $ 106,334 | $ 112,831 | $ 96,438 |

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

[2] Measurement of results not in accordance with Generally Accepted Accounting Principles. The Company assesses its financial performance based on its EBITDA, this being earnings before interest, depreciation, amortization and income taxes. EBITDA is not a measure of performance as defined by Generally Accepted Accounting Principles in Canada, and consequently may not be comparable to similar measurement presented by other companies. Reference is made to the section entitled "Measurement of results not in accordance with Generally Accepted Accounting Principles".

[3] Net of cash and cash equivalents.

*CONSOLIDATED SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA*

| Fiscal years (in millions of CDN dollars) | 2010 | 2009 |
|---|---|---|
| Market factors[1] [2] | 8.0 | (40.0) |
| Inventory write down | (2.1) | (20.9) |
| US foreign currency exchange[1] | (12.0) | 11.0 |
| Rationalization charges | (7.9) | (2.0) |

[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.

**Saputo's consolidated revenues** totalled $5.811 billion, an increase of $17.3 million or 0.3% compared to $5.793 billion for fiscal 2009. Revenues from the CEA Dairy Products Sector increased by approximately $422 million in comparison to last fiscal year. The inclusion of the Neilson Dairy Acquisition contributed to revenues for a full year as compared to four months last fiscal year. In addition, higher selling prices in the Canadian operations in accordance with the increase in the cost of milk as raw material and increased sales volumes from the Canadian and Argentinean activities explain the increased revenues in this Sector. Lower selling prices from the Argentinean export sales decreased revenues in fiscal 2010 as compared to the prior fiscal year. The USA Dairy Products Sector revenues decreased by approximately $398 million. This decrease is mainly due to a lower average block market per pound of cheese of US$1.35 in fiscal 2010, compared to US$1.71 in fiscal 2009, lowering revenues by approximately $284 million. Revenue increases due to the F&A Dairy Acquisition, along with a favourable dairy ingredients market were completely offset by lower sales volumes as compared to last fiscal year. These factors combined accounted for a reduction of approximately $42 million in revenues. 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 2010 eroded approximately $116 million in revenues in comparison to last fiscal year.

**Consolidated earnings before interest, income taxes, depreciation and amortization (EBITDA)** amounted to $692.1 million in fiscal 2010, an increase of $144.3 million or 26.3% compared to the $547.8 million for fiscal 2009. The increase is due to both the CEA and USA Dairy Products Sectors. EBITDA for the CEA Dairy Products Sector totalled $457.9 million in fiscal 2010, an increase of $79.0 million in comparison to $378.9 million for last fiscal year. This increase is mainly attributed to the inclusion of the Neilson Dairy Acquisition, in addition to better efficiencies, including cost reduction initiatives in manufacturing, warehousing and logistics, and a more favourable dairy ingredients market compared to last fiscal year. Included in EBITDA is a rationalization charge of $3.4 million in connection with the recently announced closure of the Brampton, Ontario fluid plant and the consolidation of the Toronto, Ontario distribution activities. The Argentinean operations diminished the EBITDA increase mainly due to the high cost of milk as raw material versus lower selling prices in the export market. The Dairy Products Division (Europe) improved its EBITDA in fiscal 2010 mainly through increased efficiencies and by implementing cost cutting measures despite the continuing challenges facing these markets, more precisely high cost of milk compared to low selling prices. Included in the EBITDA of the Dairy Products Divisions (Argentina and Europe) for fiscal 2009 was an inventory write down of $8.4 million as a result of negative market conditions.

The EBITDA of the USA Dairy Products Sector amounted to $218.4 million, an increase of $66.4 million in comparison to $152.0 million for last fiscal year. EBITDA increased as compared to the previous fiscal year due to initiatives undertaken by the Company in the prior and current fiscal years with regards to improving operational efficiencies as well as the F&A Dairy Acquisition. Also, lower ingredient and fuel costs in addition to changes made to the milk pricing formula by the USDA in the third quarter of fiscal 2009 more than offset increased promotional costs during fiscal 2010. These combined factors increased EBITDA by approximately $59 million during fiscal 2010 as compared to fiscal 2009. The average block market per pound of cheese steadily increased throughout fiscal 2010; however its average for the year ended March 31, 2010 was US$1.35 as compared to US$1.71 for the previous fiscal year. The lower average block market negatively affected the Sector's absorption of fixed costs. The average whey market of approximately US$0.34 in fiscal 2010 was US$0.12 higher than the US$0.22 average during fiscal 2009. As whey is a factor in determining the product-price formula, the relationship between the average block market per pound of cheese and the cost of milk as raw material was also less favourable in fiscal 2010 in comparison to fiscal 2009. Conversely, the increasing block market throughout the fiscal year favourably impacted the realization of inventories, especially in the last two quarters of fiscal 2010 in comparison to fiscal 2009. Lastly, a more favourable dairy ingredients market positively impacted EBITDA. The combination of these market factors had a positive impact of approximately $7 million on EBITDA. Also, included in the results of fiscal 2010 was an inventory write down of $2.1 million, due to a drop in the block market per pound of cheese late in the third quarter of fiscal 2010. In comparison, included in the EBITDA of fiscal 2009 is a rationalization charge of $2.0 million for the closure of the Hinesburg, Vermont manufacturing facility in addition to an inventory write down of $12.5 million for reasons similar to fiscal 2010. The strengthening of the Canadian dollar in fiscal 2010 eroded approximately $12 million of the USA Dairy Products Sector's EBITDA.

The EBITDA of the Grocery Products Sector decreased by $1.1 million to $15.8 million in the current fiscal year, from $16.9 million in fiscal 2009. This decrease is mainly due to rationalization costs of $4.5 million related to the closure of the Québec facility and 23 thrift stores in Québec and Ontario and the restructuring of Ontario's distribution network in addition to decreased volumes as a result of product rationalization and thrift store closures. These negative factors were partially offset by the benefits derived from operational initiatives implemented throughout fiscal 2010.

The consolidated EBITDA margin increased to 11.9% in fiscal 2010 as compared to 9.5% in fiscal 2009 mainly due to the Dairy Products Sector.

**Depreciation and amortization expense** totalled $113.5 million in fiscal 2010, an increase of $5.2 million over $108.3 million in fiscal 2009. The increase is mainly attributed to the inclusion of a full year's depreciation for Neilson Dairy Acquisition in the CEA Dairy Products Sector as compared to only four months in fiscal 2009. Also included in depreciation and amortization expense for fiscal 2010 is an impairment amount of $2.6 million for the closure of the Brampton, Ontario fluid milk plant and the consolidation of the Toronto, Ontario distribution activities. In addition, capital investments undertaken by all divisions in the current and prior fiscal years also contributed to increase depreciation expense. Included in fiscal 2009 depreciation and amortization expense was an impairment amount of $8.6 million related to the closure of the Hinesburg, Vermont manufacturing facility.

**Net interest expense** amounted to $35.1 million in fiscal 2010 compared to $31.7 million in fiscal 2009. The increase is mainly related to the financing of the Neilson Dairy Acquisition.

**Income taxes** totalled $160.8 million in fiscal 2010 as compared to $128.9 million for an effective tax rate of 29.6% in fiscal 2010 as compared to 31.6% in fiscal 2009. During the third quarter of fiscal 2010, the Company reduced its future income tax liability by approximately $1.4 million to reflect a reduction in the Canadian tax rate sanctioned during the quarter. The income tax rate varies and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates.

**Net earnings** for the fiscal year ended March 31, 2010 totalled $382.7 million, an increase of $103.8 million or 37.2% compared to $278.9 million in fiscal 2009. The increase is due to the factors mentioned above.

# INFORMATION BY SECTOR

## CEA DAIRY PRODUCTS SECTOR

| Fiscal years<br>(in millions of CDN dollars) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenues | $ 3,745.9 | $ 3,323.5 | $ 2,966.3 |
| EBITDA | $ 457.9 | $ 378.9 | $ 363.4 |

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

| Fiscal years<br>(in millions of CDN dollars) | 2010 | 2009 |
|---|---|---|
| Market factors[1] [2] | 1.0 | (23.0) |
| Inventory write down | – | (8.4) |
| Rationalization charges | (3.4) | – |

[1] As compared to previous fiscal year.

[2] Market factors include the international market pricing impact related to sales of dairy ingredients.

The CEA Dairy Products Sector had a very productive year despite the various market-related challenges. The Neilson Dairy Acquisition, completed on December 1, 2008 contributed to the results for a full year. The Company's continual analysis of cost structures and activities relating to manufacturing, distribution and warehousing intended to optimize efficiencies allowed cost savings which contributed positively to this past fiscal year's results. The Dairy Products Divisions (Europe and Argentina), were affected throughout fiscal 2010 by high milk costs as raw material versus low selling prices in the international market negatively impacting the results. Despite these challenges, the CEA Dairy Products Sector performed well during fiscal 2010.

## REVENUES

Revenues from the CEA Dairy Products Sector totalled $3.746 billion, an increase of $422.4 million or 12.7% as compared to the $3.323 billion in fiscal 2009. The increase in revenues is distributed as follows: approximately $453 million is attributed to the Dairy Products Division (Canada) offsetting approximately a $30 million reduction in revenues related to the Dairy Products Divisions (Europe and Argentina).

The revenue increase in the Dairy Products Division (Canada) is mainly derived from the Neilson Dairy Acquisition contributing for a full year in fiscal 2010 as compared to only four months a year earlier. These revenues are in line with the annual revenues generated at the time of acquisition. Also, higher selling prices stemming from the increase in the cost of milk as raw material was another factor in the total revenue increase for the current fiscal year. The dairy ingredients market had a positive impact on revenues, as did the increase in sales volumes and better product mix as compared to the preceding fiscal year.

In fiscal 2010, the pricing, rebating and discounting practices in all segments were unchanged from prior fiscal years.

The Company produces approximately 32% of all the natural cheese manufactured in Canada. Similarly, Saputo's share of total production of fluid milk in Canada is approximately 35%. Saputo remains the leader in the Canadian Dairy Industry in both these categories.

The retail segment continues to be the leading segment in the Dairy Products Division (Canada) with 70% of revenues, an increase from the 66% for fiscal 2009. This increase is the result of the addition of the Neilson Dairy Acquisition for the full year which serves mainly the retail segment. Most product categories within the Canadian dairy market are relatively stable in per capita consumption. Saputo is pleased to have both the number one and two brands[1] in the refrigerated dairy case category with *Dairyland* and *Neilson* in the fluid milk business. In a more competitive market, the value-added milk portfolio continued to fare well. Distinct promotion and advertising continue to support its leading brands, *Trustate, Dairy Oh!,* and *Milk 2 GO*, in an effort to continue growth and market expansion.

The foodservice segment represents 26% of revenues in the Dairy Products Division (Canada), a decrease from the 29% in the prior fiscal year. Although the foodservice segment percentage decreased due to the inclusion of Neilson Dairy Acquisition, whose sales are mainly in the retail segment, the foodservice segment nevertheless increased in fiscal 2010 as compared to fiscal 2009 due to the increase in sales volumes. The focus in this segment is to meet and surpass customers' needs as well as develop long-term business relationships. Product performance is viewed as key to achieving the loyalty of chefs as well as foodservice distributors and pizzeria operators. Additionally, the Company prides itself on outstanding service levels and the ability to provide customers with an assortment of dairy products including cheese, milk and culture products.

The industrial segment accounts for 4% of revenues of the Dairy Products Division (Canada), a decrease from the 5% in the previous fiscal year. This segment includes sales of cheese and dairy ingredients. More favourable dairy ingredients market conditions positively impacted revenues in this segment as compared to last fiscal year.

Revenues for the Dairy Products Division (Europe) decreased during fiscal 2010 as compared to the prior fiscal year. This decrease was due to the significant reduction of the milk intake due to the non-competitive high cost of milk in relation to the low selling price of cheese in the overall market, resulting in lower sales volumes. A slight rebounding trend occurred during the latter stages of the current fiscal year.

Revenues from the Dairy Products Division (Argentina) were higher in fiscal 2010 as compared to fiscal 2009 as a result of increased volumes, mainly in the export market. These volume increases were partially offset by a decrease in selling prices in the international market that existed in fiscal 2009 and continued into fiscal 2010. 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 $43 million.

## EBITDA

EBITDA totalled $457.9 million for the year ended March 31, 2010 as compared to $378.9 million in fiscal 2009, which represents an increase of $79.0 million or 20.8%. EBITDA margin also increased to 12.2% from 11.4% in fiscal 2009 as a result of benefits derived from operational efficiencies as compared to the previous fiscal year as well as a more favourable dairy ingredients market for fiscal 2010. The inclusion of a full year for its Neilson Dairy Acquisition as compared to only four months for fiscal 2009 benefitted this Sector's EBITDA. Also, the Canadian Division was able to improve the Neilson Dairy activities contributing further to EBITDA. Additional EBITDA was also

[1] Source: Nielsen MarketTrack, National All Channels, 52 Weeks Ending August 29, 2009.

generated as a result of increased sales volumes and benefits derived from various cost reduction initiatives mainly in the activities of manufacturing, warehousing and logistics. Included in EBITDA is a rationalization charge of approximately $3.4 million in connection with the recently announced closure of the Brampton, Ontario fluid plant and the consolidation of the Toronto, Ontario distribution activities. These charges result from decisions made in line with the continual analysis of the Company's overall activities and implementation of measures aimed at improving operational efficiencies.

During fiscal 2010, synergies were achieved, mainly by the combination of routes and standardization of cost structures from coast to coast. The EBITDA reflects increased efficiencies in both cheese and fluid manufacturing activities and the implementation of numerous initiatives targeting more specialized plants. The Neilson Dairy Acquisition with its two manufacturing facilities in Ontario, Canada allowed the Dairy Products Division (Canada) to expand its presence in the Ontario fluid milk and cream markets. The Company completed the implementation of measures to mitigate the negative impact brought by compliance with the amendments to the new standards of composition for cheese manufactured in and imported to Canada introduced in December 2008. Finally, in fiscal 2010, the dairy ingredients market was more favourable compared to fiscal 2009 by approximately $1 million.

The Dairy Products Division (Europe) improved its EBITDA in fiscal 2010 despite the continuing challenges facing these markets, more precisely high cost of milk versus lower selling prices in the export markets. This improvement in EBITDA can be attributed mainly to the progress realized with respect to efficiencies, cost reduction measures as well as streamlining of the operations.

The Dairy Products Division (Argentina)'s EBITDA decreased in fiscal 2010, negatively affected by a decrease in the selling prices in the export market as compared to the prior fiscal year, while the price for milk as raw material remained high. Partially offsetting the EBITDA decrease were benefits derived from operational efficiencies and increase in sales volumes both in the domestic and export markets.

## OUTLOOK

The Dairy Products Division (Canada) will continue to invest in projects to increase capacity in the specialty cheese facilities in order to increase its presence in the growing specialty cheese category.

To further capitalize on the Neilson Dairy Acquisition, Saputo recently announced plans to relocate the Brampton milk and cream production to other facilities in the following quarters. Additionally, the Company will consolidate distribution in the Greater Toronto area within the new distribution center. These measures were announced on March 30, 2010 and the expected completion date is fall 2010. Saputo expects after-tax savings of approximately $6.5 million per year.

In the next fiscal year, Saputo will continue to review overall activities in an effort to improve operational efficiencies and decrease operational costs. Production capacity continues to be consistently scrutinized as the objective is to optimise excess production capacities at the CEA Dairy Products Sector plants, which at March 31, 2010 are at 28% and 37% in cheese and fluid activities respectively.

The Dairy Products Division (Europe) anticipates that fiscal 2011 will still be a challenging year with respect to obtaining milk supply at prices competitive with the selling price of cheese. Nevertheless, the Division will work toward increasing its volume while improving efficiency of its manufacturing facilities.

The Dairy Products Division (Argentina) will continue to seek volume growth more so in the domestic market. Other challenges will be to face 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 in an effort to improve its results.

