Mastellone Hermanos S.A.
Consolidated Financial Statements
for the fiscal year ended
December 31, 2019

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

CONSOLIDATED INFORMATIVE SUMMARY
AS OF DECEMBER 31, 2019

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

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

During 2019, the Company´s results were affected by a recessive economic environment together with, among other factors, a depressed consumption of dairy products.
The dairy products consumption fell 12% in 2019 approximately, even above the overall drop of consumption in Argentina.

A strong Peso devaluation, after the August primary presidential elections, boosted inflation and exacerbated an existing depressed consumption.

As a result of such situation, the Argentina´s Government applied certain measures in order to mitigate the impact of the loss of purchasing power. Among such measures, it is worthy to mention, a reduction of the VAT to 0% to certain products of the basic food basket including fluid milk. Such measure was applicable until December 31, 2019 with diverse results.

In spite of the aforementioned, it is important to highlight, that volumes sold into the domestic market behaved better than the overall trend. Furthermore, the Company increased its sales to public bids, which offset, at least partially, the overall reduction.

Regarding international business, we continued exploring and developing regional markets. Such activities were executed through Leitesol Industria e Comercio, into the Brazilian domestic market; but also, through synergies with Arcor and Danone, into the markets of Paraguay, Bolivia and Uruguay.

During the last quarter, given the situation of the domestic market, the Company registered a sharp increase on the availability of milk powder destined to export. As a result of this, we executed important deliveries to non-regional markets providing an appropriate profitability for the Company.

As for the raw milk, as we mentioned in our previous reports, the country´s production was affected by severe weather conditions and also to seasonal effects registered during the first half of the year. The recovery recorded during the rest of the year was not enough to offset such effects, resulting an annual 2,5% decline in comparison with the previous year.

Such status impacted straight into the cost of the raw milk. During the first half of the year, the Company registered a sharp increase of the price paid for the raw milk. Nevertheless, as a result of the seasonal growth recorded during the second half, together with a slowdown in the demand (given the market situation), prices remained slightly stable for the rest of the year. Considering the whole described situation, we consider that the Company will enter into 2020 in a better position than the previous year.

Finally, as for the labor cost, by the late December the dairy sector industries signed a new agreement with the Union, resulting in salaries increases slightly over the annual inflation.

To sum up, the year presented several complications combined with an adverse business climate, affected by economics but also by presidential elections. In spite of that, the Company continued with the investments execution destined to increase its productivity and the improvement of the financial results.

2. CONSOLIDATED FINANCIAL POSITION

	2019	2018	2017
	(in thousand pesos - as restated to reflect the effects of inflation)		
Current assets	14,780,610	12,059,745	13,258,376
Non-current assets	22,505,418	20,806,494	16,532,128
TOTAL ASSETS	**37,286,028**	**32,866,239**	**29,790,504**
Current liabilities	7,928,872	7,121,067	7,385,074
Non-current liabilities	15,731,686	13,982,227	10,495,976
TOTAL LIABILITIES	**23,660,558**	**21,103,294**	**17,881,050**
Equity attributable to owners of the Company	**13,625,267**	**11,762,785**	**11,909,292**
Non-controlling interests	**203**	**160**	**162**
TOTAL EQUITY	**13,625,470**	**11,762,945**	**11,909,454**
TOTAL LIABILITIES AND EQUITY	**37,286,028**	**32,866,239**	**29,790,504**

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

	2019	2018	2017
	(in thousand pesos - as restated to reflect the effects of inflation)		
Operational results – income	2,209,424	190,852	601,457
Investment income, finance cost, foreign exchange differences and gain arising on net monetary position	(1,805,154)	(3,206,876)	(102,905)
Excess of restated value over the revalued amount of assets measured at fair value	(505,921)	(560,006)	(2,484,224)
Other gains and losses	(6,682)	(33,945)	7,052
Loss before taxes	**(108,333)**	**(3,609,975)**	**(1,978,620)**
Income tax and alternative minimum income tax	57,803	540,224	679,112
Net loss for the year	**(50,530)**	**(3,069,751)**	**(1,299,508)**
Other comprehensive income	**1,913,055**	**2,923,241**	**1,667,468**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**1,862,525**	**(146,510)**	**367,960**
Net income (loss) attributable to:			
Owners of the company	1,862,482	(146,508)	367,921
Non-controlling interests	43	(2)	38
Total comprehensive income (loss)	**1,862,525**	**(146,510)**	**367,959**

4. CONSOLIDATED STATEMENT OF CASH FLOWS

	2019	2018	2017
	(in thousand pesos - as restated to reflect the effects of inflation)		
Cash flows provided by operating activities	2,162,420	2,320,077	2,055,059
Cash flows used in investing activities	(1,047,263)	(2,445,677)	(834,122)
Cash flows (used in) provided by financing activities	(1,107,820)	(1,441,126)	259,984
Cash and cash equivalents provided in (used in) the year	**7,337**	**(1,566,726)**	**1,480,921**

