MASTELLONE HERMANOS S.A.

ANNUAL REPORT
FISCAL YEAR 2011
(information not audited and not covered by the independent auditors' report)

To the Shareholders:

We are pleased to submit to your consideration the financial statements as of and for the year ended on December 31, 2011, this annual report and the relevant summary information, auditor's report and Statutory Auditors Committee's report.

1. MACROECONOMIC ASPECTS

The current international scenario is really complex. Although in 2011 the world economy continued to grow (with an estimated 3.7% increase in gross world product), thus strengthening its recovery after the 2008/2009 crisis, some European economies now find themselves in precarious financial and economic circumstances, with the consequent negative effect on the rest of the world in general and on emerging markets in particular. On the other hand, it is precisely these problems experienced by world economies which explain the continued international low interest rates (they are expected to remain at their depressed current levels for several years to come). This, in turn, reduces financial costs and makes possible the growth of emerging economies. Such conflicting realities contribute to create an expected slowdown (estimated around 3%) in world economic growth in 2012 and a net effect on developing economies which is difficult to forecast.

The Argentine economy continued during 2011 with the positive trend of the preceding year, with a significant recovery with respect to 2008 and 2009. Gross domestic product continued to show considerable growth: according to official estimates, such growth might be 8.8%. Consumption has been a major factor behind this remarkable performance, with a higher than average increase. A significant trade surplus was maintained which, according to the earliest available estimates, might be around US$ 10 billion. Parallel to this remarkable performance, some features observed in 2011 will require some kind of action to prevent future difficulties, namely, impaired competitiveness in economic activities in general and manufacturing industries in particular, and the difficulties met by Argentine companies to obtain financing under competitive terms.

Going forward, we believe it reasonable to assume that the world economy will get more stable in the future, growing at a lower rate than in 2011, but financial problems in some European economies will be still unsolved. Further growth should be expected in the Argentine economy, although at a lesser rate than in 2011.

Some potential events remain a threat, as noted in former annual reports, and should be taken in consideration in 2012:

- The crisis of central economies, especially in European countries. The potential impact that such crisis might have on developing economies may be amplified by the myriad connections of international financial relationships (for instance, an impaired condition of European banks may result in a contraction of credit and a drop in inventories, with the consequent effect on the international prices for agricultural commodities).

- Some negative factors continue to have an effect at a local level, such as a general cost increases that affect business competitiveness, unavailable financing on adequate terms, etc.).

2. ***THE DAIRY INDUSTRY – WORLD OUTLOOK***

2.1 Changes in 2011

(a) General:

In spite of a slow recovery of world economy, the price of exported dairy products experienced a sharp increase from late 2009 onwards, with a particular appreciation of their fat content. Thus, milk production experienced an increased profitability, with the consequent increase in volumes, especially in 2011. Recorded production levels are shown in the table below:

RAW MILK PRODUCTION – SELECTED COUNTRIES

	2007	2008	2009	2010	Est. 2011	Proj. 2012
Argentina	9,550	10,010	10,350	10,600	11,990	12,450
Australia	9,500	9,500	9,326	9,327	9,550	9,750
Brazil	26,750	27,820	28,795	29,948	30,610	31,300
Canada	8,212	8,270	8,280	8,350	8,400	8,450
China	35,252	34,300	28,445	29,300	30,700	32,150
European Union	132,604	133,848	133,700	135,435	137,800	138,950
India	42,890	44,500	48,160	50,300	52,500	55,000
Japan	8,007	7,982	7,910	7,721	7,450	7,500
México	10,657	10,907	10,866	11,033	10,878	10,975
New Zeeland	15,917	15,580	16,983	17,173	18,681	19,130
Russia	32,200	32,500	32,600	31,900	31,800	31,900
Ukraine	11,997	11,524	11,370	10,977	10,800	10,550
United States	84,211	86,174	85,881	87,461	88,950	90,038
Total	427,747	432,915	432,666	439,525	450,109	458,143
Change	2.0%	1.2%	-0.1%	1.6%	2.4%	1.8%

- Source: U.S. Department of Agriculture (”USDA”)
- Amounts in millions of tons

Milk production in Argentina increased by 30.4% from 2007 to 2012, this being the largest recorded increase among the above mentioned countries. Production also grew in New Zealand. This country experienced the second largest percentage increase in this period, clearly becoming one of the major participants in the international market for dairy products. Production also increased, although to a lesser extent, in Brazil, India, Europe and the United States. China is still a special case, because it has not yet been able to recover 2007 production levels after the drop observed in 2009.

(b) Supply and demand – Prices

On the side of international demand for dairy products, note should be made – as an indicator of general conditions – of the changes observed in the volumes purchased by major powdered milk importing countries. These volumes are shown below:

POWDERED MILK IMPORTS – TOTAL

	2007	Proj. 2012	Change Ton	Change %
Algeria	252	315	63	25.0%
Brazil	19	50	31	163.2%
China	99	515	416	420.2%
Philippines	135	153	18	13.3%
Indonesia	174	297	123	70.7%
México	121	170	49	40.5%
Russia	75	225	150	200.0%
Total	875	1,725	850	97.1%

- Source: USDA
- Includes both whole and skimmed powdered milk
- Amounts in thousands of tons

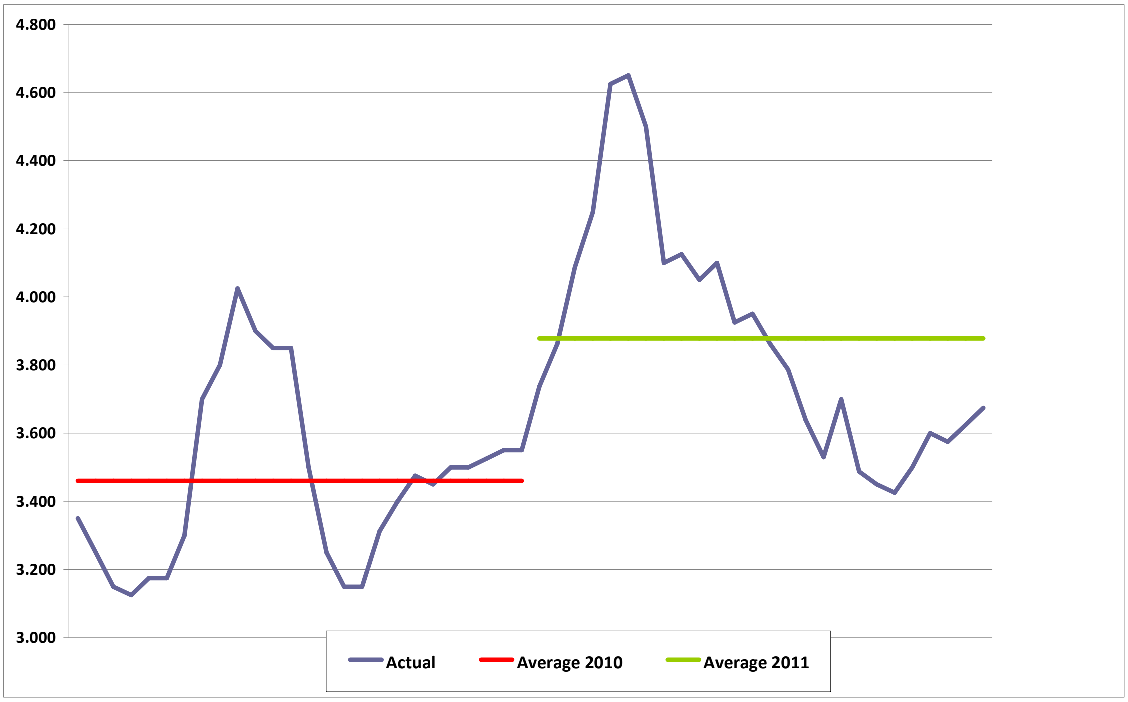
Note should also be made of the large purchases made by China (resulting undoubtedly from a mismatch between its economic growth and its low – and stagnant – domestic production level). China became the largest powdered milk purchaser (while it was ranked fifth in 2007). Its powdered milk imports amounted to 99,000 tons in 2007, and it is expected to reach 515,000 tons in 2012 – which represents a 420% growth in five years.

Demand from all other large powdered milk importers grew significantly, with an increase of around 56% from 2007 to 2012, to a large extent due to the sound financial condition of their economies.

On the supply side, the most dynamic countries included New Zealand (contemplating exports exceeding one million tons for 2012) and Argentina (whose exports increased by 120% from 2007 to 2012, in line with the rise observed in its total milk production).

Prices in the international dairy trade have remained high in historical terms, at an average of US$ 3,878 per ton of whole powdered milk (based on Oceania exports) for the whole of 2011 (this product is the main Argentine export item). Prices – as usual in recent years – continued to show a wide dispersion (in part attributable to low stocks – especially those held by governments – which caused a quick price reaction upon any changes in the relation between supply and demand). During the first months of 2011 a general increasing tendency was observed, on account of an increased demand that exceeded available supply. In the second half of the year this tendency was reverted as a result of increased production (in part due to better weather conditions in Oceania) and uncertainties derived from difficulties in some European economies (with the consequent inventory reduction given a reduced availability of credit).

The following chart shows the evolution of international prices for powdered milk in 2010 and 2011.



- Based on the average FOB price paid for whole powdered milk exports from Oceania

2.2 Expectations

In 2012 an increased production is expected from major world milk producers, although at a more moderate pace than observed in 2011. It may be assumed that the demand from developing countries, in particular Asian and Latin American countries, will remain stable.

In general terms, prices for dairy commodities have shown a declining tendency as from mid 2011. The uncertainties associated with the difficulties experienced by some European economies, and the usual retraction of demand at a time of weak prices, are factors that may make it difficult to revert this tendency. Assuming that international financial conditions will return to normal or at least become stable (and that the amount of Chinese purchases in the international market will remain unchanged), prices might improve towards the second half of 2012.

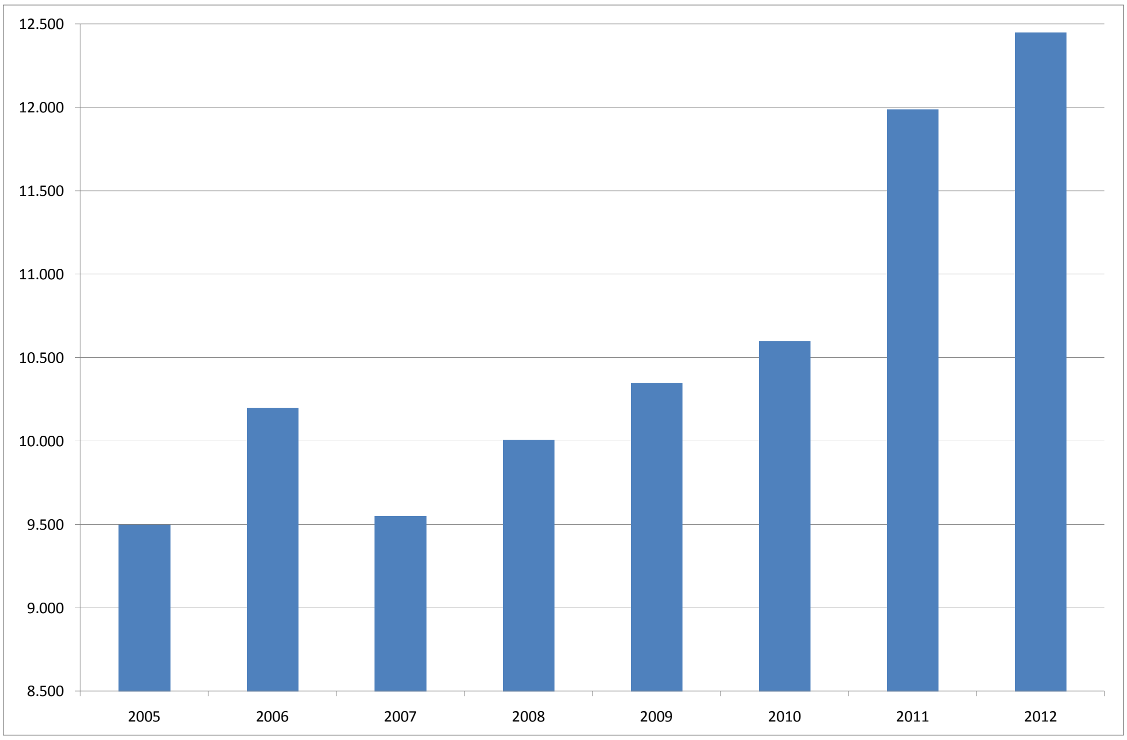
No reason is envisaged for a reduced volatility of prices. Financial market fluctuations and low inventories will continue to be sources of instability.

We have a lower exposure to this state of affairs than the Argentine dairy industry on average, because a material portion of our milk surplus is channeled to be sold in the Brazilian market, in transactions that may be seen as an extension of the domestic market, and consequently our exports to third parties represent a small share of our product portfolio.

3. ***THE ARGENTINE DAIRY INDUSTRY***

Milk production in Argentina continued to increase and surpassed historical production records in 2011. A new record is expected to be set in 2012.

ARGENTINE RAW MILK PRODUCTION
(Millions of liters)



- Source: USDA
- Amounts in millions of liters
- 2011: preliminary
- 2012: estimated

This increased production is the result of various factors, including, notably, the good prices obtained by this industry during recent years, and an excellent milk/corn price ratio, corn being the major input in dairy production. This implied better feeding for Argentine dairy herds, and a more efficient production (currently per cow production in Argentina is almost the same as in the European Union, and 45% higher than in New Zealand).

Given the high domestic consumption currently observed and a relatively stable domestic demand, we estimate that the largest part of our production will have to be sold in the international market. The Argentine commercial position in this market has improved notably. In the future, to maintain growth levels in this industry it will be indispensable to rely on (i) a persistence of reasonable international price levels, (ii) adequate competitiveness of this industry (which is sometimes affected by factors beyond its control, such as a high tax burden), (iii) a convenient trade positioning as regards dairy exports (seeking to optimize profitability for the benefit of the whole production chain), and (iv) increased investments in plants for the manufacturing of exportable dairy products (primarily powdered milk and whey byproducts), so that expected larger milk volumes may be processed.

4. THE COMPANY

4.1 PURCHASE OF RAW MILK

In 2011, our milk purchases (directly from dairy farms, and including purchases on behalf of Danone Argentina S.A.) increased by 12.7% as compared to 2010, that is, almost the same percentage by which total production increased in the country. This was a new historical record for our Company, which for the first time surpassed an amount of two million liters. We continue to be the largest milk purchaser in Argentina, as we buy approximately one of every six liters produced in the country. This increased availability of milk allowed us to achieve larger sales volumes in the domestic market, as shown in greater detail elsewhere in this report. This confirmed the forecasts included in our prior annual report.

The average price paid for milk (which during 2010 had increased by more than 50% with respect to 2009) increased by almost 15% in 2011, which was in line, as usual, with market prices. This change – arising from the interplay of demand and supply – is also approximately in line with changes in exporters' net income, calculated on the basis of international prices for powdered milk and the exchange rate applicable to dairy exports from Argentina. This should be highlighted because given the growth of milk production, exports will increase substantially, and consequently it will be necessary that changes in export income and milk costs follow reasonably similar lines.

Considering that commercial projects will absorb increasing milk quantities, we have made efforts to ensure future availability in the necessary amounts. For this purpose and among other actions, we have established a special prize to be awarded to individual producers for their growth. This is aimed at promoting increased deliveries by our current providers (consequently minimizing the possible impact of the above mentioned growing milk requirements on market prices).