## USA DAIRY PRODUCTS SECTOR

| Fiscal years (in millions of CDN dollars) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenues | $ 1,906.2 | $ 2,304.6 | $ 1,928.0 |
| EBITDA | $ 218.4 | $ 152.0 | $ 145.5 |

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

| Fiscal years (in millions of CDN dollars) | 2010 | 2009 |
|---|---|---|
| Market factors[1 2] | 7.0 | (17.0) |
| US currency exchange[1] | (12.0) | 11.0 |
| Inventory write down | (2.1) | (12.5) |
| Rationalization charges | – | (2.0) |

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***

| Fiscal years (in US dollars, except for average exchange rate) | 2010 | 2009 |
|---|---|---|
| Average block market per pound of cheese | 1.351 | 1.708 |
| Closing block price[1] per pound of cheese | 1.400 | 1.290 |
| Whey market price[2] per pound | 0.340 | 0.220 |
| Spread[3] | 0.152 | 0.177 |
| US average exchange rate to Canadian dollar[4] | 1.091 | 1.128 |

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 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 2010, continued volatile and unfavourable market conditions in the US dairy industry affected the USA Dairy Products Sector. Throughout the first half of the fiscal year, the average block market per pound of cheese continued to trade below historical averages, negatively impacting the results. The average was US$1.21 for the first six months of fiscal 2010. During July 2009, the block market per pound of cheese decreased to levels inferior to the dairy industry support level of US$1.13. In the latter half of the fiscal year, the average block market per pound of cheese began its upward climb, with an average of US$1.49. During the current fiscal year, the average block market per pound of cheese was US$1.35, as compared to US$1.71 for fiscal 2009. The volatility of highs and lows were not as pronounced in fiscal 2010 as compared to fiscal 2009, in which the market witnessed a big drop in the block market per pound of cheese between the third and fourth quarters. Dairy ingredient market prices began the fiscal year below historical averages also, steadily increasing throughout the entire fiscal year. These market trends leading up to the end of the fiscal year were one of the contributing factors towards the USA Dairy Products Sector improvement in fiscal 2010. On July 20, 2009, the Company completed the F&A Dairy Acquisition.

In fiscal 2010, the California Department of Food and Agriculture (CDFA) increased the Class 4b milk pricing formula by approximately US$0.10 per hundredweight for the period of January 1, 2010 to March 31, 2010. This increase was aimed at providing relief to distressed dairy farmers. The increase did not materially affect the results of the Dairy Products Division (USA). The USDA also implemented various programs to provide relief to struggling farmers. These programs concentrated on providing immediate relief through loss assistance payments to eligible farmers, increasing the dairy products support price from August through October 2009, export incentive programs to help exporters meet prevailing world food prices, as well as purchase programs to alleviate inventory pressures in the US dairy market. These measures did not have an impact on the results of the USA Dairy Products Sector.

### REVENUES

Revenues from the USA Dairy Products Sector totalled $1.906 billion for the fiscal year ended March 31, 2010 as compared to $2.305 billion in fiscal 2009, representing a decrease of $398.4 million or 17.3%. This decrease is mainly due to the lower average block market per pound of cheese in fiscal 2010 of US$1.35 in comparison to US$1.71 in fiscal 2009. This reduced revenues by approximately $284 million as compared to fiscal 2009. Several other factors also affected revenues, including a decrease in sales volumes, which negated the favourable impacts of both the inclusion of the F&A Dairy Acquisition in addition to the upswing in the dairy ingredients market as compared to fiscal 2009. These factors combined negatively affected revenues by approximately $42 million. The strengthening of the Canadian dollar also resulted in a decrease in revenues of approximately $73 million as compared to the prior fiscal year.

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

During fiscal 2010, the retail, foodservice, and industrial segments accounted for 36%, 49% and 15%, respectively, of the Sector's total sales volumes. During fiscal 2009, the retail, foodservice, and industrial segments accounted for 35%, 47%, and 18%, respectively, of the Sector's total sales volumes. The F&A Dairy Acquisition did not significantly change the percentages of sales volumes per segment.

In the retail segment, the natural cheese category enjoyed strong growth in fiscal 2010, as consumers returned to prepared meals at home in response to the economic recession. This growth was driven by private label items, which enjoyed heightened support from retailers, at the expense of branded sales volumes. However, the Division is proud that its *Frigo Cheese Heads* and *Treasure Cave* brands have maintained their number one rankings[1] within their respective string cheese and blue cheese retail brand categories. Throughout the fiscal year, the Division has concentrated its marketing efforts on supporting these brands in order to maintain its leading positions.

In fiscal 2010, the foodservice segment was negatively affected by the economic recession. Reduced casual dining resulting in lower sales volumes drove foodservice operators to seek cost savings, as well as promotional efforts to rebuild this volume. The Dairy Products Division (USA) continued to support its leading foodservice brands. The Division's support of its premium line of mozzarella, with new varieties and enhanced package graphics yielded positive results in fiscal 2010.

The industrial segment includes sales of cheese and dairy ingredients. In fiscal 2010, more favourable dairy ingredients prices positively affected the industrial segment. The F&A Dairy Acquisition, which included a dairy ingredient drying facility, contributed to increasing revenues in this segment.

### EBITDA

During fiscal 2010, earnings before interest, income taxes, depreciation and amortization totalled $218.4 million, a $66.4 million or 43.7% increase in comparison to the $152.0 million in fiscal 2009.

During the current fiscal year, the USA Dairy Products Sector benefitted from initiatives undertaken in the prior and current fiscal years with regards to improving operational efficiencies as well as the implementation of various selling price initiatives. Other factors which improved EBITDA as compared to the prior fiscal year include lower ingredient and fuel costs in addition to the changes made to the milk pricing formula by the USDA in the third quarter of fiscal 2009. The F&A Dairy Acquisition also contributed to the EBITDA increase. These combined factors increased EBITDA by approximately $59 million during fiscal 2010 as compared to fiscal 2009. The average block market per pound of cheese rose steadily throughout fiscal 2010; however its average for the year ended March 31, 2010 was US$1.35 as compared to US$1.71 for the previous fiscal year. The lower average negatively affected the Sector's absorption of fixed costs. The average whey market of approximately US$0.34 in fiscal 2010 was US$0.12 higher than the US$0.22 average during fiscal 2009. As whey is a factor in determining the product-price formula, the relationship between the average block market per pound of cheese and the cost of milk as raw material was also less favourable in fiscal 2010 in comparison to fiscal 2009. Conversely, the increasing block market throughout the current fiscal year favourably impacted the realization of inventories, especially in the last two quarters of fiscal 2010. Lastly, the dairy ingredients market positively impacted EBITDA. The combination of these market factors had a positive impact of approximately $7 million on EBITDA. The market necessitated an adjustment to inventory valuation during the year leading to an inventory write down of $2.1 million, due to a drop in the block market per pound of cheese late in the third quarter of fiscal 2010. In comparison, included in the EBITDA of fiscal 2009 is a rationalization charge of $2.0 million for the closure of the Hinesburg, Vermont manufacturing facility in addition to an inventory write down of $12.5 million for reasons similar to fiscal 2010. The strengthening of the Canadian dollar in fiscal 2010 eroded approximately $12 million in EBITDA.

### OUTLOOK

On July 20, 2009, Saputo completed the F&A Dairy Acquisition. This transaction allowed the Division to expand its business and presence within the US dairy industry. In fiscal 2010, the Division successfully transitioned these operations into its existing systems and structure and expects to achieve further benefits from this acquisition in fiscal 2011.

[1] Source : IRI Total US FDMW, latest 12 weeks, ending March 21, 2010.

In fiscal 2010, the Division completed and/or began numerous strategic capital projects. Projects relating to its Midwest facilities acquired in fiscal 2009, as well as its new facility acquired as part of the F&A Dairy Acquisition, should be completed in the first half of fiscal 2011. These capital projects should allow the Division to increase its production capacity, enabling it to grow organically, improve operational efficiencies, and identify other opportunities for growth. Finally, marketing efforts will continue to focus on supporting leading brands.

## GROCERY PRODUCTS SECTOR

| Fiscal years<br>(in millions of CDN dollars) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenues | $ 158.5 | $ 165.1 | $ 164.6 |
| EBITDA | $ 15.8 | $ 16.9 | $ 17.2 |

### SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA

| Fiscal years<br>(in millions of CDN dollars) | 2010 | 2009 |
|---|---|---|
| Rationalization charges | (4.5) | – |

### REVENUES

Revenues for the Grocery Products Sector totalled $158.5 million for the fiscal year ended March 31, 2010, a $6.6 million decrease compared to the previous fiscal year. Certain operational improvements made throughout the current fiscal year resulted amongst others in a reduction in product returns, allowing the Division to close 23 thrift stores in Québec and Ontario in the second quarter of fiscal 2010 thus decreasing revenues. Lower sales volumes from the US co-packing and Western Canadian activities also decreased revenues, along with the rationalization of the Sector's product portfolio by discontinuing lower sales volume products.

During the current fiscal year, Saputo continued to support its brands with marketing initiatives geared towards in-store activities. The Company also introduced many new products under the *Vachon* brand name and relaunched the *Igor* brand in the snack products category. In the US, efforts were concentrated in maintaining the existing clients and offering them new products to meet their needs.

### EBITDA

The EBITDA of the Grocery Products Sector totalled $15.8 million a decrease of $1.1 million compared to the previous fiscal year. This decrease was mainly due to rationalization costs of $4.5 million related to the closure of its Québec facility and 23 thrift stores in Québec and Ontario and the restructuring of its distribution network in Ontario. Partially offsetting the EBITDA decrease were many initiatives that were taken throughout the current fiscal year such as; the extension of product shelf-life, operational improvements which lowered product returns, the reduction of the numbers of stock-keeping unit (SKU), thus providing a more standardized product offering, and the improvement of the production process. Finally, the Division reviewed some of its recipes in an effort to find more efficient ways of using some of its ingredients since these costs are constantly increasing. These initiatives have resulted in a better product mix and improved operating costs.

### OUTLOOK

The Division will continue to review different aspects of its operations, such as lower volume SKU's and the standardization of packaging and ingredients. Also, it will focus on further plant automation in the coming fiscal year. The integration of the distribution channels for Ontario and Western regions should be completed in early fiscal 2011. The Division incurred rationalization costs of $4.5 million in the current fiscal year, and expects savings of approximately $3 million in EBITDA per year. In addition, the Division will continue to expand its product offering such as new upscale products in a large cake format in the frozen category. In the US market, the Division will review the possibility of providing a limited product offering under the *Vachon* brand name. Finally, the Division will maintain its focus on operational efficiency and brand support.

## 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 the operational objectives and also provide details into 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 strategic capital spending, dividends, and for principal and interest payments on the debt. Also, the Company has bank credit facilities available for general corporate purposes which can be used for working capital requirements and/or business acquisitions.

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

| Fiscal years<br>(in thousands of CDN dollars) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash generated by operating activities | $ 583,615 | $ 467,288 | $ 291,062 |
| Changes in non-cash working capital items | 60,776 | 77,817 | (99,791) |
| Cash (used) for investing activities | (172,912) | (755,365) | (354,437) |
| Cash (used) generated by financing activities | (391,504) | 161,579 | (56,148) |
| Increase (decrease) in cash and cash equivalents | 19,199 | (126,498) | (119,523) |

Cash generated by **operating activities** before changes in non-cash working capital items amounted to $522.8 million for fiscal 2010, an increase of $133.3 million compared to $389.5 million in fiscal 2009. During fiscal 2010, non-cash working capital items generated $60.8 million, in comparison to $77.8 million in fiscal 2009. The increase in funds generated from non-cash working capital items in fiscal 2010 and fiscal 2009 are mainly due to decreased working capital levels in the US operations resulting from the decrease in the average block market per pound of cheese.

In **investing activities**, the Company used $172.9 million in fiscal 2010 mainly for additions to fixed assets of $106.9 million, of which nearly 22% went into the replacement of fixed assets and 78% to implement new technologies, as well as to expand and increase certain manufacturing capacities. Also, the F&A Dairy Acquisition, with a purchase price of $49.6 million, explains the cash usage for investing activities.

As for **financing activities** in fiscal 2010, the Company increased its long-term debt by $330.0 million as part of an unsecured Senior Notes debt financing and repaid $178.5 million in long-term unsecured Senior Notes and $340.0 million of credit facilities classified as long-term debt. The Company also repaid bank loans for $71.9 million and paid $119.0 million in dividends. Moreover, the Company also issued shares for a cash consideration of $26.0 million as part of the stock option plan and repurchased $38.1 million of share capital as part of the NCIB.

### 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 and capital investment requirements over at least the next twelve months, exclusive of any possible 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.

| Fiscal years<br>(in thousands of CDN dollars, except ratio) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current assets | $ 1,046,378 | $ 1,125,672 | $ 1,179,500 |
| Current liabilities | 690,694 | 958,944 | 763,208 |
| Working capital | 355,684 | 166,728 | 416,292 |
| Working capital ratio | 1.51 | 1.17 | 1.55 |

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

The increase in the working capital ratio is mainly attributed to the reimbursement of the March 31, 2009 current portion of the long-term debt (US$170 million Senior Notes).

## 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.

| Fiscal years<br>(in thousands of CDN dollars, except ratio and number of shares and options) | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 54,819 | $ | 43,884 | $ | 165,710 |
| Bank loans | $ | 61,572 | $ | 139,399 | $ | 222,584 |
| Long-term debt including short-term portion | $ | 380,790 | $ | 617,486 | $ | 225,830 |
| Interest-bearing debt[1] | $ | 387,543 | $ | 713,001 | $ | 282,704 |
| Shareholders' equity | $ | 2,028,598 | $ | 1,972,348 | $ | 1,619,160 |
| Interest-bearing[1] debt-to-equity ratio | | 0.19 | | 0.36 | | 0.17 |
| Common shares | | 207,425,823 | | 207,087,283 | | 205,962,964 |
| Preferred shares | | - | | - | | - |
| Stock options | $ | 9,413,750 | $ | 9,128,841 | $ | 8,893,428 |
| Dividends paid | $ | 118,996 | $ | 111,660 | $ | 94,455 |

[1] Net of cash and cash equivalents.

The Company had $54.8 million of cash and cash equivalents and available bank credit facilities of approximately $599 million, $61.6 million of which are drawn. See Note 7 to the consolidated financial statement 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 creation. As at May 27, 2010 207,527,188 common shares and 11,018,089 stock options were outstanding.

## NORMAL COURSE ISSUER BIDS

The Company announced on November 4, 2008 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 13, 2008. Under the Bid, the Company could have purchased for cancellation up to 10,340,377 common shares. This represented 5% of its 206,807,551 issued and outstanding common shares as of October 31, 2008. These purchases could have been made in accordance with applicable regulations over a maximum period of 12 months beginning on November 13, 2008 and ending on November 12, 2009. The cash consideration, which the Company paid for any common shares acquired by it under the Bid is the market price of such common shares at the time of acquisition.

Saputo announced on November 3, 2009 its intention to purchase, by way of a new normal course issuer bid (New Bid), for cancellation purposes, some of its common shares through the facilities of the Toronto Stock Exchange, beginning on November 13, 2009. Under the New Bid, the Company may purchase for cancellation up to 10,322,467 common shares. This represents 5% of its 206,449,340 issued and outstanding common shares as of October 31, 2009. These purchases can be made in accordance with applicable regulations over a maximum period of 12 months beginning on November 13, 2009 and ending on November 12, 2010. 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.

During the year ended March 31, 2010, the Company purchased 1,420,200 common shares, at prices ranging from $24.10 to $29.99 per share, relating to the NCIB. During the year ended March 31, 2009, the Company did not purchase any common shares under the NCIB.

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

## 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 of its long-term debts and certain repayment estimates for other long-term debts as well as certain leases of premises, equipment and rolling stock. Note 8 to the consolidated financial statements describes the Company's commitment to repay long-term debt, and Note 17 to the Consolidated Financial Statements describes its lease commitments.

| (in thousands of CDN dollars) | Long-term debt | Minimum lease | Total |
|---|---|---|---|
| Less than 1 year | $ – | $ 12,600 | $ 12,600 |
| 1-2 years | – | 10,285 | 10,285 |
| 2-3 years | – | 8,161 | 8,161 |
| 3-4 years | – | 7,094 | 7,094 |
| 4-5 years | 160,790 | 5,261 | 166,051 |
| More than 5 years | 220,000 | 6,977 | 226,977 |
| Total | $ 380,790 | $ 50,378 | $ 431,168 |

### *LONG-TERM DEBT*

As described in Note 8 to the consolidated financial statements, the Company completed during the first quarter of fiscal 2010 a $330.0 million debt financing, composed of $110.0 million Canadian denominated unsecured Senior Notes, issued at an interest rate of 5.34% for a term of five years maturing on June 22, 2014, and $220.0 million Canadian denominated unsecured Senior Notes issued at an interest rate of 5.82% for a term of seven years maturing on June 22, 2016. The proceeds of this financing were used to pay down part of the Company's existing long-term debt credit facilities and for general corporate purposes.

