

**MASTELLONE HERMANOS S.A.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

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 fiscal year ended December 31, 2015.

We are the largest dairy company and the leading processor for 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.

Adjusted EBITDA (millions of Pesos)

Concepts	Fiscal year ended December 31st			
	2015	2014	2013	2012
Consolidated net result	-616,6	-457,7	-57,8	-115,5
Income tax	-381,4	-102,3	-16,8	16,7
Amortization - Intangible assets	21,7	26,6	16,2	0,7
Depreciation	346,2	144,2	123,8	107,8
Interest expense	385,7	297,1	164,9	144,8
Exchange differences	1.001,6	443,6	340,3	138,4
Other	74,4	-	-60,4	-
Adjusted EBITDA (million Pesos)	831,7	351,5	510,2	292,9

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

Calculation of the EBITDA expressed in USD

Given the sharp devaluation of the Argentine Peso during the last ten labor days of 2015, we refined the criteria to calculate the EBITDA in USD.

We believe that using a daily average exchange rate will reflect a more realistic performance indicator rather than the prior criteria of using the exchange rate of the last working day of every quarter.

We included below the calculation of 2015's EBITDA expressed in USD using both exchange rates. Also, for comparison purposes, we presented the corresponding information of the last three fiscal years.

	Fiscal year ended December 31st			
	2015	2014	2013	2012
Adjusted EBITDA in USD (applying a daily average exchange rate)	90,2	43,4	93,4	64,6
Adjusted EBITDA in USD (applying the registered exchange rate on the last day of every quarter)	75,6	43,3	90,1	61,7

In our reports we will use the daily average exchange rate to translate to USD amounts originally denominated in other currencies.

Overall comments

Adjusted EBITDA improved during the last quarter of 2015, following the positive trend that started the previous quarter. 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 the powder of milk continued affecting negatively the Company's results. We had a loss of Ps. 234.3 million due to write downs in the value of exportable products to their net realizable value.

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

	Fiscal year ended December 31 st , 2015
EBITDA	\$ 831.7
Debt	
- Total Debt	\$ 2,699.3
- Net Debt	\$ 2,215.5
Financial cost	\$ 385.7
Leverage	
EBITDA / Total debt	3.25
EBITDA / Net debt	2.66
Coverage (EBITDA / Finance Cost)	2.16

Comparison of Results of Operations for the fiscal year ended December 31, 2015 and 2014.

Revenues:

Our revenues are divided as follows:

(Millions of Ps. or %)	Fiscal year ended December 31,			
	2015	2014	Difference	%
Argentine domestic sales	12,266.5	10,516.3	1,750.2	16.6%
Special sales & public bids	347.1	314.7	32.4	10.3%
Brazil & Paraguay domestic market	642.7	828.6	-185.9	-22.4%
Exports	455.2	482.4	-27.2	-5.6%
Services	368.1	315.8	52.3	16.6%
Total	14,079.6	12,457.8	1,621.8	13.0%

Argentina domestic sales

During the fiscal year ended December 31, 2015, our product sales in the Argentine domestic market increased by Ps. 1,750.2 million, or 16.6%, as compared to the same period of 2014, primarily as a result of:

- A 4.0% decrease in physical volumes sold (expressed in terms of the raw milk used to manufacture the products sold) to the retail market,



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- A 25.1% year on year increase in average prices .offset by changes in product mix and special discounts.

Special sales & public bids

During the fiscal year ended December 31, 2015, special sales& public bids increased Ps. 32.4 million, or 10.3% as compared to the same period of 2014, principally as a result of price increases and product mix compensated by a decrease in physical volumes sold due to the suspension of deliveries to the province of Buenos Aires.

Brazil & Paraguay domestic markets

During the fiscal year ended December 31, 2015, sales in the foreign markets (Brazil and Paraguay) decreased Ps. 185.9 million, or 22.4% as compared to the same period of 2014, principally as a result of an 18.9% depreciation of the Brazilian Real versus the Argentine Peso. Volumes sold remained stable and domestic prices had a slight decrease.

Exports:

During the fiscal year ended December 31, 2015, exports to third parties decreased by Ps.27.2 million, or 5.6% compared to 2014, primarily due to the combined effect of:

- An increase of 54.4% in volumes sold of powder milk, our main product for export sales. Such increase in volumes was primarily due to the shipments made during 2015 for exports closed during the last quarter of 2014 and an increase in exportable balances due to lower sales in the domestic market.
- A decrease of 44.5% in average sales prices for powder milk, and
- The depreciation of the Argentine peso.

