

Mastellone Hermanos S.A.
Consolidated Financial Statements
for the six-month period ended
June 30, 2019

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

CONSOLIDATED INFORMATIVE SUMMARY **AS OF JUNE 30, 2019**

(in thousand pesos – as restated to reflect the effects of inflation)

1. BRIEF COMMENT ON THE COMPANY'S ACTIVITIES (*)

As we mentioned in our last financial report, the Company's activities during the period were affected by the availability of the raw milk and a still declining consumption.

The production of raw milk, excluding seasonal effects, showed no signs of recovery. Given that situation the competition for the raw milk put pressure on prices paid to producers, and consequently resulting in important cost increases for the Company.

During the period, our sales into the domestic market were affected by the drop of consumption, which resulted in lower volumes sold. Nevertheless, due to the quality and the strength of our products and brands, such commercial performance behaved considerably better than the market overall trends. Also, we launched new added value products to satisfy consumer's needs and contributing to the Company's profitability.

Regarding exports, as we mentioned in our first quarter review, we suspended most of our exports to Brazil and other foreign markets in order to prioritize the supply of the domestic markets. Our deliveries to regional markets were limited to certain specific products but representing marginal volumes.

Finally, in spite of the situation described above, it is important to highlight that the Company recorded a positive bottom line net result. Such performance was partially attributable to the increase on the productivity and expenses savings, but also to certain accounting and/or financial effects non controllable by the Company.

2. CONSOLIDATED FINANCIAL POSITION

	6/30/2019	6/30/2018
	(in thousand pesos – as restated to reflect the effects of inflation)	
Current assets	10,009,254	10,026,590
Non-current assets	16,678,651	13,396,915
TOTAL ASSETS	26,687,905	23,423,505
Current liabilities	5,333,683	5,116,172
Non-current liabilities	10,835,214	10,292,460
TOTAL LIABILITIES	16,168,897	15,408,632
Equity attributable to owners of the Company	10,518,836	8,014,744
Non-controlling interests	172	129
TOTAL EQUITY	10,519,008	8,014,873
TOTAL LIABILITIES AND EQUITY	26,687,905	23,423,505

3. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<u>6/30/2019</u>	<u>6/30/2018</u>
	(in thousand pesos – as restated to reflect the effects of inflation)	
Operational results – income	1,080,918	258,780
Investment income, finance cost, foreign exchange differences and gain arising on net monetary position	174,845	(2,056,611)
Other gains and losses	2,027	(16,688)
Profit (loss) before taxes	1,257,790	(1,814,519)
Income tax and alternative minimum income tax	(29,197)	278,373
Net income (loss) for the year	1,228,593	(1,536,146)
Other comprehensive income	(58,629)	85,537
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	1,169,964	(1,450,609)
Net income (loss) attributable to:		
Owners of the company	1,169,919	(1,450,611)
Non-controlling interests	45	2
Total comprehensive income (loss)	1,169,964	(1,450,609)

4. CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>6/30/2019</u>	<u>6/30/2018</u>
	(in thousand pesos – as restated to reflect the effects of inflation)	
Cash flows provided by operating activities	1,128,881	1,038,345
Cash flows used in investing activities	(527,135)	(816,784)
Cash flows used in financing activities	(583,515)	(595,725)
Cash and cash equivalents provided by (use in) the period	18,231	(374,164)

5. PRODUCTION AND SALES VOLUME (*)

	ACUMULATED SALES	
	<u>6/30/2019</u>	<u>6/30/2018</u>
	(in thousand liters of milk)	
Domestic market	637,019	664,494
Foreign market	68,077	143,493
Total	705,096	807,987

The production volumes are similar to sales volumes due to the perishable nature of marketed products.

6. RATIOS

	<u>6/30/2019</u>	<u>6/30/2018</u>
Current assets to current liabilities	1.88	1.96
Equity attributable to owners of the Company to total liabilities	0.65	0.52
Non-current assets to total assets	0.62	0.57

7. OUTLOOK (*)

The political uncertainty due to presidential elections have a straight impact on business in Argentina. Nevertheless, in spite of such environment, we believe that we will achieve a slight betterment in volumes sold during the rest of the year.

We will continue prioritizing the domestic market rather than exports, but we would execute new shipments in the event of available volumes.

And on top of that, we will carry on with a full renewal of our portfolio of products and brand names. We will release new products and/or introduce changes to others already existing. Such process will take place throughout the rest of the year and is destined to increase the Company's profitability.

As for the raw milk, we expect an increase of volumes processed by the Company, due to seasonal effects but also as a result of higher prices received by the producers.

(*) Information not reviewed by the Auditors.

General Rodriguez, Province of Buenos Aires, August 7, 2019.

CARLOS AGOTE
Chairman

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT JUNE 30,
2019

(in thousands of Argentine pesos – as restated to reflect the effects of inflation)

	Notes	<u>6/30/2019</u>	<u>12/31/2018</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	3	637,717	704,072
Other financial assets		18,509	12,175
Trade accounts receivable	4	4,304,485	3,645,171
Tax credits	5	377,614	472,655
Other receivables	6 and 19	87,689	87,332
Inventories	7	4,583,240	4,663,527
Total current assets		<u>10,009,254</u>	<u>9,584,932</u>
<u>NON-CURRENT ASSETS</u>			
Other financial assets		54,248	66,326
Tax credits	5	51,994	66,002
Other receivables	6 and 19	17,311	21,609
Deferred tax assets	13	34,680	30,468
Property, plant and equipment, and others	8 and 19	15,965,154	16,130,610
Right of use assets	9	344,102	
Investment property		956	985
Goodwill		21,596	21,596
Intangible assets		4,822	6,212
Other assets		183,788	192,936
Total non-current assets		<u>16,678,651</u>	<u>16,536,744</u>
TOTAL ASSETS		<u>26,687,905</u>	<u>26,121,676</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Trade payable	10	4,034,023	4,314,555
Leases liability	9	40,319	
Accrued salaries, wages and payroll taxes	12	925,344	1,080,997
Taxes payable		284,004	209,585
Advance from customers		30,556	19,840
Provisions		252	361
Other liabilities		19,185	34,399
Total current liabilities		<u>5,333,683</u>	<u>5,659,737</u>
<u>NON-CURRENT LIABILITIES</u>			
Trade payable		10,401	12,778
Borrowings	11	8,462,854	9,098,208
Lease liabilities	9	292,976	
Deferred tax liabilities	13	2,010,364	1,969,367
Provisions		20,523	24,780
Other liabilities		38,096	7,762
Total non-current liabilities		<u>10,835,214</u>	<u>11,112,895</u>
TOTAL LIABILITIES		<u>16,168,897</u>	<u>16,772,632</u>
<u>EQUITY</u>			
Common stock and share premium		8,679,141	8,679,141
Reserves		3,477,973	3,741,141
Accumulated deficit- including net result for the period or year		(1,638,278)	(3,071,365)
Equity attributable to owners of the Company		<u>10,518,836</u>	<u>9,348,917</u>
Non-controlling interests		<u>172</u>	<u>127</u>
TOTAL EQUITY		<u>10,519,008</u>	<u>9,349,044</u>
TOTAL LIABILITIES AND EQUITY		<u>26,687,905</u>	<u>26,121,676</u>

The accompanying Notes are an integral part of this consolidated financial statement.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE SIX AND THREE MONTH PERIODS ENDED JUNE 30,
2019

(in thousands of Argentine pesos – as restated to reflect the effects of inflation)

