



MASTELLONE HERMANOS S.A.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2016

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of Mastellone Hermanos S.A. (the Company) and notes thereto for the three month period ended March 31, 2016.

We are the largest dairy company and the leading processor of fresh dairy products in Argentina, ranking first in market share for fluid milk, butter, cream, cheese and caramelized condensed milk (*dulce de leche*). Our main market is the Argentine retail market. We have been active in the Argentine domestic market for more than 85 years. We also have been exporting dairy products for more than 30 years. Therefore, we are affected by developments in the international and Argentine dairy sectors as well as developments in Argentina's economic and financial situation. Since we have commercial activities in Brazil, we are also affected by developments in its economic and financial condition, although to a lesser extent than in the case of Argentina.

In this report, "\$" and "Ps." refer to the currencies of the United States and Argentina, respectively.

Amounts are expressed in millions of Pesos or Dollars (if corresponds), to facilitate the reading of the document.

Adjusted EBITDA (millions of Pesos)

| | 1Q16 | 1Q15 | LTM | |
|---|--------------|------------|----------------|--------------|
| | | | March 2016 | March 2015 |
| Consolidated net result | -168.6 | -166.3 | -618.9 | -463.7 |
| Income tax | -104.5 | -85.5 | -400.3 | -95.3 |
| Amortization Intangible assets | 0.1 | 3.2 | 18.6 | 19.8 |
| Depreciation | 113.0 | 84.7 | 374.5 | 195.5 |
| Interest expenses | 103.1 | 93.6 | 395.2 | 341.4 |
| Exchange differences | 316.6 | 74.1 | 1,244.1 | 194.6 |
| Other | - | - | 74.4 | - |
| Adjusted EBITDA expressed in Pesos | 259.7 | 3.8 | 1,087.6 | 192.3 |
| Average exchange rate | 14.44 | 8.64 | 11.93 | 8.44 |
| Adjusted EBITDA expressed in USD | 18.0 | 0.4 | 91.2 | 22.8 |

Adjusted EBITDA is calculated based on the methodology established in the terms and conditions of our Series Notes due 2021

Overall comments

The adjusted EBITDA reflects the positive trend in terms of cash generation as a result of commercial and cost savings actions taken by the Company.

The main factors that impacted in the EBITDA continued to be (i) low prices for the raw milk in line with current international prices,(ii) the use of fiscal benefits arising from our industrial activities in the province of San Luis and (iii) our actions to reduce costs.

The depressed international price for milk powder continued affecting negatively our results. We had a loss of Ps. 48.1 million due to write downs in the value of exportable products to their net realizable value.

Finally it is important to point out the resulting improvement on most of the relevant credit ratios such as the following:

| | Last 12 months | |
|------------------------------------|------------------|------------------|
| | March 31st, 2016 | March 31st, 2015 |
| EBITDA (LTM) | 91.2 | 22.8 |
| Total Financial Debt | 214.7 | 266.1 |
| Cash and cash equivalents | -26.1 | -21.5 |
| Net financial debt | 188.6 | 244.6 |
| Financial cost | 33.1 | 40.5 |
| Leverage ratios | | |
| Total Debt / EBITDA | 2.4 | 11.7 |
| Net Debt / EBITDA | 2.1 | 10.7 |
| Coverage (EBITDA / Financial cost) | 2.8 | 0.6 |

Comparison of Results of Operations for the three month period ended March 31, 2016 and 2015.

Revenues:

Our revenues are divided as follows:

| (Millions of Ps. or %) | 1Q2016 | 1Q2015 | Difference | % |
|------------------------------------|----------------|----------------|--------------|--------------|
| Argentine domestic retail sales | 2,921.0 | 2,624.9 | 296.1 | 11.3% |
| Special sales and public bids | 191.1 | 193.6 | -2.5 | -1.3% |
| Brazil & Paraguay domestic markets | 254.5 | 165.5 | 89.0 | 53.8% |
| Exports | 134.6 | 99.4 | 35.2 | 35.4% |
| Services | 104 | 79.4 | 24.6 | 31.0% |
| Total | 3,605.2 | 3,162.8 | 442.4 | 14.0% |



Argentina domestic sales

During the three month period ended March 31, 2016, our retail sales in the Argentine domestic market increased by Ps. 296.1 million, or 11.3%, as compared to the same period of 2015, primarily as a result of:

- A 8.9% decrease in physical volumes sold in the retail market (expressed in terms of the raw milk used to manufacture the products sold),
- A 20.2% year on year increase in average prices and changes in product mix and special discounts.