### *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, 2009, the main balance sheet items as at March 31, 2010 varied due to the appreciation of the Canadian dollar versus both the US dollar and the Argentinean peso.

The conversion rate of the US operations' balance sheet items in US currency was CND$1.0158 per US dollar as at March 31, 2010, compared to CND$1.2613 per US dollar as at March 31, 2009. The conversion rate of the Argentinean operations' balance sheet items in Argentinean currency was CND$0.2614 per Argentinean peso as at March 31, 2010 compared to CND$0.3318 per Argentinean peso as at March 31, 2009. The strengthening of the Canadian dollar results in lower values recorded for the balance sheet items of the foreign operations.

Changes in the main balance sheet items were also due to the F&A Dairy Acquisition.

The net cash position increased from negative $95.5 million as at March 31, 2009, to negative $6.8 million as at March 31, 2010, mainly by the repayment of bank loans from cash generated from operations. The change in foreign currency translation adjustment listed under accumulated other comprehensive income varied due to the strengthening of the Canadian 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, 2010 totalled $50.4 million. The Company does not use derivative financial instruments for speculation. Saputo uses certain derivative financial instruments in specific situations. In the normal course of business, the Canadian operations import some products and the management of foreign exchange risk occasionally leads us to make certain foreign currency purchases in euros and US dollars, which amounted to 2.3 million euros and 4.0 million US dollars as at March 31, 2010.

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, 2010, the market value of these contracts was negative $1.1 million.

The Company's exposure to the derivative financial instruments used is not affected by changing economic conditions, since these instruments are generally held until maturity. See notes 17 and 19 to the consolidated financial statements that 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 17 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 significant influence by its principal shareholder. These goods and services of an immaterial amount are compensated by a counterpart equal to the fair market value, which are comparable to similar transactions. The goods and services that are received consist of rent of office space, travel arrangements, transportation of goods, lodging and the purchase of canned goods as well as management fees for compensation of the Chairman of the Board. The goods and services that are provided consist of dairy products. See Note 18 to the consolidated financial statements that describe the related party transactions.

## ACCOUNTING STANDARDS

### APPLIED STANDARDS

During the fiscal year ended March 2010, the Company adopted the following new accounting policies as described in the Canadian Institute of Chartered Accountants (CICA) Handbook.

***GOODWILL AND INTANGIBLE ASSETS***

Section 3064 of the CICA Handbook, Goodwill and Intangible Assets, replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this new section had no significant impact on the consolidated financial statements.

***FINANCIAL INSTRUMENTS – DISCLOSURES***

Section 3862 was amended to improve fair value and liquidity risk disclosures. This Section now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

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

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The additional disclosures required as a result of the adoption of these standards are included in the notes to the consolidated financial statements (Note 19).

### FUTURE STANDARDS

***BUSINESS COMBINATIONS***

Section 1582, Business Combinations, replacing Section 1581 of the same name will be applicable to business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning April 1, 2011. Early adoption is permitted. This Section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

*CONSOLIDATED FINANCIAL STATEMENTS*

Section 1601, Consolidated Financial Statements, replacing Section 1600 of the same name, will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after April 1, 2011. Early adoption is permitted. This Section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

*NON-CONTROLLING INTERESTS*

Section 1602, Non-Controlling Interests will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after April 1, 2011. Early adoption is permitted. This Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

*INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)*

In February 2008, the AcSB announced January 1, 2011 as the changeover date for publicly-listed companies with December 31st year ends to adopt IFRS, replacing Canada's own generally accepted accounting principles. The changeover date applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company's IFRS adoption date of April 1, 2011 will require restatement, for comparative purposes, of amounts reported by the Company for the year ended March 31, 2011 and an opening IFRS balance sheet as of April 1, 2010.

In order to ensure seamless transition to IFRS, the Company has divided its convergence plan into the following phases:

Phase I: IDENTIFICATION AND ANALYSIS
Phase II: IMPACT ANALYSIS AND DEVELOPMENT PHASE
Phase III: IMPLEMENTATION PHASE

The Company is currently in phase II of its convergence plan, which began on October 1, 2009 and is proceeding according to schedule. In this phase, the Company is determining which divergences are of relevance to its operations and the quantitative impact these divergences will have on its financial statements including comparatives. The Company has also undertaken the necessary steps to develop processes to identify divergences and to ensure their timely reporting. The Company intends to complete phase II and enter phase III in fiscal 2011.

In phase III, the Company will track Canadian GAAP to IFRS divergences and develop model financial statements that are IFRS compliant to ensure seamless transition.

The Company is currently reviewing accounting policy decisions with active implication of Management in the identification and approval of significant IFRS policy divergences. Management will continue to monitor divergences caused by future IFRS amendments throughout the convergence period. Where decisions have been rendered, discussions of the implications have been provided below.

The Company has identified the following eight accounting areas that it has deemed of either high or moderate significance:

IFRS 1 "First Time Adoption of Reporting Standards"
IFRS 2 "Share-Based Payment"
IFRS 3 "Business Combinations"
IAS 12 "Income Taxes"
IAS 16 "Property, Plant and Equipment"
IAS 19 "Employee Benefits"
IAS 32 & IAS 39 "Financial Instruments Presentation, Recognition and Measurement"
IAS 36 "Impairment of Assets"

Significance has been established as the potential impact divergences may have on the Company's financial statements and existing reporting environment. The determination of the significance of the areas listed above has been assessed based on a review of CICA publications detailing divergences between Canadian GAAP and IFRS and through an analysis undertaken by the IFRS Convergence Team of all currently enacted IFRS Standards.

Readers of the financial statements are cautioned that the International Accounting Standards Board (IASB) intends to further revise several accounting standards that may result in the addition or removal of accounting standards identified as significant for the Company listed above. The IASB has also indicated several other convergence projects between IFRS and FASB that may further alter this assessment.

Financial statements readers should note that transition divergences between Canadian GAAP and IFRS will be accounted for as adjustments to April 1, 2010 retained earnings (or another category of equity where applicable) and not through the consolidated statements of earnings. As such, reconciliations shall be presented in the year of first-time IFRS adoption reconciling previously reported Canadian GAAP to IFRS.

The discussion provided below is not intended to represent a complete list of all relevant Canadian GAAP to IFRS divergences. Instead, only significant divergences that will result in either material adjustment to the financial statements or add significant complexities to the current reporting environment have been identified. Management is currently in the process of quantifying its divergences and will continue to do so throughout the transition period.

## *IDENTIFICATION AND IMPACT OF ACCOUNTING POLICY CHANGES*

### *IFRS 1 "FIRST TIME ADOPTION OF REPORTING STANDARDS"*

IFRS 1 discusses the framework for transition from an entity's current reporting standards to IFRS. The general requirement of IFRS 1 is to apply IFRS retrospectively on first-time adoption. However, the Company has identified the following significant exemptions that allow prospective application:

- IFRS 3 BUSINESS COMBINATIONS – IFRS 1 allows an entity to apply IFRS 3 either retrospectively to all combinations, retrospectively from a certain point forward or prospectively. The Company has elected to apply IFRS 3 prospectively. Accordingly, no accounting adjustments will occur to business combinations for differences between GAAP and IFRS (identified below) prior to the date of transition. Consequently, there will be no restatement of pre-transition Goodwill or Intangibles.

- IAS 21 THE EFFECTS OF CHANGES ON FOREIGN EXCHANGE RATES – IFRS 1 allows an entity to recognize all cumulative translation adjustments of foreign operations in Retained Earnings, effectively zeroing out the pre-transition balance. The Company has elected to apply this exemption.

- IAS 16 PROPERTY, PLANT & EQUIPMENT – IFRS 1 allows an entity to carry forward its fixed asset cost, subject to the elimination of any discrepancies with Canadian GAAP or to revalue its fixed assets at fair value on transition and subsequently apply those values as deemed cost. The Company has elected to retroactively apply the fixed asset historical cost model for IFRS purposes on its transition date.

### *IFRS 2 "SHARE-BASED PAYMENT"*

GRADED VESTING – For share options that vest in instalments, IFRS requires the use of the graded vesting method which requires that each instalment be treated as a separate grant with its own separate fair value. Canadian GAAP, however, allows an entity the option of either using the graded vesting method or the straight-line method which uses a single pool approach and recognizes expenses equally, over the average life of the grant. The Company is currently using the straight-line method for its grants that vest over a 5-year period.

The use of the graded vesting model will not result in a material impact over the 5-year vesting period. Readers, however, are cautioned that the graded vesting model will result in the recognition of greater expenses in the first two years of a grant issuance and fewer expenses in the remaining three year period compared to the model currently in use by the Company.

### *IFRS 3 "BUSINESS COMBINATIONS"*

The Company has identified the following Canadian GAAP to IFRS divergences specific to its reporting environment:

- ACQUISITION COSTS – Acquisition related costs (other than debt and equity issuance costs) must be expensed under IFRS as opposed to current Canadian GAAP practice which allows their capitalization (under certain conditions).

- EXIT, RELOCATION AND TERMINATION COSTS – Exit, termination and relocation costs are usually expensed under IFRS unless, at the acquisition date, the acquiree already has an existing liability for restructuring costs recognized in accordance with IAS 37 "Provisions, Contingent Liabilities & Contingent Assets." Under Canadian GAAP, a company would generally be permitted to capitalize these costs under less stringent guidelines.

The Entity will not restate acquisition related assets, including Goodwill and Intangibles, pertaining to prior business combinations as a result of the election found in IFRS 1 allowing the prospective application of IFRS 3 (please refer to discussion in IFRS 1 above).

As a result of the Accounting Standard Boards continuing efforts to harmonize Canadian GAAP with IFRS, the AcSB has issued Handbook Section 1582 which fundamentally converges to IFRS. Section 1582 is applicable for the first annual reporting period beginning on or after January 1, 2011 (earlier adoption is permitted). In fiscal 2011, the Company has decided not to early adopt Section 1582 and, as a result, acquisitions made in fiscal 2011 (if any) will result in the capitalization of acquisition and exit, relocation and termination costs. This election will, in the event of a business combination, result in a reconciling adjustment to the comparative period for the Company's first IFRS reporting statement.

*IAS 12 "INCOME TAXES"*

**DEFERRED INCOME TAXES** – Referred to as future income taxes under Canadian GAAP, IFRS and Canadian GAAP are consistent in the conceptual approach to utilizing the liability method in assessing the impact of temporary differences arising from differences between tax bases for income tax purposes and carrying values for financial reporting purposes. The Company is currently evaluating the impact of this requirement.

**DIFFERENCES ON INTANGIBLE ASSETS** – Under Canadian Income Tax Act requirements, an entity can only include 75% of the cost of an intangible asset in the cumulative eligible capital account. Under Canadian GAAP, the tax basis for eligible capital expenditures represents the balance in the cumulative eligible capital account plus 25% of the carrying amount. IFRS, however, does not provide guidance on the determination of the tax basis for eligible capital expenditures. As a result, IFRS appears to require an entity to compare the tax basis not including the 25% portion with its related balance sheet carrying value. The Company is currently evaluating the impact of this requirement.

**UNCERTAIN TAX POSITIONS** – In determining whether an uncertain tax position is to be accrued, Canadian GAAP and IFRS differ on the threshold at which the recognition criterion is met. IFRS requires the accrual for an uncertain tax position when it is "more likely than not" that a resulting outflow of resources will occur. Canadian GAAP, however, requires the recognition of a liability when it is "likely" that an outflow of resources will occur which signifies a considerably higher threshold than that of IFRS. The Company is currently evaluating the impact of this requirement.

*IAS 16 "PROPERTY, PLANT AND EQUIPMENT" (PP&E)*

The following divergence has been identified between Canadian GAAP and IFRS that will impact the Company's reporting and IT infrastructure:

- **COMPONENTIZATION** – Under IFRS, an entity is required to "componentize" an individual item of PP&E into its various significant parts for purposes of separate amortization of each significant component using useful lives and amortization methods that more closely reflect their respective service potential. Practice under Canadian GAAP has been to depreciate fixed assets according to category only.

The Company is currently in the process of quantifying the impact of this divergence.

*IAS 19 "EMPLOYEE BENEFITS"*

The Company sponsors both defined benefit pension plans and other benefit plans in Canada and the US. At the time of transition, IFRS requires certain adjustments to the Company's balance sheet explained as follows:

- **UNAMORTIZED TRANSITIONAL ASSET** – Canadian GAAP permitted an entity to carry an unamortized transitional asset upon first-time adoption of Section 3461 *Employee Future Benefits*. There is no concept of unamortized transitional assets under IFRS, however, resulting in a write down to this asset category.

- **ACTUARIAL GAINS AND LOSSES** – IFRS 1 permits an entity to recognize all unamortized actuarial gains and losses at the date of transition to IFRS in retained earnings. The Company has elected to apply this transitional option. An entity must then determine whether to account for future actuarial gains or losses either:
  1. Entirely in expense;
  2. Partially recognized in expense based on the corridor approach which results in only a portion of actuarial gains or losses recognized in income (current method used by the Company);
  3. Fully recognized in Other Comprehensive Income without subsequent recycling to expense, an option not permitted under Canadian GAAP.

The Company has elected to recognize future actuarial gains or losses fully to Other Comprehensive Income upon transition to IFRS.

*IAS 32 & IAS 39 "FINANCIAL INSTRUMENTS PRESENTATION, RECOGNITION AND MEASUREMENT"*

IAS 32 and 39 establish the recognition and measurement criteria for financial assets and liabilities including classification criteria.

The most significant potential divergences noted by the Company within these IFRS Standards relate to derecognition, impairment and hedge effectiveness requirements. Upon transition, the Company will be required to perform an impairment and hedge effectiveness test (where applicable) and to derecognize all assets and liabilities not consistent with IFRS.

Accordingly, the Company will provide further discussion on this topic once the analysis of this standard has been finalized in fiscal 2011.

*IAS 36 "IMPAIRMENT OF ASSETS"*

**IMPAIRMENT OF ASSETS CALCULATION** – Under IFRS, an asset is impaired when its carrying value exceeds its recoverable amount. Though this concept is similar under Canadian GAAP, the definition and calculation of recoverable amount differs. IFRS defines recoverable amount as the greater of:

a) fair value less costs to sell, and

b) value in use (which represents the discounted present value of future cash flows).

Canadian GAAP, however, prescribes a two-step approach. Under the first step, the carrying value of the asset is compared to its undiscounted cash flows. Under the second step, where the carrying amount exceeds the undiscounted cash flows in step one, the asset is written down to its fair value, based on discounted cash flows. As a result, impairment losses under IFRS may occur more frequently than under Canadian GAAP. However, IAS 36 does allow an entity to reverse impairment losses, except for Goodwill, as they occur. The Company is currently evaluating the effect of this divergence on its current impairment testing models.

**CASH GENERATING UNIT (CGU)** – IFRS utilizes the concept of CGU when assessing impairment of fixed assets, intangibles and goodwill which requires the grouping of the smallest identifiable assets that generate cash inflows largely independent of those of other assets or groups of assets. The Company is currently evaluating the impact of the concept of CGU when assessing impairment.

*IDENTIFICATION AND RESOLUTION OF KEY INFORMATION TECHNOLOGY (IT) AND DATA SYSTEMS REQUIREMENTS*

The Company has performed an initial analysis of its data system infrastructure and has concluded that transition to IFRS will not result in a material modification to any of its IT processes resulting from divergences noted previously.

With regards to fixed assets and the need for componentization, the Company's current accounting information systems support the ability, with minor modification, to record components of individual assets. As such, the Company will not incur significant incremental cost in addressing this issue. The Company's IT infrastructure will be capable of supporting componentization in the fiscal 2011 year.

It should be noted however that future amendments to IFRS' may result in IT infrastructure complexities not considered at the time of writing of this management analysis.