	Notes	6/30/2019 Six-months	6/30/2018 Six-months	6/30/2019 Three-months	6/30/2018 Three-months
Revenue	14	21,745,998	20,828,888	11,588,670	10,932,580
Cost of sales	15	(15,054,464)	(14,576,256)	(7,734,059)	(7,615,825)
Gross profit		6,691,534	6,252,632	3,854,611	3,316,755
Selling expenses	16	(4,830,367)	(5,149,898)	(2,442,276)	(2,672,595)
General and administrative expenses	16	(780,249)	(843,954)	(423,650)	(425,765)
Investment income		95,191	48,400	48,266	21,801
Finance cost	17	(693,345)	(435,295)	(396,634)	(212,710)
Foreign exchange losses (gain)		542,996	(1,880,594)	1,011,117	(1,802,135)
Gain arising on net monetary position		230,003	210,878	106,990	133,685
Other gains and losses		2,027	(16,688)	3,944	(11,305)
Income (loss) before taxes		1,257,790	(1,814,519)	1,762,368	(1,652,269)
Income tax and alternative minimum income tax	18	(29,197)	278,373	(20,463)	289,838
NET INCOME (LOSS) FOR THE PERIOD		1,228,593	(1,536,146)	1,741,905	(1,362,431)
Other comprehensive income (loss)					
Items that may be subsequently reclassified to profit or loss:					
Exchange differences on translating foreign operations		(58,629)	85,537	(80,989)	81,021
Other comprehensive income, net of income tax		(58,629)	85,537	(80,989)	81,021
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		1,169,964	(1,450,609)	1,660,916	(1,281,410)
Net income (loss) attributable to:					
Owners of the Company		1,228,548	(1,536,148)	1,741,872	(1,362,430)
Non-controlling interests		45	2	33	(1)
Net income (loss) for the period		1,228,593	(1,536,146)	1,741,905	(1,362,431)
Total comprehensive income (loss) attributable to:					
Owners of the Company		1,169,919	(1,450,611)	1,660,883	(1,281,409)
Non-controlling interests		45	2	33	(1)
Net comprehensive income (loss) for the period		1,169,964	(1,450,609)	1,660,916	(1,281,410)

The accompanying Notes are an integral part of this consolidated financial statement.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019
(in thousands of Argentine pesos – as restated to reflect the effects of inflation)

	Common stock	Common stock adjustment	Share premium	Reserves		Retained earnings (Acumulated losses)	Equity attributable to:		Total Equity
				Foreign currency translation reserve	Property, plant and equipment Revaluation reserve		Owners of the parents	Non controlling interest	
Balance at December 31, 2018	653,969	5,990,584	2,034,588	247,484	3,493,657	(3,071,365)	9,348,917	127	9,349,044
Net income for the period						1,228,548	1,228,548	45	1,228,593
Other comprehensive loss for the period				(58,629)			(58,629)		(58.629)
Total comprehensive (loss) gain for the period				(58,629)		1,228,548	1,169,919	45	1,169,964
Transfer to accumulated losses (1)					(204,539)	204,539			
Balance at June 30, 2019	653,969	5,990,584	2,034,588	188,855	3,289,118	(1,638,278)	10,518,836	172	10,519,008

(1) It corresponds to depreciation and disposals for the period of revalued assets, net of deferred tax.

The accompanying Notes are an integral part of this consolidated financial statement.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2018

(in thousands of Argentine pesos – as restated to reflect the effects of inflation)

	Common stock	Common stock adjustment	Share premium	Reserves		Retained earnings (Accumulated losses)	Equity attributable to:		Total Equity
				Foreign currency translation reserve	Property, plant and equipment Revaluation reserve		Owners of the parents	Non controlling interest	
Balance at December 31, 2017	653,969	5,990,584	2,034,588	163,197	1,385,081	(762,061)	9,465,358	128	9,465,486
Net loss for the period						(1,536,148)	(1,536,148)	2	(1,536,146)
Other comprehensive gain for the period				85,537			85,537		85,537
Total comprehensive gain (loss) for the period				85,537	-	(1,536,148)	(1,450,611)	2	(1,450,609)
Transfer to accumulated losses (1)					(59,641)	59,641			
Balance at June 30, 2018	653,969	5,990,584	2,034,588	248,734	1,325,440	(2,238,568)	8,014,747	130	8,014,877

(1) It corresponds to depreciation and disposals for the period of revalued assets, net of deferred tax.

The accompanying Notes are an integral part of this consolidated financial statement.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-
MONTH PERIOD ENDED JUNE 30, 2019

(in thousands of Argentine pesos – as restated to reflect the effects of inflation)

	<u>6/30/2019</u>	<u>6/30/2018</u>
<u>Cash flows from operating activities</u>		
Net income (loss) for the period	1,228,593	(1,536,146)
Adjustments to reconcile net income (loss) for the period to net cash provided by operating activities:		
Income tax and alternative minimum income tax accrued	29,197	(278,373)
Finance cost	693,345	435,295
Foreign exchange (gain) losses	(731,828)	2,064,221
Gain arising on net monetary position	(230,003)	(210,878)
Depreciation of property, plant and equipment, and others	677,244	597,540
Net additions to provisions	103,102	92,575
Depreciation of right-of-use of assets	26,592	
Write-off of inventories	44,122	69,028
Depreciation of investment property	30	31
Amortization of intangible assets	1,388	1,388
Depreciation of other assets	7,415	2,836
(Gain) loss on sale of property, plant and equipment, and others	<u>(8,619)</u>	<u>2,054</u>
	1,840,578	1,239,571
Changes in working capital	<u>(711,697)</u>	<u>(71,900)</u>
Subtotal	1,128,881	1,167,671
Payments of income tax and alternative minimum income tax		(129,326)
Net cash generated by operating activities	<u>1,128,881</u>	<u>1,038,345</u>
<u>Cash flows used in investing activities</u>		
Payments for property, plant and equipment, and others	(535,668)	(811,302)
Payments for net purchase of other financial assets	(6,869)	(8,502)
Proceeds from disposal of property, plant and equipment, and others	26,842	3,020
Payments for purchase of subsidiary company	<u>(11,440)</u>	
Net cash used in investing activities	<u>(527,135)</u>	<u>(816,784)</u>
<u>Cash flows used in financing activities</u>		
Proceeds from borrowings	386,082	
Repayment of borrowings	(401,618)	(13,228)
Repayment of lease liabilities	(21,048)	
Payment of interests	<u>(546,931)</u>	<u>(582,497)</u>
Net cash used in financing activities	<u>(583,515)</u>	<u>(595,725)</u>
Increase (decrease) in cash and cash equivalents	18,231	(374,164)
Cash and cash equivalents at beginning of year	704,072	1,709,672
Effects of exchange rate changes on the balance of cash held in foreign currencies	(26,673)	311,393
Effect of net monetary position on cash and cash equivalents	<u>(57,913)</u>	<u>(18,032)</u>
Cash and cash equivalents at end of period	<u>637,717</u>	<u>1,628,869</u>

The accompanying Notes are an integral part of this consolidated financial statement.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR
THE SIX-MONTH PERIOD ENDED JUNE 30, 2019

(in thousands of Argentine pesos – as restated to reflect the effects of inflation)

1. GENERAL INFORMATION

Mastellone Hermanos S.A. (hereinafter “Mastellone Hermanos S.A.” or the “Company”) is a sociedad anónima under the laws of Argentina, registered with the Public Registry of Commerce on May 17, 1976. The term of the Company expires on November 5, 2060. Its legal address is in Almirante Brown 957, General Rodriguez, Province of Buenos Aires.

The main activity of the Company is the manufacturing and distribution of dairy products. The Company process and distribute a broad line of fresh dairy products including fluid milk, cream and butter, as well as long-life milk products, including cheese, powdered milk and caramelized condensed milk, which is known in Argentina and abroad as dulce de leche. The Company markets its dairy products under several brands names, including La Serenísima, La Armonía, Ser and Finlandia, among others.

The breakdown of consolidated companies in these condensed interim consolidated financial statements is exposed in Note 2.4.

2. BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2.1 Statement of compliance of International Financial Reporting Standards (‘IFRS’) and basis of preparation

According to Title IV, Informative Periodic Régime, Chapter I, Informative Régime, Section I, General Regulations, Article 1st, Point b.1) of the rules issued by the Comisión Nacional de Valores (“CNV”) (N.T. 2013), the Company chose the option to prepare condensed interim consolidated financial statements in conformity with International Accounting Standard (“IAS”) N° 34, “Interim Financial Reporting”.