In our opinion, a similar tendency will be observed in 2012, with a further increase in primary production which will be basically oriented – considering the country as a whole – towards exports.

In the future, to ensure that the Argentine dairy industry will grow and avoid the usual cycles that have impeded such growth in the past, this industry will be required to make some necessary investments so as to ensure that larger production surpluses arising hereafter may be duly processed. Our company in particular has undertaken the construction of a new powdered milk plant in the city of Trenque Lauquen. The work is now in progress.

We have maintained our usual quality policy as regards milk purchases.

4.2 COMMERCIAL ISSUES

4.2.1 Introduction

In 2011, our consolidated total sales increased by AR$ 1,704.9 million, or 38.4% (from AR$ 4,445.5 million in 2010 to AR$ 6,150.4 million in 2011). In U.S. dollars, this increase represented US$310.8 million, or 27.8% (from US$ 1,118.2 million in 2010 to US$1,429.0 million in 2011). This confirms our clearly leading position in the Argentine market and our strong position in the Brazilian market, and also confirms our ranking among the five largest dairy companies in Latin America.

The relative share of our main business segments in consolidated total sales during the last three fiscal years is shown below:

Market	2009	2010	2011
Domestic market - Argentina	84.2%	89.0%	82.8%
Domestic market - Brazil	8.4%	6.2%	7.9%
Exports	5.2%	2.6%	6.3%
Other	2.2%	2.2%	3.0%
Total	100.0%	100.0%	100.0%

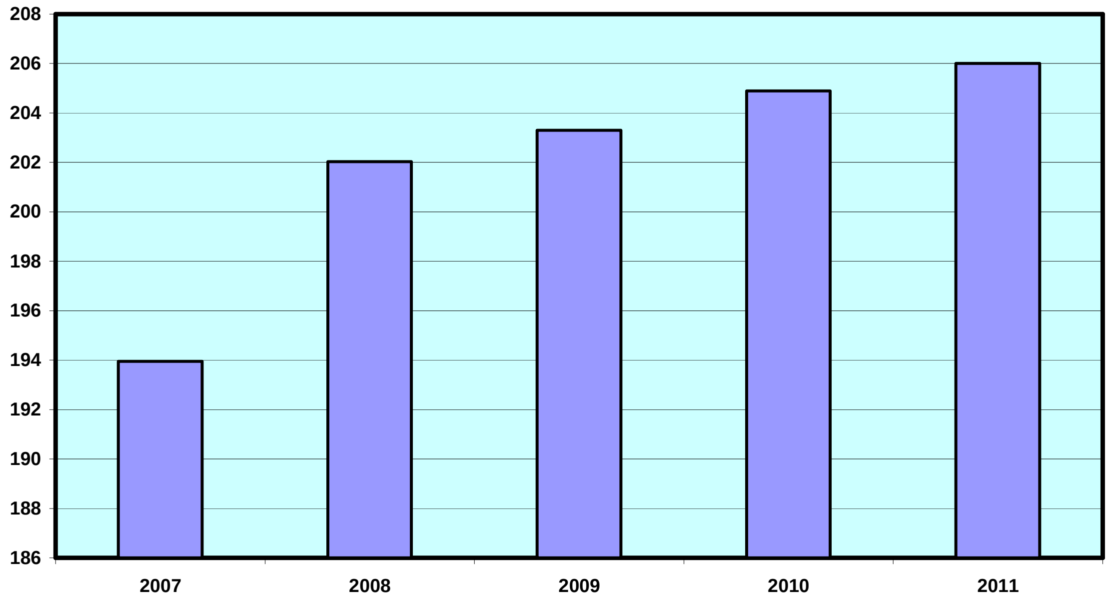
4.2.2. Domestic market

(a) Argentina

(i) General

Per capita milk consumption in Argentina has maintained a slight rising tendency during 2011. We estimate that consumption in the country might be the equivalent of 206 liters per capita. Changes in per capita consumption in recent years are shown below:

Per capita consumption - liters per year



(ii) Position of the Company:

As mentioned above, we are the largest dairy company in Argentina. Our sales in the Argentine retail market may be divided as follows:

- Slightly over 70% (in peso terms) is comprised of products (such as fluid milk, butter, cream, *dulce de leche* [milk caramel spread]) for which we are ranked first in terms of market share, and

- The remaining fraction (slightly under 30%) includes products (such as powdered milk, cheese varieties) in respect of which we are ranked second in terms of market share.

We reach to more than 80,000 clients through an extensive distribution network, covering practically all the country.

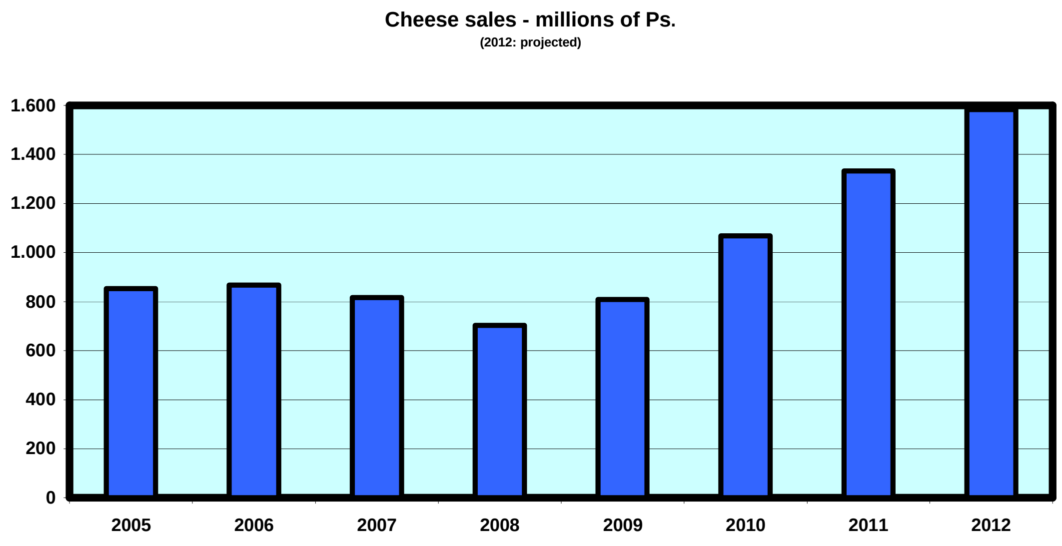
(iii) Evolution during 2011

As stated in our prior annual report, due to the restrictions in raw milk availability experienced in 2010 (derived from lower production during the first half of the year), we could not make effective advances in our plan to increase sales – which was focused on larger sales of cheese varieties, a segment on we had better possibilities given our smaller market share.

Supply difficulties have been solved since late 2010, and consequently we were able to consummate our expected growth. Specifically, we can now say that cheese sales for fiscal year 2011 (at constant selling prices) experienced the following increases:

- As compared to 2010: 24.6%
- As compared to average 2005 / 2009 sales: 64.5%

Our action plan for 2012 contemplates an additional increase in these sales, which are expected to rise by 15% to 20% as compared with 2011. In other words cheese sales, as compared with the five-year period 2005 / 2009, have already increased by almost two thirds in 2011, and will be virtually duplicated in 2012.



Such growth, in a mature, large volume market such as the Argentine cheese market, gives a clear idea of the commercial strength of our Company.

We have maintained our leading position, in general terms, in all other product lines. Our sales have slightly surpassed the general market tendency, with increased market shares in the product lines of fluid milk (+0.2%), cream (+0.1%), butter (+0.2%) and *dulce de leche* (+1.7%). Thus, we have maintained our clear leadership attained in the past in a scenario where a larger availability of milk as a raw material has caused a general increase in market supply.

It goes without saying that to achieve this success a number of not negligible efforts had to be made, such as:

- New products: we continued with the launching of new products or new packaging for existing products.

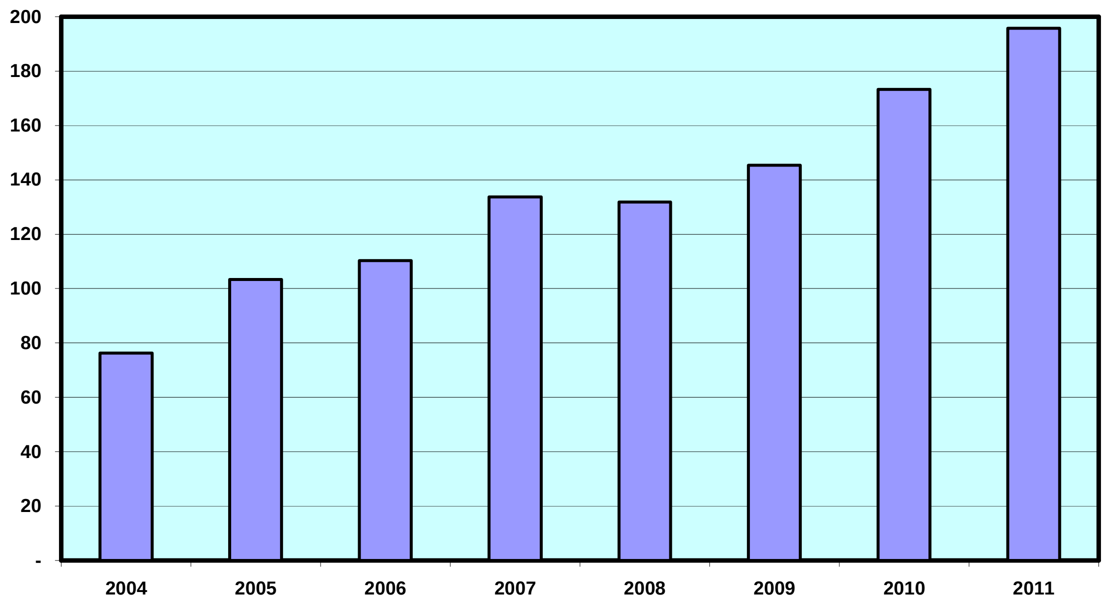
- Advertising: our advertising investment increased by 48.4% as compared with 2010.

- Working capital: as explained in more detail elsewhere in this report, and given the longer cheese production cycle, a significant financial effort was required in this respect.

(b) Brazil

Our sales in Brazil through our subsidiary Leitesol in 2011 amounted to the equivalent of US$ 112 million, and are almost exclusively comprised of transactions involving powdered milk and (to a lesser extent) other dairy products manufactured in Argentina. Our transactions in Brazil are subject to certain restrictions to the free access of our products to that market, which have been in effect for several years now.

Leitesol - net sales - millions of reais



Leitesol sells its products to around 2,700 customers in Brazil, with approximately 17,000 points of sale, in particular in the states of the northeastern area (where powdered milk consumption is concentrated). In the second half of 2011 Leitesol had an approximate 5.5% share of the total powdered milk market in Brazil, and a 6.5% share in the northeastern area.

4.2.3 EXPORTS

(a) General

Export volumes to third parties have increased appreciably, going from 2.6% of total sales in 2010 to 6.3% in 2011. This was in line with increased milk availability, net of any additional requirements arising from larger cheese sales. As set forth elsewhere in this report, a firm tendency was observed in international prices during 2011, within the usual variability seen in recent years.

Margins and competitiveness in this line of business have been adversely affected by the increase in certain costs expressed in foreign currency terms. For the time being, this circumstance has been compensated by the good prices obtained thanks to the recognized quality and reliability of our products, but might cause some difficulties if this tendency remains unchanged.

(b) Perspectives

We believe that the expected growth of primary production will cause a proportional increase in Argentine exports as a whole. In our particular case, this growth will be partially offset by expected larger sales to the domestic market, in the cheese segment.

Also, in our opinion, to achieve a better positioning in order to place milk surpluses abroad, we will have to examine the best available options so that we may get closer to the consumer market and thus capture an additional commercial margin. In line with this target, we have created a subsidiary in Paraguay (Mastellone de Paraguay S.A.) which will sell products to the retail market in this country, thus profiting from several favorable circumstances (such as proximity, brand recognition, low importation expenses under Mercosur agreements, etc.). On the basis of the new sales to be made in Paraguay (which should start towards the end of the first quarter 2012), larger sales in Brazil (after any distortions derived from certain restrictions to free market access will have been reduced or disappeared), and possible commercial transactions with other countries in the region, we expect to be able to optimize export profitability, and consequently contribute, in the medium term, to the growth of the Argentine dairy industry.

4.3 MANUFACTURING ACTIVITIES

In fiscal year 2011 we have set new records in terms of the products processed in our industrial plants. We were able to meet market requirements in satisfactory conditions as to quantity, quality and delivery time. This could be achieved in spite of our low investments in fixed assets during recent years, although the production capacity of certain lines is clearly reaching its saturation point.

Consequently, as it was informed in due time, a project designed to increase our powdered milk and serum production capacity is being implemented in the form of a drying plant that will be installed adjacent to our cheese plant in the city of Trenque Lauquen. At the same time, progress is being made in the evaluation and definition of several projects designed to enlarge our production capacity for certain cheese varieties.

4.4 SUBSIDIARIES

In January 2012 the organization of Mastellone de Paraguay S.A. was completed. This company will be in charge of the Company business in Paraguay. Its business operations are expected to begin towards the end of the first quarter 2012.

Subsidiary Puraláctea S.A. is expected to be merged into Mastellone Hnos. S.A. This merger will not have any effects from the point of view of equity in the consolidated condition of the Company, as Mastellone Hnos. S.A. is (directly and indirectly) the sole shareholder of Puraláctea S.A.

4.5 HUMAN RESOURCES

4.5.1 General

The increase in the number of employees was basically due to requirements derived from the Company's extended business activities and the inclusion of previously subcontracted workers into its own personnel. As usual, the compensation of employees generally and that of managers and senior officers in particular were established in accordance with guidelines agreed upon with representative unions and on the basis of market salaries and practices, respectively.

4.5.2 Training

In 2011, 1,064 training courses were provided, including 5,623 training hours, which were attended by 6,955 employees. Most such courses were customized taking into account Company requirements.

The above courses included (i) participation of our employees in the Executive MBA course of the *Instituto de Altos Estudios*, a University business school, and (ii) customized curricula (negotiation, leadership, etc.) organized at CEMA University, both among the best known and prestigious universities in Argentina

4.6 CORPORATE SOCIAL RESPONSIBILITY

We are aware of the crucial role played by corporate social responsibility for companies in general and in relation to our company in particular. On the basis of various factors (our leading position in the dairy industry, the number of people that directly or indirectly work for us, the extended value chain that we are a part of, our multifarious contacts with consumers), we believe that our company is called to play a special role. Some of the actions that we have undertaken in the course of 2011 are shown below, classified into in-company and outside activities:

In Company activities:

- Road accident prevention campaign: 16 defensive driving courses were organized, with the attendance of 323 participants.
- Social development program "Working with values": 71 workshops, with 541 participants, aimed at reinforcing our values as a company and boosting work culture.
- Energy efficiency campaign: various actions (informal conferences, technical memos, etc.) aimed at promoting the use of energy only when strictly necessary and avoiding waste.
- Water use efficiency campaign: aimed at promoting an efficient use of water in order to prevent waste and ensure sustainability of the aquifer that provides water for our industrial use. In 2011, almost 34% of the water used in our production facilities has been previously recycled.
- Solid waste recycling program: more than 75% of solid wastes produced by the Company have been recycled.