*INTERNAL CONTROL OVER FINANCIAL REPORTING*

The Company is currently in the process of assessing the impact that divergences noted above will have on its internal control and financial reporting structure. Further updates to this key element will be made upon finalization of this assessment. It is the Company's intention to have controls in place that address the divergences noted above by the fourth quarter of fiscal year 2011.

*FINANCIAL REPORTING EXPERTISE, INCLUDING TRAINING REQUIREMENTS*

The Company has undertaken the development of an internal communication plan to disseminate relevant modifications to the accounting for and reporting of financial results ensuing from significant IFRS divergences. Management has been provided training seminars. Further seminars are planned in the upcoming fiscal year and throughout the transition period to employees of the finance group and other relevant areas of the Company.

*DISCLOSURE CONTROLS AND PROCEDURES*

The Company is continuously monitoring updated filing requirements and communicating relevant information to its investors through communications in its interim and annual reports. Further updates will be provided in fiscal 2011.

*BUSINESS ACTIVITIES AND OTHER MATTERS INFLUENCED BY GAAP MEASURES*

Performance measures impact the Company on a routine basis. EBITDA is a common measure used in the evaluation of the Company's performance and debt covenant calculations. The Company is currently in the process of assessing the impact that divergences will have on its business activities and will update progress made in future publications. Financial Statement readers should note, however, that this key element must be monitored throughout the transition period and as such, the expected implementation date of this key element is not fixed.

## CRITICAL ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with Generally Accepted Accounting Principles requires Management to make estimates. These estimates are established on the basis of previous fiscal years and Management's best judgment. Management continually reviews these estimates. Actual results may differ from those estimates. The following section establishes the main estimates used in preparing the consolidated financial statements of Saputo Inc.

*FIXED ASSETS*

In order to allocate the cost of fixed assets over their useful lives, estimates of the duration of their useful lives must be carried out. The cost of each fixed asset will then be attributed over the duration of its useful life and amortized year after year on this basis.

*PORTFOLIO INVESTMENT*

The portfolio investment is recorded at cost. The Company carries out an annual valuation to ensure that the fair value of the investment is not lower than the carrying amount. To calculate an estimated fair value, the Company uses the Company's EBITDA by applying to it a multiple based on comparable industry standards. If the portfolio investment undergoes a decline in value that is permanent, its carrying amount would be written down to account for this decline in value. The Company has performed the impairment test and no write down was necessary in fiscal 2010.

*GOODWILL*

The accounting standards require that goodwill not be amortized and that an impairment test be performed annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. To determine any decline in value, each of the respective accounting units are required to undergo an assessment. The Company's assessments are based on multiples for Saputo and for the industry. These multiples are applied to EBITDA and net assets. Should the calculated value be lower than the book value, a write down would be taken. The Company has performed the impairment test, no write down was necessary in fiscal 2010.

*BUSINESS COMBINATIONS*

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

*STOCK-BASED COMPENSATION*

The Company uses the fair value based method to expense stock based compensation. With this method, the Company records a compensation cost over the vesting period of the options granted. The expected useful life of options used for calculating the fair value of options is based on Management's experience and judgment.

*TRADEMARKS*

Impairment testing has to be performed on all trademarks annually. Estimated future cash flows to be derived from the intangibles are discounted to the present using current market rates. The discounted cash flow is compared to the carrying value of the trademarks. Should the discounted cash flow be lower than the book value, a write down would be taken. The Company has performed the impairment test and no write down was necessary in fiscal 2010.

*HEDGING*

The Company uses interest rate derivatives to manage the combination of floating to fixed interest rates on its bank debt. The Company currently uses cash flow hedges and does not use any fair value hedges. For its cash flow hedges, the effective portion of the changes in fair value of the hedging item is recognized in accumulated other comprehensive income, whereas the ineffective portion is recognized in interest expense. The amounts recognized in accumulated other comprehensive income, with respect to cash flow hedges, are reclassified in net earnings in the period or periods during which the hedged item affects net earnings.

*PENSION PLANS*

The Company offers and participates in defined contribution pension plans of which more than 85% of its active employees are members. The net pension expenditure under these types of plans is generally equal to the contributions made by the employer.

The Company also participates in defined benefit pension plans in which the remaining active employees are members. The cost of these pension benefits earned by employees is actuarially determined using the projected benefits method prorated on services and using Management's assumptions bearing on, among other things, the discount rate, expected return on plan assets, rates of compensation increase and the retirement age of employees. All of these estimates and assessments are formulated with the help of external consultants.

The discount rate is determined on the basis of the effective rates of return on high-quality long-term corporate bonds, as required by the adjusted standard, to account for the duration of plan liability. The rate applied for the period ended December 31, 2009 was 6.0%, compared to 7.47% used in the prior year. Saputo established the expected average return on invested assets at 6.76% (7.01% in prior year) given the type and combination of these assets. This assumption is deemed reasonable and is supported by external consultants. The compensation growth rate was set at 3.5% over the long-term, taking into consideration estimated future inflation rates. Any changes in these assumptions or any plan experience that differs from the expected entails actuarial gains or losses with respect to expected results. If these gains or losses exceed 10% of the maximum of the asset or liability of the plans, they are amortized over the expected average remaining service life of the group of employees participating in the plans, in compliance with CICA recommendations.

Pension plan assets are held by several independent trusts, and the average composition of the overall portfolio as at December 31, 2009 was 1% in cash and short-term investments, 51% in bonds and 48% in shares of Canadian, US and foreign companies. For the moment, the Company does not expect any major change to this asset allocation. The average composition as of December 31, 2008 was 7% in cash and short-term investments, 52% in bonds and 41% in shares of Canadian, US and foreign companies.

For defined benefit plans, actuarial valuations were performed in December 2009, covering more than 93% of the obligations with respect to this type of plan. Following these valuations, a solvency deficiency of $44.5 million was noted on December 31, 2009. In accordance with the provincial legislation, an additional contribution is required for the next five years to pay off this deficiency of $44.5 million. The additional payment required for fiscal 2011 will be of $12.4 million ($5.4 million for 2010).

The Company also offers a complementary retirement medical benefits program. For the purpose of assessing costs related to this program, the hypothetical annual growth rate of medical costs was set between 5.5% and 11% for fiscal year 2011 and, based on the assumptions used, these rates should gradually decline to reach 5.25% in fiscal 2015. The effect of an increase or decrease of 1% on overall health care costs has no material impact on the results.

### *FUTURE INCOME TAXES*

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

## RISKS AND UNCERTAINTIES

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 them effectively. Accordingly, the Audit Committee and the Board of Directors adopted and implemented policies and procedures that are reviewed at least annually. Moreover, an annual detailed presentation on all risk factors identified and periodic presentations are made 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 accidentally be introduced into products or packaging. The Company has quality control procedures in place within its operations to reduce such risks and has never experienced any material contamination problems with its products. However, the occurrence of such a problem could result in a costly product recall and serious damage to Saputo's reputation for product quality.

*SUPPLY OF RAW MATERIALS*

Saputo purchases raw materials that may represent up to 85% of the cost of products. It processes raw materials into the form of finished edible products intended for resale to a broad range of consumers. Availability of raw materials as well as variations in the price of foodstuffs can therefore influence 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 clients and an increase in the relative importance of some clients. No customer represented more than 10% of total consolidated sales for fiscal 2010 except for one which represented 14%. The Company's ability to continue to service its clients in all the markets that it serves will depend on the quality of its products, services and the prices of its products.

*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, 2010. 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.

*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 wastewater discharges, releases of hazardous and non hazardous substances, and remediation of contaminated sites. The Company believes that its operations are in compliance, in all material aspects, with such environmental laws and regulations, except as disclosed in the Annual Information Form dated June 9, 2010 for the fiscal year ended March 31, 2010. Compliance with these laws and regulations requires that the Company continues to incur operating and maintenance costs and capital expenditures. 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 significant 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 63% of sales are realized in Canada, 33% in the US, and 4% 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.

*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 these 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 communications network or security failure with respect to data centers 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, 2010, 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 Canadian GAAP.

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, 2010, 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, 2010, 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

As at March 31, 2010, the Company had outstanding $50.8 million Senior Notes bearing interest at a fixed rate of 8.41%, maturing in November 2014. The Company also completed a $330 million debt financing, composed of $110 million Canadian denominated unsecured Senior Notes, issued at an interest rate of 5.34% for a term of five years maturing on June 22, 2014, and $220 million Canadian denominated unsecured Senior Notes issued at an interest rate of 5.82% for a term of seven years maturing on June 22, 2016. In addition, the Company used $61.6 million of its bank credit facilities. In fiscal 2009, the Company entered into floating to fixed interest rate swaps to fix the rate on its floating rate exposure to the Canadian Banker's Acceptance rate. The Company will pay an average fixed rate of 1.05% plus 0.5%, up to a maximum of 1.125% on amounts totalling $300 million between January 22, 2009 and February 7, 2011. The debt subject to interest rate fluctuations was $61.6 million as at March 31, 2010. A 1% change in the interest rate would lead to a change in net earnings of approximately $0.4 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, 2010, the average US dollar conversion was based on CND$1.00 for US$0.92. A fluctuation of CND$0.01 would have resulted in a change of approximately $0.9 million in net earnings, $2.5 million in EBITDA and $20.6 million in revenues.

## MEASUREMENT OF RESULTS NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company defines EBITDA as earnings before interest, income taxes, depreciation and amortization. EBITDA is presented on a consistent basis from period to period.

Saputo uses EBITDA, among other measures, to assess the operating performance of its ongoing businesses without the effects of depreciation expense. Saputo excludes depreciation expense because it largely depends on the accounting methods and assumptions a company uses, as well as non-operating factors such as the historical cost of capital assets.

EBITDA is not a measurement of results that is defined in accordance with Generally Accepted Accounting Principles (GAAP) in Canada, nor is it intended to be regarded as an alternative to other financial operating performance measures. It is not intended to represent funds available for debt service, dividend payments, reinvestment or other discretionary uses, and should not be considered separately or as a substitute for measures of performance prepared in accordance with GAAP in Canada. EBITDA is used by the Company because Management believes it is a meaningful measure of performance. EBITDA is commonly used by the investment community to analyze the performance of companies in the industries in which the Company is active. The Company's definition of EBITDA may not be identical to similarly titled measures reported by other companies and consequently may not be comparable to similar measurements presented by other companies.

The most comparable Canadian GAAP financial measure is that of operating income. The tables below present the reconciliation of operating income to EBITDA on a consolidated basis.

## MEASUREMENT OF RESULTS NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

| Fiscal year | 2010 | | | | |
|---|---|---|---|---|---|
| | Dairy Products Sector | | | Grocery Products Sector | Total |
| (in thousands of CDN dollars) | CEA | USA | Total | | |
| Operating income | $ 403,052 | $ 168,531 | $ 571,583 | $ 6,982 | $ 578,565 |
| Depreciation and amortization | 54,843 | 49,844 | 104,687 | 8,819 | 113,506 |
| EBITDA | $ 457,895 | $ 218,375 | $ 676,270 | $ 15,801 | $ 692,071 |

| Fiscal year | 2009 | | | | |
|---|---|---|---|---|---|
| | Dariy Products Sector | | | Grocery Products Sector | Total |
| (in thousands of CDN dollars) | CEA | USA | Total | | |
| Operating income | $ 337,338 | $ 93,157 | $ 430,495 | $ 9,020 | $ 439,515 |
| Depreciation and amortization | 41,560 | 58,849 | 100,409 | 7,875 | 108,284 |
| EBITDA | $ 378,898 | $ 152,006 | $ 530,904 | $ 16,895 | $ 547,799 |

## THE 2009 AND 2010 QUARTERLY FINANCIAL INFORMATION HAS NOT BEEN REVIEWED BY AN EXTERNAL AUDITOR

### 2010 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 2010 (audited) |
|---|---|---|---|---|---|
| Statement of earnings data | | | | | |
| Revenues | $ 1,446,434 | $ 1,482,693 | $ 1,497,272 | $ 1,384,183 | $ 5,810,582 |
| Cost of sales, selling and administrative expenses | 1,287,978 | 1,308,021 | 1,313,782 | 1,208,730 | 5,118,511 |
| Earnings before interest, depreciation, amortization and income taxes | $ 158,456 | $ 174,672 | $ 183,490 | $ 175,453 | $ 692,071 |
| Margin % | 11.0% | 11.8% | 12.3% | 12.7% | 11.9% |
| Depreciation and amortization | $ 28,350 | $ 28,013 | $ 27,342 | $ 29,801 | $ 113,506 |
| Operating income | $ 130,106 | $ 146,659 | $ 156,148 | $ 145,652 | $ 578,565 |
| Interest on long-term debt | 6,513 | 9,658 | 7,606 | 6,124 | 29,901 |
| Other interest, net | 1,531 | 1,029 | 1,243 | 1,358 | 5,161 |
| Earnings before income taxes | $ 122,062 | $ 135,972 | $ 147,299 | $ 138,170 | $ 543,503 |
| Income taxes | 37,241 | 41,520 | 42,969 | 39,059 | 160,789 |
| Net earnings | $ 84,821 | $ 94,452 | $ 104,330 | $ 99,111 | $ 382,714 |
| Net margin % | 5.9% | 6.4% | 7.0% | 7.2% | 6.6% |
| Per share | | | | | |
| Net earnings | | | | | |
| Basic | 0.41 | 0.46 | 0.50 | 0.48 | 1.85 |
| Diluted | 0.41 | 0.45 | 0.50 | 0.47 | 1.83 |

## 2009 QUARTERLY FINANCIAL INFORMATION – CONSOLIDATED STATEMENT OF EARNINGS

| (in thousands of CDN dollars, except per share amount) | 1st Quarter (unaudited) | 2nd Quarter (unaudited) | 3rd Quarter (unaudited) | 4th Quarter (unaudited) | Fiscal 2009 (audited) |
|---|---|---|---|---|---|
| Statement of earnings data | | | | | |
| Revenues | 1,361,910 | 1,453,544 | 1,517,457 | 1,460,352 | 5,793,263 |
| Cost of sales, selling and administrative expenses | 1,211,593 | 1,323,598 | 1,391,802 | 1,318,471 | 5,245,464 |
| Earnings before interest, depreciation, amortization and income taxes | 150,317 | 129,946 | 125,655 | 141,881 | 547,799 |
| Margin % | 11.0% | 8.9% | 8.3% | 9.7% | 9.5% |
| Depreciation and amortization | 22,395 | 22,962 | 34,090 | 28,837 | 108,284 |
| Operating income | 127,922 | 106,984 | 91,565 | 113,044 | 439,515 |
| Interest on long-term debt | 4,597 | 4,834 | 5,573 | 5,680 | 20,684 |
| Other interest, net | 2,188 | 1,826 | 3,212 | 3,805 | 11,031 |
| Earnings before income taxes | 121,137 | 100,324 | 82,780 | 103,559 | 407,800 |
| Income taxes | 38,174 | 31,296 | 25,021 | 34,361 | 128,852 |
| Net earnings | 82,963 | 69,028 | 57,759 | 69,198 | 278,948 |
| Net margin % | 6.1% | 4.7% | 3.8% | 4.7% | 4.8% |
| Per share | | | | | |
| Net earnings | | | | | |
| Basic | 0.40 | 0.34 | 0.28 | 0.33 | 1.35 |
| Diluted | 0.40 | 0.33 | 0.28 | 0.33 | 1.34 |

*SELECTED FACTORS POSITIVELY (NEGATIVELY) AFFECTING EBITDA*

| Fiscal year<br>(in millions of CDN dollars) | 2010 | | | |
|---|---|---|---|---|
| | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
| Market factors[1] [2] | 15.0 | 18.0 | 5.0 | (30.0) |
| US foreign currency exchange[1] | (11.0) | (9.0) | 3.0 | 5.0 |
| Inventory write down | – | (2.1) | – | – |
| Rationalization charges | (6.4) | (0.6) | (0.9) | – |

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*

| Fiscal years<br>(in US dollars, except for average exchange rate) | 2010 | | | | 2009 |
|---|---|---|---|---|---|
| | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter | 4th Quarter |
| Average block market per pound of cheese | 1.465 | 1.517 | 1.232 | 1.189 | 1.203 |
| Closing block price[1] per pound of cheese | 1.400 | 1.450 | 1.413 | 1.115 | 1.290 |
| Whey market price[2] per pound | 0.400 | 0.370 | 0.320 | 0.270 | 0.160 |
| Spread[3] | 0.129 | 0.149 | 0.155 | 0.176 | 0.196 |
| US average exchange rate to Canadian dollar[4] | 1.041 | 1.056 | 1.096 | 1.172 | 1.254 |

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 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, 2010

**Revenues** for the quarter ended March 31, 2010 amounted to $1.384 billion, a decrease of $76.2 million or 5.2% compared to $1.460 billion for the same quarter last fiscal year.