Accordingly, the condensed interim consolidated financial statements for the six-month period ended June 30, 2019 have been prepared in conformity with IAS N° 34. The adoption of such standard and the entire set of International Financial Reporting Standards, as issued by the International Accounting Standard Board (‘IASB’), was established by Technical Resolution N° 26 issued by the Argentine Federation of Professional Councils in Economic Sciences (“F.A.C.P.C.E.”) and by CNV, Argentine Securities Commission.

The condensed interim consolidated financial statements do not include all the information required by IFRS for a complete set of financial statements, because they correspond to a condensed set of financial statements under IAS 34. Therefore, the condensed interim consolidated financial statements must be read in conjunction with the consolidated financial statements of the Company for the fiscal year ended December 31, 2018 prepared under IFRS.

The figures and other information for the fiscal year ended December 31, 2018 and the six-month period ended June 30, 2018 are an integral part of these consolidated financial statements and are intended to be read only in relation to those financial statements. These figures have been restated in order to reflect the effect of inflation as of the current period end, as indicated in the following section, in order to allow their comparability and without such restatement modifying the decisions taken based on the financial information corresponding to the previous fiscal period or year.

The legal currency in Argentina is the Peso. The consolidated financial statements are presented in thousands of Pesos.

The condensed interim consolidated financial statements are the English translation of those originally prepared by the Company in Spanish and presented in accordance with IAS 34. The effects of the differences between IFRS and the accounting principles generally accepted in the countries in which these financial statements are to be used have not been quantified. Accordingly, the accompanying condensed interim consolidated financial statements are not intended to present the financial position, profit or loss and other comprehensive income, changes in equity and cash flows in accordance with accounting principles generally accepted in the countries of users of the financial statements that have not adopted the IFRS.

2.2 Financial information adjusted for inflation

Over the past years, inflation levels in Argentina have been high, having accumulating an inflation rate over the past three years that has exceeded 100%, without expectations of a significant decrease in the short term. Likewise, the presence of qualitative indicators of high inflation, as provided for in the International Accounting Standard N° 29 (IAS 29), showed coincidental evidence. Therefore, on September 29, 2018, the FACPCE issued Resolution JG N° 539/18, adopted by the CPCEPBA by the Resolution of the Board of Directors N° 2,883, indicating, among other matters, that Argentina should be considered an inflationary economy in the terms of the professional accounting standards from July 1, 2018, in line with the vision of international organizations.

IAS 29 points out that, in a context of high inflation, financial statements must be presented in a current unit of measure; that is, in closing period purchasing power currency on which it is reported. However, the Company was not able to file restated financial statements with the CNV because Decree N° 664/03 of the National Executive Power (PEN) forbade official bodies (including the CNV) to receive inflation-adjusted financial statements.

Through Law N° 27,468, published on December 4, 2018 in the National Official Gazette, Decree N° 1,269/02 of the PEN and its amendments (including Decree N° 664 of the PEN aforementioned) were repealed. The provisions of the such law entered into force as of December 28, 2018, date on which the General Resolution N° 777/18 of CNV was published, which established that fiscal year, interim or special financial statements, closing from December 31, 2018 inclusive, must be filed with the regulatory body in a currency restated to reflect the effect of inflation.

In accordance with IAS 29, figures of the financial statements which are not expressed in current purchasing power currency of the reporting period must be restated by applying a general price index. To such extent, and as established by Resolution JG N° 539 of the FACPCE, coefficients calculated based on indexes published by such Federation, have been applied. Indexes were obtained based on the combination of National Consumer Price Indexes (IPC) published by the INDEC beginning January 1, 2017 and, backwards, indexes of Wholesale Price Indexes (IPIM) elaborated by the abovementioned institute or, in its absence, indexes of consumer prices published by the Direction of General Statistics and Censuses of the Autonomous City of Buenos Aires and for March, 2019, an estimated index was applied (source: Banco Central de la República Argentina). The restatement coefficient that arise from the variation of the mentioned indexes used for restatement of these consolidated financial statements has been 22.26% for the six-month period ended on June 30, 2019 and 16.03% for the six-month period ended June 30, 2018. The restatement coefficient arising from the IPC variation, as subsequently published by INDEC for the January-June 2019 period was 22.40%.

In the statement of profit or loss and other comprehensive income, the standard requires that all items of such statement should be expressed at the unit currency as of the end of the reporting period. To such extent, all figures have to be restated by using the variation of the general price index, from the date in which the revenue, costs and expenses were recognized in the consolidated financial statements. This does not mean that the nominal amounts of inflows and outflows of cash are modified by the restatement, but that this procedure of monetary correction allows measuring the financial position and the statement of profit or loss and other comprehensive income in a currency of the same purchasing power, which is, at period-end currency.

2.3 Applicable accounting policies

The accounting policies used in the preparation of the condensed interim consolidated financial statements are the same as those used to prepare the consolidated financial statements for the fiscal year ended December 31, 2018, as described in those financial statements. The application of the new standards and interpretations adopted beginning current fiscal year are detailed below:

- IFRS 16 "leases" replaces IAS 17. The new standard specifies how to recognize, measure and disclose leases in the financial statements. The standard leads most lease contracts into lessees' accounting to a single model, eliminating the distinction between operating and financial leases. The accounting of the lessors, however, remains virtually unchanged, preserving the distinction between operating and financial leases.

As envisaged by the standard, for contracts recognized as leases during the term of IAS 17, the Company used the retrospective application with impact on cumulative results at the beginning of the application fiscal year (alternative 16. C5 (b)). For contracts that had not been previously identified as leases by applying IAS 17 and CNIIF 4, the Company adopted the practical solution set forth in IFRS 16, appendix C, Section C3. See Note 9.

- IFRIC 23 (uncertainty over income tax treatments) clarifies the accounting for uncertainties in income taxes to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. An entity has to consider whether it is probable that the tax authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing. The application of the aforementioned interpretation did not significantly affect the amounts set out in relation to assets and liabilities of the Company.
- Amendments to IFRS 9 (Financial Instruments) include changes that allow financial assets with a prepayment option that could result in the option's holders receiving compensation for early termination of the contract, to be measured at amortized cost if certain criteria are met and clarifications regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The application of the aforementioned interpretation did not significantly affect the amounts set out in relation to assets and liabilities of the Company.
- Amendments to IAS 28 (Investments in Associates and Joint Ventures) clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates or joint ventures that form part of the net investment in these investees but to which the equity method is not applied. The application of the aforementioned interpretation did not significantly affect the amounts set out in relation to assets and liabilities of the Company.
- The annual improvements to IFRSs (2015-2017 cycle) includes amendments to the following standards: IFRS 3 (Business combinations) and IFRS 11 (Joint arrangements) (clarify the accounting treatment when an entity obtains control of a business that is a joint operation), IAS 12 (Income taxes) clarify that all income tax consequences of dividends should be recognized in profit or loss, regardless of how the tax arises and IAS 33 (Borrowing costs) clarify the treatment of specific borrowing after the related asset is ready for its intended use or sale. The application of the aforementioned interpretation did not significantly affect the amounts set out in relation to assets and liabilities of the Company.

The consolidated financial statements have been prepared under the historical cost conventions, as restated in order to reflect the effect of inflation in the case of non-monetary items, except for the revaluation of certain non-current assets and financial assets. Usually, the historical cost is based on the fair value of the consideration given in exchange for the assets.

The preparation of these financial statements are the responsibility of the Company's Board of Directors and requires accounting estimates and judgments of the administrators when applying financial standards.

2.4 Basis of consolidation

The condensed interim consolidated financial statements of Mastellone Hermanos S.A. include the stand-alone financial statements of the parent and its subsidiaries. Subsidiary companies are those where the Company has the control of the subsidiaries, which is based on the following three elements: power over an investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's return.

Total comprehensive result of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The financial statements of the non-Argentine subsidiaries used to prepare the consolidated financial statements were issued in accordance with IFRS. Assets, liabilities and equity accounts were converted into pesos considering the exchange rate prevailing at the date of these financial statements. The income and expenses accounts were converted into pesos according to the exchange rate prevailing at the end of each month.

The main consolidation adjustments are the followings:

- elimination of assets, liabilities, income and expenses of the parent with those of its subsidiaries, in order to disclose the balances maintained effectively with third parties; and
- offset the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary.