Outside activities

- Education program "*La Serenísima goes to school*": it includes actions designed to promote healthy eating habits in younger children, based on a balanced and healthy diet including different kinds of food. Visits were made to 125 elementary schools, and more than 5,000 children took part in these meetings.
- Student information department: 1,280 inquiries from students and teachers from different disciplines (nutrition, business management, trade, etc.) from all over the country were responded.
- General Rodríguez industrial complex visiting program: a long-standing open house program was pursued.
- Packaging material reduction program: various actions aimed at reducing waste derived from packaging material used for Company products.

4.7 FINANCIAL INFORMATION

4.7.1. General

Our financial debt as at December 31, 2011, is summarized in the following table (amounts in millions of US$):

1. Loans and bonds - principal	
Due 2012	4.6
Due 2013	20.0
Debt with final maturity 2015	41.3
Debt with final maturity 2018	156.8
Total	222.7
2. Other	21.2
3. Total debt - principal	243.9
4. Other	
Accrued interest	0.3
Bonds - issuance expenses and price discount	(0.7)
Net present value adjustment	(25.3)
5. Total debt	218.3
6. Cash and cash equivalents	14.9
7. Net debt	203.4
8. Net debt excluding NPV adjustment	228.7

During 2011, we reduced the outstanding amount of our long-term loans and bonds by approximately US$ 8 million, due to the scheduled maturities of the year (US$2.5 million) and repurchases of US$ 5.5 million, During 2012, our maturities on these debts will amount to US$16.8 million (including the balance of our bonds due 2012).

Our short-term debt fluctuated according to our working capital requirements, which were influenced in turn by the increased inventories due to our increase cheese sales and (over the last months of the year) the higher tax balances in our favor due to the increased purchases of raw milk.

4.7.2. Interest rate – 2012

According with the provisions of our financial debt with final maturity in 2018, and given the EBITDA obtained in such year, such debt will receive during 2012 an additional interest rate of 2.1%

As we did not complete a reduction of US$20 million in our debt due 2015 and 2018 (in excess to its scheduled maturities), the interest rate for such debt will increase 0.25% per annum, until such debt reduction is completed.

5. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

5.1. General

Since our 2012 fiscal year (our financial statements for fiscal year 2011 have been prepared under the same accounting principles used historically), and in compliance tie the regulations of the Argentine National Securities Commission, we will adopt the International Financial Reporting Standards (the "IFRS"). Accordingly, during 2011 different activities were performed, preparing the way for the efficient adoption of such standards since our fiscal year 2012. We believe we were able to successfully comply with all the requirements (training, systems, and internal control procedures) needed for that purposes.
Some of the activities performed by us during 2011 were the following:

- Training for our personnel (both in the controlling company and its subsidiaries)
- Systems development, to facilitate the processing of the information under the new accounting standards, the tax requirements, etc.
- Review and analysis of the main activities of the Company, for the proper implementation of the new accounting standards
- Analysis of the consequences of the adoption of the IFRS on any area of activity of the Company.

5.2. Fixed Assets – appraisal

One of the key aspects of this process has been the reappraisal of the value of some of the components of fixed assets. Taking in consideration that the adjustment of fixed assets to reflect the impact of the changes in the purchasing power of the domestic currency has been discontinued since February 2003, we deem advisable to review the market value of land and buildings of the controlling company, given the fact that they are the most exposed items to distortions due to inflation or relative prices changes. Therefore, we hired the services of experts to assess the value of such assets, in order to use the resulting values as initial balances in the adoption of the IFRS.

5.3 Impact of the adoption of the IFRS

Our financial statements as at December 31, 2011, include a reconciliation of our balance sheets as at such date and December 31, 2010 (transition date), determined in accordance with IFRS and including the impact of the aforementioned reappraisal of certain fixed assets – see Note 12 of our consolidated financial statements.

6. ADDITIONAL INFORMATION REPORTING – PUBLIC OFFERING TRANSPARENCY SYSTEM

In accordance with additional information reporting regulations, the following information is provided:

(a) With respect to major items related to business planning, reference is made to what has been stated elsewhere in this report.

(b) As to our organization, decision making processes and internal controls, our company has a pyramidal structure, with operation managers for each functional area, geographical area and business unit, as the case may be, while management, administration and political / strategic decision making responsibilities are vested in the board of directors. Decision making as regards operations and monitoring thereof are governed by the criteria described below:

- Duties are assigned on the basis of appropriate organizational criteria;
- Processes and activities are standardized;
- Operations are performed under adequately defined procedures and subject to control based on the segregation of duties;
- Information is properly processed and stored in adequate security conditions in the Company's computerized system, thus ensuring a correct recording of all financial transactions to which the Company is part.

(c) The company does not have in place any stock option plan for the remuneration of directors and managers. The remuneration of Company management officers – as well as those of subsidiaries – is established on the basis of market salaries and conditions.

(d) The financial statements for fiscal year 2011 have been consolidated with the financial statements of the subsidiaries detailed below:

- Con-Ser S.A.
- Leitesol Industria e Comercio S.A.
- Marca 4 S.A.
- Marca 5 Asesores en Seguros S.A.
- Mastellone Hnos. do Brasil Comercial e Industrial Ltda.
- Mastellone San Luis S.A.
- Promas S.A.
- Puraláctea S.A.
- Transportes Lusarreta S.A. (a subsidiary of Con-Ser S.A.)

Transactions with the above companies have been made under usual market conditions, and all details concerning purchases, sales and balances are shown in the financial statements.

(e) Transactions and balances with related entities are shown in the financial statements for fiscal year 2011.

(f) Other than as set forth in the financial statements for fiscal year 2011, no significant agreements have been made.

(g) No extraordinary income has been recorded for 2011. No adjustments have been made on prior fiscal years either, for any significant amounts.

(h) No payment of cash dividends is proposed by the Board of Directors to the shareholders, given the restrictions established under major agreements governing the terms of our long-term debt. Pursuant to such terms, cash dividends may not be paid until after 2012, and such payments are subject to some restrictions. A facultative reserve may be created, at the discretion of the shareholders' meeting.

7. RESULTS OF THE YEAR

CONSOLIDATED RESULTS – FISCAL YEARS 2010 / 2011

	2011	2010	Difference	%
Net Sales	6,150.4	4,445.5	1,704.9	38.4%
Operating Results	139.2	94.9	44.3	46.7%
% to Net Sales	2.3%	2.1%		
Net Income (Loss)	(9.9)	138.8	(148.7)	(107.1%)
% to Net Sales	(0.2%)	3.1%		

- Amounts in millions of pesos
- Operating Result: Net Sales minus Cost of Goods Sold, Commercial Expenses. Administrative Expenses and Other Income (Expenses), net.
- Net Income for FY10 includes an extraordinary gain of Ps.91.2 million, related with the refinancing of our financial debt.

MAIN BALANCE SHEET CHANGES – FISCAL YEARS 2011 / 2010

	2011	2010	Difference	%
Current Assets - total	1,471.3	1,188.1	283.2	23.8%
Non-Current Assets - total	977.5	950.2	27.3	2.9%
Total Assets	2,448.8	2,138.4	310.4	14.5%
Current Liabilities - total	1,067.4	751.3	316.1	42.1%
Non-Current Liabilities - total	877.9	873.7	4.2	0.5%
Total Liabilities	1,945.3	1,625.0	320.3	19.7%
Minority Interest	0.0	0.0	0.0	n/a
Net Worth	503.5	513.4	(9.9)	(1.9%)

- Amounts in millions of pesos

7.2. ECONOMIC RESULTS

Economic results for the period have been in line with our forecasts. There was a substantial increase in sales, reflecting our strong marketing position and the increase of sales the cheese segment. Cash flow from operations remained strong, as a new demonstration – by the third consecutive year – of the strength of our recovery. Some additional costs – mainly salary costs - did not allow us to fully reflect such improvements in our economic results and our cash generation.

Although Operating Results increased Ps46.7 million, Net Income decreased Ps.148.7 million, due to the following reasons:

(i) The absence in 2011 of an extraordinary gain of Ps.91.2 million, obtained in 2010 in connection with the refinancing of our financial debt,

(ii) An increase of Ps.45.7 million in losses due to exchange differences (from Ps.29.0 million in 2010 to Ps.74.7 million in 2011), related with the increase of the value of the US dollar in peso terms and a lower appreciation of the Brazilian currency, and

(iii) An increase of Ps.18.8 million in interest paid on financial debt, due to the accrual since 2011 of a contingent interest rate based on our EBITDA (not applicable in 2010) and an increase of the debt in peso terms.

(iv) Higher charges for income tax (including the tax on the minimum presumed income) of Ps.18.9 millions

8. PERSPECTIVES

We believe that, generally speaking, basic market conditions are positive for the Company, with a combination of sustained growth of primary production, a domestic demand that, although not at its highest historical level in terms of per capita consumption, has gradually increased in the course of recent years, a satisfactory level of operations in Brazil, and good international market prices. At the same time, the Company has taken some actions (such as a larger market share in the cheese segment, development of new markets, etc.) which are in line with the opportunities currently available.

Some matters, however, will have to be taken care of, as they may adversely affect the condition of the Company. They include, among others, (i) a substantial decrease of the benefits derived from a tax promotion accorded to our subsidiary Mastellone San Luis S.A., (ii) possible cost pressures (in particular wages and other costs incurred in Argentina) which will, to the extent we may be unable to pass them on to prices for any reason, affect profitability and the generation of funds, and (iii) any possible consequences derived from the economic and financial difficulties currently affecting some central economies, particularly in European countries, which may have an adverse effect on international economic conditions and consequently on our operations.

At the same time, given the financial needs arising from the Company's increased business activity and investments that will inevitably be required in order to solve unavoidable production bottlenecks, we will have to undertake efforts designed to optimize the Company's financing structure, which must also contemplate the need to reduce financial costs.

Buenos Aires, February 28, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mastellone Hermanos Sociedad Anónima
Encarnación Ezcurra 365/375 – 2° Floor – Suite 308
City of Buenos Aires

1. Identification of financial statements subjected to our audit

We have audited the consolidated balance sheet of Mastellone Hermanos Sociedad Anónima and its consolidated subsidiaries (the "Company" – subsidiaries detailed in Note 2 a) to the consolidated financial statements) as of December 31, 2011, and the related consolidated statements of operations, shareholders' equity and cash flows together with their Notes 1 to 13 for the fiscal year then ended.

The consolidated financial statements referred to above are presented with comparative information derived from the consolidated financial statements as of December 31, 2010.

The Company's Board of Directors and Management are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting standards generally accepted in the Republic of Argentina for entities included in the public offering régime. The referred accounting standards are comprised by the Technical Resolutions issued by the Argentine Federation of Professional Councils in Economic Sciences (which do not include those standards related to the adoption of International Financial Reporting Standards, "IFRS"), with the alternatives adopted by the National Securities Commission in those cases where the accounting standards allow for the application of more than one criterion ("Argentine GAAP"). This responsibility includes: (i) designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements so that they are free from material misstatement, whether due to fraud or error; (ii) selecting and applying appropriate accounting policies; and (iii) making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these consolidated financial statements based on the audit carried out pursuant to the scope of work outlined in section 2.

2. Scope of our work

Our audit was carried out in accordance with the auditing standards generally accepted in the Republic of Argentina. Those standards require that auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures, mainly on a sample basis, to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's Board of Directors and Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. <u>Additional paragraph</u>

As stated in Note 12 to the consolidated financial statements, the Company has considered in the preparation of the reconciliations to IFRS describe in that note, those IFRS that are deemed to be applied in financial statements for the fiscal year ending December 31, 2012, the first fiscal year in which application of IFRS is mandatory. It should be mentioned that items and figures included in such reconciliations could be modified if the IFRS in force as of that date were different from the ones considered in their preparation.

4. <u>Auditors' opinion</u>

In our opinion, the consolidated financial statements as of December 31, 2011 referred to in the first paragraph of section 1., present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2011, and the consolidated results of its operations, the consolidated changes in its shareholders' equity and its consolidated cash flows for the fiscal year then ended, in accordance with accounting principles generally accepted in the Republic of Argentina.

Our audit report on the consolidated financial statements as of and for the fiscal year ended December 31, 2010 was issued, unqualified, on March 10, 2011.

5. <u>Special information required by regulations in force</u>

a) The consolidated financial statements referred to in the first paragraph of section 1. are presented in accordance with Law N° 19,550 and National Securities Commission of Argentina accounting standards.

b) As required by clause 6 of General Resolution N° 402/02 of the National Securities Commission, we report that, in our view, accounting records systems maintain the security and integrity conditions existing at the time when they were authorized by the Corporations Inspection Department (prior to the Company's entering to the public offering regime).

c) The consolidated financial statements referred to in the first paragraph of section 1. have been recorded in the registered book *Inventario y Balances*.

d) As a part of our audit, the scope of which is described in section 2., we have reviewed the consolidated Informative Summary shown in pages 1 to 3, prepared by the Company's Management and Board of Directors and required by the National Securities Commission, on which, in what is a matter of our competence, we have no exceptions to report. Our reports on the consolidated financial statements corresponding to the fiscal years ended December 31, 2008 and 2007 included a qualified opinion related to the recognition as income for the fiscal year 2007 of compensations to be collected from the Government by $ 37 million, which should have been recognized in fiscal year 2008 in accordance with Argentine GAAP.

e) We report, as required by the National Securities Commission of Argentina, the following percentages corresponding to fees billed by our Firm:

- ratio of total fees related to the audit and review of financial statements and other auditing services rendered to Mastellone Hermanos Sociedad Anónima to the total fees billed to the Company for all professional services, including auditing services: 63%;

- ratio of total fees for the audit and review of financial statements and other auditing services rendered to Mastellone Hermanos Sociedad Anónima to the total auditing services fees billed to the Company and to its subsidiaries: 71%

- ratio of total fees for the audit and review of financial statements and other auditing services rendered to Mastellone Hermanos Sociedad Anónima to the total fees billed to the Company and to its subsidiaries for all professional services, including auditing services: 41%.

f) As per the above mentioned accounting records, the accrued liability under the Argentine Integrated Social Security System as of December 31, 2011, for pension contributions and withholdings to personnel, amounted to thousands of $ 18,153, and was not yet due at that date.

g) We have performed the procedures related to the prevention of money laundering and terrorist financing established by Resolution C.D. No. 77/2011 issued by the Professional Council of Economic Sciences of the City of Buenos Aires.

City of Buenos Aires, Argentina.
February 28, 2012

DELOITTE S.C.

José E. Lema (Partner)
Public Accountant (UBA)
C.P.C.E.C.A.B.A. T° 103 - F° 60

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MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

CONSOLIDATED INFORMATIVE SUMMARY AS OF DECEMBER 31, 2011

(in thousands of Argentine pesos)

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

Economic results for fiscal year 2011 may be seen as satisfactory, in terms of both organic cash generation and commercial position of the Company, indicating the existence of a platform for such aspects, enabling us to face future challenges with optimism.

Unfortunately, such results were compensated by certain adverse developments, out of our control, such as an increase in losses from exchange differences, higher financial charges (given the accrual, since 2011, of contingent interest rate, linked with our EBITDA, as well as increased income tax charges (including tax on alternative minimum income tax).