The USA Dairy Products Sector revenues decreased by approximately $45 million as compared to the corresponding quarter last fiscal year. A more favourable average block market per pound of cheese in the fourth quarter of US$1.46 compared to US$1.20 during the fourth quarter of fiscal 2009 increased revenues by approximately $61 million. The inclusion of the F&A Dairy Acquisition in fiscal 2010, and a more favourable dairy ingredients market was offset by lower sales volumes resulting in decreasing revenues by approximately $15 million as compared to the same quarter last fiscal year. Finally, the strengthening of the Canadian dollar eroded approximately $91 million as compared to the same quarter last fiscal year.

In the CEA Dairy Products Sector, revenues decreased by approximately $28 million in the fourth quarter as compared to last fiscal year. Slightly lower sales volumes in our Canadian and Argentinean Divisions offset the additional revenues generated by a more favourable dairy ingredients market in Canada and price increases in the Argentinean operations. Finally, the strengthening of the Canadian dollar against the Argentinean peso eroded revenues as compared to the same quarter last fiscal year by approximately $14 million.

Revenues from the Grocery Products Sector decreased by approximately $4 million in the fourth quarter of fiscal 2010 in comparison to the same quarter last fiscal year. This decrease is due to lower sales volumes from the US co-packing activities combined with the reduced thrift stores activities as compared to the same quarter last fiscal year.

**Earnings before interest, income taxes, depreciation and amortization (EBITDA)** totalled $175.5 million for the quarter ended March 31, 2010, an increase of $33.6 million or 23.7% compared to the $141.9 million for the same quarter last fiscal year. The increase is attributed to both the CEA and USA Dairy Products Sector.

EBITDA for the CEA Dairy Products Sector increased by approximately $20 million in comparison to the same quarter last fiscal year in this Sector. This increase is explained mainly by operational efficiencies, a more favourable dairy ingredients market and improved results from our Argentinean operations. The inclusion of a $3.4 million rationalization charge in connection with the recently announced closure of the Brampton, Ontario fluid plant and the consolidation of the Toronto, Ontario distribution activities decreased EBITDA for the quarter compared to the same quarter last fiscal year. The Dairy Products Division (Europe) also contributed to the increased EBITDA in the fourth quarter as compared to the same quarter last fiscal year.

The EBITDA of the USA Dairy Products Sector increased by approximately $16 million in the current quarter compared to the same quarter last fiscal year. The Sector benefitted from the initiatives undertaken in prior and current fiscal years with regards to improved operational efficiencies as well as lower ingredient and other costs and the inclusion of the F&A Dairy Acquisition. These factors together positively affected EBITDA by approximately $14 million as compared to the same quarter last fiscal year. An increase in the average block market per pound of cheese to US$1.46 in the current quarter as compared to US$1.20 in the same quarter last fiscal year, positively affected the absorption of the fixed costs as well as having a favourable impact on the realization of inventories in the fourth quarter of fiscal 2010 as compared to the same quarter last fiscal year. Additionally, the Sector experienced a more favourable dairy ingredients market. These increases were partially offset by 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. These combined market factors increased EBITDA by approximately $13.0 million as compared to the same quarter last fiscal year. The strengthening of the Canadian dollar during the quarter eroded approximately $11 million in EBITDA.

The EBITDA of the Grocery Products Sector decreased by approximately $2 million for the quarter ended March 31, 2010 in comparison to the same quarter last fiscal year. During the quarter, a rationalization charge of approximately $3 million in relation to the restructuring of the Sector's distribution network in Ontario, offset the benefits derived from the initiatives implemented throughout the year.

**Depreciation and amortization** for the quarter ended March 31, 2010 totalled $29.8 million, an increase of $1.0 million compared to $28.8 million for the same quarter last fiscal year. The increase is mainly due to an impairment amount of $2.6 million included in depreciation and amortization for the closure of the Brampton, Ontario fluid milk plant and consolidation of the distribution activities.

**Net interest expense** decreased to $7.5 million compared to $9.5 million for the corresponding period last fiscal year. The decrease can be explained by the reduction of bank loans and long-term debt compared to the same period last fiscal year.

With respect to **income taxes**, the effective tax rate for the current quarter was 28.2% compared to 33.2% for the same quarter last fiscal 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.

**Net earnings** amounted to $99.1 million for the quarter ended March 31, 2010, an increase of $29.9 million compared to the same quarter last fiscal year.

During the quarter, the Company added approximately $26 million in fixed assets, issued shares for a cash consideration of $7.9 million as part of the stock option plan and paid out $30.0 million in dividends to its shareholders. The Company also decreased its bank loans by approximately $55.5 million during the current quarter. For the same quarter, the Company generated cash flows of $160.7 million, a decrease from the $209.1 million generated for the corresponding period last fiscal year. This decrease can be attributed mainly to the higher working capital items generated in the US Division due to a greater decrease in the average block market per pound of cheese during the fourth quarter of fiscal 2009 as compared to fiscal 2010.

## QUARTERLY FINANCIAL INFORMATION

During fiscal 2010, specific circumstances affected the quarterly changes in revenues and earnings before interest, income taxes, depreciation and amortization compared to fiscal 2009. An increasing average block market per pound of cheese throughout the fiscal year as compared to the decreasing trend of last fiscal year had a positive impact on the realization of inventories. The average block market for fiscal 2010 was lower than fiscal 2009, and this had a negative impact on the absorption of fixed costs. The increase of the dairy ingredients market throughout the current fiscal year positively impacted the Company's revenues and EBITDA. However, dry whey being a determining factor in the price of milk, this increase negatively affected the relationship between the average block market per pound of cheese and the cost of milk as raw material. EBITDA was impacted this fiscal year by an inventory write down, albeit to a much lesser extent than last fiscal year, where the Company wrote down inventory in the third quarter in response to a drop in cheese prices in the international market. The strengthening of the Canadian dollar in the third and fourth quarters of fiscal 2010 was more predominant versus the weakening of the Canadian dollar in the first and second quarters of fiscal 2010, eroding both revenues and EBITDA in the fiscal year. The Company also completed the F&A Dairy Acquisition in the USA Dairy Products Sector and included a full year's activities of the Neilson Dairy Acquisition in the CEA Dairy Products Sector increasing 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, 2009 COMPARED TO MARCH 31, 2008

**Consolidated revenues** in fiscal 2009 totalled $5.793 billion, an increase of $734.4 million or 14.5% compared to $5.059 billion for fiscal 2008. Our USA Dairy Products Sector revenues increased by approximately $377 million. The inclusion of the Alto Acquisition, along with selling price increases offset lower revenues due to lower sales volumes and the downward trend of the dairy ingredients market. These factors combined accounted for approximately $332 million of additional revenues. An average block market per pound of cheese of US$1.71 in fiscal 2009, compared to US$1.88 in fiscal 2008, negatively affected revenues by approximately $96 million. Revenues from our CEA Dairy Products Sector increased by approximately $357 million in comparison to fiscal 2008. The inclusion of four months of revenues from the Neilson Dairy Acquisition, in addition to higher selling prices in our Canadian and Argentinean operations, in accordance with the increase in the cost of milk as raw material and increased sales volumes from our Argentinean activities explain the increased revenues in this Sector. Less favourable dairy ingredients market conditions decreased revenues in fiscal 2009 as compared to the prior fiscal year. Revenues from our Grocery Products Sector remained relatively stable, increasing by approximately $0.5 million in comparison fiscal 2008. The weakening of the Canadian dollar in fiscal 2009 added approximately $150 million in revenues in comparison to fiscal 2008.

**Consolidated earnings before interest, income taxes, depreciation and amortization (EBITDA)** amounted to $547.8 million in fiscal 2009, an increase of $21.8 million or 4.1% compared to the $526.0 million for fiscal 2008. The increase was mainly due to the CEA Dairy Products Sector, for which EBITDA amounted to $378.9 million in fiscal 2009, an increase of $15.5 million in comparison to $363.4 million for the preceding fiscal year. This increase was mainly attributed to the inclusion of the Neilson Dairy Acquisition, in addition to better efficiencies, including cost reduction initiatives in production, warehousing and logistics, and increased sales volumes from the Argentinean operations as compared to the prior fiscal year. The negative impact of the unfavourable dairy ingredients market conditions decreased EBITDA by approximately $23 million. The EBITDA of the Dairy Products Division (Europe) was negatively affected due to difficult market conditions.

The EBITDA of the USA Dairy Products Sector amounted to $152.0 million, an increase of $6.5 million in comparison to $145.5 million for fiscal 2008. The inclusion of the Alto Dairy Cooperative acquired on April 1, 2008 in the US (Alto Acquisition), as well as the initiatives undertaken by the Company in prior and current fiscal years with regards to improved operational efficiencies and increased selling prices benefitted the EBITDA. The decision by the USDA in the third quarter of fiscal 2009 to change the product-price formula also had a positive impact on EBITDA. These benefits offset increased ingredients, fuel and other costs during fiscal 2009. Also, the Sector incurred approximately $2 million of rationalization charges in relation to the closure of the facility in Hinesburg, Vermont. These factors combined increased EBITDA by approximately $26 million as compared to the prior fiscal year. An average block market per pound of cheese of US$1.71 in fiscal 2009 in comparison to US$1.88 in fiscal 2008 negatively impacted EBITDA, causing an unfavourable basis of absorption of the fixed costs and having an unfavourable impact on the realization of the inventories in fiscal 2009. In addition, the Sector's EBITDA decreased due to an unfavourable dairy ingredients market as compared to fiscal 2008. These decreases were offset by a more favourable relationship between the average block market per pound of cheese and the cost of milk as raw material as compared to the prior fiscal year. Included in the EBITDA is an inventory write down of $12.5 million. These market factors combined had a negative impact of approximately $30 million on the EBITDA of fiscal 2009 as compared to fiscal 2008. Finally, the weakening of the Canadian dollar added approximately $11 million to fiscal 2009's EBITDA.

The EBITDA of the Grocery Products Sector decreased by $0.3 million to $16.9 million in fiscal 2009, from $17.2 million in fiscal 2008. This decrease is mainly due to additional costs in an effort to support its brands, along with a decrease in sales volumes and higher ingredients, packaging, labour and energy costs totalling approximately $5 million. These factors offset the benefits from the selling price increase.

The consolidated EBITDA margin decreased to 9.5% in fiscal 2009 as compared to 10.4% in fiscal 2008. This decrease is due to lower EBITDA margins achieved by all the sectors as compared to fiscal 2008.

**Depreciation and amortization expense** totalled $108.3 million in fiscal 2009, an increase of $28.9 million over $79.4 million in fiscal 2008. The increase is mainly attributed to the Alto Acquisition in the USA Dairy Products Sector and the Neilson Dairy Acquisition in the CEA Dairy Products Sector. Also included in depreciation and amortization expense is an impairment amount of $8.6 million for the closure of the Hinesburg, Vermont manufacturing facility. In addition, capital investments undertaken by all divisions in fiscal 2009 and 2008 also contributed to increase depreciation expense.

**Net interest expense** amounted to $31.7 million in fiscal 2009 compared to $25.3 million in fiscal 2008. The increase is mainly due to the Alto and Neilson Dairy Acquisitions as well as the weakening of the Canadian dollar increasing the interest expense on the US dollar debt.

**Income taxes** totalled $128.9 million in fiscal 2009 as compared to $133.1 million for an effective tax rate of 31.6% in both fiscal 2009 and 2008. During the second quarter of fiscal 2008, the Company recorded a tax charge of approximately $3 million due to a reduction of future income tax assets recorded in previous fiscal years for the Argentinean Division. In the third quarter of fiscal 2008, this charge was offset by a one-time tax benefit of approximately $6.5 million to reflect the reduction in the Canadian federal tax rates sanctioned in December 2007. The income tax rate varies and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates.

**Net earnings** for the fiscal year ended March 31, 2009 totalled $278.9 million, a decrease of $9.3 million or 3.2% compared to $288.2 million in fiscal 2008. The decrease is due to the factors mentioned above.

## OUTLOOK

In fiscal 2011, the Company intends on maintaining its sound approach and continue to maximize efficiencies. Saputo's goal remains to pursue growth internally and through acquisitions. The Company's flexible capital structure and low debt levels allows it to actively pursue and evaluate strategic investment opportunities, with the goal of expanding its presence in key markets. With the adoption of IFRS on the horizon, the Company will pursue its convergence plan, ensuring a smooth transition with respect to its systems and operations. From an operational standpoint, the Company remains committed to product innovation and will also continue the analysis of its activities and follow through on the implementation of measures aimed at improving efficiencies.

# CONSOLIDATED FINANCIAL STATEMENTS

## MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

| | |
|---|---|
| **Lino A. Saputo, Jr.** | **Louis-Philippe Carrière, FCA** |
| President and | Executive Vice President, |
| Chief Executive Officer | Finance and Administration, and Secretary |

May 28, 2010

## AUDITORS' REPORT TO THE SHAREHOLDERS OF SAPUTO INC.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2010 and 2009 and the consolidated statements of earnings, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP[1]

Montréal, Québec
May 28, 2010

[1] Chartered accountant auditor permit n° 18190.

## CONSOLIDATED STATEMENTS OF EARNINGS

| Years ended March 31<br>(in thousands of CDN dollars, except per share amount) | 2010 | 2009 |
|---|---|---|
| Revenues | $ 5,810,582 | $ 5,793,263 |
| Cost of sales, selling and administrative expenses | 5,118,511 | 5,245,464 |
| Earnings before interest, depreciation, amortization and income taxes | 692,071 | 547,799 |
| Depreciation and amortization (Notes 4 and 5) | 113,506 | 108,284 |
| Operating income | 578,565 | 439,515 |
| Interest on long-term debt | 29,901 | 20,684 |
| Other interest, net (Note 12) | 5,161 | 11,031 |
| Earnings before income taxes | 543,503 | 407,800 |
| Income taxes (Note 13) | 160,789 | 128,852 |
| Net earnings | $ 382,714 | $ 278,948 |
| Earnings per share (Note 14) | | |
| Net earnings | | |
| Basic | $ 1.85 | $ 1.35 |
| Diluted | $ 1.83 | $ 1.34 |

# CONSOLIDATED STATEMENTS OF **SHAREHOLDERS' EQUITY**

(in thousands of CDN dollars, except common shares)

For the year ended March 31, 2010

| | Share capital (Note 10) | | | | | |
|---|---|---|---|---|---|---|
| | Common Shares (in thousands) | Amount | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Contributed Surplus | Total Shareholders' Equity |
| **Balance at beginning of year** | 207,087 | $ 555,529 | $ 1,373,856 | $ 16,219 | $ 26,744 | $ 1,972,348 |
| Comprehensive income: | | | | | | |
| Net earnings | – | – | 382,714 | – | – | 382,714 |
| Net change in currency translation of financial statements of self-sustaining foreign operations | – | – | – | (205,527) | – | (205,527) |
| Net change on derivative financial instruments designated as cash flow hedges, net of tax | – | – | – | 1,263 | – | 1,263 |
| Total comprehensive income | | | | | | 178,450 |
| Dividends declared | – | – | (118,996) | – | – | (118,996) |
| Stock based compensation | – | – | – | – | 8,060 | 8,060 |
| Shares issued under stock option plan | 1,759 | 26,008 | – | – | – | 26,008 |
| Amount transferred from contributed surplus to share capital upon exercise of options | – | 7,075 | – | – | (7,075) | – |
| Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized | – | – | – | – | 792 | 792 |
| Shares repurchased and cancelled | (1,420) | (3,863) | (34,201) | – | – | (38,064) |
| **Balance at end of year**[1] | 207,426 | $ 584,749 | $ 1,603,373 | $ (188,045) | $ 28,521 | $ 2,028,598 |

For the year ended March 31, 2009

| | Share capital (Note 10) | | | | | |
|---|---|---|---|---|---|---|
| | Common Shares (in thousands) | Amount | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Contributed Surplus | Total Shareholders' Equity |
| **Balance at beginning of year** | 205,963 | $ 536,921 | $ 1,206,568 | $ (146,414) | $ 22,085 | $ 1,619,160 |
| Comprehensive income: | | | | | | |
| Net earnings | – | – | 278,948 | – | – | 278,948 |
| Net change in currency translation of financial statements of self-sustaining foreign operations | – | – | – | 163,896 | – | 163,896 |
| Net change on derivative financial instruments designated as cash flow hedges, net of tax | – | – | – | (1,263) | – | (1,263) |
| Total comprehensive income | | | | | | 441,581 |
| Dividends declared | – | – | (111,660) | – | – | (111,660) |
| Stock based compensation | – | – | – | – | 7,791 | 7,791 |
| Shares issued under stock option plan | 1,124 | 14,921 | – | – | – | 14,921 |
| Amount transferred from contributed surplus to share capital upon exercise of options | – | 3,687 | – | – | (3,687) | – |
| Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized | – | – | – | – | 555 | 555 |
| **Balance at end of year**[2] | 207,087 | $ 555,529 | $ 1,373,856 | $ 16,219 | $ 26,744 | $ 1,972,348 |

[1] Retained Earnings and Accumulated Other Comprehensive Income total is $1,415,328.