Detailed below are the subsidiaries whose financial statements have been included in these consolidated financial statements:

Company	Main activity	Country	% of direct and indirect participation in capital stock and votes		
			6/30/2019	12/31/2018	6/30/2018
Con-Ser S.A.	Transportation services, services for vehicle, sale of parts and distribution of cooling equipments	Argentina	100.00	100.00	100.00
Leitesol Industria e Comercio S.A.	Production and distribution of dairy products	Brazil	100.00	100.00	100.00
Marca 4 S.A.	Ownership, administration and legal defense of trademarks <i>Ser</i> and <i>La Serenísima</i>	Argentina	99.99	99.99	99.99
Marca 5 Asesores en Seguros S.A.	Insurance broker	Argentina	99.99	99.99	99.99
Mastellone de Paraguay S.A.	Import and distribution of dairy products	Paraguay	100.00	100.00	100.00
Mastellone Hermanos do Brasil Comercial e Industrial Ltda.	Inactive	Brazil	100.00	100.00	100.00
Mastellone San Luis S.A.	Manufacturer of dairy products	Argentina	99.99	99.99	99.99

The financial position statements of Mastellone Hermanos Sociedad Anónima as of June 30, 2019 and December 31, 2018 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month periods ended June 30, 2019 and 2018, were consolidated based on financial statements of the subsidiaries companies for the periods or years ended at such dates.

3. CASH AND CASH EQUIVALENTS

	<u>6/30/2019</u>	<u>12/31/2018</u>
Cash and bank accounts	366,061	422,089
Investment funds	125,549	142,977
Short-term investments	146,107	139,006
Total	<u>637,717</u>	<u>704,072</u>

4. TRADE ACCOUNTS RECEIVABLE

	<u>6/30/2019</u>	<u>12/31/2018</u>
Third parties (domestic)	3,792,894	2,558,232
Related parties (Note 20)	529,175	946,642
Foreign receivables	63,439	176,417
Notes receivables	1,196	1,461
Tax incentives on exports	36,372	67,348
Subtotal	<u>4,423,076</u>	<u>3,750,100</u>
Allowance for doubtful accounts	(34,892)	(47,939)
Allowance for trade discounts and volume rebates	(83,699)	(56,990)
Total	<u>4,304,485</u>	<u>3,645,171</u>

5. TAX CREDITS

	<u>6/30/2019</u>	<u>12/31/2018</u>
• <u>Current</u>		
Net value added tax	204,392	308,966
Turnover tax credit	79,523	90,014
Income tax	66,490	64,112
Other tax credits	27,209	9,563
Total	<u>377,614</u>	<u>472,655</u>
• <u>Non-current</u>		
Turnover tax credit	5,515	41,181
Net value added tax	5,028	15,639
Tax credit on bank transactions	30,956	
Other tax credits	10,495	9,182
Total	<u>51,994</u>	<u>66,002</u>

6. OTHER RECEIVABLES

	<u>6/30/2019</u>	<u>12/31/2018</u>
• <u>Current</u>		
Prepaid expenses	34,371	45,331
Advances to services suppliers	22,646	15,932
Guarantee deposits (Note 19.b)	207	159
Insurance receivable	1,829	1,921
Loans to personnel	15,661	17,168
Other (Note 19.b)	14,545	8,741
Subtotal	<u>89,259</u>	<u>89,252</u>
Allowance for doubtful accounts	(1,570)	(1,920)
Total	<u>87,689</u>	<u>87,332</u>

	<u>6/30/2019</u>	<u>12/31/2018</u>
• <u>Non-current</u>		
Receivables from customers in receivership and in bankruptcy	63,847	51,236
Régime for the professionalization of transport (1)	13,381	16,360
Guarantee deposits (Note 19.b)	38	156
Other	4,253	5,703
Subtotal	81,519	73,455
Allowance for doubtful accounts	(64,208)	(51,846)
Total	17,311	21,609

(1) In litigation.

7. INVENTORIES

	<u>6/30/2019</u>	<u>12/31/2018</u>
Resale goods	115,537	111,245
Finished goods	1,454,784	1,644,109
Work in progress	1,219,969	1,003,702
Raw materials, packaging and other materials	1,618,128	1,552,889
Goods in transit	137,755	303,212
Subtotal	4,546,173	4,615,157
Advances to suppliers	37,067	48,370
Total	4,583,240	4,663,527

8. PROPERTY, PLANT AND EQUIPMENT, AND OTHERS

	6/30/2019												
	Cost or revalued cost						Depreciation						Net value
	Value at the beginning of the year	Foreign currency exchange differences	Acquisitions	Transfers	Retirement and disposal	Value at the end of the period	Acumulated depreciation at the beginning of the year	Foreign currency exchange differences	Retirement and disposal	Depreciation		Acumulated depreciation at the end of the period	
									Rate	Of the period			
Land and buildings (1)	5,741,752	(7,362)	13,403	52,695	11,452	5,789,036	295,834	(4,929)	7,575	2, 2.5, 2.86, 3.3, 4 & 5	75,252	358,582	5,430,454
Machinery and equipment (1)	7,975,407	(5,343)	9,627	97,770	71,474	8,005,987	1,385,213	(3,171)	59,251	5 & 10	325,854	1,648,645	6,357,342
Facilities and laboratory equipment(1)	3,596,387	(2,213)	13,729	88,673	952	3,695,624	1,187,705	(1,512)	354	5, 10 & 25	137,269	1,323,108	2,372,516
Furniture	531,413		9,589	1,914	10,787	532,129	502,444		10,715	10, 20, 25 & 33	7,447	499,176	32,953
Vehicles (2)	1,401,029	(476)	52	835	49,192	1,352,248	1,255,217	(155)	49,121	10 & 20	16,195	1,222,136	130,112
Work in progress	978,002		315,393	(191,235)	1,383	1,100,777							1,100,777
Advances to suppliers	177,524	(29)	29,551	(50,652)		156,394							156,394
Subtotal	20,401,514	(15,423)	391,344	-	145,240	20,632,195	4,626,413	(9,767)	127,016		562,017	5,051,647	15,580,548
Other:													
Trays	1,168,501		144,324			1,312,825	812,992			33	115,227	928,219	384,606
Carrying amount as of June 30, 2019	21,570,015	(15,423)	535,668	-	145,240	21,945,020	5,439,405	(9,767)	127,016		677,244	5,979,866	15,965,154

(1) Had revalued assets been measured at deemed cost, the carrying amount would have been as follows:

Land and buildings	4,502,294
Machinery and equipment	2,278,930
Facilities and laboratory equipments	1,626,073

(2) It includes vehicles operated by freighters of Con-Ser S.A. and Logística la Serenísima S.A. with a net value of 102,632 as of June 30, 2019.

12/31/2018

	Cost or revalued cost							Depreciation							Net value		
	Value at the beginning of the year	Foreign currency exchange differences	Acquisitions	Transfers	Transfer to other assets	Retirement and disposal	Revaluation increase	Value at the end of the year	Acumulated depreciation at the beginning of the year	Foreign currency exchange differences	Transfer to other assets	Retirement and disposal	Depreciation Rate	Of the year		Revaluation decrease	Acumulated depreciation at the end of the year
Land and buildings (1)	5,838,669	14,579	12,546	135,920	(64,735)	3,757	(191,470)	5,741,752	252,206	9,716	13,519	49	2, 2.5, 2.86, 3.3, 4 & 5	153,739	(133,297)	295,834	5,445,918
Machinery and equipment (1)	5,775,603	11,636	88,533	333,207		11,075	1,777,503	7,975,407	1,349,155	7,034		2,426	5 & 10	562,170	(530,720)	1,385,213	6,590,194
Facilities and laboratory equipment(1)	3,166,101	4,302	26,560	290,873	(4,853)	2,235	115,639	3,596,387	1,133,489	2,945	(485)	1,644	5, 10 & 25	242,117	(188,717)	1,187,705	2,408,682
Furniture	526,380		11,580	3,022		9,569		531,413	493,859			9,528	10, 20, 25 & 33	18,113		502,444	28,969
Vehicles (2)	1,394,189	670	32,928	2,420		29,178		1,401,029	1,248,649	823		25,284	10 & 20	31,029		1,255,217	145,812
Work in progress	304,697		1,407,913	(733,152)		1,456		978,002									978,002
Advances to suppliers	54,811	543	154,460	(32,290)				177,524									177,524
Subtotal	17,060,450	31,730	1,734,520	-	(69,588)	57,270	1,701,672	20,401,514	4,477,358	20,518	13,034	38,931		1,007,168	(852,734)	4,626,413	15,775,101
Other:																	
Trays	922,936		245,565					1,168,501	598,772				33	214,220		812,992	355,509
Carrying amount as of December 31, 2018	17,983,386	31,730	1,980,085	-	(69,588)	57,270	1,701,672	21,570,015	5,076,130	20,518	13,034	38,931		1,221,388	(852,734)	5,439,405	16,130,610