2. SUMMARIZED CONSOLIDATED FINANCIAL POSITION

	2011	2010	2009	2008	2007
			(in thousand pesos)		
Current assets	1,471,317	1,188,142	866,053	681,338	662,614
Non-current assets	977,497	950,231	906,654	944,056	1,019,685
Total	**2,448,814**	**2,138,373**	**1,772,707**	**1,625,394**	**1,682,299**
Current liabilities	1,067,418	751,304	610,721	584,259	422,627
Non-current liabilities	877,884	873,669	787,344	721,398	674,683
	1,945,302	1,624,973	1,398,065	1,305,657	1,097,310
Minority participation in subsidiary companies	10	1	1	1	1
Shareholders' equity	503,502	513,399	374,641	319,736	584,988
Total	**2,448,814**	**2,138,373**	**1,772,707**	**1,625,394**	**1,682,299**

3. SUMMARIZED CONSOLIDATED STATEMENTS OF OPERATIONS

	2011	2010	2009	2008	2007
			(in thousand pesos)		
Operational ordinary results – income (loss)	139,225	94,864	158,847	(174,315)	40,425
Financial and holding results – (loss)	(119,555)	(46,545)	(77,308)	(148,370)	(39,943)
Other income and expenses, net – income (loss)	6,621	7,099	(4,625)	70,825	(14,647)
Subtotal – income (loss)	**26,291**	**55,418**	**76,914**	**(251,860)**	**(14,165)**
Income tax and alternative minimum income tax – loss	(36,187)	(17,283)	(22,543)	(13,391)	(19,042)
(Loss) income from continuing operations	(9,896)	38,135	54,371	(265,251)	(33,207)
Income from discontinued operations		9,445	535		
Minority interest in subsidiary companies – loss	(1)	(1)	(1)	(1)	(1)
Ordinary result – (loss) income	**(9,897)**	**47,579**	**54,905**	**(265,252)**	**(33,208)**
Extraordinary results – income		**91,179**			
Net (loss) income for the year	**(9,897)**	**138,758**	**54,905**	**(265,252)**	**(33,208)**

4. PRODUCTION AND SALES VOLUME (*)

	ACCUMULATED SALES				
	2011	**2010**	**2009**	**2008**	**2007**
	(in thousand liters of milk)				
Domestic market	1,508,729	1,380,618	1,281,653	1,252,748	1,277,935
Foreign market	317,185	232,872	282,784	85,515	144,380
Total	**1,825,914**	**1,613,490**	**1,564,437**	**1,338,263**	**1,422,315**

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

5. RATIOS

	2011	**2010**	**2009**	**2008**	**2007**
Current assets to current liabilities	1.38	1.58	1.42	1.17	1.57
Shareholders' equity to total liabilities	0.26	0.32	0.27	0.24	0.53
Non-current assets to total assets	0.40	0.44	0.51	0.58	0.61
Ordinary (loss) income to shareholders' equity	(0.02)	0.13	0.17	(0.45)	(0.05)
Extraordinary income to shareholders' equity		0.24			
Net (loss) income to shareholders' equity	(0.02)	0.37	0.17	(0.45)	(0.05)

6. OUTLOOK (*)

We believe that, generally speaking, basic market conditions are positive for the Company, with a combination of sustained growth of primary production, a relatively strong domestic demand, a satisfactory level of operations in Brazil, and good international demand and market prices. At the same time, the Company has taken some actions (such as a larger market share in the cheese segment, development of new markets, etc.) which are in line with the opportunities currently available.

Some matters, however, will have to be taken care of, as they may adversely affect the condition of the Company. They include, among others, (i) a substantial decrease of the benefits derived from a tax promotion granted to our subsidiary Mastellone San Luis S.A., (ii) cost pressures, and (iii) any possible consequences derived from the economic and financial difficulties currently affecting some central economies, particularly in European countries, which may have an adverse effect on international economic conditions and consequently on our operations.

In the short term, and to a great extent reflecting seasonal aspects and certain specific situations, we expect a compression in our economic results during the first quarter of 2012. We maintain unchanged, however, our long term prospects, as indicated before.

7. CURRENT STATUS IN THE FULFILLMENT OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") IMPLEMENTATION PLAN (*)

As a result of the monitoring of the specific IFRS implementation plan, the Board of Directors is not aware of any circumstance that requires modifications to the plan or that indicates an eventual deviation from the established objectives and dates. See Note 12 to the consolidated financial statements.

8. CALCULATION OF THE EBITDA OF FISCAL YEAR 2011 (*)

A calculation of EBITDA (according to its definition under the terms of the agreement of the debt refinancing of May 2010) ("Contractual (1) EBITDA") is included below. This calculation is presented only to be used as guidance by holders and any other interested parties. The calculation, which is stated in thousands of pesos, should be considered an estimate subject to adjustments and not to be an indication, either explicit or implicit, of the Contractual EBITDA amount for the future.

1	Net (loss) income		(9,897)
2	Income tax		36,187
3	Amortization		
	Amortization of intangible assets		743
4	Depreciation		78,888
	Depreciation of property, plant and equipment	78,796	
	Amortization of other investments	92	
5	Fixed charges		92,122
	Interest generated by liabilities	92,122	
	Secured debt payments by the Company		
	Payment of dividends on preferred stock		
6			39,907
	All exchange differences	74,658	
	All holding results	(66,255)	
	All inflation adjustement		
	Other non-cash items:		
	Net adjustment to present value of debt	31,504	
7	Minority interest		1
8	Other charges which have not and will not imply a cash movement		83,167
	Cost of sales – holding results	66,255	
	Supplies consumption	15,394	
	Reversal of impairment valuation allowance for investments in other companies	(17)	
	Reversal of impairment valuation allowance for other assets	(4)	
	Write-off of spare parts	1,539	
	Total contractual EBITDA		**321,118**

Contractual EBITDA as of December 31, 2011, stated at the closing exchange rate, amounts to approximately US$ 74.6 million. Consequently, the contingent interest established in the terms of the loan contract maturing in 2018 amounts to 2.1%. Total interest rate for such debt in 2012, including the 0.25% for not having completed the mandatory reduction of debt before December 31, 2011, will be 9.85%.

(1) Contractual EBITDA may differ from the EBITDA or Adjusted EBITDA, all being measures that the Company may present in other documents and that shows additional information about its ability to pay its debt, but that do not arise from professional accounting standards. No form of EBITDA should be considered in isolation or as a substitute of other measures of financial performance or liquidity or as a substitution of measures arising from professional accounting standards. We believe that EBITDA is a measure commonly reported and widely used by investors and other interested parties in the industry as a measure of a company's operating performance and debt servicing ability because it assists in comparing performance on a consistent basis without computing depreciation and amortization charges, among others. However, Contractual, Adjusted EBITDA or similar measures may not be comparable in all instances to other similar types of measures used by other companies.

(*) Information not reviewed by the Auditors.

Buenos Aires, February 28, 2012

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2011
(compared with the related figures at December 31, 2010)
(in thousands of Argentine pesos)

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	64,101	39,907
Investments	8,033	2,110
Trade accounts receivable, net (Notes 3 a) and 7)	628,385	469,862
Other receivables, net (Notes 3 b) and 7)	80,812	91,755
Inventories (Notes 3 c) and 7)	689,986	584,311
Other assets		197
Total Current Assets	**1,471,317**	**1,188,142**
NON-CURRENT ASSETS		
Other receivables, net (Notes 3 b) and 7)	56,143	70,392
Investments	15,817	10,440
Spare parts and supplies (Note 3 d)	50,076	41,720
Property, plant and equipment, net (Notes 3 e) and 7)	848,738	820,228
Intangible assets, net	3,592	4,320
Other non-current assets	10	10
Subtotal	**974,376**	**947,110**
Goodwill (Note 2.c) 10)	3,121	3,121
Total Non-Current Assets	**977,497**	**950,231**
TOTAL	**2,448,814**	**2,138,373**
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable (Note 3 f)	678,669	531,970
Loans (Notes 3 g), 5 and 7)	158,553	34,939
Taxes, accrual for tax relief and others (Note 3 h)	64,981	48,496
Accrued salaries, wages, payroll taxes and others (Note 3 i)	155,599	126,919
Accrued litigation and other expenses (Note 3 j)	9,616	8,980
Total Current Liabilities	**1,067,418**	**751,304**
NON-CURRENT LIABILITIES		
Accounts payable		22
Loans (Notes 3 g), 5 and 7)	781,184	759,801
Taxes and accrual for tax relief (Notes 3 h), 7 and 8)	74,544	85,712
Accrued salaries, wages, payroll taxes and others	4,151	7,868
Accrued litigation and other expenses (Note 3 j)	18,005	20,266
Total Non-Current Liabilities	**877,884**	**873,669**
Total Liabilities	**1,945,302**	**1,624,973**
MINORITY INTEREST	**10**	**1**
SHAREHOLDERS' EQUITY (as per corresponding statements)	**503,502**	**513,399**
TOTAL	**2,448,814**	**2,138,373**

The accompanying Notes are an integral part of these consolidated financial statements.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011 (compared with the related figures for the year ended December 31, 2010)
(in thousands of Argentine pesos)

	2011	**2010**
Net sales (Note 3 k)	6,150,449	4,445,495
Cost of sales (Note 3 l)	(4,585,208)	(3,316,753)
Gross income	**1,565,241**	**1,128,742**
Expenses:		
Selling (Note 3 m)	(1,205,374)	(870,746)
General and administrative (Note 3 m)	(219,225)	(162,228)
Other (Note 3 m)	(1,417)	(904)
Subtotal	**139,225**	**94,864**
Interest expense	(92,122)	(73,357)
Interest income	12,474	9,501
Holding results, foreign exchange (loss) gain, net, and other financial results (including charges due to adjustments to present value)	(39,907)	17,311
Other income (expenses), net (Note 3 n)	6,621	7,099
Income before taxes, discontinued operations, minority interest and extraordinary item	**26,291**	**55,418**
Income tax and alternative minimum income tax (Note 3 o)	(36,187)	(17,283)
Net (loss) income from continuing operations	**(9,896)**	**38,135**
Income from discontinued operations before income taxes		9,445
Income tax (Note 3 o)		
Net income from discontinued operations (Note 11 b)	**-**	**9,445**
Minority interest	**(1)**	**(1)**
Net (loss) income before extraordinary item	**(9,897)**	**47,579**
Extraordinary item – Income (Note 3 p)		**91,179**
Income tax (note 3 q)		
Extraordinary income	**-**	**91,179**
NET (LOSS) INCOME FOR THE YEAR	**(9,897)**	**138,758**
(Loss) income earnings per common share		
(Loss) income before extraordinary income	(0.02)	0.10
Extraordinary income		0.20
Total	**(0.02)**	**0.30**

The accompanying Notes are an integral part of these consolidated financial statements.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2011
(compared with the related figures for the year ended December 31, 2010)
(in thousands of Argentine pesos)

	2011				2010
	Shareholders' contributions	Retained earnings		Total	Total
	Common stock	Legal reserve	Accumulated earnings (losses)		
Balance at beginning of year	**457,547**		**55,852**	**513,399**	**374,641**
Resolution of General Ordinary and Extraordinary Shareholders' Meeting held on March 31, 2011: Appropriation to legal reserve (Note 6)		15,273	(15,273)		
Net (loss) income for the year			(9,897)	(9,897)	138,758
Balance at end of the year	**457,547**	**15,273**	**30,682**	**503,502**	**513,399**

The accompanying Notes are an integral part of these consolidated financial statements.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2011
(compared with the related figures for the year ended December 31, 2010)
(in thousands of Argentine pesos)

	2011	2010
CAUSES OF CHANGES IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities:		
Net (loss) income before extraordinary item	(9,897)	47,579
Adjustments to reconcile net ordinary (loss) income for the year to net cash provided by operating ordinary activities:		
Interest expense	92,122	73,357
Income tax and alternative minimum income tax accrued	36,187	17,283
Depreciation of property, plant and equipment	78,796	75,616
Supplies consumption	15,394	11,181
Additions to provision for doubtful accounts, sale rebates, other assets, litigation and contingencies (net of reversals)	8,076	5,826
Depreciation of other investments	92	38
Amortization of intangible assets	743	439
Write-off of spare parts	1,539	672
Financial and holding results, net	109,024	68,984
Gain on sale of property, plant and equipment	(4,031)	(1,673)
Income from discontinued operations		(9,445)
Payments of income tax and alternative minimum income tax	(22,374)	(24,670)
Net change in working capital and other components (Note 2.c) 19)	(113,988)	(132,724)
Net cash provided by operating ordinary activities	**191,683**	**132,463**
Extraordinary item – Income		91,179
Adjustments to reconcile extraordinary item - income to net cash used in extraordinary operating activities:		
Debt restructuring result		(110,367)
Net cash used in extraordinary item	**-**	**(19,188)**
Net cash provided by operating activities	**191,683**	**113,275**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(100,157)	(41,771)
Purchase of intangible assets	(15)	(3,965)
(Increase) decrease of investments	(11,364)	54
Proceeds from sale of subsidiary company		1,851
Proceeds from sale of property, plant and equipment	5,455	3,696
Acquisition of subsidiary	(5,088)	(3,104)
Net cash used in investing activities	**(111,169)**	**(43,239)**
Cash flows from financing activities:		
Net variation in loans	28,867	16,748
Payments of interests	(85,187)	(98,694)
Net cash used in financing activities	**(56,320)**	**(81,946)**
Increase (decrease) in cash and cash equivalents	**24,194**	**(11,910)**
Cash and cash equivalents at beginning of year	**39,907**	**48,425**
Cash and cash equivalents of acquired subsidiary		**3,901**
Decrease in cash and cash equivalents due to sale of subsidiary company		**(509)**
Subtotal	**39,907**	**51,817**
Cash and cash equivalents at end of year	**64,101**	**39,907**

The accompanying Notes are an integral part of these consolidated financial statements.

(in thousands of Argentine pesos)

NOTE 1 - THE COMPANY - OPERATIONS AND MAJOR CUSTOMERS

Mastellone Hermanos Sociedad Anónima, together with its consolidated subsidiaries (the "Company"), is the Argentina's leading processor and manufacturer of fresh consumption dairy products.

Its sales are concentrated in the Buenos Aires metropolitan area, Argentina's largest market for such products, but the Company's operations mostly cover every significant market throughout the rest of the country.

The Company also exports dairy products (mainly powdered milk) and provides a number of services (including raw milk procurement and industrial services) to Danone Argentina S.A. (Danone) under long-term agreements (see Note 9).

No single customer accounts for in excess of 10% of the Company's net sales.

The Company's sales by distribution channels were as follows:

	2011	2010
Domestic sales:		
Traditional retailers and supermarkets	4,412,562	3,481,522
Government and commercial bids	431,799	283,815
Other	248,326	81,812
Services	187,017	99,610
Export / Foreign	870,745	498,736
Total	**6,150,449**	**4,445,495**

NOTE 2 - ACCOUNTING POLICIES

a) Consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in force in Argentina ("Argentine GAAP") applicable to consolidated financial statements.

Certain accounting practices applied by the Company that are in accordance with Argentine GAAP do not conform to Generally Accepted Accounting Principles in the United States ("US GAAP"). The format and certain disclosures included in these consolidated financial statements have been adapted to have a closer appearance to financial statements usually presented in the United States.

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All material intercompany accounts and transactions have been eliminated in the consolidation.

