MASTELLONE HERMANOS S.A.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2013

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of Mastellone Hermanos S.A. and notes thereto for the six-month period ended June 30, 2013.

We are the largest dairy company and the leading processor for fresh dairy products in Argentina, ranking first in market share for fluid milk, butter, cream, 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 80 years. We also have been exporting dairy products for more than 30 years. Therefore, we are affected by developments in the Argentine dairy sector 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)

	1H13	1H12	1H11
Net Result	78,2	-95,7	-28,8
Less:			
Gain on disposal of property, plant and equipment	-26,0		
Sub-total	52,2	-95,7	-28,8
Income tax	0,6	-19,3	-0,8
Depreciation Charges	60,3	51,8	60,8
Amortization charges	0,2	0,4	0,4
Interest expense	79,0	69,1	61,0
Exchange difference	105,6	52,7	28,2
Gain on acquisition of subsidiary	-22,8	0	1,2
Total adjusted EBITDA	275,2	59,0	122,0

- Income Tax: includes the tax on the minimum presumed income

Adjusted EBITDA is used in this report to provide additional information regarding our operating performance and debt service ability. Its calculation has been adapted to conform to the definition of EBITDA as per the conditions of our long-term debt.

Evolution of EBITDA since 2011

Can be summarized as follows:

Period	Ps.	Ps./US$	US$
1Q11	35,3	4,054	8,7
2Q11	86,7	4,110	21,1
3Q11	118,7	4,205	28,2
4Q11	79,8	4,304	18,5
1Q12	36,3	4,379	8,3
2Q12	22,7	4,527	5,0
3Q12	83,0	4,697	17,7
4Q12	151,0	4,918	30,7
1Q13	89,1	5,122	17,4
2Q13	186,1	5,388	34,5

Comparison of Results of Operations of the six-month period ended June 30, 2013 and 2012.

Net Sales. Our net sales can be split as follows (amounts in millions of Pesos):

	1H13	1H12	Diff.	%
Products - Argentine Market	3.734,0	3.014,0	720,0	23,9%
Products - Brazilian Market	258,2	231,2	27,0	11,7%
Exports	139,3	129,8	9,5	7,3%
Services	93,0	110,4	-17,4	-15,8%
Total	4.224,5	3.485,4	739,1	21,2%

Product Sales – Argentina. During the six-month period ended June 30, 2013, our product sales in the Argentine domestic market increased Ps.720.0 million, or 23.9%, as compared to the same period of 2012, from Ps.3,014.0 million in 2012 to Ps.3,734.0 million in 2013, primarily as a result of (i) a 4.2% decrease in physical volumes sold (expressed in term of the raw milk used to manufacture such products sold), and (ii) a 28.1% year on year increase in product mix and average prices during the year.

Product Sales – Brazil. During the six-month period ended June 30, 2013, sales in the Brazilian dairy market increased Ps.27.0 million, or 11.7%, as compared to the same period of 2012 (from Ps.231.2 million to Ps.258.2 million), principally due to (i) an increase in sales, expressed in Brazilian currency, of 6.5%%, and (ii) an increase of the value of the Brazilian reai, in peso terms, of 8.2%.

Exports. During the six-month period ended June 30, 2013, exports to third parties increased Ps.9.5 million, or 7.3% compared to 2012 (from Ps.129.8 million to Ps.139.3 million), primarily due to the combined effect of (i) a decrease of 14.8% in physical volumes (expressed in terms of the liters of raw milk used to manufacture the products exported), (ii) changes in international prices for dairy products and (iii) the depreciation of the Argentine peso.

Cost of Goods and Services sold. Cost of goods and services sold during the six-month period ended June 30, 2013, as compared to the same period of 2012, increased Ps.368.4 million, or 14.2%, from Ps.2,593.9 million to Ps.2,962.3 million.

	1H13	1H12	Diff.	%
Raw Milk	1.558,0	1.390,3	167,7	12,1%
Production Expenses	900,1	734,7	165,4	22,5%
Other raw material	504,2	468,9	35,3	7,5%
Total cost	2.962,3	2.593,9	368,4	14,2%

Cost of raw milk: increased Ps.167.7 million, or 12.1% (from Ps.1,390.3 million in 2012 to Ps.1,558.0 million in 2013, primarily due to a decrease of 5.6% in volumes and an increase of 17.7% in cost.