[2] Retained Earnings and Accumulated Other Comprehensive Income total is $1,390,075.

## CONSOLIDATED BALANCE SHEETS

| As at March 31<br>(in thousands of CDN dollars) | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 54,819 | $ 43,884 |
| Receivables | 367,069 | 427,227 |
| Inventories (Note 2) | 566,754 | 583,594 |
| Income taxes | 5,940 | 9,585 |
| Future income taxes (Note 13) | 22,302 | 23,881 |
| Prepaid expenses and other assets | 29,494 | 37,501 |
| | 1,046,378 | 1,125,672 |
| Portfolio investment (Note 3) | 41,343 | 41,343 |
| Fixed assets (Note 4) | 1,038,756 | 1,149,662 |
| Goodwill (Note 5) | 716,695 | 760,283 |
| Trademarks and other intangibles (Note 5) | 316,613 | 327,516 |
| Other assets (Note 6) | 90,272 | 88,326 |
| Future income taxes (Note 13) | 3,394 | 6,301 |
| | $ 3,253,451 | $ 3,499,103 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Bank loans (Note 7) | $ 61,572 | $ 139,399 |
| Accounts payable and accrued liabilities | 471,106 | 484,866 |
| Income taxes | 149,377 | 113,910 |
| Future income taxes (Note 13) | 8,639 | 6,348 |
| Current portion of long-term debt (Note 8) | – | 214,421 |
| | 690,694 | 958,944 |
| Long-term debt (Note 8) | 380,790 | 403,065 |
| Other liabilities (Note 9) | 9,694 | 22,180 |
| Future income taxes (Note 13) | 143,675 | 142,566 |
| | 1,224,853 | 1,526,755 |
| **SHAREHOLDER'S EQUITY** | 2,028,598 | 1,972,348 |
| | $ 3,253,451 | $ 3,499,103 |

On behalf of the Board,

Lino Saputo
Director

Louis A. Tanguay
Director

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years ended March 31<br>(in thousands of CDN dollars) | 2010 | 2009 |
|---|---|---|
| Cash flows related to the following activities: | | |
| Operating | | |
| Net earnings | $ 382,714 | $ 278,948 |
| Items not affecting cash and cash equivalents | | |
| Stock based compensation | 8,060 | 7,791 |
| Depreciation and amortization | 113,506 | 108,284 |
| Loss (gain) on disposal of fixed assets | 300 | (3,450) |
| Future income taxes | 19,874 | 2,721 |
| Deferred share units | 2,238 | (62) |
| Funding of employee plans in excess of costs | (3,853) | (4,761) |
| | 522,839 | 389,471 |
| Changes in non-cash operating working capital items | 60,776 | 77,817 |
| | 583,615 | 467,288 |
| Investing | | |
| Business acquisitions (Note 15) | (49,613) | (630,353) |
| Additions to fixed assets | (106,876) | (121,863) |
| Proceeds on disposal of fixed assets | 542 | 9,032 |
| Other assets and other liabilities | (16,965) | (12,181) |
| | (172,912) | (755,365) |
| Financing | | |
| Bank Loans | (71,935) | (81,682) |
| Proceeds from issuance of long-term debt | 330,000 | 340,000 |
| Repayment of long-term debt | (518,517) | – |
| Issuance of share capital | 26,008 | 14,921 |
| Repurchase of share capital | (38,064) | – |
| Dividends | (118,996) | (111,660) |
| | (391,504) | 161,579 |
| Increase (decrease) in cash and cash equivalents | 19,199 | (126,498) |
| Effect of exchange rate changes on cash and cash equivalents | (8,264) | 4,672 |
| Cash and cash equivalents, beginning of year | 43,884 | 165,710 |
| Cash and cash equivalents, end of year | $ 54,819 | $ 43,884 |
| Supplemental information | | |
| Interest paid | $ 34,843 | $ 29,242 |
| Income taxes paid | $ 100,068 | $ 124,829 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Years ended March 31, 2010 and 2009**

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

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

### NEW ACCOUNTING POLICIES

During the year, the Company adopted the following new accounting policies as described in the CICA Handbook (Canadian Institute of Chartered Accountants):

***GOODWILL AND INTANGIBLE ASSETS***

Effective April 1, 2009, the Company adopted Section 3064 of the CICA Handbook, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this new section had no significant impact on the consolidated financial statements.

***FINANCIAL INSTRUMENTS – DISCLOSURES***

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes.

Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

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

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The additional disclosures required as a result of the adoption of these standards are included in the Notes to the Consolidated Financial Statements (Note 19).

### SIGNIFICANT ACCOUNTING POLICIES

***USE OF ESTIMATES***

In the preparation of financial statements in conformity with Canadian GAAP, Management must make estimates such as the net realizable value of inventories, the useful life, impairment and depreciation of fixed assets, the valuation of goodwill, portfolio investments, trademarks and other intangibles, purchase price allocation, fair value of financial instruments and income taxes and certain actuarial and economic assumptions used in determining defined benefit pension costs, fair value of long-lived assets, accrued pension benefit obligations and pension plan assets, and stock-based compensation that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses for the period. Actual results could differ from these estimates.

***CONSOLIDATED FINANCIAL STATEMENTS***

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. Investments over which the Company has effective control are consolidated. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

***CASH AND CASH EQUIVALENTS***

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

# NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

***INVENTORIES***

Finished goods, raw materials and work in process are valued at the lower of cost and net realizable value. Cost being determined under the first in, first out method.

***INCOME TAXES***

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

***INVESTMENT***

The portfolio investment is recorded at cost less the excess of dividends received over the Company's share in accumulated earnings. The Company monitors its investment for other than temporary declines in fair value and charges net earnings when other than temporary decline in estimated value occurs.

***FIXED ASSETS***

Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives based on the following terms:

| | |
|---|---|
| Buildings | 20 to 40 years |
| Furniture, machinery and equipment | 3 to 20 years |
| Rolling stock | 5 to 10 years or based on kilometres traveled |

Assets held for sale are recorded at the lower of their carrying amount or fair value less costs to dispose, and no depreciation is recorded. Assets under construction are not amortized.

***IMPAIRMENT OF LONG-LIVED ASSETS***

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

***GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS***

Goodwill and trademarks are not amortized; however they are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. The carrying values of goodwill and trademarks are compared with their respective fair values, and an impairment loss is recognized for the excess, if any. Other intangibles are amortized using the straight-line method over their useful lives which vary from 5 to 15 years.

***BUSINESS COMBINATIONS***

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

***EMPLOYEE FUTURE BENEFITS***

The cost of pension and other post-retirement benefits is actuarially determined using the projected benefit method prorated on services and using Management estimates of expected return on plan assets, which is based on market-related value, rates of compensation increase, retirement ages of employees and expected health care costs and other post retirement benefits. Current service costs are expensed in the year. In accordance with GAAP, past service costs and the excess of the net actuarial gains or losses related to defined benefit pension plans over 10% of the greater of the benefit obligations or fair value of plan assets are amortized over the expected average remaining service period of active employees entitled to receive benefits under the plans. The Company recognizes changes in the fair value of plan assets over a period of five years to determine the defined benefit pension costs. In the case where a plan restructuring entails both a plan curtailment and settlement of obligations from the plan, the curtailment is recorded before the settlement. The average remaining service period of active participants covered by the pension plans is 11.8 years. The net pension expenditure under defined contribution pension plans is generally equal to the contributions made by the employer.

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

***REVENUE RECOGNITION***

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

***FOREIGN CURRENCY TRANSLATION***

The balance sheet accounts of the self-sustaining companies operating outside Canada are translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the periods. The unrealized gains (losses) on translation of the financial statements of self-sustaining foreign operations account presented in accumulated other comprehensive income (loss) represents accumulated foreign currency gains (losses) on the Company's net investments in companies operating outside Canada. The change in the unrealized gains (losses) on translation of the financial statements of self-sustaining foreign operations account for the period resulted mainly from the fluctuation in the value of the Canadian dollar as compared to the US dollar.

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

| | 2010 | 2009 |
|---|---|---|
| Foreign currency (loss) gain | $ (348) | $ 1,962 |

***STOCK-BASED COMPENSATION***

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

***EARNINGS PER SHARE***

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

***RESEARCH AND DEVELOPMENT TAX CREDITS***

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

***FINANCIAL INSTRUMENTS***

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

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost.
- Portfolio investment is classified as available for sale, and is carried at cost since it does not have a quoted price in an active market.
- Other assets that meet the definition of a financial asset are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost.
- Bank loans, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as other liabilities and are measured at amortized cost, with the exception of the liability related to deferred share units which is measured at fair value.
- Derivative financial instruments are measured at fair value. The change in fair value of the effective portion of the hedge, when applicable, is recognized in other comprehensive income, net of income taxes.

# NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

***HEDGES***

The Company uses interest rate derivatives to manage the combination of floating to fixed interest rates on its bank debt. The Company currently uses cash flow hedges and does not use any fair value hedges. For its cash flow hedges, the effective portion of the changes in fair value of the hedging item is recognized in accumulated other comprehensive income, whereas the ineffective portion is recognized in interest expense. The amounts recognized in accumulated other comprehensive income, with respect to cash flow hedges, are reclassified in net earnings in the period or periods during which the hedged item affects net earnings.

## FUTURE ACCOUNTING POLICIES

***INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)***

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company's transition date of April 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011. While the Company is in the second phase of its convergence plan and proceeding according to schedule the financial reporting impact of the transition to IFRS cannot be quantified at this time.

***BUSINESS COMBINATIONS***

In 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581 of the same name. This new section will be applicable to business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning April 1, 2011. Early adoption is permitted. This Section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

***CONSOLIDATED FINANCIAL STATEMENTS***

In 2009, the CICA issued Section 1601, Consolidated Financial Statements, replacing Section 1600 of the same name. This new section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after April 1, 2011. Early adoption is permitted. This Section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

***NON-CONTROLLING INTERESTS***

In 2009, the CICA issued Section 1602, Non-Controlling Interests. This new Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after April 1, 2011. Early adoption is permitted. This Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

# NOTE 2 INVENTORIES

| | 2010 | 2009 |
|---|---|---|
| Finished goods | $ 372,373 | $ 368,456 |
| Raw materials, work in process and supplies | 194,381 | 215,138 |
| | $ 566,754 | $ 583,594 |

The amount of inventories recognized as an expense in cost of sales for the year ended March 31, 2010 is $4,579,330,000 ($4,715,075,000 for the year ended March 31, 2009).

The Company recorded an inventory write down of $2,109,000 ($20,900,000 in 2009) which was recognized as an expense in cost of sales.

## NOTE 3 PORTFOLIO INVESTMENT

| | 2010 | 2009 |
|---|---|---|
| 21% share capital interest in Dare Holdings Ltd. | $ 41,343 | $ 41,343 |

A dividend of $1,500,000 was received during fiscal 2010 and was accounted for in revenues ($1,500,000 in 2009).

## NOTE 4 FIXED ASSETS

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Land | $ 38,920 | $ – | $ 38,920 | $ 42,243 | $ – | $ 42,243 |
| Buildings | 382,480 | 92,164 | 290,316 | 417,335 | 90,675 | 326,660 |
| Furniture, machinery and equipment | 1,242,504 | 543,674 | 698,830 | 1,321,468 | 548,676 | 772,792 |
| Rolling stock | 13,117 | 8,435 | 4,682 | 13,329 | 7,864 | 5,465 |
| Held for sale | 6,008 | – | 6,008 | 2,502 | – | 2,502 |
| | $ 1,683,029 | $ 644,273 | $ 1,038,756 | $ 1,796,877 | $ 647,215 | $ 1,149,662 |

During the year, the depreciation expense related to fixed assets totalled $105,609,000 ($97,245,000 in 2009).

An impairment of fixed assets in the amount of $2,603,000 was recorded as a result of a plant closure and consolidation of distribution activities in the CEA Dairy Products Sector ($8,649,000 in 2009 in the USA Dairy Products Sector) and is included in depreciation and amortization expense.

In 2009, a gain on disposal of fixed assets held for sale totalling $3,450,000 was recorded in cost of sales, selling and administrative expenses.

The net book value of fixed assets under construction amounts to $46,271,000 as at March 31, 2010 ($67,707,000 as at March 31, 2009) and consists mainly of machinery and equipment.

The assets held for sale relate mainly to land and buildings in Canada and in the United States as a result of certain plant closures.

## NOTE 5 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Dairy Products Sector | Grocery Products Sector | Total | Dairy Products Sector | Grocery Products Sector | Total |
| Goodwill | | | | | | |
| Balance, beginning of year | $ 590,853 | $ 169,430 | $ 760,283 | $ 353,116 | $ 169,430 | $ 522,546 |
| Foreing currency translation adjustment | (64,328) | – | (64,328) | 61,508 | – | 61,508 |
| Business acquisitions (Note 15) | 20,740 | – | 20,740 | 176,229 | – | 176,229 |
| Total Goodwill | $ 547,265 | $ 169,430 | $ 716,695 | $ 590,853 | $ 169,430 | $ 760,283 |
| Trademarks | | | | | | |
| Balance, beginning of year | $ 255,955 | $ 2,000 | $ 257,955 | $ 28,125 | $ 2,000 | $ 30,125 |
| Foreing currency translation adjustment | (4,903) | – | (4,903) | 4,630 | – | 4,630 |
| Business acquisitions (Note 15) | – | – | – | 223,200 | – | 223,200 |
| Balance, end of year | $ 251,052 | $ 2,000 | $ 253,052 | $ 255,955 | $ 2,000 | $ 257,955 |
| Other intangibles | | | | | | |
| Balance, beginning of year | $ 69,561 | $ – | $ 69,561 | $ 7,918 | $ – | $ 7,918 |
| Foreing currency translation adjustment | (817) | – | (817) | 933 | – | 933 |
| Business acquisitions (Note 15) | 111 | – | 111 | 63,100 | – | 63,100 |
| Amortization | (5,294) | – | (5,294) | (2,390) | – | (2,390) |
| Balance, end of year | $ 63,561 | $ – | $ 63,561 | $ 69,561 | $ – | $ 69,561 |
| Total trademarks and other intangibles | $ 314,613 | $ 2,000 | $ 316,613 | $ 325,516 | $ 2,000 | $ 327,516 |

The gross carrying amount of Other intangibles is $71,479,000 as at March 31, 2010 ($72,707,000 in 2009) and the accumulated amortization is $7,918,000 as at March 31, 2010 ($3,146,000 in 2009).