(1) Had revalued assets been measured at deemed cost, the carrying amount would have been as follows:

Land and buildings	4,528,448
Machinery and equipment	2,371,435
Facilities and laboratory equipments	1,668,514

(2) It includes vehicles operated by freighters of Con-Ser S.A. and Logística la Serenísima S.A. with a net value of 108,969 as of December 31, 2018.

9. LEASES

Information on the lease agreements as of June 30, 2019, as required by IFRS 16:

	<u>6/30/2019</u>
Depreciation of period	26,592
Accrued interest	12,699
Payment of leases liabilities	27,744
Right of use of asset	344,102
Leases liabilities	333,295

10. TRADE PAYABLE - CURRENT

	<u>6/30/2019</u>	<u>12/31/2018</u>
Trade payables	2,674,509	2,688,303
Related parties (Note 20)	652,952	691,922
Note payables	658,319	595,161
Foreign suppliers	48,243	339,169
Total	<u>4,034,023</u>	<u>4,314,555</u>

11. BORROWINGS – NON CURRENT

	<u>6/30/2019</u>	<u>12/31/2018</u>
Principal:		
Senior Notes - Series F - due 2021 (net of issue costs and adjustment to amortized cost for 16,728 and 106,371 as of 6/30/2019 and 12/31/2018, respectively)	8,462,854	9,098,208
Total	<u>8,462,854</u>	<u>9,098,208</u>

Main loans agreements

Senior Notes – Series F – due 2021

On July 3, 2014, the Company issued its Series F Senior Notes, under the Senior Notes Issuance Program for an amount up to U\$S 400,000,000 approved by the National Securities Commission on May 9, 2014.

The main characteristics of the new Senior Notes are as follows:

Amount:	U\$S 199,693,422
Issuing price:	100%
Maturity:	July 3, 2021
Payment:	Principal: 100% at maturity; interests: semi-annually on arrears
Annual interest rate:	12.625%
Use of proceeds (net amount of U\$S 113,733,744):	<ul style="list-style-type: none">• Repurchase of existing debt• Expenses related to the transaction (including taxes)• Payment of other short term debt• Working capital• Capital expenditures in Argentina

The issuance conditions of these Senior Notes contain certain covenants, including, among others, reporting requirements, and imposed certain limitations affecting the Company's ability and the restricted subsidiaries' ability to: borrow money, pay dividends, redeem capital stock or redeem subordinated debt, make investments, sell capital stock of subsidiaries, guarantee other indebtedness, enter into agreements that restrict dividends or other distributions from restricted subsidiaries, enter into transactions with affiliates, create or assume certain liens, engage in mergers or consolidations, and enter into a sale of all or substantially all of the Company's assets.

Subsidiaries Con-Ser S.A., Leitesol Industria e Comercio Ltda. and Mastellone San Luis S.A. are jointly and severally liable for the Series F Senior Notes.

Global program for issuing Senior Notes

The General Ordinary and Extraordinary Shareholder's Meeting held on October 17, 2017, resolved the creation of a global program for issuing Senior Notes for up to US\$ 500,000,000 (US dollars five hundred million). The Board of Directors approved on November 7, 2017 the terms and conditions of such program, which was approved by the CNV on February 15, 2018 through its resolution N° 19,362.

12. ACCRUED SALARIES, WAGES AND PAYROLL TAXES

	<u>6/30/2019</u>	<u>12/31/2018</u>
Payroll and bonus to management	615,544	757,848
Social security taxes	309,800	323,149
Total	<u>925,344</u>	<u>1,080,997</u>

13. DEFERRED TAX

Deferred tax assets:

	<u>6/30/2019</u>	<u>12/31/2018</u>
Temporary differences:		
Provisions and other non-deductible accrued expenses	34,680	30,193
Property, plant and equipment, and others		275
Total	<u>34,680</u>	<u>30,468</u>

Deferred tax liabilities:

Temporary differences:		
Provisions and other non-deductible accrued expenses	92,015	77,840
Cash and cash equivalents	(507)	(743)
Inventories	48,473	83,175
Intangible assets	233	163
Other assets	(44,004)	(44,148)
Property, plant and equipment, and others	(3,197,587)	(3,373,134)
Investment property	(7,012)	(6,451)
Trade payables	(293)	(130)
Borrowings	(4,391)	(31,889)
Tax loss carry-forwards	900,243	1,035,731
Alternative minimum income tax	202,466	290,219
Total	<u>(2,010,364)</u>	<u>(1,969,367)</u>

The unused tax loss carry-forwards filed with tax authorities by Mastellone Hermanos S.A. and its subsidiaries recognized as of June 30, 2019 are as follows:

<u>Year of generation</u>	<u>Tax loss amount</u>	<u>Applicable tax rate</u>	<u>Credit due to tax loss carry-forward</u>	<u>Expiration – date for submission of tax returns fiscal years</u>
2014	454,730	30%	136,419	2019
2015	739,048	25%	184,762	2020
2016	303,092	25%	75,773	2021
2017	10,984	25%	2,746	2022
2018	1,695,892	25%	423,973	2023
2019	306,280	25%	76,570	2024
			<u>900,243</u>	

The movement of temporary differences between book carrying amounts and tax basis of assets and liabilities and tax loss carry-forwards is as follows:

	Balance at the beginning of the year	Reduction of tax loss carry- forwards	Foreign currency exchange differences	Charge to income (loss) for the period or year	Charge to Other comprehen- sive income	Balance at the end of the period or year
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(3,264,849)		(2,043)	188,499		(3,078,393)
Tax loss carry-forwards	1,035,731	(31,867)		(103,621)		900,243
Total as of June 30, 2019	(2,229,118)	(31,867)	(2,043)	84,878	-	(2,178,150)
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(2,658,131)		3,590	150,116	(760,424)	(3,264,849)
Tax loss carry-forwards	589,795	(2,158)		457,557	(9,463)	1,035,731
Total as of December 31, 2018	(2,068,336)	(2,158)	3,590	607,673	(769,887)	(2,229,118)

In addition to the accumulated losses recorded as of June 30, 2019, there are 15,263, 39,409 and 702,649 of tax loss carry-forwards (tax base) corresponding to the controlling company, which year of expiration is 2019, 2020 and 2023, respectively, that have not been recognized as assets to be considered that at the date of issuance of these financial statements there are no elements to validate their recoverability.