Production expenses: increased Ps.165.4 million or 22.5%, as compared to 2012, from Ps.734.7 million in 2012 to Ps.900.1 million in 2013, principally due to the following reasons:

1. An increase in labor cost of Ps.104.7 million or 32.6%, from Ps.321.4 million in 2012 to Ps.426.1 million in 2013, primarily due to agreements with the union and salary increases granted to non-unionized personnel

2. An increase in freight costs of Ps.30.0 million or 19.7%, from Ps.152.4 million in 2012 to Ps.182.4 million in 2013, primarily due to higher costs,

3. An increase in fuel, gas and energy costs of Ps. 8.0 million, or 14.5% from Ps.55.1 million in 2012 to Ps.63.1 million in 2013.

Other raw material costs: increased Ps.35.3 million, or 7.5%, from Ps. 468.9 million to Ps. 504.2 million in 2013.

Selling Expenses. Selling expenses for six-month period ended June 30, 2013, as compared to the same period of 2012, increased Ps.208.9 million, or 27.0%, from Ps.772.4 million in 2012 to Ps.981.3 million in 2013. Said increase was primarily attributable to:

- Higher transportation costs of Ps.112.9 million, or 30.5%, from Ps.370.0 million in 2012 to Ps.482.9 million in 2013, due to the higher volume of sales and increases in labor and other costs in the distribution activities,

- Higher fees (most of them related with the distribution of our products in Argentina) increased Ps.62.9 million, or 38.1%, from Ps.165.3 million in 2012 to Ps.228.2 million in 2013, slightly above the evolution of domestic sales, and

- An increase in labor costs of Ps.38.1 million, or 38.1%, from Ps.100.1 million in 2012 to Ps.138.2 million in 2013, primarily attributable to agreements with the union and salary increases granted to non-unionized personnel.

Administrative Expenses. Administrative expenses during the six-month period ended June 30, 2013, increased Ps.36.9 million, or 29.0%, as compared to the same period of 2012, from Ps.127.1 million to Ps.164.0 million. Such increase is primarily attributable to:

- An increase in labor costs of Ps.22.7 million, or 42.3%, from Ps.53.7 million in 2012 to Ps.76.4 million in 2013.

- An increase of Ps.9.6 million, or 28.1%, in taxes (principally the tax on checking accounts), from Ps.34.2 million in 2012 to Ps.43.8 million in 2013.

Investment Income. During the six-month period ended June 30, 2013, interest Income increased Ps.29.4 million, or 438.8% (from Ps.6.7 million in 2012 to Ps.36.1 million in 2013), primarily due to gains from transactions with securities.

Financial Cost. During the six-month period ended June 30, 2013 ***,*** interest expense increased Ps.9.9 million, or 14.3% as compared to 2012 (from Ps.69.1 million in 2012 to Ps.79.0 million in 2013), primarily due to an increase in the exchange rate between the Argentine Peso and the U.S. dollar. Financial Cost includes the impact of changes in the valuation of part of the financial debt to its net present value, which, during the six-month periods ended June 30, 2012 and June 30, 2013, resulted in losses of Ps.14.8 million and Ps.9.5 million respectively.

Exchange Differences. Losses from exchange differences during the six-month period ended June 30, 2013 increased Ps.52.9 million, or 100.4%, as compared with the same period of 2012 (from Ps.52.7 million in 2012 to Ps.105.6 million in 2013), primarily due to a higher increase in the value of the US$ currency expressed in pesos (from 5.2% in the first half of 2012 to 9.6% in the first half of 2013)

Other Income (Expenses), net. During six-month period ended June 30, 2013, gains from Other Income (Expenses), net, amounted to Ps.110.3 million which compares with a gain of Ps.8.2 million during the same period of 2012. The change was primarily due to disposal of nonstrategic assets (a milk collection plant and equipment, vehicles and software related to such plant) by Ps 26 million, certain trademarks of milk for babies and powder juice by Ps 39.9 million and a 0,273% participation in Danone Argentina SA capital stock by Ps 25.1 million.