## NOTE 6 OTHER ASSETS

| | 2010 | 2009 |
|---|---|---|
| Net accrued pension plan assets (Note 16) | $ 64,451 | $ 61,040 |
| Taxes receivables | 15,893 | 18,993 |
| Other | 9,928 | 8,293 |
| | $ 90,272 | $ 88,326 |

## NOTE 7 BANK LOANS

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

| | | Available for use | | | Amount drawn | |
|---|---|---|---|---|---|---|
| Credit Facilities | Maturity | Canadian Currency Equivalent | Base Currency | | 2010 | 2009 |
| North America-US Currency | [1]December 2012 | 132,054 | 130,000 | USD | – | – |
| North America-CDN Currency | [1]December 2012 | 375,846 | 370,000 | USD | 30,000 | 390,000 |
| Canada | May 2009 | – | – | | – | 40,000 |
| Argentina | [2] Yearly | 73,490 | 281,140 | ARS | 28,213 | 47,927 |
| Germany | [3] Yearly | 6,869 | 5,000 | EUR | – | 1,472 |
| United Kingdom | [3] Yearly | 10,795 | 7,000 | BPS | 3,359 | – |
| | | 599,054 | | | 61,572 | 479,399 |
| Amount classified as long-term debt | | | | | – | (340,000) |
| | | | | | 61,572 | 139,399 |

[1] Bear monthly interest at rates based on lender's prime rates plus a maximum of 0.25% or LIBOR or banker's acceptance rate plus 0.50% up to a maximum of 1.125%, depending on a financial ratio of the Company.

[2] Bear monthly interest at local rate and can be drawn in ARS or USD.

[3] Bear monthly interest at base rate plus 1.50% or LIBOR-EURIBOR plus 1.50%.

## NOTE 8 LONG-TERM DEBT

| | 2010 | 2009 |
|---|---|---|
| Unsecured senior notes[1] | | |
| 8.12%, issued in November 1999 and due in November 2009 (US$170,000,000) | $ – | $ 214,421 |
| 8.41%, issued in November 1999 and due in November 2014 (US$50,000,000) | 50,790 | 63,065 |
| 5.34%, issued in June 2009 and due in June 2014 | 110,000 | – |
| 5.82%, issued in June 2009 and due in June 2016 | 220,000 | – |
| Bank loan – long-term portion (Note 7) | – | 340,000 |
| | 380,790 | 617,486 |
| Current portion | – | 214,421 |
| | $ 380,790 | $ 403,065 |

Estimated principal repayments are as follows:

| | 2010 | 2009 |
|---|---|---|
| Less than 1 year | $ – | $ 200,000 |
| 1-2 years | – | 140,000 |
| 2-3 years | – | – |
| 3-4 years | – | – |
| 4-5 years | 160,790 | – |
| More than 5 years | 220,000 | 63,065 |
| | $ 380,790 | $ 403,065 |

[1]Interest payments are semi-annual.

## NOTE 9 OTHER LIABILITIES

| | 2010 | 2009 |
|---|---|---|
| Employee future benefits (Note 16) | $ 9,256 | $ 9,797 |
| Other | 438 | 12,383 |
| | $ 9,694 | $ 22,180 |

# NOTE 10 SHARE CAPITAL

## AUTHORIZED

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

| | 2010 | 2009 |
|---|---|---|
| ISSUED | | |
| 207,425,823 common shares (207,087,283 in 2009) | $ 584,749 | $ 555,529 |

1,758,740 common shares (1,124,319 in 2009) were issued during the year ended March 31, 2010 for an amount of $26,008,000 ($14,921,000 in 2009) pursuant to the share option plan. For share options granted since April 1, 2002, the amount previously accounted for as an increase to contributed surplus was also transferred to share capital upon the exercise of options. For the year ended March 31, 2010, the amount transferred from contributed surplus was $7,075,000 ($3,687,000 in 2009).

Pursuant to the normal course issuer bid, which began on November 13, 2008, and expired on November 12, 2009, the Company was authorized to purchase for cancellation up to 10,340,377 of its common shares. Under the new normal course issuer bid that became effective on November 13, 2009, and expiring on November 12, 2010, the Company is authorized to purchase, for cancellation purposes, up to 10,322,467 of its common shares. During the year ended March 31, 2010, the Company purchased 1,420,200 common shares, at prices ranging from $24.10 to $29.99 per share, relating to the normal course issuer bids. The excess of the purchase price over the carrying value of the shares in the amount of $34,201,000 was charged to retained earnings. During the year ended March 31, 2009 the Company did not purchase any common shares under the normal course issuer bids.

## SHARE OPTION PLAN

The Company established a share option plan to allow for the purchase of common shares by key employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 28,000,000 common shares. As at March 31, 2010, 14,838,951 common shares are issuable under this plan. Options granted prior to July 31, 2007 may be exercised at a price equal to the closing quoted value of the shares on the day preceding the grant date. Options granted thereafter may be exercised at a price not less than the weighted average market price for the five trading days immediately preceding the date of grant. The options vest at 20% per year and expire ten years from the grant date.

## NOTE 10 SHARE CAPITAL (CONT'D)

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

| | 2010 | | | 2009 | |
|---|---|---|---|---|---|
| Granting period | Exercise price | Number of options | Number of exercisable options | Number of options | Number of exercisable options |
| 2000 | $ 9.85 | – | – | 33,436 | 33,436 |
| 2001 | $ 6.75 | 33,644 | 33,644 | 157,440 | 157,440 |
| 2002 | $ 9.50 | 182,307 | 182,307 | 269,398 | 269,398 |
| 2003 | $ 15.18 | 322,158 | 322,158 | 544,730 | 544,730 |
| 2004 | $ 11.25 | 572,238 | 572,238 | 908,166 | 908,166 |
| 2005 | $ 16.53 | 670,588 | 670,588 | 1,003,300 | 723,258 |
| 2006 | $ 18.08 | 1,011,254 | 721,888 | 1,255,410 | 657,616 |
| 2007 | $ 16.35 | 1,412,668 | 645,677 | 1,765,450 | 575,704 |
| 2008 | $ 23.09 | 1,502,581 | 547,815 | 1,618,484 | 307,012 |
| 2009 | $ 27.81 | 1,522,354 | 306,704 | 1,573,027 | – |
| 2010 | $ 21.40 | 2,183,958 | – | – | – |
| | | 9,413,750 | 4,003,019 | 9,128,841 | 4,176,760 |

Changes in the number of outstanding options are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance at beginning of year | 9,128,841 | $ 16.93 | 8,893,428 | $ 16.52 |
| Options granted | 2,232,039 | $ 21.40 | 1,634,393 | $ 27.81 |
| Options exercised | (1,758,740) | $ 14.78 | (1,124,319) | $ 13.27 |
| Options cancelled | (188,390) | $ 20.91 | (274,661) | $ 20.83 |
| Balance at end of year | 9,413,750 | $ 18.65 | 9,128,841 | $ 16.93 |

The exercise price of the options granted in fiscal 2010 is $21.40, which corresponds to the weighted average market price for the five trading days immediately preceding the date of grant ($27.81 in 2009).

The fair value of options granted in fiscal 2010 was estimated at $3.26 per option ($4.98 in 2009), using the Black Scholes option pricing model with the following assumptions:

| | 2010 | 2009 |
|---|---|---|
| Risk-free interest rate: | 1.9% | 3.0% |
| Expected life of options: | 5 years | 5 years |
| Volatility: | 19.1% | 19.0% |
| Dividend rate: | 2.0% | 1.7% |

A compensation expense of $8,060,000 ($7,224,000 after income taxes) relating to stock options was recorded in cost of sales, selling and administrative expenses for the year ended March 31, 2010 and $7,791,000 ($6,865,000 after income taxes) was recorded for the year ended March 31, 2009.

Options to purchase 1,753,233 common shares at a price of $29.32 were granted on April 1, 2010.

### DEFERRED SHARE UNITS PLAN FOR DIRECTORS

In accordance with the deferred share units plan, all eligible directors of the Company are allocated annually a fixed amount of deferred share units which are granted on a quarterly basis. Moreover, the directors have a choice to receive either cash or deferred

## NOTE 10 SHARE CAPITAL (CONT'D)

share units for their compensation. The number of units issued to each director is based on the market value of the Company's common shares at each grant date. Following cessation of functions as director of the Company, a cash payment equal to the market value of the accumulated deferred share units will be disbursed. The liability relating to these units is adjusted by taking the number of units outstanding multiplied by the market value of common shares at the Company's year-end. The variation of the liability is recorded as an expense in cost of sales, selling and administrative expenses.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Units | Liability | Units | Liability |
| Beginning of year | 146,063 | $ 3,385 | 112,601 | $ 3,447 |
| Annual grant | 20,000 | 549 | 18,000 | 433 |
| Board compensation | 15,335 | 415 | 15,462 | 364 |
| Increase (decrease) due to change in stock price | – | 1,274 | – | (859) |
| End of year | 181,398 | $ 5,623 | 146,063 | $ 3,385 |

## NOTE 11 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

| | Balance as at April 1, 2009 | Net changes incurred during the year | Balance as at March 31, 2010 |
|---|---|---|---|
| Net unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations | $ 17,482 | $ (205,527) | $ (188,045) |
| Losses on derivatives items designated as hedges of interest cash flows, net of tax | (1,263) | 1,263 | – |
| Accumulated other comprehensive income (loss) | $ 16,219 | $ (204,264) | $ (188,045) |

| | Balance as at April 1, 2008 | Net changes incurred during the year | Balance as at March 31, 2009 |
|---|---|---|---|
| Net unrealized (losses) gains on translation of financial statements of self-sustaining foreign operations | $ (146,414) | $ 163,896 | $ 17,482 |
| Losses on derivatives items designated as hedges of interest cash flows, net of tax | – | (1,263) | (1,263) |
| Accumulated other comprehensive (loss) income | $ (146,414) | $ 162,633 | $ 16,219 |

## NOTE 12 OTHER INTEREST

| | 2010 | 2009 |
|---|---|---|
| Expense | $ 5,216 | $ 11,380 |
| Income | (55) | (349) |
| | $ 5,161 | $ 11,031 |

## NOTE 13 INCOME TAXES

The provision for income taxes is comprised of the following:

| | 2010 | 2009 |
|---|---|---|
| Current income taxes | $ 140,915 | $ 126,131 |
| Future income taxes | 19,874 | 2,721 |
| | $ 160,789 | $ 128,852 |

## NOTE 13 INCOME TAXES (CONT'D)

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

| | 2010 | 2009 |
|---|---|---|
| Income taxes, calculated using Canadian statutory income tax rates of 29.52% (31.06% in 2009) | $ 160,434 | $ 126,677 |
| Adjustments resulting from the following: | | |
| Effects of tax rates for foreign subsidiaries | 10,693 | 5,306 |
| Changes in tax laws and rates | (2,225) | (857) |
| Benefit arising from investment in subsidiaries | (14,202) | (15,008) |
| Stock based compensation | 1,838 | 1,776 |
| Effect of losses carry forward | 1,443 | 3,493 |
| Other | 2,808 | 7,465 |
| Provision for income taxes | $ 160,789 | $ 128,852 |

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

| | 2010 | 2009 |
|---|---|---|
| Future income tax asset | | |
| Accounts payable and acrrued liabilities | $ 14,451 | $ 14,677 |
| Income tax losses | 230 | 2,505 |
| Portfolio Investment | 743 | 740 |
| Other | 7,660 | 7,135 |
| | $ 23,084 | $ 25,057 |

| | 2010 | 2009 |
|---|---|---|
| Future income tax liability | | |
| Inventories | $ 3,706 | $ 1,732 |
| Fixed assets | 109,230 | 107,310 |
| Net assets of pension plans | 15,203 | 13,625 |
| Other assets | 19,063 | 10,647 |
| Long-term debt | 2,500 | 10,475 |
| | $ 149,702 | $ 143,789 |

Classified in the financial statements as:

| | 2010 | 2009 |
|---|---|---|
| Current future income tax asset | $ 22,302 | $ 23,881 |
| Long-term future income tax asset | 3,394 | 6,301 |
| Current future income tax liability | (8,639) | (6,348) |
| Long-term future income tax liability | (143,675) | (142,566) |
| Net future income tax liability | $ (126,618) | $ (118,732) |

As at March 31, 2010, in addition to the income tax losses recorded, the Company has income tax losses of approximately $17,984,000 ($19,760,000 in 2009) which may be used to reduce future years' taxable income of its foreign subsidiaries. These losses can be carried forward indefinitely.

## NOTE 14 EARNINGS PER SHARE

| | 2010 | 2009 |
|---|---|---|
| Net earnings | $ 382,714 | $ 278,948 |
| Weighted average number of common shares outstanding | 206,987,839 | 206,720,191 |
| Dilutive options | 1,857,080 | 1,595,432 |
| Dilutive number of common shares outstanding | 208,844,919 | 208,315,623 |
| Basic earnings per share | $ 1.85 | $ 1.35 |
| Diluted earnings per share | $ 1.83 | $ 1.34 |

## NOTE 14 EARNINGS PER SHARE (CONT'D)

When calculating dilutive earnings per share, 1,175,232 options (1,573,027 in 2009) were excluded from the calculation because their exercise price is higher than the average market value.

Shares purchased in fiscal 2010 under normal course issuer bids were excluded from the calculation of earnings per share as of the date of purchase.

## NOTE 15 BUSINESS ACQUISITIONS

On July 20, 2009, the Company completed the acquisition of the activities of F&A Dairy of California, Inc. in the United States.
On December 1, 2008, the Company completed the acquisition of the activities of Neilson Dairy.
On April 1, 2008, the Company completed the acquisition of the cheese activities of Alto Dairy Cooperative in the United States.

| | | March 31, 2010 | March 31, 2009 | |
|---|---|---|---|---|
| | | F&A Dairy of California Inc. | Neilson Dairy | Alto Dairy Cooperative |
| Assets acquired | Receivables | $ – | $ 29,983 | $ 31,709 |
| | Inventories | 3,860 | 9,859 | 22,096 |
| | Prepaid expenses | – | 378 | 262 |
| | Fixed assets | 24,902 | 87,040 | 70,840 |
| | Goodwill | 20,740 | 112,880 | 63,349 |
| | Trademarks and other intangibles | 111 | 286,300 | – |
| Liabilities assumed | Accounts payable and accrued liabilities | $ – | $ 56,041 | $ 27,182 |
| | Future income tax | – | 1,120 | – |
| Net assets acquired | | $ 49,613 | $ 469,279 | $ 161,074 |
| Consideration | Cash paid | $ 49,613 | $ 469,279 | $ 161,074 |

## NOTE 16 EMPLOYEE PENSION AND OTHER BENEFITS PLANS

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

Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years or the career salary. The Company and the employee share the cost of the contributions which are based on recommendations from independent actuaries. For defined benefits plans, actuarial valuations were performed in December 2009, covering more than 93% of the obligations with respect to this type of plan. The measurement date of pension plan assets and liabilities is December 31.

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

Defined benefit pension plans assets are held by several independent trusts, and the composition of the overall portfolio as at December 31, 2009 was 1% in cash and short-term investments, 51% in bonds and 48% in shares of Canadian, US and foreign companies. For the moment, the Company does not expect any major change to this asset allocation. The composition as of December 31, 2008 was 7% in cash and short-term investments, 52% in bonds and 41% in shares of Canadian, US and foreign companies.