14. REVENUE

	6/30/2019 Six-months	6/30/2018 Six-months	6/30/2019 Three- months	6/30/2018 Three- months
Product sales	24,074,273	23,742,007	12,724,903	12,513,960
Services provided	394,085	557,083	181,369	278,373
Turnover tax	(592,113)	(475,105)	(301,564)	(250,022)
Sales discounts and volume rebates	(1,734,392)	(2,583,568)	(814,082)	(1,429,156)
Sales returns	(395,855)	(411,529)	(201,956)	(180,575)
Total	21,745,998	20,828,888	11,588,670	10,932,580

15. COST OF SALES

	6/30/2019 Six-months	6/30/2018 Six-months	6/30/2019 Three- months	6/30/2018 Three- months
<u>Cost of goods sold</u>				
Inventories at the beginning of the year	4,615,157	4,746,782	4,510,075	4,617,608
Purchases	10,865,119	9,112,957	5,807,524	4,569,596
Production expenses (Note 16)	4,320,006	4,553,348	2,153,861	2,349,078
Write-off of inventories	44,122	69,028	38,279	16,184
Re-measurement of foreign subsidiaries inventories	(48,688)	73,537	(71,831)	69,221
Benefits from industrial promotion (1)	(405,703)	(283,616)	(242,899)	(142,157)
Inventories at the end of the period	<u>(4,546,173)</u>	<u>(4,019,681)</u>	<u>(4,546,173)</u>	<u>(4,019,681)</u>
Subtotal - cost of goods sold	<u>14,843,840</u>	<u>14,252,355</u>	<u>7,648,836</u>	<u>7,459,849</u>
<u>Cost of services rendered</u>				
Purchases	11,957	37,037	3,201	14,818
Production expenses (Note 16)	198,667	286,864	82,022	141,158
Subtotal - cost of services rendered	<u>210,624</u>	<u>323,901</u>	<u>85,223</u>	<u>155,976</u>
Total cost of sales	<u>15,054,464</u>	<u>14,576,256</u>	<u>7,734,059</u>	<u>7,615,825</u>

(1) Industrial promotion scheme applicable to the subsidiary company Mastellone San Luis S.A.

Acts N° 22,021 and 22,702, as supplemented, Executive Orders N° 2054/92 and N° 804/96 issued by the National Executive Power, as duly supplemented and amended, as well as all executive orders and rulings issued by the Province of San Luis grant Mastellone San Luis S.A. ("MSL") a tax relief for certain national taxes and allow the Company, as investor in MSL, to qualify for a tax deferral relief.

The National Executive Power issued Executive Order N° 699/10 which extended the benefits arising from promotion schemes covering eligible companies in San Luis, La Rioja, San Juan and Catamarca provinces for two years as from 2012. In relation to such extension, MSL requested an injunction in court, which was granted on January 29, 2013. Such injunction was appealed by the AFIP and rejected by the Federal Court of Appeals of Mendoza in November 2017.

In June 2007, MSL filed with the Federal Court of San Luis a request for a declaratory judgment of unconstitutionality so that the subsequent credits to be made annually by the Federal Tax Collection Agency ("Administración Federal de Ingresos Públicos", "AFIP") in the computerized current account, which reflects the benefits granted under promotion schemes, be currency restated as set forth in ruling N° 1280/92 since and including 2002 until the effective use of the bonds. In addition, on June 20, 2007, the hearing judge granted the injunction requested by MSL, which injunction should remain in force until the judicial proceedings were resolved. In addition, the Court allowed the application of the above mentioned restatement. On November 15, 2012, the Federal Court of San Luis ordered AFIP to apply the currency restatement. The AFIP appealed the decision, but it was rejected by the Supreme Court on June 7, 2015.

Pursuant to the decision rendered by the Federal Court of San Luis on March 19, 2015, which granted the injunction requested by Compañía Puntana de Carnes Elaboradas S.A. (a company merged into MSL), the Court ordered AFIP to credit the benefits accrued under the promotion regime, as requested. On May 23, 2016 and October 27, 2016, the Federal Court of Appeals of Mendoza decided to reject the appeal and the extraordinary remedy filed, respectively, by AFIP. On March 7, 2019 the Supreme Court decided to reject the injunction filed by AFIP. On March 7, 2019, the CSJN dismissed the complaint filed by AFIP on the injunction granted.

Concerning the substantive issue, on September 27, 2016, a favorable judgement was granted to MSL, which was subsequently appealed. On June 28, 2017 the Federal Court of Appeals of Mendoza decided to reject the appeal filed by the AFIP. On September 27, 2017 the Federal Court of Appeals of Mendoza decided to reject the extraordinary remedy filed by the AFIP. On May 7, 2019, the CSJN dismissed the complaint filed by the AFIP concerning the substantive issue.

On March 31, 2015, the Federal Court of San Luis granted the injunction requested by MSL in relation to the recognition of benefits under the promotion regime for 15 years and ordered the AFIP to credit the promotional benefits for the reexpression provided in resolution N° ME 1280/92. Such accreditation took place in June 2015. On April 4, 2017, the Federal Court of Appeals of Mendoza granted the appeal filed by the AFIP, revoking the injunction requested. On April 21, 2017 MSL filed an extraordinary appeal with the Federal Court of Appeals. On September 27, 2017, the Federal Court of Appeals accepted the extraordinary appeal filed by MSL. Concerning the substantive issue, on July 25, 2016, a favorable judgement was granted to MSL, which was subsequently appealed. On September 27, 2017, the Federal Court of Appeals of Mendoza decided to reject the appeal filed by the AFIP. The AFIP filed an extraordinary appeal, which was admitted by the Federal Court of Appeals of Mendoza on March 23, 2018, the federal issue is set up that enables the instance of the National Supreme Court of Justice. On July 2, 2019, the CSJN dismissed the extraordinary appeal presented by Mastellone San Luis S.A., for procedural reasons. Facing the fact of having Mastellone San Luis S.A. with a double sentence in favor of the substantive issue, Mastellone San Luis S.A. will request the execution of a provisional sentence before the federal justice of San Luis, as provided for in the National Civil and Commercial Procedural Code.

16. INFORMATION REQUIRED BY ART, 64 SUBSECTION B OF ARGENTINA CORPORATE LAW N° 19,550 – BREAKDOWN OF EXPENSES BY NATURE

	6/30/2019 (six-months)				Total
	Production expenses	Cost of services	Selling expenses	General and administrative expenses	
Remuneration to members of the Board of Directors and members of the statutory Audit Committee				18,038	18,038
Fees and compensation for services	388,298	946	1,078,123	118,500	1,585,867
Payroll, bonus and social security charges	1,724,106	100,928	706,298	425,581	2,956,913
Depreciation of property, plant and equipment, and others	611,176	17,761	32,918	15,389	677,244
Amortization of intangible assets	1,388				1,388
Depreciation of right of use assets	26,592				26,592
Provision for bad debts			10,442		10,442
Freights	660,995		2,620,770		3,281,765
Maintenance and repair	129,199	6,552	16,038	371	152,160
Office and communication	1,165	444	2,078	3,239	6,926
Fuel, gas and energy	423,550	42,151	40,590		506,291
Vehicles expenses	20,485		20,389	3,430	44,304
Publicity and advertising			225,717		225,717
Taxes, rates and contributions	202,506	2,182	5,810	152,503	363,001
Insurance	79,517	1,595	25,908	8,151	115,171
Travelling	2,839		4,366	1,691	8,896
Export and import	323		25,076	288	25,687
Miscellaneous	47,867	26,108	15,844	33,068	122,887
Total	4,320,006	198,667	4,830,367	780,249	10,129,289

6/30/2018 (six-months)					
	Production expenses	Cost of services	Selling expenses	General and administrative expenses	Total
Remuneration to members of the Board of Directors and members of the statutory Audit Committee				47,677	47,677
Fees and compensation for services	464,451	577	1,122,790	131,025	1,718,843
Payroll, bonus and social security charges	2,082,826	144,980	811,419	462,937	3,502,162
Depreciation of property, plant and equipment, and others	525,317	24,184	35,080	12,959	597,540
Amortization of intangible assets	1,388				1,388
Provision for bad debts			16,397		16,397
Freights	714,281		2,668,058	30	3,382,369
Maintenance and repair	110,838	5,652	16,327	708	133,525
Office and communication	1,812	355	2,055	3,449	7,671
Fuel, gas and energy	393,167	71,196	47,006	159	511,528
Vehicles expenses	27,564		23,698	3,298	54,560
Publicity and advertising			310,376		310,376
Taxes, rates and contributions	112,000	2,035	5,447	141,226	260,708
Insurance	83,692	921	28,968	7,822	121,403
Travelling	4,532		3,180	1,638	9,350
Export and import			38,714	255	38,969
Miscellaneous	31,480	36,964	20,383	30,771	119,598
Total	4,553,348	286,864	5,149,898	843,954	10,834,064