The accounts of the following companies were included in consolidation:

Company	% of holding 2011	2010
Con-Ser S.A.	100.00	100.00
Leitesol I.C.S.A. (1)	100.00	100.00
Marca 4 S.A.	99.99	99.99
Marca 5 Asesores en Seguros S.A.	99.99	99.99
Mastellone Hermanos do Brasil Comercial e Industrial e Ltda (dormant)	100.00	100.00
Mastellone San Luis S.A.	100.00	100.00
Promas S.A.	100.00	100.00
Puraláctea S.A.	100.00	100.00
Transporte Lusarreta Hermanos S.A. (2)	100.00	100.00

(1) Leitesol I.C.S.A. is a Brazilian subsidiary of Mastellone Hermanos Sociedad Anónima. It is an integrated subsidiary, with no independent cash flow, trading exclusively Company's products in the Brazilian market. The re-measurement of the financial statements of Leitesol I.C.S.A. from foreign currency to local currency was credited or charged to the consolidated statements of operations.

(2) Transporte Lusarreta Hermanos S.A. is an indirect subsidiary company because it is controlled by Con- Ser S.A.

b) Revenue recognition

The Company and its foreign subsidiary recognize revenue from product sales when a product has been delivered and risk of loss has passed to the customer, collection of the resulting receivable is probable, persuasive evidence of an arrangement exists, and the price is fixed or determinable. Delivery occurs, in the case of product sales to domestic customers, when products are received by or physically transferred to the custody of the customers, generally at their respective warehouses as the term of such shipments is usually FOB Destination. In the case of product sales to customers outside Argentina, delivery occurs after the Company has completed customs shipment procedures domestically and has transferred custody of the product to buyer's transportation carrier as the term of such shipments is usually FOB Shipping Point. The Company records cash discounts and volume rebates at the time the related revenue from product sale is recognized. Such discounts are reported as reduction from the related revenue from product sale. It also maintains allowance for doubtful accounts based on customer collection history and for trade discounts and sales returns based on historical experience.

The Company recognizes service revenues as follows: (i) production of specific products on behalf of other companies ("façon" agreements) – when a customer picks up the product produced from the Company's manufacturing facilities; (ii) procurement of raw milk for Danone– when the Company delivers the raw milk it procured to the manufacturing facility of Danone; and (iii) provision of marketing and other administrative services to Logística La Serenísima Sociedad Anónima – over the agreed service period.

c) Valuation criteria

1) Accounting principles

The Company applies the valuation and presentation criteria established by Technical Resolutions N° 8, 9, 16, 17, 18, 21, 22 and 23 and Interpretations N° 1 to 4, if applicable, taking into consideration versions in force as of December 31, 2011, approved by the Argentine Federation of Professional Councils in Economic Sciences ("F.A.C.P.C.E."), with certain modifications introduced by the Argentine National Securities Commission (Comisión Nacional de Valores or CNV).

In the case of non-monetary assets added before March 1, 2003, costs were restated to reflect the effects of inflation as of February 28, 2003 (according to Technical Resolution N° 6 issued by the F.A.C.P.C.E., in force from January 2002 through the above mentioned date).

2) Monetary items - Cash, cash equivalents, receivables and liabilities stated in Argentine pesos, have been valued at their nominal values plus accrued interest as of the end of each year.

Non-interest earning or bearing receivables and payables have been valued at their present value.

3) Foreign currency denominated assets and liabilities – Foreign currency denominated assets and liabilities have been stated at the closing exchange rate plus accrued interest as of the end of each year. On March 6, 2002, the Professional Council in Economic Sciences of the City of Buenos Aires issued Resolution MD N° 3/2002 that mandated the capitalization of exchange differences arising from foreign currency denominated liabilities used to finance, directly, the acquisition, production or construction of an asset. Resolution MD N° 3/2002 included also an option to capitalize exchange differences in other assets financed indirectly with foreign currency denominated liabilities. The Company adopted such optional treatment for the acquisition or construction of property, plant and equipment indirectly financed in foreign currencies (see point 7 below).

Resolution CD N° 87/2003 issued by the Professional Council in Economic Sciences of the City of Buenos Aires and effective July 28, 2003, superseded Resolution MD N° 3/2002, so that the Company capitalized exchange differences generated up to the abovementioned date, which are currently part of the assets' cost, net of the corresponding depreciation.

Foreign currency denominated receivables and payables, non-interest earning or bearing, have been valued at their present value.

4) Inventories

- Finished goods - These are stated at the current replacement cost at the end of each year, net of those expenses related to production inefficiencies or idle capacity of plants, if any. Such expenses are recognized in earnings under caption “Other”, included in operating expenses in the consolidated statement of operations.

- Raw materials, packaging materials, and work in progress - These are valued at their current replacement cost at the end of each year, or at price of last purchases, which does not materially differ from the estimated replacement cost. Inventories write-offs are directly charged to the consolidated statement of operations.

The value of inventories thus determined does not exceed their estimated recoverable value (which is net realizable value, meaning net selling price less direct selling expenses).

5) Spare parts and supplies

These are stated at acquisition or current replacement cost at the end of each year, or, when applicable, at price of last purchases, which does not materially differ from the estimated replacement cost.

The value of spare parts and supplies does not exceed their estimated recoverable value.

6) Current and non-current investments

Current investments mainly correspond to private bonds with no quotation valued at cost plus interest accrued.

Non current investments mainly consist of certain properties and an aircraft (valued at cost as restated to reflect the effects of inflation, net of accumulated depreciation) and investments in other companies valued at cost.

7) Property, plant and equipment

- Original value:

  - Property, plant and equipment – These assets are valued at cost as restated to reflect the effects of inflation. Construction in progress includes interest capitalized during the construction period related to loans obtained to finance these constructions, also as restated to reflect the effects of inflation.

In the case of plantations and assets allocated to the agricultural activity, since it was not possible to obtain the replacement cost of plantations, these are valued at cost as restated to reflect the effects of inflation, and have been depreciated since the start-up of the project, occurred in January 2008. The balance includes development costs for the plantation, as well as the capitalization of interest and exchange differences related to loans obtained to finance the aforementioned plantations.

- Capitalization of exchange losses – As discussed in point 3) above, exchange losses generated until July 27, 2003 arising from the direct or indirect financing for the acquisition, construction or installation of property, plant and equipment, were capitalized as part of the cost of such assets, net of the effect of restating the historical costs to reflect the effects of inflation.

- Depreciation - Depreciation is calculated using the straight-line method on the restated balances of the assets.

Rates applicable are as follows

	%
Land and buildings	2, 2.5, 2.86 and 4
Machinery and equipment, containers and tools	5, 10, 20 and 33
Fittings, laboratory equipment and furniture	5, 10 and 25
Vehicles	20
Olive plantations	2
Drillings	5
Buildings improvements	3, 4 and 20

The Company has estimated that the amount recorded under caption “Property, Plant and Equipment, net” corresponding to Mastellone Hermanos S.A. will be recoverable, based on projections for the average term of the useful life of such assets.

8) Intangible assets

- Original value – These are carried at cost as restated to reflect the effects of inflation.

- Amortization – It was computed on a straight-line basis, over its estimated useful life. It is computed on the restated cost of the assets.

The value of intangible assets thus determined does not exceed their estimated recoverable value.

9) Other assets

These consist of property and equipment withdrew from production and held for sale and are valued at their net realizable value (that is, fair market value less selling expenses) at the end of each year. These assets are not depreciated.

10) Goodwill

In accordance with the purchase method described in Technical Resolution N° 21 of the F.A.C.P.C.E., in fiscal year 2010, the Company allocated the purchase price of Con-Ser S.A. shares at the date of acquisition (See Note 11 a). Assets identified and liabilities of Con-Ser S.A. were respectively measured at their fair value and cancellation cost at the date of acquisition. As a consequence of such allocation, the value of the Con-Ser S.A.'s net assets was higher than the book value of Con-Ser S.A. in 30,266 (amount net of the deferred tax effect). The goodwill value, that is, the difference between the purchase price and the allocation value of the net assets, amounted to 3,121. This business is closely related to the Company´s, and so, the goodwill has an indefinite useful life and consequently, it is not amortized.

The value of goodwill thus determined does not exceed its estimated recoverable value.

11) Loans other than restructured financial debt:

These are stated at nominal value of the principal plus interest accrued at the end of each year. Senior Notes Series E – final due 2013 are shown net of commissions and expenses related to the issuance.

12) Financial debt restructured (See note 5)

Argentine accounting standards establish that when a debt instrument is exchanged by another one with "substantially different" terms, according to quantitative criteria set in such standards (in the case of the financial debt restructured in 2004, there was a remission of principal, changes in the interest rates and modifications in the maturity dates, and in the case of the financial debt restructured in 2010, there were changes in the interest rates and modifications in the maturity dates), it is considered an extinguishment of the original debt, with the original debt instrument derecognized in the consolidated balance sheet. The new debt is initially recorded based on the best estimate of the present value of the future cash flows that are to be paid (including interest) under the terms of the new debt instrument, discounted at a rate commensurate with the risks of the debt instrument, and time value of money. The financial debt restructured in 2010 and 2004 was measured considering the principal plus interests accrued as of the end of each year, net of the adjustment to present value, in accordance with the abovementioned accounting standard. Interest rate of 14% per annum was used to determine the present value of the future cash flows of the debt restructured in 2010.

13) Shareholders´ equity accounts

Capital stock and legal reserve have been stated at their historical nominal value. Retained earnings (losses) have been restated to reflect the effects of inflation.

13) Holding results, foreign exchange (loss) gain, net, and other financial results

These consist of the difference between the carrying value of inventories and their historical cost, the gain or losses on foreign currency transactions, and charges due to adjustments to present value.

14) Advertisement expense

All advertisement costs are expensed as incurred.

15) Income taxes

The income tax amounts shown in the consolidated statements of operations were accrued by each of the consolidated entities. Deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits of tax loss carry-forwards are also recognized as deferred tax assets. Deferred tax assets are reduced by a valuation allowance to the extent the Company concludes that, more likely than not, these assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that the change is enacted. Based on projections, a valuation allowance has been recorded to reduce the deferred tax assets of the Company and most of its subsidiaries, since the realization of these assets is uncertain.

The statutory income tax rate for the year ended December 31, 2011 was 35%.

The Company, in accordance with the accounting principles in force during past fiscal years in the jurisdiction of the City of Buenos Aires (Resolution CD N° 87/03 issued by the Professional Council in Economic Sciences of the City of Buenos Aires – C.P.C.E.C.A.B.A.), and the accounting principles in force since January 1, 2006 (Resolution CD N° 93/05 issued by C.P.C.E.C.A.B.A.), considers as a permanent difference the residual value of the restatement of property, plant and equipment balances to reflect the impact of inflation, recorded from January 2002 through February 2003, for deferred taxation purposes. Therefore, following General Resolution N° 487/06 of the National Securities Commission (CNV), the Company informs that, had it chosen to consider as a temporary difference the restatement of property, plant and equipment balances to reflect the impact of inflation, a deferred tax liability of 123,186 would have been recognized as of December 31, 2011, with a credit to earnings of the year then ended due to income tax of 12,202 and a charge to Accumulated Losses of 135,388 as of December 31, 2010. Furthermore, had the Company chosen the abovementioned criteria, it would record a lesser charge due to income tax for the following fiscal years (due to the reversal of the deferred tax liability), as compared to the charge it will record by following the criteria used as at present date, which would have been recorded in an average estimated term of 12 years.

17) (Loss) income per common share

It has been computed on the basis of the average number of 457,547,269 shares as of December 31, 2011 and 2010 and broken-down between ordinary and extraordinary amounts. There is no EPS dilution, as there is no preferred stock or convertible-bonds issued.

18) Segment information

It is presented in Note 13 with the information required by Argentine GAAP.

19) Cash flow information

Detail of the net change in working capital and other components is as follows:

	2011	**2010**
Trade accounts receivable	(165,954)	(50,272)
Other receivables	24,639	(67,698)
Inventories	(105,675)	(190,471)
Spare parts and supplies	(33,628)	(15,331)
Accounts payable	146,677	115,019
Taxes, accrual for tax relief and other	(8,623)	29,783
Accrued salaries, wages, payroll taxes and other	29,887	48,180
Accrued litigation and other expenses	(1,311)	(1,934)
Total	**(113,988)**	**(132,724)**

20) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

21) Contingencies

The Company and its subsidiaries are parties to various legal and administrative actions arising in the course of their businesses. Although the amount of any liability that could arise with respect to such actions cannot be determined with certainty, in the opinion of the Company, such actions will not, individually or in the aggregate, have a material effect on the Company's consolidated financial position or results of operations.

22) Risk management

The Company currently operates principally in Argentina. The Company’s financial performance is affected by inflation, exchange rates and regulations, price controls, interest rates, changes in governmental economic policy, taxation and political, economic or other developments in or affecting Argentina. The majority of the

Company’s assets are either non-monetary or denominated in Argentine pesos, and the majority of its liabilities are denominated in U.S. dollars (see Note 5).

The Company does not have any unsettled forward agreement.

23) Labor agreements

As per country regulations most of labor force is subject to collective bargaining agreements.

NOTE 3 - BREAKDOWN OF MAIN ACCOUNTS

	2011	**2010**
a) Trade accounts receivable, net - Current		
Third parties (domestic) (Note 7)	423,371	299,633
Logística La Serenísima S.A. and Danone Argentina S.A. (Note 4)	173,806	166,297
Other related parties (domestic – Note 4)	449	180
Third parties (foreign) and tax incentives on exports	46,892	18,802
Subtotal	**644,518**	**484,912**
Allowance for doubtful accounts	(11,012)	(9,409)
Allowance for trade discounts and volume rebates	(5,121)	(5,641)
Total	**628,385**	**469,862**

The movement of the allowance for doubtful accounts is as follows:

Balance at the beginning of the year	9,409	6,267
Acquisition of subsidiary		1,245
Decrease due to sale of subsidiary company		(72)
Additions	3,280	1,723
Transfers	(1,574)	150
Write-offs	(17)	(48)
Re-measurement of foreign subsidiaries allowances	(86)	144
Balance at the end of the year	**11,012**	**9,409**

The movement of allowance for trade discounts and volume rebates is as follows:

Balance at the beginning of the year	5,641	3,144
Decrease due to sale of subsidiary company		(47)
Additions	4,237	5,206
Actual trade discounts and volume rebates granted	(4,757)	(2,662)
Balance at the end of the year	**5,121**	**5,641**

	2011	2010
b) Other receivables, net		
Current		
Net value added tax	29,638	50,731
Régime for the professionalization of transport	11,930	6,136
Receivables from sale of non-current investments (Note 11 b)	9,726	6,018
Prepaid expenses	6,767	3,810
Income tax and alternative minimum income tax receivable	3,667	1,523
Turnover tax credit	3,567	4,933
Other tax credits	6,089	7,667
Guarantee deposits (Note 7)	3,527	3,906
Advances to suppliers	806	1,488
Insurance receivable	458	214
Related parties (Note 4)		342
Receivables from customers in receivership and in bankruptcy	145	165
Other	5,130	5,443
Subtotal	**81,450**	**92,376**
Allowance for doubtful accounts	(638)	(621)
Total	**80,812**	**91,755**
Non-current		
Alternative minimum income tax and deferred income tax (1) (Note 10)	163,674	150,905
Net value added tax	16,426	24,173
Advances to suppliers	17,313	16,069
Receivables from sale of non-current investments (Note 11 b)	9,557	13,284
Receivables from customers in receivership and in bankruptcy	8,034	7,505
Other tax credits	1,128	1,277
Guarantee deposits (Note 7)	16	35
Other	1,820	2,122
Subtotal	**217,968**	**215,370**
Allowance for doubtful accounts	(6,622)	(7,501)
Valuation allowance for alternative minimum income tax and deferred income tax	(155,203)	(137,477)
Total	**56,143**	**70,392**

(1) The breakdown of alternative minimum income tax and deferred income tax is as follows:

	2011	2010
Alternative minimum income tax	104,716	87,914
Deferred tax assets		
Tax loss carryforwards	74,385	94,402
Allowances, accrual for litigation expenses and other non-deductible accruals	12,676	12,607
Inventories	17,900	7,916
Subtotal	**209,677**	**202,839**
Valuation allowance	(155,203)	(137,477)
Subtotal	**54,474**	**65,362**
Deferred tax liabilities		
Receivables deducted for fiscal purposes	(1,767)	
Property, plant and equipment	(5,952)	(1,664)
Adjustment to present value	(38,284)	(50,270)
Subtotal	**(46,003)**	**(51,934)**
Total	**8,471**	**13,428**

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	Tax loss carry-forwards expired in the year	Balance of acquired subsidiary	Decrease due to sale of subsidiary company	Charge (credit) for the year	Balance at the end of the year	
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(45,995)					17,771	(28,224)	(1)
Tax loss carry-forwards	94,402	(27,304)	(1,754)			9,041	74,385	
Total as of 2011	**48,407**	**(27,304)**	**(1,754)**	**-**	**-**	**26,812**	**46,161**	
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(6,044)			(15,055)	(113)	(24,783)	(45,995)	(2)
Tax loss carry-forwards	88,543	(6,208)	(1,501)	1,372		12,196	94,402	
Total as of 2010	**82,499**	**(6,208)**	**(1,501)**	**(13,683)**	**(113)**	**(12,587)**	**48,407**	

(1) From such amount, 15,427 is shown under caption “Non-current Other receivables, net” and 12,797 is shown under caption “Non-current Taxes, accrual for tax relief and other”.

