MASTELLONE HERMANOS S.A.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

The following discussion and analysis (which should be read in conjunction with the audited consolidated financial statements of Mastellone Hermanos S.A. and notes thereto for the fiscal year ended December 31, 2012), contains certain forward-looking statements, the attainment of which involves various risks and uncertainties. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Forward-looking statements may be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "anticipate", "continue", or similar terms, variations of these terms or the negative of those terms. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results may differ materially from those described in these forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

We are the largest dairy company and the leading processor for fresh dairy products in Argentina, ranking first in market share for fluid milk, butter, cream, and caramelized condensed milk (*dulce de leche*). Our main market is the Argentine retail market. We have been active in the Argentine domestic market for more than 80 years. We also have been exporting dairy products for more than 30 years. Therefore, we are affected by developments in the Argentine dairy sector as well as developments in Argentina's economic and financial situation. Since we have commercial activities in Brazil, we are also affected by developments in its economic and financial condition, although to a lesser extent than in the case of Argentina.

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

Adjusted EBITDA (millions of Pesos)

(millions of Ps.)	ACCOUNTING INFORMATION AS PER					
	IFRS			Argentine GAAP		
ADJUSTED EBITDA	FY12	FY11		FY11	FY10	FY09
Net Income (Loss)	-115,5	-8,2		-9,9	138,8	54,9
Adjustments						
Income Tax	16,7	1,4		36,2	17,3	22,5
Depreciation & Amortization	108,6	131,0		79,6	76,1	77,6
Interest Expense	115,7	92,1		92,1	73,4	78,2
Exchange Differences	138,4	71,1		74,7	29,0	51,3
NPV Accounting	29,1	31,5		31,5	29,8	16,9
Extraordinary Results	0,0	0,0		0,0	-91,2	0,0
Other	0,0	1,5		16,9	11,2	12,3
Total Adjustments	408,4	328,6		331,0	145,6	258,8
ADJUSTED EBITDA	293,0	320,4		321,1	284,4	313,7

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

The following is a breakdown of the Adjusted EBITDA (in millions of Pesos) by quarters:

	Adjusted EBITDA	
	2012	2011
1Q	36,3	35,3
2Q	22,7	86,6
3Q	83,0	118,7
4Q	151,0	79,8
FY	293,0	320,4

Comparison of Results of Operations of the Fiscal Year ended December 31, 2012 and 2011.

***Net Sales*.** Our net sales can be split as follows:

(millions of Ps. or %)	FY12	FY11	Difference	%
Products - Argentine Market	6.417,5	5.092,7	1.324,8	26,0%
Products - Brazilian Market	457,8	484,0	-26,1	-5,4%
Exports	435,8	386,8	49,0	12,7%
Services	237,7	187,0	50,7	27,1%
Total	7.548,9	6.150,4	1.398,4	22,7%

Product Sales – Argentina. During the Fiscal Year ended December 31, 2012, our product sales in the Argentine domestic market increased Ps.1,324.8 million, or 26.0%, as compared to the same period of 2011, from Ps.5,092.7 million to Ps.6,417.5 million, primarily as a result of (i) a 8.4% increase in physical volumes sold (expressed in term of the raw milk used to manufacture the products sold), and (ii) a 16.2% year on year increase in product mix and average prices during the year.

Product Sales – Brazil. During the Fiscal Year ended December 31, 2012, sales in the Brazilian dairy market decreased Ps.26.1 million, or 5.4%, as compared to 2011 (from Ps.484.0 million to Ps.457.8 million), principally due to a delay, during the last months of 2012, in the issuances from the Brazilian authorities of the licenses needed to import powdered milk from Argentina in that country and ultimately on sales in the Brazilian market.

Exports. During the Fiscal Year ended December 31, 2012, exports to third parties increased Ps.49.0 million, or 12.7% compared to 2011 (from Ps. 386.8 million to Ps.435.8 million), primarily due to combined effect of (i) an increase in physical volumes, (ii) lower international prices for dairy products and (iii) the depreciation of the Argentine peso.

Cost of Goods and Services sold. Cost of goods and services sold during the Fiscal Year ended December 31, 2012, as compared to the same period of 2011, increased Ps.901.0 million, or 19.8%, from Ps.4,446.7 million to Ps.5,457.8 million. The main items had the evolution described below.

Our cost of raw milk increased Ps.384.0 million, or 15.1% (from Ps.2,551.8 million in 2011 to Ps.2,936..3 million in 2012, primarily due to higher volumes of 7.4% in raw milk processed in the year, and an increase of 7.2% in its cost, respectively.

During the Fiscal Year 2012, other production costs increased Ps.351.9 million, or 28.9%, as compared to 2011, from Ps.1,216.2 million in 2011 to Ps.1,568.1 million in 2012, principally due to the following reasons:

- An increase in labor cost of Ps.213.3 million, or 45.7%, from Ps.466.5 million in 2011 to Ps.679.8 million in 2012, primarily due to (i) agreements with the union and salary increases granted to non-unionized personnel, and (ii) additional requirements due to the higher volumes of milk processed in the period,

- An increase in freight costs of Ps.79,9 million, or 31.0%, from Ps.258.1 million in 2011 to Ps.338.0 million in 2012, primarily due to increased volumes and average cost,

- An increase in energy expenses of Ps.17.3 million or 16.6% from Ps.104.5 million in 2011 to Ps.121.8 million in 2012, and

- An increase in maintenance expenses of Ps.14.3 million, or 29.1%, from Ps.49.1 million in 2011 to Ps.63.4 million in 2012.