6/30/2019 (three-months)					
	Production expenses	Cost of services	Selling expenses	General and administrative expenses	Total
Remuneration to members of the Board of Directors and members of the statutory Audit Committee				9,673	9,673
Fees and compensation for services	184,712	526	511,304	48,073	744,615
Payroll, bonus and social security charges	852,877	43,934	355,261	251,107	1,503,179
Depreciation of property, plant and equipment, and others	310,377	7,040	16,214	7,848	341,479
Amortization of intangible assets	694				694
Depreciation of right of use assets	15,989				15,989
Provision for bad debts			7,052		7,052
Freights	325,236		1,344,001		1,669,237
Maintenance and repair	66,599	1,705	8,044	167	76,515
Office and communication	590	207	1,094	1,626	3,517
Fuel, gas and energy	210,755	15,945	18,686		245,386
Vehicles expenses	9,925		10,382	1,731	22,038
Publicity and advertising			134,099		134,099
Taxes, rates and contributions	104,905	777	3,263	77,598	186,543
Insurance	37,875	187	12,406	3,955	54,423
Travelling	1,787		2,246	955	4,988
Export and import	323		9,271	125	9,719
Miscellaneous	31,217	11,701	8,953	20,792	72,663
Total	2,153,861	82,022	2,442,276	423,650	5,101,809

	6/30/2018 (three-months)				
	Production expenses	Cost of services	Selling expenses	General and administrative expenses	Total
Remuneration to members of the Board of Directors and members of the statutory Audit Committee				24,044	24,044
Fees and compensation for services	282,170	76	532,922	74,259	889,427
Payroll, bonus and social security charges	1,054,531	73,797	420,582	240,938	1,789,848
Depreciation of property, plant and equipment, and others	262,491	12,157	18,225	5,918	298,791
Amortization of intangible assets	694				694
Provision for bad debts			5,866		5,866
Freights	349,407		1,372,754	1	1,722,162
Maintenance and repair	57,897	2,444	7,705	525	68,571
Office and communication	1,121	245	1,210	1,473	4,049
Fuel, gas and energy	207,328	33,489	24,149	64	265,030
Vehicles expenses	13,745		11,884	1,970	27,599
Publicity and advertising			222,607		222,607
Taxes, rates and contributions	51,215	1,074	2,738	54,579	109,606
Insurance	42,308	469	14,606	4,065	61,448
Travelling	2,838		1,809	986	5,633
Export and import			25,977	128	26,105
Miscellaneous	23,333	17,407	9,561	16,815	67,116
Total	2,349,078	141,158	2,672,595	425,765	5,588,596

17. FINANCE COST

	6/30/2019 Six-months	6/30/2018 Six-months	6/30/2019 Three-months	6/30/2018 Three-months
Senior Notes	627,571	428,876	364,077	209,570
Other loans interest	52,789	(426)	25,365	(972)
Other interests	12,985	6,845	7,192	4,112
Total	693,345	435,295	396,634	212,710

18. INCOME TAX AND ALTERNATIVE MINIMUM INCOME TAX

	6/30/2019 Six-months	6/30/2018 Six-months	6/30/2019 Three-months	6/30/2018 Three-months
Current income tax	(111,708)	(34,973)	(62,240)	(25,693)
Tax loss carry-forwards for the period	84,984	248,883	(119,625)	240,458
Net change in temporary differences	188,499	141,813	213,521	115,085
Effect of inflation in tax loss carry forwards	(188,605)	(76,306)	(87,325)	(41,390)
Alternative minimum income tax	(2,367)	(1,044)	35,206	1,378
Total – (Loss) gain	(29,197)	278,373	(20,463)	289,838

The reconciliation of income tax expense to the amount derived by applying the applicable statutory income tax rate to result before income tax and alternative minimum income tax for the period is as follows:

	<u>6/30/2019</u> <u>Six-months</u>	<u>6/30/2018</u> <u>Six-months</u>	<u>6/30/2019</u> <u>Three-months</u>	<u>6/30/2018</u> <u>Three-months</u>
Income (loss) before income taxes	1,257,790	(1,814,519)	1,762,368	(1,652,267)
Statutory income tax rate	30%	30%	30%	30%
Income tax at statutory income tax rate	(377,337)	544,356	(528,710)	495,680
Permanent differences	348,140	(265,983)	508,247	(205,842)
Total – (Loss) gain	<u>(29,197)</u>	<u>278,373</u>	<u>(20,463)</u>	<u>289,838</u>

19. PLEDGED AND RESTRICTED ASSETS

- a) Certain assets owned by the Company are pledged as collateral for bank, financial debt and other liabilities for a total amount of 11,523 as of December 31, 2018. Detail of pledged assets is as follows:

6/30/2019 12/31/2018

Mastellone San Luis S.A. shares arising from the merger with Compañía Puntana de Carnes Elaboradas S.A.	-	18,068
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- b) Additionally, as of June 30, 2019 there were other receivables – guarantee deposits current and non-current for an amount of 245 (315 as of December 31, 2018) in guarantee of financial and commercial transactions and restricted assets disclosed in caption “other receivables – other” (current) for 29 as of June 30, 2019 (35 as of December 31, 2018).
- c) The subsidiary company Con-Ser S.A. held certain properties encumbered with privilege of first grade for a net value of 16,659 and 16,769 as of June 30, 2019 and December 31, 2018, respectively, in guarantee of the business relationship with suppliers, for an indefinite period while the commercial relationship between the parties is maintained. The guarantee amounts to US\$ 1,395 thousand.
- d) See also commitments for the financial debt described in Note 11.

20. RELATED PARTIES OUTSTANDING BALANCES

Company	Trade account receivables (current)		Trade payable (current)		Advances from customers (current)	
	<u>6/30/2019</u>	<u>12/31/2018</u>	<u>6/30/2019</u>	<u>12/31/2018</u>	<u>6/30/2019</u>	<u>12/31/2018</u>
Arcorpar S.A.	32,177	14,163	1,353	1,582		
Arcor Alimentos Bolivia S.A.	708	5,766		1,241		
Arcor S.A.I.C		6,344	5,690	3,925		
Bagley Argentina S.A.	10,317					
Cartocor S.A.			25,800	17,116		
Frigorífico Nueva Generación S.A.	1	18				
Logística La Serenísima S.A.	485,968	920,287	619,648	667,576	10,428	11,905
Los Toldos S.A.	4	64	461	482		
TOTAL	<u>529,175</u>	<u>946,642</u>	<u>652,952</u>	<u>691,922</u>	<u>10,428</u>	<u>11,905</u>

21. RELATED PARTIES OPERATIONS

Transactions with related parties for six-month periods ended June 30, 2019 and 2018 were as follows:

	<u>6/30/2019</u>	<u>6/30/2018</u>
<u>Revenues</u>		
Arcor Alimentos Bolivia S.A.	6,618	
Arcor S.A.I.C.	16,280	63,794
Arcorpar S.A.	81,924	49,412
Bagley Argentina S.A.	34,437	4,863
Fideicomiso Formu	2,613	3,001
Logística La Serenísimas S.A.	77,454	83,731
Los Toldos S.A.		20
Mundo Dulce S.A. de C.V.	5,122	
<u>Purchase of goods and services</u>		
Arcor Alimentos Bolivia S.A.	1,836	
Arcor S.A.I.C.	15,119	40,329
Cartocor S.A.	75,183	151,128
Logística La Serenísimas S.A.	1,218,325	1,488,545
Los Toldos S.A.	2,737	3,519
<u>Investment income</u>		
Logística La Serenísimas S.A.	7,611	6,903
<u>Other gain and losses</u>		
Logística La Serenisima S.A.	1,478	3,765

During the six-month periods ended June 30, 2019 and 2018, the Company paid a total of 65,476 and 126,427, respectively, in concept of remuneration and fees to members of the Board of Directors and executive officers. The Company does not provide its Directors or executive officers with any type of pension, retirement or similar benefits.

22. SEGMENT INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports regarding components of the Company that are regularly reviewed by the Board of Directors, which is the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The accounting criteria used for the preparation of management financial information which has been used by the Board of Directors of the Company during the fiscal year ended December 31, 2018 and the six-month period ended June 30, 2019 and 2018 were based on the application of the accounting policies described in Note 2, with the exception of IAS 29 referred to in Note 2.2, that is to say, financial information has been considered in historical currency and in the case of non-year-end closings, without the computation of income tax charges.