Cost and expenses

Cost of Sales:

Cost of goods and services sold during the fiscal year ended December 31, 2015 as compared to the same period of 2014, increased by Ps. 640.6 million, or 7.1%, from Ps. 9,012.5 million to Ps. 9,653.1 million, principally as a result of:

- An increase of production costs of Ps. 838.5 million or 33.8%, from Ps. 2,482.8 million in 2014 to Ps. 3,321.3 million in 2015, principally due to the following reasons:
 - ✓ An increase in labor cost of Ps. 395.0 million, or 34.4%, from Ps. 1,146.9 million in 2014 to Ps. 1,541.9 million in 2015, primarily due to agreements with the union and salary increases granted to non-unionized personnel.

- ✓ An increase in depreciation of Ps. 188.9 million or 145.4% from Ps. 129.9 in 2014 to Ps.318.8 in 2015, 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. 62.7 million, or 12.5%, from Ps. 503.0 million in 2014 to Ps. 565.7 million in 2015.
- An increase of the use of fiscal benefits (which are accounted for as a reduction in cost of sales) of \$ 165.9 million or 462.1%, from Ps. 35.9 million in 2014 to Ps. 201.8 in 2015. 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.
- Aneffective decrease in the cost of the raw milk and other raw materials. Nevertheless, such reduction was finally compensated by a write down applied over higher inventories of exportable balances.

Selling Expenses:

Selling expenses for the fiscal year ended December 31, 2015, increased Ps.708.4 million, or 25.4%, as compared with the same period of 2014, from Ps. 2,791.8 million in 2014 to Ps. 3,500.2 million in 2015. Such increase was primarily attributable to:

- Higher transportation costs, mostly related with an increase of salaries included in the cost of freights, of Ps.320.8 million or 22.6%, from Ps.1,422.9 million in 2014 toPs.1,743.7 million in 2015.
- Higher fees (most of them related with the distribution of our products in Argentina) increased Ps. 209.9 million, or 38.5%, from Ps.545.8 million in 2014 to Ps.755.7 million in 2015.
- An increase in labor costs directly related with selling expenses (sales force, marketing areas, etc.) of Ps.156.1 million, or 40.6%, from Ps.384.1 million in 2014 to Ps.540.2 million in 2015.

General and Administrative Expenses:

During the fiscal year ended December 31, 2015, General and Administrative Expenses increased by Ps. 111.4 million, or 24.1%, as compared to the same period of 2014, from Ps. 461.3 million to Ps. 572.6 million. Such increase is primarily attributable to:

- An increase in labor costs of Ps.63.3 million, or 27.4%, from Ps. 231.1 million in 2014 to Ps. 294.4 million in 2015; and
- An increase in taxes (principally the tax on checking accounts), of Ps. 7.8 million, or 6.4%, from Ps. 122.9 million in 2014 to Ps. 130.7 million in 2015.

Investment Income:

During the fiscal year ended December 31, 2015, investment income increased by Ps.90.9million, or 312.4%, (from a gain of Ps.29.1million in 2014 to a gain of Ps.120.0million in 2015), primarily due to:

- A gain of Ps. 66.0 million as a result of hedging transactions of USD dollars through Rofex market.
- An increase in cash balances.

Finance Cost:

During the fiscal year ended December 31, 2015, finance cost increased Ps. 88.6 million, or 29.8% as compared with the same period ended of 2014 (from Ps. 297.1 million in 2014 to Ps. 385.7 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 14.0% – based on the daily average exchange rates during the fiscal year ended December 31, 2014 and 2015),
- An increase in the principal amount of our long term financial debt primarily due to the net issuance of our Series F Notes and the execution of the exchange, tender and call offer applicable over the prior debt (2015 and 2018 Notes and Tranche A & B loans),
- An increase in the finance cost of our long-term debt primarily due to a higher interest rate of our Series F Notes as compared with the interest rate applicable in our prior debt, and
- The absence in 2015 of a non-recurring loss of Ps.29.6 million, in connection with the refinancing of our debt

Foreign Exchange Losses:

Losses from exchange differences during the fiscal year ended December 31, 2015 increased Ps. 558.0 million, or 125.8%, as compared with the same period of 2014 (from Ps. 443.6million in 2014 to Ps. 1,001.6 million in 2015), primarily due to an increase in the devaluation of the Argentine Peso.