Selling Expenses. Selling expenses for the Fiscal Year ended December 31, 2012, as compared to the same period of 2011, increased Ps.471.7 million, or 39.0%, from Ps.1,205.4 million in 2011 to Ps.1,677.1 million in 2012. Said increase was primarily attributable to:

- Higher transportation costs of Ps.241.9 million, or 42.4%, from Ps.570.2 million in 2011 to Ps.812.1 million in 2012; due to the increased volume of sales and higher labor and other costs in the distribution activities,

- Higher fees (most of them related with the distribution of our products in Argentina) of Ps.95.2 million, or 36.9%, from Ps.257.9 million in 2011 to Ps.353.1 million in 2012, in line with the increase in domestic sales,

- Higher advertising costs of Ps.38.9 million, or 22.8%, from Ps.170.7 million in 2011 to Ps.209.6 million in 2012, and

- An increase in labor costs of Ps.75.6 million, or 53.5%, from Ps.141.4 million in 2011 to Ps.217.0 million in 2012, primarily attributable to agreements with the union and salary increases granted to non-unionized personnel.

Administrative Expenses. Administrative expenses during the Fiscal Year ended December 31, 2012, increased Ps.45.2 million, or 20.6%, as compared to the same period of 2011, from Ps.219.6 million to Ps.264.8 million. Such increase is primarily attributable to:

- An increase in labor costs of Ps.20.9 million, or 21.5%, from Ps.97.3 million in 2011 to Ps.118.2 million in 2012, due to the agreements with the union and salary increases granted to non-unionized personnel.

- An increase of Ps.14.3 million, or 24.5%, in taxes (principally the tax on checking accounts), from Ps.58.4 million in 2011 to Ps.72.7 million in 2012.

Investment income. Interest Income increased Ps.1.7 million, or 11.5% (from Ps.14.8 million in 2011 to Ps. 16.5 million in 2012), primarily due to an increase in cash balances.

Financial Cost. During Fiscal Year 2012***,*** interest expense increased Ps.21.2 million, or 17.2% as compared to Fiscal Year 2011 (from Ps.123.6 million in 2011 to Ps.144.8 million in 2012), primarily due to an increase in the exchange rate between the Argentine Peso and the U.S. dollar. Financial Cost includes the impact of changes in the valuation of part of the financial debt to its net present value, which resulted in losses of Ps.29.1 million and Ps.31.5 million, in the Fiscal years ended December 31, 2012 and December 31, 2011, respectively.

Exchange Differences. Losses from exchange differences during the Fiscal Year ended December 31, 2012 increased Ps.67.3 million, or 94.7%, as compared with the Fiscal year ended December 31, 2011 (from Ps.71.1 million in 2011 to Ps.138.4 million in 2012), primarily due to the increase in the devaluation of the Argentine Peso versus the U.S. dollar.

Other Income (Expenses), net. During Fiscal Year 2012, Other Income (Expenses), net, increased Ps.14.4 million, or 334.9%, as compared with 2011 (from a net gain of Ps.4.3 million to a net gain of Ps.18.7 million), primarily due to (i) an increase of Ps.4.2 million in gains from sales of Plant, Property and Equipment, and Other, (ii) a gain of Ps.4.0 related to a legal claim, and (iii) a gain of ps.2.5 million due to the collection of legal claim from Leitesol.

Liquidity and Capital Resources

Sources and Uses of Funds – Fiscal Years ended December 31, 2012 and 2011.

	FY12	**FY11**
	(Millions of pesos)	
Cash from operating activities	317,7	**219,6**
Investment Activities		
Purchase of fixed assets	-202,9	-129,2
Increases (decrease) in investments	-16,3	-11,4
Proceeds from asset sales	12,6	5,5
Net proceeds from purchases and sales of subsidiaries	4,2	-4,0
Other	-0,9	0,0
Net cash applied to investment activities	**-203,3**	**-139,1**
Financing Activities		
Net change in borrowings	-3,5	28,9
Interest paid on borrowings	-109,0	-85,2
Cash applied to financing activities	**-112,5**	**-56,3**
Net change in cash and cash equivalents	1,9	24,2
Initial balance	64,1	39,9
Ending balance	**66,0**	**64,1**

During the Fiscal Year ended December 31, 2012, net cash from operations increased Ps.98.1 million, or 44.7%, as compared with Fiscal Year 2011 (from Ps.219,6 million to Ps.317.7 million), primarily reflecting an improvement in working capital and operating accounts, changing from a net cash outflow of Ps.85.1 million in 2011 to a net cash inflow of Ps.30.8 million in 2012.

Net cash applied to investing activities increased Ps.64.2 million, or 46.2%, primarily due to the increase in purchases of fixed assets.

Net cash applied to financing activities decreased Ps56.2 million, or 99.9%, primarily due to (i) a reduction in borrowings of Ps.3.5 million during 2012, as compared with a net increase of Ps.28.9 million in 2011, and (ii) an increase of Ps.13.8 million, mostly reflecting the increase in the use of short-term financings and the depreciation of the Argentine Peso versus the US dollar. .

Financial Debt

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

	December 31,	
	2012	2011
1. Loans and bonds - principal		
Due 2012	0,0	4,6
Due 2013	20,0	20,0
Final Maturity 2015	36,9	41,3
Final Maturity 2018	148,9	156,8
Total	205,8	222,7
2. Other debts - principal	36,7	21,2
3. Total debt - principal	242,5	243,9
4. Other		
Accrued Interest	0,6	0,3
Bonds - issuance expenses and discount price	-0,2	-0,7
Net Present Value Adjustment	-16,2	-25,3
5. Total Debt	226,7	218,2
6. Cash	13,5	14,9
7. Net Debt	213,2	203,3