The Company's reportable segments under IFRS 8 are as follows:

- Dairy products: Includes the sales of products manufactured with the raw milk purchased by the Company directly to dairy farmers located in Argentina and, to a lower extent, to other dairy companies, Such sales are made in the Argentine domestic market (mainly retailers and public agencies), in the Brazilian domestic market (retailers) and the international markets (exports to third parties).
- Other: Includes principally services related to the transportation of raw milk and other associated to the coordination of such transport (purchases and sales of trucks, spare parts, etc.).

Information	6/30/2019		
	Dairy	Other	Total
Revenue from external customers	19,660,406	534,164	20,194,570
Intersegment revenue	1,355	37,458	38,813
Cost of sales	(12,775,529)	(429,984)	(13,205,513)
Selling and administrative expenses	(5,062,556)	(118,039)	(5,180,595)
Investment income, finance cost and exchange differences (loss) gain	(1,533,010)	4,536	(1,528,474)
Other gains and losses	(2,854)	1,992	(862)
Net income (loss) - historical	286,457	(7,331)	279,126
Depreciation of property, plant and equipment, and others	486,594	1,090	487,684
Depreciation of right of use of assets	23,197		23,197
Amortization of intangible assets	215		215
Depreciation of investment property	137		137
Depreciation of other assets	3,643		3,643

Information	6/30/2018		
	Dairy	Other	Total
Revenue from external customers	12,094,939	433,252	12,528,191
Intersegment revenue	1,559	41,808	43,367
Cost of sales	7,994,459	389,016	8,383,475
Selling and administrative expenses	3,524,274	75,620	3,599,894
Investment income, finance cost and exchange differences gain (loss)	1,865,130	(3,143)	1,861,987
Other gains and losses	657	2,251	2,908
Net (loss) income - historical	(1,332,250)	17,993	(1,314,257)
Depreciation of property, plant and equipment, and others	291,121	1,140	292,261
Amortization of intangible assets	214		214
Depreciation of investment property	3		3
Depreciation of other assets	1,003		1,003

Reconciliation between result informed by the segment and the consolidated financial information is as follows:

Information	6/30/2019		
	Dairy	Other	Total
Net income (loss) - historical	286,457	(7,331)	279,126
Adjustments (1)	988,342	(9,723)	978,619
Net income (loss) before taxes by consolidated financial information	1,274,844	(17,054)	1,257,790

Information	6/30/2018		
	Dairy	Other	Total
Net (loss) income - historical	(1,332,250)	17,993	(1,314,257)
Adjustments (1)	(501,537)	1,275	(500,262)
Net (loss) income before taxes by consolidated financial information	(1,833,787)	19,268	(1,814,519)

1) It corresponds to the effect of the restatement of the financial information to reflect the effects of inflation by application of the methodology established by IAS 29. In addition, the information corresponding to the six month period on June 30, 2018, includes the restatement of the figures in order to reflect the effects of inflation as of June 30, 2019 currency.

23. KEEPING OF SUPPORTING DOCUMENTATION OF THE COMPANY'S TRANSACTIONS

In compliance with General Resolution N° 629 issued by the CNV, we hereby report that the Company's corporate books (namely, the Book of Minutes of Shareholders' Meetings, the Book of Minutes of Board of Directors' Meetings, the Share Deposit Book, the Book of Attendance to

Shareholders' Meetings and the Book of Minutes of the Statutory Auditing Committee) and statutory accounting books (namely, the Journal, the Inventory and Financial Statements Book and the Subsidiary Journals) that are currently in use are kept at the Company's legal address located at Almirante Brown Street N° 957, General Rodriguez, Province of Buenos Aires.

We further report that the supporting documentation of the Company's transactions are kept both at its legal address and at the warehouses of the Company's and its subsidiaries' production facilities, whereas the older documentation is kept at a property owned by the subsidiary Con-Ser S.A., located at Acceso Oeste, Km, 56.5, General Rodriguez, Province of Buenos Aires,

24. APPROVAL OF THESE FINANCIAL STATEMENTS

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized to be issued on August 7, 2019.



Deloitte & Co, S.A. Florida 234, 5º
piso C1005AAF
Ciudad Autónoma de Buenos Aires
Argentina

Tel,: (+54-11) 4320-2700
Fax: (+54-11) 4325-8081/4326-
7340
www.deloitte.com/ar

INDEPENDENT AUDITORS' REVIEW REPORT

(on condensed interim consolidated financial statements)

To the Board of Directors of
Mastellone Hermanos Sociedad Anónima
Almirante Brown N° 957
General Rodriguez, Province of Buenos Aires

Report on the condensed interim consolidated financial statements

1. Identification of the condensed interim consolidated financial statements subject to review

We have reviewed the accompanying condensed interim consolidated financial statements of Mastellone Hermanos Sociedad Anónima (hereinafter "Mastellone Hermanos Sociedad Anónima" or the "Company") and its subsidiaries (detailed in Note 2.4 to the condensed interim consolidated financial statements), which comprise the condensed consolidated statement of financial position as of June 30, 2019, the condensed interim consolidated statement of profit or loss and other comprehensive income, the condensed interim consolidated statement of changes in equity, and the condensed interim consolidated statement of cash flows for the six-month period then ended, and other selected explanatory information presented in Notes 1 to 24.

Amounts and other disclosures for the fiscal year ended December 31, 2018 and for the six-month period ended June 30, 2018, as restated to reflect the effects of inflation at the reporting date currency of June 2019 as explained in Note 2.1. to the accompanying consolidated financial statements, are included as an integral part of the current period condensed interim financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current interim period.

2. Board of Directors' responsibility for the condensed interim consolidated financial statements

The Company's Board of Directors is responsible for the preparation and presentation of the accompanying condensed interim consolidated financial statements of the Company in accordance with International Financial Reporting Standards adopted by the Argentine Federation of Professional Councils in Economic Sciences as accounting standards, as they were approved by the International Accounting Standard Board (IASB), and incorporated by the National Securities Commission to its regulations, and, therefore is responsible for the preparation and presentation of the attached condensed interim consolidated financial statements, in accordance with International Accounting Standard N° 34, "Interim Financial Reporting" (IAS 34). In addition, the Company's Board of Directors is responsible for the internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement.

3. Auditors' responsibility

Our responsibility is to issue a conclusion on the accompanying condensed interim consolidated financial statements based on our review. We conducted our review in accordance with International Standards on Review Engagements (ISRE), adopted by the Argentine Federation of Professional Councils in Economic Sciences through its Technical Resolution N° 33, as they were approved by the International Auditing Accounting Standard Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements.

A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

4. Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements of Mastellone Hermanos Sociedad Anónima for the six-month period ended June 30, 2019, are not presented, in all material respects, in accordance with IAS 34.

Review of the Informative Summary

As part of our work, the scope of which is described in the section 1 of this report, we have reviewed the Informative Summary required by National Securities Commission regulations and prepared by the Company's Board of Directors. We have no observations to report on this document in matters within our professional incumbency.

English translation of the condensed interim consolidated financial statements

This report and the accompanying condensed interim consolidated financial statements referred to in section 1 above have been translated into English for the convenience of English-speaking readers, As further explained in Note 2.1 to the accompanying condensed interim consolidated financial statements, the financial statements are the English translation of those originally prepared by the Company in Spanish and presented in accordance with IAS 34. The effects of the differences between International Financial Reporting Standards and the accounting principles generally accepted in the countries in which these financial statements are to be used have not been quantified. Accordingly, the accompanying condensed interim consolidated financial statements are not intended to present the financial position, profit or loss and other comprehensive income, changes in equity and cash flows in accordance with accounting principles generally accepted in the countries of users of the financial statements that have not adopted the International Financial Reporting Standards.

General Rodriguez, Province of Buenos Aires, August 7, 2019.

Deloitte & Co. S.A.

**Alberto López Carnabucci
(Partner)**

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