(2) From such amount, 31,411 is shown under caption “Non-current Other receivables, net” and 14,584 is shown under caption “Non-current Taxes, accrual for tax relief and other”.

	2011	2010

The movement of allowance for doubtful accounts is as follows:

Current

	2011	2010
Balance at the beginning of the year	621	617
Balance of acquired subsidiary		84
Decrease due to sale of subsidiary company		(30)
Additions	17	
Write-offs		(50)
Balance at the end of the year	**638**	**621**

Non-current

	2011	2010
Balance at the beginning of the year	7,501	6,597
Balance of acquired subsidiary		444
Decrease due to sale of subsidiary company		(67)
Additions	610	132
Transfers	1,574	(150)
Write-offs	(2,875)	(172)
Re-measurement of foreign subsidiaries allowances	(188)	717
Balance at the end of the year	**6,622**	**7,501**

The movement of valuation allowance for alternative minimum income tax and deferred income tax is as follows:

	2011	2010
Balance at the beginning of the year	137,477	162,784
Additions (reversals)	20,293	(15,920)
Write-offs	(2,567)	(8,490)
Remeasurement of foreign subsidiaries allowances		(897)
Balance at the end of the year	**155,203**	**137,477**

c) Inventories

	2011	2010
Finished goods	347,386	264,871
Work in progress	158,258	131,865
Raw materials, packaging, other materials and goods in transit	179,042	184,980
Advances to suppliers	5,300	2,595
Total	**689,986**	**584,311**

	2011	2010

d) Spare parts and supplies

Spare parts (*)	18,080	21,770
Supplies	31,996	19,950
Total	**50,076**	**41,720**

(*) Net of write-off for an amount of 1,539 in 2011 and 672 in 2010 charged to "Cost of sales".

e) Property, plant and equipment, net

Land and buildings	294,784	287,660
Machinery and equipment, containers and tools (1)	227,692	241,847
Fittings, laboratory equipment and furniture	164,695	165,619
Vehicles (2)	27,682	21,416
Olive plantations	40,552	42,483
Drillings	1,724	1,937
Buildings improvements	3,345	21,227
Construction and carobs in progress and other	81,052	37,123
Subtotal	**841,526**	**819,312**
Advances to suppliers	7,212	916
Total	**848,738**	**820,228**

(1) Includes machinery operated by the subsidiary company Promas S.A. amounting to 5,838 in 2011 and 1,058 in 2010.
(2) Includes vehicles operated by frighters of Con-Ser S.A. (see Note 11 a) and Logistica la Serenísima S.A. (see Note 9 a) amounting to 7,685 in 2011 and 7,053 in 2010.

The movement of property, plant and equipment, net is as follows:

Net value at the beginning of the year	820,228	791,933
Balance of acquired subsidiary		57,161
Decrease due to sale of subsidiary company		(9,078)
Acquisitions	100,157	41,771
Transfers	8,339	16,072
Retirement and disposals	(1,190)	(2,015)
Depreciation	(78,796)	(75,616)
Balance at the end of the year	**848,738**	**820,228**

f) Accounts payable - Current

Trade payables	557,847	446,763
Logística La Serenísima S.A. and Danone Argentina S.A. (Note 4)	120,302	84,928
Other related parties (Note 4)	520	279
Total	**678,669**	**531,970**

g) Loans

Short-term debt

	2011	2010
Principal:		
Senior notes and loan debt:		
Senior Notes:		
Senior Notes due 2012	19,941	
Senior Notes Series A, B and C – due 2018	30,648	
Senior Notes Series D – final due 2015	4,304	1,988
Subtotal	54,893	1,988
Loan:		
Loan debt – tranche A – final due 2015	14,398	8,100
Loan debt – tranche B – final due 2018	3,102	
Non-restructured Collateralized Floating Rate Debt		91
Subtotal	17,500	8,191
Subtotal – Senior Notes and loan debt	**72,393**	**10,179**
Other financial debt:		
Unsecured debt	17,402	1,674
Unsecured debt – related parties (Note 4)	1,150	1,062
Secured debt	66,602	21,134
Subtotal – other financial debt	**85,154**	**23,870**
Total principal	**157,547**	**34,049**
Accrued interest:		
Related parties (Note 4)	3	3
Unsecured and secured debt	1,335	887
Total accrued interest	**1,338**	**890**
Adjustment to net present value:		
Senior Notes due 2012	(332)	
Total adjustment to net present value	**(332)**	
Total	**158,553**	**34,939**

	2011	2010
Long-term debt		
Principal:		
Senior Notes and loan debt:		
Senior Notes:		
Senior Notes Series A, B and C – due 2018	582,321	576,822
Senior Notes Series D – final due 2015	36,584	37,772
Senior Notes due 2012		18,422
Senior Notes Series E – final due 2013 (net of commissions and expenses related to the issuance by 3,003 in 2011 and 4,409 in 2010)	83,077	75,111
Subtotal	701,982	708,127
Loan:		
Loan debt – tranche A – final due 2015	122,380	137,285
Loan debt – tranche B – final due 2018	58,940	57,314
Subtotal	181,320	194,599
Subtotal – Senior Notes and loan debt	**883,302**	**902,726**
Other financial debt:		
Secured debt	6,271	703
Subtotal – other financial debt	**6,271**	**703**
Total principal	**889,573**	**903,429**
Adjustment to net present value:		
Senior Notes Series A, B and C – due 2018	(70,907)	(91,171)
Senior Notes Series D – final due 2015	(6,963)	(9,176)
Senior Notes due 2012		(870)
Loan debt – tranche A – final due 2015	(23,342)	(33,352)
Loan debt – tranche B – final due 2018	(7,177)	(9,059)
Total adjustment to net present value	**(108,389)**	**(143,628)**
Total	**781,184**	**759,801**

h) Taxes, accrual for tax relief and other

Current		
Tax withholdings	41,903	29,266
Taxes, rates and contributions (net from advances)	14,567	14,288
Payment plan – Law N° 26,476 (Note 11 a)	5,989	2,376
Tax – Law N° 23,966	2,522	2,566
Total	**64,981**	**48,496**

	2011	2010
Non-current		
Payment plan – Law N° 26,476 (Note 11 a)	37,932	43,922
Accrual for tax relief – Law N° 22,021 (Notes 7 and 8)	22,894	22,894
Deferred income tax (1)	12,797	14,584
Taxes, rates and contributions	921	4,312
Total	**74,544**	**85,712**

(1) The breakdown of deferred income tax is as follows:

	2011	2010
Deferred tax liabilities:		
Property, plant and equipment	15,108	16,180
Inventories	(293)	
Non-deductible allowances	(2,018)	(1,596)
Total	**12,797**	**14,584**

i) Accrued salaries, wages, payroll taxes and others - Current

	2011	2010
Payroll and bonus to management	97,360	68,556
Social security taxes	40,340	26,209
Advances from customers	11,012	24,358
Related parties (Note 4)		8
Other	6,887	7,788
Total	**155,599**	**126,919**

j) Accrued litigation and other expenses

	2011	2010
Current		
Accrued litigation expenses	951	1,365
Other accrued expenses	8,665	7,615
Total	**9,616**	**8,980**
Non-current		
Accrued litigation expenses	16,391	18,375
Other accrued expenses	1,614	1,891
Total	**18,005**	**20,266**

	2011	2010

The movement of accrued litigation and other expenses is as follows:

	2011	2010
Current		
Balance at the beginning of the year	8,980	6,586
Balance of acquired subsidiary		335
Increases	1,137	888
Payments made	(671)	(1,267)
Re-measurement of foreign subsidiaries allowances	(267)	525
Transfer from non-current allowance	437	1,913
Balance at the end of the year	**9,616**	**8,980**
Non-current		
Balance at the beginning of the year	20,266	15,579
Balance of acquired subsidiary		8,991
Decrease due to sale of subsidiary company		(262)
Reversals	(1,184)	(1,462)
Payments made	(640)	(667)
Transfer to current allowance	(437)	(1,913)
Balance at the end of the year	**18,005**	**20,266**

k) Net sales

Product sales	6,544,521	4,759,307
Services provided	197,172	104,437
Turnover tax	(170,784)	(125,883)
Sales discounts and volume rebates	(324,910)	(214,986)
Sales returns	(95,550)	(77,380)
Total	**6,150,449**	**4,445,495**

	2011		2010	
l) Cost of sales				
Cost of goods sold:				
Inventories at the beginning of the year				
Finished goods	264,871		170,064	
Work in progress	131,865		82,350	
Raw materials, packaging, other materials and goods in transit	184,980	581,716	122,439	374,853
Balance of acquired subsidiary				14,502
Purchases		3,459,198		2,701,229
Production expenses (Note 3 m)		1,086,716		720,652
Write-off of spare parts		1,539		672
Holding results generated by inventories		66,255		76,135
Re-measurement of foreign subsidiaries inventories		(2,411)		3,159
Benefits from industrial promotion		(28,614)		(65,086)
Inventories at the end of the year				
Finished goods	(347,386)		(264,871)	
Work in progress	(158,258)		(131,865)	
Raw materials, packaging, other materials and goods in transit	(179,042)	(684,686)	(184,980)	(581,716)
Subtotal - cost of goods sold		**4,479,713**		**3,244,400**
Cost of services rendered:				
Purchases		13,019		8,533
Production expenses (Note 3 m)		92,476		63,820
Subtotal - cost of services rendered		**105,495**		**72,353**
Total cost of sales		**4,585,208**		**3,316,753**

m) Information required by section 64, sub-section b) of Law N° 19,550

	2011						2010
	Total	Production expenses	Cost of services	Selling expenses	General and administrative expenses	Other expenses	Total
Remuneration to members of the Board of Directors and members of the statutory Audit Committee	19,410				19,410		11,632
Fees and compensation for services	393,560	106,748	37	257,907	28,868		276,919
Payroll, bonus and social security charges	705,272	422,496	44,038	141,446	97,292		453,196
Depreciation of property, plant and equipment	78,796	57,743	13,431	5,341	2,281		75,616
Supplies consumption	15,394	15,394					11,181
Amortization of intangible assets	743					743	439
Provision for bad debts	3,907			3,907			1,855
Freights	828,265	258,083		570,181	1		581,232
Maintenance and repair	56,392	45,011	4,048	7,007	326		48,262
Office and communication	2,477	862		297	1,318		1,777
Fuel, gas and energy	113,295	91,787	12,702	8,759	47		84,731
Vehicles expenses	15,732	8,539		6,351	842		11,932
Publicity and advertising	170,749			170,749			115,087
Taxes, rates and contributions	124,820	55,766	9,389	1,227	58,438		93,187
Insurance	18,343	13,141	211	3,841	1,150		12,796
Travelling	2,923	705	68	1,848	302		2,328
Export and import	23,770	3		23,659	108		8,679
Harvest expenses	3,257	3,257					3,331
Supplies and chemicals	517	517					391
Miscellaneous	27,586	7,338	8,552	2,854	8,842		23,779
Idle capacity of plants		(674)				674	
Total 2011	**2,605,208**	**1,086,716**	**92,476**	**1,205,374**	**219,225**	**1,417**	
Total 2010		**720,652**	**63,820**	**870,746**	**162,228**	**904**	**1,818,350**

	2011	2010

n) Other income (expenses), net

	2011	2010
• Other income		
Gain on sale of property, plant and equipment	4,031	1,673
Recovery of judicial claims	3,784	
Charges to freighters	2,931	2,052
Rental income	1,783	1,629
Dividends earned from investments in other companies	531	542
Insurance recovery	259	2,283
Royalties and licenses	48	196
Reversal of provision for litigation and other expenses	47	574
Reversal of valuation allowance for investments in other companies	17	
Gain on sale of brands		694
Reversal of valuation allowance for other assets	4	661
Other	105	388
Subtotal	**13,540**	**10,692**
• Other expenses		
Price adjustment in the sale of subsidiary company (nota 11 b)	(1,370)	
Donations	(1,043)	(753)
Depreciation of other investments	(92)	(38)
Benefits granted to employees		(620)
Other	(4,414)	(2,182)
Subtotal	**(6,919)**	**(3,593)**
Total	**6,621**	**7,099**

o) Income tax and alternative minimum income tax

• Included in (loss) income from continuing operations

	2011	2010
Income tax:		
Current income tax	(42,706)	(20,616)
Tax loss carry-forwards for the year	9,041	12,185
Net change in temporary differences	17,771	13,845
Subtotal	**(15,894)**	**5,414**
Valuation allowance on alternative minimum income tax and deferred income tax	(20,293)	(22,697)
Total	**(36,187)**	**(17,283)**

	2011	2010
• Included in income from discontinued operations		
Income tax:		
Current income tax		(5,493)
Reversal in valuation allowance on alternative minimum income tax and deferred income tax		5,493
Total	**-**	**-**

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

	2011	2010
Net income before income tax and alternative minimum income tax	26,290	156,041
Statutory income tax rate	35%	35%
Income tax at statutory income tax rate	**(9,202)**	**(54,614)**
Permanent differences	(6,692)	21,411
(Increase) reversal of valuation allowance on alternative minimum income tax and deferred income tax	(20,293)	15,920
Total	**(36,187)**	**(17,283)**

p) Extraordinary item – Income

Debt restructuring gain		110,367
Debt restructuring fees, expenses and commissions		(19,188)
Total	**-**	**91,179**

q) Income tax (included in extraordinary income)

Income tax:		
Net change in temporary differences		(38,628)
Tax loss carry-forwards for the year		5,504
Subtotal		**(33,124)**
Reversal of valuation allowance on alternative minimum income tax and deferred income tax		33,124
Total	-	-

NOTE 4 - OUTSTANDING BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, the Company enters into transactions with affiliated entities. The outstanding balances as of December 31, 2011 and December 31, 2010 with related parties were as follows:

	2011	2010
Trade accounts receivable		
Afianzar S.G.R. (1)	1	
Danone Argentina S.A. (2) (3)	101,092	111,773
Frigorífico Nueva Generación S.A. (4)	132	41
Fideicomiso Formu (5)	52	35
Juan Rocca S.R.L. (4)	35	
Logística La Serenísima S.A. (6) (7)	72,714	54,524
Los Toldos S.A. (4)	229	104
Total	**174,255**	**166,477**
Other receivables, net – current		
Frigorífico Nueva Generación S.A. (4)		342
Total	**-**	**342**
Accounts payable		
Afianzar S.G.R. (1)	11	
Danone Argentina S.A. (2)	30,959	24,067
Frigorífico Nueva Generación S.A. (4)		2
Logística La Serenísima S.A. (6)	89,343	60,861
Los Toldos S.A. (4)	337	129
Masleb S.R.L. (4)	172	148
Total	**120,822**	**85,207**
Short-term borrowings and accrued interest		
Juan Rocca S.R.L. (4)	1,153	1,065
Total	**1,153**	**1,065**
Accrued salaries, wages, payroll taxes and others		
Danone Argentina S.A. (2)		8
Total	**-**	**8**

(1) Company owned by members of Mastellone family and by members of the Company´s Board of Directors.
(2) Partner in Logística La Serenísima S.A. and both companies share the main trademark “La Serenísima” owned by Mastellone Hermanos S.A.
(3) Includes receivables arising from sales of raw milk purchased on behalf of Danone Argentina S.A.
(4) Company owned by members of Mastellone family.
(5) Trust managed by the Company.
(6) The Company holds 5% of Logística La Serenísima S.A.´s capital stock, while Danone Argentina S.A. is the parent company.
(7) Includes receivables arising from sales performed by Logística on behalf of Mastellone Hermanos S.A.