Special sales and public bids

During the three month period ended March 31, 2016, special sales and public bids decreased Ps. 2.5 million, or 1.3% as compared to the same period of 2015, principally as a result of price increases and product mix compensated by a decrease in physical volumes sold due to delayed deliveries to public agencies.

Brazil & Paraguay domestic markets

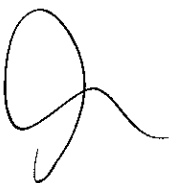
During the three month period ended March 31, 2016, sales in the foreign markets (Brazil and Paraguay) increased Ps. 89.0 million, or 53.8% as compared to the same period of 2015, principally as a result of:

- A 11.4% increase in volumes sold
- A 3.2% increase in average prices
- A 39.2% increase as a result of a combined effect of depreciation of the Brazilian Real and the Argentine Peso.

Exports

During the three month period ended March 31, 2016, exports to third parties increased by Ps. 35.2 million, or 35.4% compared to 2015, primarily due to the combined effect of:

- An increase of 7.9% in volumes sold of powder milk, our main product for export sales.
- A decrease of 16.4% in average sales prices for powder milk, and
- The depreciation of the Argentine peso.





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Cost and expenses

Cost of Sales

Cost of goods and services sold during the three month period ended March 31, 2016 as compared to the same period of 2015, decreased by Ps. 11.4 million, or 0.5%, from Ps. 2,355.6 million to Ps. 2,344.3 million, principally as a result of:

- An increase of production costs of Ps. 206.7 million or 28.5%, from Ps. 725.4 million in 2015 to Ps. 932.1 million in 2016, principally due to the following reasons:
 - ✓ An increase in labor cost of Ps. 123.8 million, or 37.9%, from Ps. 326.5 million in 2015 to Ps. 450.3 million in 2016, primarily due to agreements with the union and salary increases granted to non-unionized personnel.
 - ✓ An increase in depreciation of Ps. 26.5 million or 34.1% from Ps. 77.8 in 2015 to Ps.104.3 in 2016, due to the change of method from cost to revalued cost for the valuation of certain items included in property, plant and equipment.
 - ✓ An increase in freight costs of Ps. 21.2 million, or 15.7%, from Ps. 135.5 million in 2015 to Ps. 156.7 million in 2016.
- An increase of the use of fiscal benefits (which are accounted for as a reduction in cost of sales) of Ps.37.6 million or 1,079.8%, from Ps. 3.5 million in 2015 to Ps. 41.1 in 2016. Such fiscal benefits are earned under the Industrial Promotional Law by Mastellone San Luis and Compañía Puntana de Carnes Especiales from their industrial activities in the province of San Luis.
- A 12.1% effective decrease in the cost of the raw milk as a result of a lower price paid to dairy farmers.

Selling Expenses

Selling expenses for the three month period ended March 31, 2016, increased Ps.176.9 million, or 22.8%, as compared with the same period of 2015, from Ps.777.0 million in 2015 to Ps. 953.8 million in 2016. Such increase was primarily attributable to:

- Higher transportation costs, mostly related with an increase of salaries included in the cost of freights, of Ps.81.7 million or 20.9%, from Ps.391.2 million in 2015 to Ps.472.9 million in 2016.
- Higher fees (most of them related with the distribution of our products in Argentina) increased Ps. 58.3 million, or 36.1%, from Ps.161.6 million in 2015 to Ps.219.9 million in 2016.
- An increase in labor costs directly related with selling expenses (sales force, marketing areas, etc.) of Ps.41.9 million, or 37.5%, from Ps.111.6 million in 2015 to Ps.153.5 million in 2016.

General and Administrative Expenses

During the three month period ended March 31, 2016, General and Administrative Expenses increased by Ps. 65.8 million, or 54.7%, as compared to the same period of 2015, from Ps. 120.4 million to Ps. 186.2 million. Such increase is primarily attributable to:

- An increase in labor costs of Ps.30.1 million, or 49.3%, from Ps. 61.0 million in 2015 to Ps. 91.1 million in 2016; and
- An increase in fees and compensations for services of Ps. 11.4 or 77,0%, from Ps. 14.8 in 2015 to Ps. 26.2 in 2016.

Investment Income

During the three month period ended March 31, 2016, investment income increased by Ps.15.3million, or 182.1%, (from a gain of Ps.8.4million in 2015 to a gain of Ps.23.7million in 2016), primarily due to:

- A gain of Ps. 9.1 million as a result of hedging transactions of USD dollars through Rofex market.
- An increase in cash balances.