## NOTE 16 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

### FINANCIAL POSITION OF THE PLANS

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Defined benefit pension plans | Other benefits plans | Defined benefit pension plans | Other benefits plans |
| **Changes in accrued benefit obligations** | | | | |
| Benefit obligations at beginning of year | $ 169,680 | $ 11,330 | $ 196,170 | 12,684 |
| Addition during the year | – | – | – | 26 |
| Current service cost | 4,573 | 24 | 6,137 | 231 |
| Interest cost | 12,302 | 705 | 10,834 | 674 |
| Benefits paid | (13,689) | (1,037) | (12,848) | (1,222) |
| Actuarial losses (gains) | 27,325 | (43) | (31,341) | (1,448) |
| Foreign currency (gain) loss | (817) | (384) | 728 | 385 |
| Benefit obligations at end of year | 199,374 | 10,595 | 169,680 | 11,330 |
| **Changes in fair value of plan assets** | | | | |
| Fair value of plan assets at beginning of year | 166,708 | – | 192,060 | – |
| Actual return (loss) on plan assets | 23,847 | – | (22,784) | – |
| Employer contributions | 6,264 | 1,037 | 8,611 | 1,035 |
| Employee contributions | 1,046 | – | 1,100 | 187 |
| Benefits paid | (13,689) | (1,037) | (12,848) | (1,222) |
| Foreign currency (loss) gain | (548) | – | 569 | – |
| Fair value of plan assets at end of year | 183,628 | – | 166,708 | – |
| **Funded status** | | | | |
| Deficit, end of year | (15,746) | (10,595) | (2,972) | (11,330) |
| Unamortized actuarial losses | 83,889 | 608 | 68,628 | 505 |
| Unamortized past service cost | 645 | 139 | 853 | 201 |
| Valuation allowance | (295) | – | (559) | – |
| Unamortized transitional (asset) obligation | (5,282) | 581 | (6,437) | 777 |
| Asset (liability) as at the measurement date | 63,211 | (9,267) | 59,513 | (9,847) |
| Employer contributions made from the measurement date to the end of the year | 1,240 | 11 | 1,527 | 50 |
| **Net asset (liability) recognized in the balance sheet** | $ 64,451 | $ (9,256) | $ 61,040 | $ (9,797) |

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

## NOTE 16 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

### EMPLOYEE BENEFITS PLANS EXPENSE

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Defined benefit pension plans | Other benefits plans | Defined benefit pension plans | Other benefits plans |
| **Defined benefit plans** | | | | |
| Employer current service cost | $ 3,526 | $ 24 | $ 5,037 | $ 42 |
| Interest cost on benefit obligations | 12,302 | 705 | 10,834 | 674 |
| Actual return on plan assets | (23,847) | – | 22,784 | – |
| Actuarial losses (gains) | 27,325 | (131) | (31,341) | (1,448) |
| Curtailment | 87 | 104 | – | – |
| Unadjusted benefits expense (income) before taking into account the long-term nature of the cost | 19,393 | 702 | 7,314 | (732) |
| Difference between expected return and actual return on plan assets | 10,075 | – | (37,117) | – |
| Difference between amortized past service costs and plan amendment for the year | 121 | 31 | 115 | 59 |
| Difference between net actuarial loss recognized and actuarial loss on benefit obligations | (25,692) | 41 | 34,651 | 1,573 |
| Transitional (asset) obligation amortization | (1,155) | 196 | (1,156) | 196 |
| Defined benefit plans expense before valuation allowance | 2,742 | 970 | 3,807 | 1,096 |
| Valuation allowance | (264) | – | (18) | – |
| Defined benefit plans expense | 2,478 | 970 | 3,789 | 1,096 |
| Defined contribution plans expense | 17,997 | – | 15,537 | – |
| Total benefit plans expense | $ 20,475 | $ 970 | $ 19,326 | $ 1,096 |

For the year ended March 31, 2010, the Company's total expense for all its employee benefits plans was $21,445,000 ($20,422,000 in 2009) and the total Company contributions to the employee benefits plans was $25,298,000 ($25,183,000 in 2009).

For the purposes of determining the defined benefit pension cost, the assets of the plans were smoothed. The asset valuation method used is a smoothed value recognizing gains and losses over a 5-year period, at a rate of 20% per year. Those gains and losses represent the difference between the actual return and the expected long-term return of the pension fund. This method aims at reducing the effect of short-term variations in financial markets.

**Weighted average assumptions**

| | | | | |
|---|---|---|---|---|
| To determine benefits obligation at the end of year: | | | | |
| Discount rate | 6.00% | 5.93% | 7.47% | 6.68% |
| Rate of compensation increase | 3.50% | 3.50% | 3.50% | 3.50% |
| To determine benefits plans expenses: | | | | |
| Discount rate | 7.47% | 6.68% | 5.61% | 5.44% |
| Expected long-term rate of return on plan assets | 6.76% | N/A | 7.01% | N/A |
| Rate of compensation increase | 3.50% | 3.50% | 3.50% | 3.50% |

For measurement purposes, a 5.5% to 11.0% annual rate of increase was used for health, life insurance and dental plan costs for the year 2011 and this rate is assumed to decrease gradually to 5.25% in 2015. In comparison, during the previous year, a 6.3% to 7.6% annual rate was used for the year 2010 and that rate was assumed to decrease gradually to 5% in 2014.

## NOTE 17 COMMITMENTS AND CONTINGENCIES

### LEASES

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

| | |
|---|---|
| Less than 1 year | $ 12,600 |
| 1-2 years | 10,285 |
| 2-3 years | 8,161 |
| 3-4 years | 7,094 |
| 4-5 years | 5,261 |
| More than 5 years | 6,977 |
| | $ 50,378 |

The Company guarantees to certain lessors a portion of the residual value of certain leased assets with respect to operations which mature until 2015. If the market value of leased assets, at the end of the respective operating lease term, is inferior to the guaranteed residual value, the Company is obligated to indemnify the lessors, specific to certain conditions, for the shortfall up to a maximum value. The Company believes that the potential indemnification will not have a significant effect on the consolidated financial statements.

### CLAIMS

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

### INDEMNIFICATIONS

The Company from time to time offers indemnifications to third parties in the normal course of its business, in connection with business or asset acquisitions or dispositions. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration. At March 31, 2010, given that the nature and amount of such indemnifications depend on future events, the Company is unable to reasonably estimate its maximum potential liability under these agreements. The Company has not made any significant indemnification payments in the past, and as at March 31, 2010 and 2009, the Company has not recorded a liability associated with these indemnifications.

## NOTE 18 RELATED PARTY TRANSACTIONS

The Company receives and provides goods and services from and to companies subject to significant influence through ownership by its principal shareholder. These transactions were made in the normal course of business and have been recorded at the exchange amount which corresponds to the fair market value, being the market value of similar transactions.

Goods and services received were the following:

| | 2010 | 2009 |
|---|---|---|
| Rent, travel, transport and lodging expenses and canned goods | $ 3,785 | $ 4,923 |
| Management fees for compensation of the Chairman of the Board | $ 500 | $ 500 |
| | $ 4,285 | $ 5,423 |

Goods and services provided were the following:

| | | |
|---|---|---|
| Dairy products and services provided by the Company | $ 384 | $ 528 |

There is an amount payable by the Company of $61,000 with respect to these transactions as at March 31, 2010 ($1,380,000 in 2009).

## NOTE 19 FINANCIAL INSTRUMENTS

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

### A) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash and cash equivalents, accounts receivable, bank loans, accounts payable and accrued liabilities. The table below shows the fair value and the carrying value of other financial instruments as at March 31, 2010 and 2009. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Fair Value | Carrying Value | Fair value | Carrying value |
| Other assets that meet the definition of a financial asset | $ 1,516 | $ 1,538 | $ 1,719 | $ 1,735 |
| Long-term debt | 420,922 | 380,790 | 615,554 | 617,486 |
| Interest rate swaps | (372) | (372) | (1,785) | (1,785) |
| Currency forwards | (247) | (247) | 233 | 233 |

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at March 31, 2010, classified using the fair value hierarchy described in Note 1.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 54,819 | $ – | $ – | $ – |
| Interest rate swaps | $ – | $ (372) | $ – | $ – |
| Currency forwards | $ – | $ (247) | $ – | $ – |

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

### B) CREDIT RISK

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

The cash equivalents consist mainly of short-term deposits. None of the cash equivalents are in asset backed commercial paper products. The Company has deposited the cash equivalents with reputable financial institutions.

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 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, 2010.

Allowance for doubtful accounts and past due receivables are reviewed by Management at each balance sheet reporting date. 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 account historic collection trends of past due accounts. Accounts receivable are written off once determined not to be collectable.

## NOTE 19 FINANCIAL INSTRUMENTS (CONT'D)

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

## C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 20-Capital Disclosures. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the normal course of business.

## D) INTEREST RATE RISK

The bank loans bear interest at fluctuating rates. The senior notes are at a fixed rate therefore no interest rate risk exists.

For the fiscal year ended March 31, 2010, the interest expense on long-term debt totalled $29,901,000 ($20,684,000 in March 31, 2009). The interest accrued to March 31, 2010 was an amount of $6,660,000 ($8,661,000 at March 31, 2009).

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

As at March 31, 2010, the net amount exposed to short-term rates fluctuations was approximately $61,500,000. Based on this exposure, an assumed 1 percentage point increase in interest rate would have an unfavourable impact of approximately $440,000 on net earnings with an equal but opposite effect for an assumed 1 percentage point decrease. The Company uses derivative contracts to manage the combination of floating interest rates on its bank debt.

## E) FOREIGN EXCHANGE RISK

The Company operates internationally and is exposed to foreign exchange risk resulting from various foreign currency transactions. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the functional currency of the Company's business unit that is party to the transaction. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 2,300,000 euros (1,800,000 euros in 2009) and 4,000,000 US dollars (none in 2009).

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

| | 2010 | 2009 |
|---|---|---|
| | US dollar impact | US dollar impact |
| Increase in net earnings | $ 895 | $ 514 |
| Increase in comprehensive income | $ 10,004 | $ 8,050 |

## F) COMMODITY PRICE RISK

The Company occasionally enters into contracts to hedge against fluctuations in the price of commodities. Outstanding contracts as at the balance sheet date had a negative fair value of approximately $1,119,000 (negative fair value of $3,790,000 in 2009). The Company does not use hedge accounting for these transactions.

## NOTE 20 CAPITAL DISCLOSURES

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

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

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to shareholders' equity. The net debt-to-equity ratio as at March 31, 2010 and March 31, 2009 was as follows:

| | 2010 | 2009 |
|---|---|---|
| Bank loans | $ 61,572 | $ 139,399 |
| Current portion of long-term debt | – | 214,421 |
| Long-term debt | 380,790 | 403,065 |
| Cash and cash equivalents | (54,819) | (43,884) |
| Net debt | $ 387,543 | $ 713,001 |
| Shareholders' equity | $ 2,028,598 | $ 1,972,348 |
| Net debt-to-equity | 0.19:1 | 0.36:1 |

The Company has existing credit facilities which require a quarterly review of financial ratios and the Company is not in violation of any such ratios as at March 31, 2010.

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

## NOTE 21 SEGMENTED INFORMATION

The Company has two operating sectors: Dairy Products and Grocery Products.

The Dairy Products Sector principally includes the production and distribution of cheeses, fluid milk and dairy ingredients. The activities of this Sector are carried out in Canada, Europe and Argentina (CEA) and in the United Sates (USA).

The Grocery Products Sector consists of the production and marketing of mainly snack-cakes.

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

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

## NOTE 21 SEGMENTED INFORMATION (CONT'D)

**Information on operating sectors**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | CEA | USA | Total | CEA | USA | Total |
| Revenues[1] | | | | | | |
| Dairy products | $ 3,745,930 | $ 1,906,189 | $ 5,652,119 | $ 3,323,541 | $ 2,304,613 | $ 5,628,154 |
| Grocery products | 158,463 | – | 158,463 | 165,109 | – | 165,109 |
| | $ 3,904,393 | $ 1,906,189 | $ 5,810,582 | $ 3,488,650 | $ 2,304,613 | $ 5,793,263 |
| Earnings before interest, depreciation, and income taxes | | | | | | |
| Dairy products | $ 457,895 | $ 218,375 | $ 676,270 | $ 378,898 | $ 152,006 | $ 530,904 |
| Grocery products | 15,801 | – | 15,801 | 16,895 | – | 16,895 |
| | $ 473,696 | $ 218,375 | $ 692,071 | $ 395,793 | $ 152,006 | $ 547,799 |
| Depreciation and amortization | | | | | | |
| Dairy products | $ 54,843 | $ 49,844 | $ 104,687 | $ 41,560 | $ 58,849 | $ 100,409 |
| Grocery products | 8,819 | – | 8,819 | 7,875 | – | 7,875 |
| | $ 63,662 | $ 49,844 | $ 113,506 | $ 49,435 | $ 58,849 | $ 108,284 |
| Operating income | | | | | | |
| Dairy products | $ 403,052 | $ 168,531 | $ 571,583 | $ 337,338 | $ 93,157 | $ 430,495 |
| Grocery products | 6,982 | – | 6,982 | 9,020 | – | 9,020 |
| | $ 410,034 | $ 168,531 | $ 578,565 | $ 346,358 | $ 93,157 | $ 439,515 |
| Interest, net | | | 35,062 | | | 31,715 |
| Earnings before income taxes | | | 543,503 | | | 407,800 |
| Income taxes | | | 160,789 | | | 128,852 |
| Net earnings | | | $ 382,714 | | | $ 278,948 |

[1] Revenues are attributable to countries based upon manufacturing origin.

## NOTE 21 SEGMENTED INFORMATION (CONT'D)

**Geographic information**

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | Argentina & Europe | United States | Total | Canada | Argentina & Europe | United States | Total |
| Revenues[1] | | | | | | | | |
| Dairy products | $ 3,441,501 | $ 304,429 | $ 1,906,189 | $ 5,652,119 | $ 2,988,513 | $ 335,028 | $ 2,304,613 | $ 5,628,154 |
| Grocery products | 158,463 | – | – | 158,463 | 165,109 | – | – | 165,109 |
| | $ 3,599,964 | $ 304,429 | $ 1,906,189 | $ 5,810,582 | $ 3,153,622 | $ 335,028 | $ 2,304,613 | $ 5,793,263 |
| Total assets | | | | | | | | |
| Dairy products | $ 1,648,241 | $ 190,868 | $ 1,142,115 | $ 2,981,224 | $ 1,660,987 | $ 271,142 | $ 1,295,986 | $ 3,228,115 |
| Grocery products | 272,227 | – | – | 272,227 | 270,988 | – | – | 270,988 |
| | $ 1,920,468 | $ 190,868 | $ 1,142,115 | $ 3,253,451 | $ 1,931,975 | $ 271,142 | $ 1,295,986 | $ 3,499,103 |
| Net book value of fixed assets | | | | | | | | |
| Dairy products | $ 426,913 | $ 76,460 | $ 497,636 | $ 1,001,009 | $ 438,675 | $ 97,210 | $ 572,615 | $ 1,108,500 |
| Grocery products | 37,747 | – | – | 37,747 | 41,162 | – | – | 41,162 |
| | $ 464,660 | $ 76,460 | $ 497,636 | $ 1,038,756 | $ 479,837 | $ 97,210 | $ 572,615 | $ 1,149,662 |
| Additions to fixed assets | | | | | | | | |
| Dairy products | $ 32,050 | $ 5,597 | $ 63,585 | $ 101,232 | $ 43,359 | $ 12,107 | $ 63,000 | $ 118,466 |
| Grocery products | 5,644 | – | – | 5,644 | 3,397 | – | – | 3,397 |
| | $ 37,694 | $ 5,597 | $ 63,585 | $ 106,876 | $ 46,756 | $ 12,107 | $ 63,000 | $ 121,863 |
| Goodwill | | | | | | | | |
| Dairy products | 269,064 | 365 | 277,836 | 547,265 | $ 269,204 | $ 395 | $ 321,254 | $ 590,853 |
| Grocery products | 169,430 | – | – | 169,430 | 169,430 | – | – | 169,430 |
| | $ 438,494 | $ 365 | $ 277,836 | $ 716,695 | $ 438,634 | $ 395 | $ 321,254 | $ 760,283 |

1 Revenues are attributable to countries based upon manufacturing origin.

## NOTE 22 COMPARATIVE AMOUNTS

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

www.saputo.com

## HEAD OFFICE

Saputo Inc.
6869 Metropolitain Blvd. East
St-Léonard, QC Canada H1P 1X8
Telephone: 514.328.6662
Fax: 514.328.3310
www.saputo.com

## GENERAL ANNUAL MEETING OF SHAREHOLDERS

Tuesday, August 3, 2010, at 9:30 a.m.
Laval Room, Hotel Sheraton Laval
2440 Autoroute des Laurentides
Laval, QC Canada H7T 1X5

## INVESTOR RELATIONS

Corporate Communications
Telephone: 514.328.3377
Fax: 514.328.3364
Email: investors@saputo.com

## STOCK EXCHANGE

Toronto
Symbol: SAP

## TRANSFER AGENT

Computershare Trust Company of Canada
1500 University Street, Suite 700
Montréal, QC Canada H3A 3S8
Telephone: 514.982.7888

## EXTERNAL AUDITORS

Deloitte & Touche LLP, Montréal QC

## DIVIDEND POLICY

Saputo Inc. declares quarterly cash dividends on common shares at $0.145 per share, representing a yearly dividend of $0.58 per share. The balance of corporate earnings is reinvested to finance the growth of the Company's business.

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

www.saputo.com