Transactions with related parties for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Sales of goods and services		
Afianzar S.G.R. (1)	2	3
Danone Argentina S.A. (2)	188,241	104,401
Fideicomiso Formu (3)	422	297
Frigorífico Nueva Generación S.A. (4)	321	155
José Mastellone (5)	27	17
Logística La Serenísima S.A. (6)	18,441	12,583
Los Toldos S.A. (4)	557	154
Pascual Mastellone (5)	13	11
Total	**208,024**	**117,621**
Purchases of goods and services		
Danone Argentina S.A. (2)	103,367	62,431
Frigorífico Nueva Generación S.A. (4)		2
Logística La Serenísima S.A. (6)	293,595	210,050
Los Toldos S.A. (4)	3,067	3,058
Masleb S.R.L. (4)	2,075	430
Total	**402,104**	**275,971**
Financial results – interests and exchange differences		
Danone Argentina S.A. (2)	38	
Fideicomiso Formu (3)	(650)	27
Frigorífico Nueva Generación S.A. (4)	28	
Juan Rocca S.R.L. (4)	(121)	(79)
Los Toldos S.A. (4)	22	4
Total	**(683)**	**(48)**
Other income		
Danone Argentina S.A. (2)	531	542
Logística La Serenísima S.A. (6)	146	715
Total	**677**	**1,257**

(1) Company owned by members of Mastellone family and by members of the Company´s Board of Directors.
(2) Partner in Logística La Serenísima S.A. and both companies share the main trademark "La Serenísima" owned by Mastellone Hermanos S.A.
(3) Trust managed by the Company
(4) Company owned by members of Mastellone family
(5) Member of the Company´s Board of Directors
(6) The Company holds 5% of Logística La Serenísima S.A.´s capital stock, while Danone Argentina S.A. is the parent company.

NOTE 5 –FINANCIAL DEBT

5.1 Refinancing of the financial debt in 2010

At the end of 2009, the Company started a process to refinance the major portion of its financial debt (“Existing Debt”) having significant amounts maturing from 2010 to 2013, which concluded on May 7, 2010 (“closing” date of the refinancing) with the signing of the contracts through which such refinancing was instrumented. Such refinancing process, which included the balances of principal mentioned in paragraph 5.2 of this note, took place in accordance with the following detail:

a) Form of the refinancing:

The refinancing of the Existing Debt was implemented through a voluntary exchange which included the exchange for cash and new debt in the following proportionate portions per each US$ 1,000 of the nominal value of the old debt, at the option of each creditor:

(i) US$ 39 in cash and US$ 961 in new debt with final maturity in 2018, or

(ii) US$ 98 in cash and US$ 902 in new debt with final maturity in 2015.

The offer also contemplated the conversion into US dollars of the originally debt denominated in Euros or Argentine pesos, at the parity prevailing two days before the closing date.

Additionally, at the closing date, the Company paid in cash the total amount of interests accrued as from July 1, 2009 to (but not including) the day of the closing of the refinancing process.

The Company´s proposal was accepted by creditors holding approximately 98% of the debt under refinancing.

b) Amount exchanged at the closing date:

- U$S 2,148 thousand of principal of Senior Notes Class A-1 were exchanged for U$S 84 thousand in cash and U$S 2,064 thousand of principal of new Senior Notes Series A;

- U$S 152,297 thousand of principal of Senior Notes Class A-2 were exchanged for U$S 6,520 thousand in cash, U$S 136,903 thousand of principal of New Senior Notes Series A and U$S 8,874 thousand of principal of new Senior Notes Series D;

- U$S 2,000 thousand of principal of Senior Notes Class B-2 were exchanged for U$S 152 thousand in cash, U$S 722 thousand of principal of new Senior Notes Series B and U$S 1,126 thousand of principal of new Senior Notes Series D;

- U$S 5,605 thousand of principal of Senior Notes Class C were exchanged for U$S 219 thousand in cash and U$S 5,386 thousand of principal of new Senior Notes Series C;

- The equivalent (converting into US dollars the portion of the debt denominated in other currencies, considering the applicable exchange rates) to U$S 40,538 thousand of principal of floating rate debt were exchanged for U$S 3,973 thousand in cash and U$S 36,566 thousand of principal of new loan debt, tranche A; and

- U$S 15,000 thousand of principal of fixed rate debt were exchanged for U$S585 thousand in cash and U$S 14,415 thousand of principal of new loan debt, tranche B.

c) Terms of the new debt:

1. Payment of principal and interests:

	Terms of the new debt			
	Senior Notes Series A, B and C and loan debt, tranche B Due 2018		Senior Notes Series D and loan debt, tranche A Due 2015	
Maturity date	Amortization of principal	Rate (*)	Amortization of principal	Rate
June 30, 2010		7.00%		(**)
December 31, 2010		7.00%		(**)
June 30, 2011		7.00%	2.50%	(**)
December 31, 2011		7.00%	2.50%	(**)
June 30, 2012	2.50%	7.50%	5.00%	(**)
December 31, 2012	2.50%	7.50%	5.00%	(**)
June 30, 2013	2.50%	8.00%	7.50%	(**)
December 31, 2013	2.50%	8.00%	7.50%	(**)
June 30, 2014	2.50%	8.50%	15.00%	(**)
December 31, 2014	2.50%	8.50%	15.00%	(**)
June 30, 2015	2.50%	9.00%	20.00%	(**)
December 31, 2015	2.50%	9.00%	20.00%	(**)
June 30, 2016	10.00%	9.00%		
December 31, 2016	10.00%	9.00%		
June 30, 2017	15.00%	9.00%		
December 31, 2017	15.00%	9.00%		
June 30, 2018	15.00%	9.00%		
December 31, 2018	15.00%	9.00%		

(*) The above-mentioned interest rates correspond to the nominal annual rate applied in the semester ending at each date. The contingent interest rate mentioned afterwards is not included.

(**) The applicable interest rate of the debt due 2015 is a floating rate and will be determined by reference to the LIBO rate plus a spread of 2.5%, provided that such rate shall not exceed 6% per annum.

2. Implementation of the new debt:

Holders of the existing Senior Notes received at their option: (i) for the debt due 2018, new Senior Notes Series A, B and C for the former Senior Notes Series A, B and C, respectively, or (ii) for the debt due 2015, new Senior Notes Series D.

Holders of the collateralized floating rate debt received the new loan, tranche A, due 2015.

Holders of the fixed rate debt received the new loan, tranche B, due 2018.

3. Other conditions:

The new Senior Notes of the Company (except Series D) also include a contingent interest at an annual rate during each one-year period, as from January 1, 2011, based on the EBITDA (in accordance with the terms included in the new loan contract) of the prior fiscal year, with a maximum of 4% if the EBITDA is higher than US$ 104,999,999. The semi-annual payments of interest maturing on June and December 31, 2011 accrue a contingent interest rate of 2.1% based on the 2010 EBITDA estimated for the fiscal year ended December 31, 2010.

On each June 30, commencing on June 30, 2011, the Company must apply to repay, ratably and at par, a principal amount of the new debt due 2018 equal to 75% of the excess cash (as defined in the issuance terms of the new debt) for such preceding fiscal year. As of December 31, 2010, from the calculation performed by the Company, there is no excess cash according to the definitions of the loan agreements, which might have required the payment in advance of a portion of such debt.

According to the terms established in the new debt and in addition to all scheduled amortization payments, the Company had to reduce the aggregate principal amount outstanding of its new debt in the amount of US$20.0 million by December 31, 2011 ("mandatory debt reduction"), or, otherwise, the new refinanced debt will bear penalty interest (i) at the rate of 0.25% for the year 2012, and (ii) later, commencing on January 1, 2013, at the rate of 1.0% per year during 2013, which penalty interest will increase by 0.25% on January 1 of each year thereafter until the mandatory debt reduction has been completed in full. As the Company did not comply with the mandatory debt reduction before December 31, 2011, the interest rate for such debt will increase by 0.25% in 2012.

The new agreements contain certain commitments, including 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 unrestricted subsidiaries and affiliates outside the ordinary course of business, 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.

The new Senior Notes (except for Series C) and the new loan debt are collateralized in each case, ratably and in first degree for pledges given to the guarantee agent by the shareholders of the Company on a number of Company's stock of 32.51% and 16.49%, respectively, of their common stock and voting right. This collateral is also applied to the non-restructured Senior Notes due 2012 and floating rate debt, referred to in Note 5.2. Subsidiaries Leitesol Industria e Comercio Ltda., Mastellone San Luis S.A. and Promas S.A are jointly and severally liable for the Senior Notes and loan debt. In February 2011, the Board of Directors of the Company and Con-Ser S.A. approved that the latter will be also jointly and severally liable (in the same terms) for such debt.

d) Summary as of December 31, 2011 of debt refinanced in May 2010:

Debt restructured	Amount in the original currency – in thousands		Amount in thousand pesos (as of December 31, 2011)
Senior Notes Series A, B and C – final due 2018	U$S	142,419	612,969
Senior Notes Series D – final due 2015	U$S	9,500	40,888
New loan debt – tranche A – final due 2015	U$S	31,779	136,778
New loan debt – tranche B – final due 2018	U$S	14,415	62,042

5.2 <u>Other financial debt</u>

(original terms of the debt, which principal was mostly refinanced in May 2010)

1. Senior Notes – due 2012 (which greatest portion was refinanced in May 2010, see paragraph 5.1)

The Senior Notes due 2012 accrue interest at a rate of 8% per annum, payable semi-annually (every June 30 and December 31), in arrears and due on June 30, 2012. Principal amounted to US$ 166,684 thousand while the remaining principal not restructured in May 2010 of these Senior Notes amounts to U$S 4,633 thousand as of December 31, 2011.

If certain conditions are met, on each June 30, the Company should apply the excess cash (as defined in the terms of the Senior Notes) from the preceding year to redeem ratably and at par certain part of the principal amount of the remaining senior notes. As of December 31, 2010, from the calculation performed by the Company, there is no excess cash according to the definitions of the Senior Notes terms, which might have required the payment in advance of a portion of such debt.

2. **Floating Rate Debt (which was substantially refinanced in May 2010, see paragraph 5.1)**

   This debt had increasing maturities between December 2007 and 2011. Principal amounted to US$ 38,810 thousand, € 1,305 thousand y $ 384 thousand. The outstanding balance of principal not restructured in May 2010 was fully paid-in.

   This debt accrues interest at the lower of (i) a floating rate basis interest rate determined by reference to LIBOR applicable to U.S. dollar or Euro deposits, for successive periods, plus 2.5% and (ii) a 5% per annum.

3. **Fixed rate debt (totally refinanced in May 2010, see paragraph 5.1)**

   It included a loan (renegotiated in 2004 and 2005) amounting to US$ 15,000,000, due on December 31, 2013 and accruing interest at a fixed rate of 8%.

4. **Certain terms and conditions applicable to both the senior notes and the Collateralized Floating Rate Debt (according to the original terms)**

   The 2004 original debt contracts contemplate commitments and conditions that are usual for this kind of agreements, which included certain collaterals and limitations to perform certain type of financial or investments transactions, and events of default which in case of existence, could entail the creditors the right of acceleration of payment of the principal and accrued interest.

5.3 <u>Issuance of Senior Notes Series E</u>

On December 21, 2010, the Company issued US$ 20,000,000 face value Senior Notes Series E, bearing a fixed 9.5% annual interest rate, payable every six months, and maturing on June 21, 2013, which were issued as part of the Global Programme of Issuance of Senior Notes for a nominal value of US$ 250,000,000 approved by the National Securities Commission in 2007. The proceeds from the issuance were used to repay short-term debt and to fund working capital needs.

The debt contract includes commitments and usual conditions for this type of debt agreements. Subsidiaries Leitesol Industria e Comercio Ltda., Mastellone San Luis S.A. and Promas S.A are jointly and severally liable for the Senior Notes. In February 2011, the Board of Directors of the Company and Con-Ser S.A. approved that the latter will be also jointly and severally liable (in the same terms) for such debt.

NOTE 6 - SHAREHOLDERS' EQUITY

As of December 31, 2011, subscribed capital amounts to 457,547. There are four classes of Ps. 1 par value common stock, with 5 votes each 194,428,002 shares, and with 1 vote each 263,119,267 shares.

The current Argentine legal regulations require the Company to appropriate 5% of its net income per year to a "Legal reserve" until such reserve equals 20% of the capital stock. The General Ordinary and Extraordinary Shareholders' Meeting held on March 31, 2011 approved the restoring of 13,137 to the legal reserve which had been reduced to absorb accumulated losses as of December 31, 2001 as approved in the General Shareholders' Meeting held on April 3, 2002 and the appropriation to legal reserve of the 5% of the net income of fiscal year 2010, net of accumulated losses.

NOTE 7 - PLEDGED AND RESTRICTED ASSETS

Certain assets owned by the Company are pledged as collateral for bank and financial liabilities, notes payable, and tax debt (tax régime for promoted activities) for a total amount of 57,069 as of December 31, 2011 (28,062 as of December 31, 2010). Detail of pledged assets is as follows:

	2011	**2010**
Trade accounts receivable		1,982
Inventories	16,477	16,025
Property, plant and equipment	10,370	8,669
Equity value of holding in subsidiary company Promas S.A. (*)	79,582	86,921

(*) Since this is a consolidated subsidiary, this item does not appear as an asset.