Liquidity and Capital Resources

Sources and Uses of Funds –Six-month period ended June 30, 2013 and 2012

	1H13	1H12
	(Millions of pesos)	
Cash from operating activities	264,7	200,9
Investment Activities		
Purchase of property, plant and equipment, and others	-84,5	-97,9
Decrease (increase) of other financial assets	11,9	-3,3
Proceeds from asset sales	54,8	6,5
Net proceeds from purchases and sales of subsidiaries	20,7	3,8
Other	0,5	-0,7
Net cash applied to investment activities	**3.3**	**-91,6**
Financing Activities		
Net change in borrowings	-110,3	-22,4
Interest paid on borrowings	-66,2	-50,7
Net cash applied to financing activities	**-176,5**	**-73,1**
Net change in cash and cash equivalents	91,5	36,2
Increase in cash due to incorporation of subsidiary	0,2	0,0
Initial balance	66,1	64,1
Ending balance	**157,8**	**100,3**

During the six-month period ended June 30, 2013, net cash from operations increased Ps.63.8 million, or 31.8%, as compared with the same period of 2012 (from Ps.200.9 million to Ps.264.7 million), primarily reflecting the combined effect of:

(i) an increase of Ps.216.2 million in the Adjusted EBITDA (from Ps.59.0 million in 2012 to Ps.275.2 million in 2013),
(ii) a decrease of Ps.129.7 million in the source of funds related to working capital accounts (which represented a source of funds of Ps.150.9 million in the first semester of 2012 and a source of funds of Ps.21.2 million in the same period of 2013).

Net cash applied to investing activities decreased Ps.94.9 million, primarily due to net proceeds originated on the disposal of non-strategic assets such as a milk collection plant, and a 0,273% participation in Danone Argentina SA capital stock and the.acquisition of a subsidiary (see section Purchases of Subsidiaries below)

Net cash used in financing activities during the six-month period ended June 30, 2013, increased Ps.103.4 million, or 141.3%, as compared with funds applied during the same period of 2012, primarily reflecting the reduction in financial debt.

Purchases of subsidiaries

On May 21, 2013 we purchased 99.99% of the capital stock of Compañía Puntana de Carnes Elaboradas S.A. ("Copuce"), a company domiciled in Villa Marcedes (Province of San Luis) and engaged in agro industrial activities. Copuce is under certain promotion regimes providing substantial benefits, mostly in connection with the added value. The acquisition price was approximately Ps. 35.2 million, from which (i) 20% was paid at the date of acquisition, (ii) 5% was retained to settle eventually payments related to unexpected issues at the date of acquisition (the remaining balance, according to the definitions established in the purchase agreement, if any, will be reimbursed to the sellers) and (iii) the remaining balance will be paid in four annual and consecutive installments, the first three installments corresponding each to 20% of the purchase price, and the last one for the remaining 15%, each installment being due on May 21, from years 2014 to 2017.The payment of the price will be made in pesos, at an exchange rate equal to the average of the (i) exchange rate in the domestic market and (ii) the implied rate resulting from transactions with public debt securities in the Buenos Aires Stock Exchange. We believe Copuce will play a crucial role in our activities in the cheese segment, and in the province of San Luis.

The excess of the acquirer's interest in the net fair value of acquirer's identifiable assets and liabilities over the acquisition cost, which amounts approximately to Ps. 23 million, was recognized as a gain. The initial accounting of the business combination will be completed once we obtain the final accounting information of the acquired company.

Financial Debt

The following is a breakdown of our financial debt as of Jun 30, 2013 and December 31, 2012. All amounts are expressed in millions of US$:

	30/06/2013	31/12/2012
Loans & Bonds principal		
Due 2013		19,8
Final maturity 2015	33,7	36,9
Final maturity 2018	144,9	148,9
Total	178,5	205,6
Other	40,9	36,7
Principal total	219,4	242,3
Accrued interest	0,6	0,6
Other	-	-
Adjustment to NPV	(13,0)	(16,2)
Total debt	207,0	226,7
Cash	29,3	13,4
Net debt	177,7	213,3

- “Other” includes basically short-term financing (pre export financing and other working capital borrowings.

- “Adjustment to NPV” includes the impact of the valuation of the long-term debt (including all the future interest charges (accrued and not accrued) at its net present value, calculated at an interest rate representative of the Company’s cost of capital