Other Gains and Losses:

During the fiscal year ended December 31, 2015, the results from Other Gains and Losses decreased by Ps. 85.4 million as compared with the same period of 2014 (from a gain of Ps. 1.1 million in 2014 to a loss of Ps. 84.3 million in 2015), primarily due to: i)the loss resulted from the sale or disposal of property, plant and equipment of Ps.71.6 million; ii) a write down of fiscal credits of Ps. 10.9 million.

Liquidity and Capital Resources

Sources and Uses of Funds – Fiscal year ended December 31, 2015 and 2014

	Fiscal year ended December 31th,	
	2015	2014
	(Millions of pesos)	
Net Cash generated by operating activities	675.9	225.3
Cash flows used in investment activities		
Payments for purchase of property, plant & equipment	-174.2	-202.0
Proceeds from (payments for) sale (purchase) of other financial assets	11.6	-57.6
Proceeds from sale of subsidiaries	11.0	37.7
Proceeds from disposal of Property, Plant & Equipment	66.6	14.0
Payments from acquisition of subsidiary company	-13.1	-10.1
Purchase of investment property	-4.4	-.-
(Increase) decrease of other assets	-0.1	0,9
Cash used in investment activities	-102.6	-217.1
Cash flow used in financing activities		
Contributions for future capital subscription	486.0	
Proceeds from issuance of Series F Notes		925.5
Proceeds from borrowings	104.0	152.7
Payment of Notes 2015 & 2018 and Loans Tranches A and B		-695.4
Repayments of borrowings	-421.2	-30.3
Refinancing debt expenses		-41.9
Interest paid on borrowings	-434.7	-263.7
Net cash used in financing activities	-266.0	-46.8
Net change in cash and cash equivalents	307.4	55.0
Effects of exchange rate changes on balances of cash and cash equivalents held in foreign currency	3.1	
Reduction in cash due to discontinued operations		-0.5
Initial balance	169.8	115,3
Ending balance	480.3	169.8

During the fiscal year ended December 31, 2015, net cash from operations increased Ps.450.6 million, or 200.0%, as compared with the same period of 2014, primarily due to: i) an increase of the net cash results of the fiscal year of Ps. 587.3 million, or 133.8%, from Ps. 439.0 million in 2014 to Ps. 1,026.3 million in 2015; ii) an increase of working capital accounts of Ps.149.4 or 87.6%, from Ps. 170.6 million in 2014 to Ps. 320.0 million in 2015.

Funds applied to Investment activities decreased Ps.114.5 million, or 52.8%, from cash outflows of Ps.217.1 million in 2014 to Ps.102.6 million in 2015, primarily due to: i) a decrease of payments for

capital expenditures, ii) an increase of proceeds from the sale of certain properties in General Rodriguez.

Funds applied to financing activities increased during the fiscal year ended December 31, 2015, decreased Ps.312.8 million, as compared with the same period of 2014 (from cash inflows of Ps.46.8 million in 2014 to cash outflows of Ps.266.0 million in 2015), primarily due to

- i) A cash contribution for future capital subscription of Ps. 486.0 million, as a result of the shareholder's agreement with Arcor SACI and Bagley Argentina SA;
- ii) An increase of repayments of borrowings of Ps. 390.9 million, due to the cancellation of short term financial debt, mostly pre-export financial facilities.
- iii) An increase in interest payments of Ps.171.0 million (from Ps.263.7 million in 2014 to Ps.434.7 million in 2015), and
- iv) The absence in 2015 of costs and net cash inflows related to the liability management of July 2014

Financial Debt

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

	December 31st,	
	2015	2014
Series F Note Due 2021	199,7	199,7
Net present value adjustment and issuance expenses	(6,1)	(8,5)
Subtotal	193,6	191,2
Short term debt	12,7	54,9
Other long term debt	0,6	2,4
Principal - total	206,8	248,5
Accrued interest	0,2	0,2
Total Debt	207,0	248,7
Cash and cash equivalents	-37,1	-20,1
Net Debt	169,9	228,6

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Mastellone Hermanos SA

Responsable de Relaciones con el Mercado