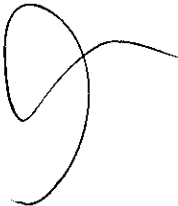
Finance Cost

During the three month period ended March 31, 2016, finance cost increased Ps. 9.4 million, or 10.1% as compared with the same period ended of 2015 (from Ps. 93.6 million in 2015 to Ps. 103.0 million in 2015), primarily due to a combined effect of:

- An increase in the exchange rate between the Argentine peso and the U.S. dollar (which can be estimated in 67.1% based on the daily average exchange rates during the corresponding quarters),
- A sharp reduction of the short term debt

Foreign Exchange Losses

Losses from exchange differences during the three month period ended March 31, 2016increased Ps. 242.5 million, or 327.3%, as compared with the same period of 2015 (from Ps. 74.1million in 2015 to Ps. 316.6 million in 2016), due to a higher devaluation of the Argentine Peso.



Liquidity and Capital Resources

Sources and Uses of Funds – Three month period ended March 31, 2016 and 2015

| | 1Q2016 | 1Q2015 |
|---|---------------------|--------------|
| | (Millions of pesos) | |
| Net Cash generated by operating activities | 20.5 | -77.7 |
| Cash flows used in investment activities | | |
| Payments for purchase of property, plant & equipment | -143.0 | -43.2 |
| Purchase of investment property | | -0.7 |
| Proceeds from sale of other financial assets | 23.3 | 66.9 |
| Proceeds from disposal of Property, Plant & Equipment | 3.2 | 1.1 |
| Cash used in investment activities | -116.5 | 24.1 |
| Cash flow used in financing activities | | |
| Proceeds from borrowings | 20.9 | 134.7 |
| Repayments of borrowings | -14.7 | -30.7 |
| Interest paid on borrowings | -7.0 | -30.6 |
| Net cash used in financing activities | -0.8 | 73.5 |
| Net change in cash and cash equivalents | -96.9 | 19.9 |
| Initial balance | 480.3 | 169.8 |
| Ending balance | 383.4 | 189.7 |

During the three month period ended March 31, 2016, net cash from operations increased Ps.98.2 million, or 126.4%, as compared with the same period of 2015, primarily due to: i) an increase of the net cash results of the three month period of Ps.316.2 million, or 1,014.9%, from Ps. 31.2 million in 2015 to Ps. 347.4 million in 2016; ii) an increase of working capital accounts of Ps.215.9 or 210.0%, from Ps. 102.8 million in 2015 to Ps. 318.7 million in 2016.

Funds applied to Investment activities increased Ps.140.6 million, or 583.4%, from cash inflows of Ps.24.1 million in 2015 to cash outflows of Ps.116.5 million in 2016, primarily due to: i) an increase of payments for capital expenditures, ii) a decrease of proceeds other financial assets.

Funds applied to financing activities increased during the three month period ended March 31, 2016, Ps.74.4 million, as compared with the same period of 2015 (from cash inflows of Ps.73.5 million in 2015 to cash outflows of Ps.0.9 million in 2016), primarily due to:

- i) A decrease of funds received from new loans of Ps. 113.8 million or 84.5%, from Ps. 134.7 million in 2015 to Ps. 20.9 million in 2016;
- ii) A decrease of repayments of borrowings of Ps.16.0 million, due to a lower level of short term financial debt; and
- iii) A decrease in interest payments of Ps.23.6 million (from Ps.30.6 million in 2015 to Ps.7.0 million in 2016).



Financial Debt

The following summarizes the evolution of our financial debt (expressed in millions of dollars) for the dates therein indicated.

| | 1Q16 | 1Q15 |
|--|--------------|--------------|
| Series F Note Due 2021 | 199.7 | 199.7 |
| Net present value adjustment and issuance expenses | -5.6 | -8.2 |
| Subtotal | 194.1 | 191.5 |
| Short term debt | 13.6 | 65.7 |
| Other long term debt | 0.5 | 1.7 |
| Principal - total | 208.2 | 258.9 |
| Accrued interest | 6.5 | 7.2 |
| Total Debt | 214.7 | 266.1 |
| Cash and cash equivalents | -26.1 | -21.5 |
| Net Debt | 188.6 | 244.6 |



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 Apoderado
 Mastellone Hermanos S.A.