The Company also has pre-export credit lines in order to finance exports, which have as collateral, according to each case, a trust set up over the collections obtained from sales to the domestic retail market, inventories and the assignment of purchase orders of the subsidiary company Leitesol I.C.S.A. The outstanding balance of such debt amounts to 37,304 and 17,351 as of December 31, 2011 and December 31, 2010, respectively.

Additionally, as of December 31, 2011 there were other receivables for an amount of 3,543 (3,941 as of December 31, 2010) in guarantee of financial and commercial transactions.

See also commitments and collaterals granted by the stockholders for the restructured financial debt in 2004 and in 2010 in Note 5.

NOTE 8 - RÉGIME FOR INDUSTRIAL PROMOTED ACTIVITIES OF SUBSIDIARIES

a) Mastellone Hermanos Sociedad Anónima, as an investor in Mastellone San Luis Sociedad Anónima and Promas Sociedad Anónima, pursuant to several fiscal laws deferred payment of value added taxes and income taxes, provided that these amounts are invested in the above-mentioned subsidiaries. In the case of Mastellone San Luis S.A., the deferred payments were already paid. In the case of Promas S.A., the obligations are secured by shares of such subsidiary owned by Mastellone Hermanos Sociedad Anónima, as required by applicable regulations.

   The value-added taxes and income taxes deferred are recorded as liabilities in the balance-sheets.

   The promotional régimes granted to Mastellone San Luis Sociedad Anónima and to Promas Sociedad Anónima also included the benefit of receiving from the Federal Government an amount in the form of government bonds determined taking into account the investments to be made, the level of activity, the number of employees and other parameters, at the authorization of the inclusion in such régimes. The Company uses the government bonds as payment mainly for value added tax (and a minor amount for other national taxes). A benefit, which is a credit to cost of sales, is recognized when the government bonds are used to pay tax obligations.

b) Through Decree N° 699/10, the National Executive Power extends for a two-year term starting 2012, the benefits which are currently in force for promoted companies in the Provinces of San Luis, La Rioja, San Juan and Catamarca, beginning once the Provincial Governments adopt the decree and subscribe the corresponding agreement. On the other side, the Federal Justice issued a precautionary measure provisionally suspending the applicability of the decree, which was rejected by the Federal Court of the Province of Mendoza on July 8, 2011. Subsequently, on August 26, 2011 the Federal Court of Appeals accepted the extraordinary appeal filed by the San Rafael Chamber Commerce against the Decree N° 699/10, consequently, the applicability of such decree is suspended until the National Supreme Court of Justice rules on the main issue.

NOTE 9 – PURCHASE AND SALES COMMITMENTS

a) Purchase commitments

- The Company and its subsidiary Mastellone San Luis S.A. ("MSL"), and Danone Argentina S.A. ("DA"), agreed on the terms of the services to be provided by Logística La Serenísima S.A. ("Logística") related to the distribution of dairy and fresh products in Argentina up to October 1, 2040. The price charged by Logística for its services is actual costs plus a 0.1% margin. The agreement provides that if any party (Mastellone Hermanos Sociedad Anónima or MSL) decides to cancel without cause the agreement before the end of the abovementioned term a penalty of US$ 50,000,000 should be paid to Logística. This penalty would not be applicable if termination of the contract is due to non-compliance of Logística with its duties under the agreement. Moreover, the same penalty should be paid by the Company or MSL if one of these companies produces products similar to products currently marketed by Danone.

- In July 2004 Promas S.A. entered into an agreement with Establecimientos Agropecuarios Lar S.A. for the purchase of future olive harvests and the exploitation of 400 hectares in the province of Catamarca.

  On March 12, 2007 the subsidiary company entered into a new agreement with Establecimientos Agropecuarios Lar S.A. extending the productive and financial schedule and the quantity of hectares to 480. This document binds Lar S.A. to deliver 97,800 tons of olives throughout the duration of the contract, which started on the date of signature and will expire with the completion of harvest in 2030. Promas S.A. will receive 100% of olives production, with a guaranteed minimum. On December 29, 2011, this agreement was modified (effective January 1st, 2012) by eliminating the guaranteed minimum that Lar S.A. was obliged to deliver according to the previous contract.

b) Sales commitments

- The Company has entered into certain term supply agreements through which it procures raw material and provides industrial services to Danone.

- The Company has agreed to meet export commitments of powdered milk and whey for a total of approximately 9,400 tons with an estimated contract value of US$34,200,000.

- The Company has entered into agreements with provincial and national public agencies for the sale of approximately 6,100 tons of powdered and fluid milk with an estimated contract value of 176,700.

NOTE 10 – INCOME TAX AND ALTERNATIVE MINIMUM INCOME TAX

The alternative minimum income tax is complementary to regular income tax, since while regular income tax is calculated based on taxable income, alternative minimum income tax is calculated based on the potential gain derived from certain productive assets at a rate of 1%, the Company's income tax liability being the higher amount. However, when alternative minimum income tax for a fiscal year exceeds regular income tax, the excess can be utilized as credit for any excess of the regular income tax over alternative minimum income tax that could arise during the following ten fiscal years.

The unused tax loss carry-forwards filed with tax authorities by Mastellone Hermanos S.A. and its subsidiaries as of December 31, 2011 are as follows:

Year of generation	Tax loss amount	Applicable tax rate	Credit due to tax loss carry-forward		Expiration – date for submission of tax returns fiscal years
2007	7,886	35%	2,760		2012
2008	168,149	35%	58,852		2013
2009	19,344	35%	6,770		2014
2010	53,095	35%	18,583		2015
(1)	26,469	34%	9,264		Unlimited
	274,943		**96,229**		
Tax loss carry-fowards of the year			5,896	(2)	
Uses of tax loss carry-fowards			(27,740)		
			74,385		

(1) Tax losses generated by foreign subsidiaries, which can be offset up to 30% of each year's tax profit, have no expiration date. They were converted at the exchange rate applicable at year-end.

(2) Corresponds to the tax loss or current income tax estimated for the year ended December 31, 2011.

NOTE 11 – ACQUISITION AND SALE OF COMPANIES

a) Acquisition of Con-Ser S.A.

In August 2010 the Company acquired 100% of Con-Ser S.A. shareholding for the total amount of U$S 3 million. In order to cancel such amount, the Company agreed to pay U$S500,000 as an initial payment. The remaining balance will be cancelled in 10 quarterly, consecutive installments of U$S 250,000 each, the first one to become due on November 30, 2010. Interest at a 10% annual rate accrues on the unpaid balance.

The main activity of Con-Ser S.A. is to develop logistic and milk transportation activities and transportation of raw milk from the producers -dairy farms- that supply both the Company and Danone Argentina S.A. (and subsidiaries), to the different production plants.

In February, 2011, the Company´s Board of Directors approved the offer made to Con-Ser S.A. regarding the undertaking of the tax liability (which consisted of 98 installments as of that date) that such company had pursuant to the Tax Regularization Regime set forth by Law No. 26,476, dated December 22, 2008. At the same time, Con-Ser S.A. undertook a financial debt with the Company for an amount equivalent to the amount of the tax liability as of February 16, 2011, which was calculated considering the discount rate set forth in the Regime for early payment of the liability. The new liability shall be paid in 32 quarterly, equal and consecutive amortization installments with a six months' grace period and the possibility of making principal payments in advance, plus an interest of 9% per year over outstanding balances, being the first installment due on August 17, 2011. On February 22, 2011, a notice was filed with the Tax Authorities informing the undertaking by the Company of the mentioned liability, being answered on February 28, 2011.

b) Sale of Frigorífico Rydhans S.A.

On December 30, 2010, the Company and its subsidiary Mastellone San Luis S.A., sold the 100% of their shares in Frigorífico Rydhans S.A., which represented 95% and 5%, respectively, of the capital stock of Frigorífico Rydhans S.A., for the total amount of US$ 5 million, in the following terms: US$ 500,000 were collected on the sale date, and the remaining balance shall be collected in four annual, equal and consecutive installments of US$ 1,125,000 each, being the first installment due on December 30, 2011. Interest accrues on the unpaid balance at an annual rate of 5%. The sale price was adjusted based on the conditions agreed in the contract. The shares sold were pledged in favor of the Company until full payment of the price.

The income arising from the sale of the company, together with the results of the operations for the fiscal year 2010 as of the sale date, is presented in the statement of operations under item "Income from discontinued operations".

NOTE 12 – ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As required by Argentine National Securities Commission’s regulations and Technical Resolution No. 26 issued by the F.A.C.P.C.E., the Company must prepare its financial statements for the fiscal year beginning January 1st, 2012, by applying the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standard Board (“IASB”), instead of using, as in the current financial statements, the accounting standards set forth in Technical Resolutions issued by the F.A.C.P.C.E, other than Technical Resolution No. 26.

Reconciliations between net equity as determined in accordance with the accounting standards used for the preparation of the current financial statements (described in note 2 c) to these financial statements) and the amount of equity that would have been determined should IFRS have been applied as of two dates: this year-end (December 31, 2011) and the date of transition to IFRS (January 1st, 2011), are presented below.

		31/12/11	1/1/11
Net equity according to Argentine GAAP		**503,502**	**513,399**
Reconciling items:			
1.	Inventories and Spare parts and supplies	(28,401)	(22,321)
2.	Property, plant and equipment	520,049	550,635
3.	Deferred income tax	(193,512)	(228,076)
Net equity according to Argentine GAAP attributable to owners of the parent		**801,638**	**813,637**
Non-controlling interests		**10**	**10**
Total net equity according to NIIF		**801,648**	**813,647**

A reconciliation between net loss for the year ended December 31, 2011 determined in accordance with the accounting standards used for the preparation of the current financial statements and the total comprehensive loss for such year should IFRS have been applied, are also presented below.

Net loss for the year ended December 31, 2011 according to Argentine GAAP		**(9,897)**
Reconciling items:		
1.	Inventories and Spare parts and supplies	(6,080)
2.	Property, plant and equipment	(30,586)
3.	Deferred income tax	34,564
4.	Translation adjustments of foreign subsidiaries operations	3,776
Net loss for the year ended December 31, 2011 according to IFRS		**(8,223)**
4.	Translation adjustments of foreign subsidiaries operations	(3,776)
Other comprehensive loss for the year ended December 31, 2011		**(3,776)**
Total comprehensive loss for the year ended December 31, 2011 according to IFRS		**(11,999)**

Explanation of the reconciling items:

1. Inventory and spare parts and supplies

As stated under notes 2.c) 4) and 2.c) 5), inventory and spare parts and supplies are valued at their replacement or reproduction cost, which does not exceed their estimated recoverable value at each year end. In accordance with IFRS, these items shall be valued at their cost, which shall not exceed their estimated recoverable value.

2. Property, Plant and Equipment

As stated under note 2.c) 7), property, plant and equipment are valued at cost as restated to reflect the effects of inflation, net of their accumulated depreciation, which does not exceed their recoverable value at each year end. Following the application of IFRS 1 (paragraph D5 of appendix D), the Company has elected, at the date of transition to IFRS, to value certain items of property, plant and equipment (properties) at their fair value and use that fair value as their deemed cost at that date. The fair value was determined based on an estimate performed by an independent valuation appraiser. As of that date, and in accordance with IFRS, the Company has elected to value these items at their cost, which does not exceed their estimated recoverable value.

3. Deferred tax

As stated in note 2.c) 15), the Company has considered the residual value of the restatement of property, plant and equipment balances to reflect the impact of inflation as a permanent difference for deferred taxation purposes. As per the International Accounting Standard ("IAS") 12, this difference is temporary in order to determine the deferred income tax; therefore, the Company has recorded such deferred tax liability. Likewise, the Company has recorded the deferred tax liability that arises from the difference in valuation of property, as stated in previous paragraph 2. Additionally, the Company has considered the effect of the adjustments included in previous paragraph 1 on the deferred tax, considering the income tax rate in force.

4. Translation adjustments of foreign subsidiaries operations

This item includes the reclassification of the exchange differences derived from the translation of assets and liabilities of foreign subsidiaries operations, which are recorded in the income of the year in accordance with measurement standards described in note 2 a), and, as per IAS 21, they are disclosed under other comprehensive income.

Reconciling items between cash and cash equivalents at the beginning and at the end of the year ended December 31, 2011 and the totals for the activities (operating, investing and financing) that cause changes during the year, determined in accordance with the accounting standards applied for the preparation of the current financial statements, and the same lines should IFRS have been applied, are not material; consequently such reconciliations is not presented.

In preparing the reconciliations described in the preceding paragraphs, the Company has considered, those IFRS that are deemed to be applied in financial statements for the fiscal year ending December 31, 2012, the first fiscal year in which application of IFRS is mandatory. It should be mentioned that items and figures included in such reconciliations could be modified if the IFRS in force as of that date were different from the ones considered in their preparation.

NOTE 13 – SEGMENT INFORMATION

The reporting operating segment information is based on the way that financial information prepared by the Company is organized for senior management in making operating decisions, evaluating performance and allocating resources. The comparative information on prior year on the same basis of segmentation is also presented.

The Company also prepares, for internal reporting purposes, limited financial information (primarily net sales) based on its different markets, including domestic and foreign.

a) Primary segments: business lines

As of and for the year ended December 31, 2011				
	Business lines			
	Dairy	**Olive**	**Other**	**Total**
Net sales to external customers	5,851,249	17,101	282,099	6,150,449
Net (loss) income for the year	(56)	(13,395)	3,554	(9,897)
Assets allocated to the business lines	2,259,368	90,582	98,864	2,448,814
Liabilities allocated to the business lines	1,881,218	2,850	61,234	1,945,302
Additions to property, plant and equipment	87,116	558	12,483	100,157
Additions to intangible assets	15			15
Depreciation of property, plant and equipment	74,238	3,350	1,208	78,796
Amortization of intangible assets	743			743
Amortization of other investments	92			92
Charges not representing uses of cash (except amortization and depreciation, net of reversals)	24,348	8	653	25,009
Net domestic sales	4,980,504	17,101	282,099	5,279,704

As of and for the year ended December 31, 2010					
	Business lines			**Total**	
	Dairy	**Olive**	**Other**		
Net sales to external customers	4,347,813	13,757	83,925	4,445,495	
Net income (loss) for the year	131,056	(9,305)	7,562	129,313	(1)
Assets allocated to the business lines	1,975,908	93,292	69,173	2,138,373	
Liabilities allocated to the business lines	1,527,982	2,240	94,751	1,624,973	
Additions to property, plant and equipment	39,308	1,587	876	41,771	
Additions to intangible assets	3,965			3,965	
Depreciation of property, plant and equipment	71,731	3,472	413	75,616	
Amortization of intangible assets	439			439	
Amortization of other investments	38			38	
Charges not representing uses of cash (except amortization and depreciation, net of reversals)	19,982	(94)	(2,209)	17,679	
Net domestic sales	3,849,077	13,757	83,925	3,946,759	

(1) Excluding results from discontinued operations.

b) Secondary segments: geographic division (client-based, continuing operations)

Information	Geographic division (client-based)		
	Domestic market	**Exports**	**Total**
Net sales for the year ended December 31, 2011	5,279,704	870,745	6,150,449
Net sales for the year ended December 31, 2010	3,946,759	498,736	4,445,495