5. PRODUCTION AND SALES VOLUME (*)

	ACUMULATED SALES		
	2019	2018	2017
	(in thousand liters of milk)		
Domestic market	1,258,855	1,302,886	1,371,017
Foreign market	278,203	286,344	162,692
Total	**1,537,058**	**1,589,230**	**1,533,709**

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

6. RATIOS

	2019	2018	2017
Current assets to current liabilities	1.86	1.69	1.80
Equity attributable to owners of the Company to total liabilities	0.58	0.56	0.67
Non-current assets to total assets	0.60	0.63	0.55
Loss to equity	(0.004)	(0.26)	(0.12)

7. OUTLOOK (*)

Our management shall analyze the economic, financial, fiscal and social measures that might take the recently assumed national authorities, considering its possible effects on the Company´s activities.

We are confident about a recovery of the overall level of consumption. This would be positive for the Company considering its performance and market share position.

On the other hand, we will continue developing our portfolio of products in order to add value for the Company. We enforce our commitment to consumers, marketing high quality and healthy products, ensuring the business sustainability.

Regarding exports, we will continue increasing our presence into the regional markets. The first step will be the arrival to Peru, selling our products through Arcor´s subsidiary in such country. We would expand our business into other regional domestic markets, applying the same business model that we adopted for Paraguay, Bolivia and Uruguay.

As for our business into the Brazilian market, we expect to improve our commercial performance in such country through our fully subsidiary Leitesol.

We believe next year will present opportunities for the sustainable growth of the Company´s business. This will enforce our commitment of more than 90 years, investing and providing employment in Argentina.

(*) Information not reviewed by the Auditors.

General Rodriguez, Province of Buenos Aires, March 9, 2020

CARLOS AGOTE

Chairman

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2019
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Notes	2019	2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	676,487	885,862
Other financial assets	6	238	15,319
Trade accounts receivable	7	5,899,701	4,586,348
Tax credits	8	1,066,722	594,693
Other receivables	9 and 29	220,652	109,881
Inventories	10	6,916,810	5,867,642
Total Current Assets		**14,780,610**	**12,059,745**
NON-CURRENT ASSETS			
Other financial assets	6	-	83,451
Tax credits	8	151,085	83,043
Other receivables	9 and 29	92,025	27,188
Deferred tax assets	20	44,072	38,335
Property, plant and equipment, and others	11	21,572,753	20,295,501
Right of use assets	13	392,923	-
Investment property		1,164	1,240
Goodwill		27,172	27,172
Intangible assets		4,321	7,812
Other assets	12	219,903	242,752
Total Non-Current Assets		**22,505,418**	**20,806,494**
TOTAL ASSETS		**37,286,028**	**32,866,239**
LIABILITIES			
CURRENT LIABILITIES			
Trade payable	14	5,760,133	5,428,562
Borrowings	15	484,019	-
Leases liability	13	69,366	-
Accrued salaries, wages and payroll taxes	16	1,306,472	1,360,108
Taxes payable	17	256,564	263,698
Advance from customers		18,300	24,964
Provisions	18	5,553	454
Other liabilities	19 and 29	28,465	43,281
Total Current Liabilities		**7,928,872**	**7,121,067**
NON-CURRENT LIABILITIES			
Trade payable		10,548	16,077
Borrowings	15	11,946,701	11,447,347
Leases liability	13	390,719	-
Accrued salaries, wages and payroll taxes		33,657	-
Taxes payable		571	-
Deferred tax liabilities	20	3,316,207	2,477,854
Provisions	18	11,818	31,179
Other liabilities	19	21,465	9,770
Total Non-Current Liabilities		**15,731,686**	**13,982,227**
TOTAL LIABILITIES		**23,660,558**	**21,103,294**
EQUITY			
Common stock and share premium		10,920,075	10,920,075
Reserves		6,067,324	4,707,095
Accumulated deficit – including net result for the year		(3,362,132)	(3,864,385)
Equity attributable to owners of the Company		**13,625,267**	**11,762,785**
Non-controlling interests		**203**	**160**
TOTAL EQUITY		**13,625,470**	**11,762,945**
TOTAL LIABILITIES AND EQUITY		**37,286,028**	**32,866,239**

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

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Notes	2019	2018
Revenue	21	57,919,382	52,661,943
Cost of sales (*)	22	(41,351,804)	(36,986,794)
Gross profit		**16,567,578**	**15,675,149**
Selling expenses (*)	23	(12,398,848)	(12,873,357)
General and administrative expenses (*)	23	(1,959,306)	(2,610,940)
Investment income	24	303,544	169,325
Finance cost	25	(1,652,879)	(1,336,824)
Foreign exchange losses			
- Generated by assets		(152,159)	661,436
- Generated by liabilities		(528,105)	(3,254,819)
Other finance losses		(246,736)	
Gain arising on net monetary position		471,181	554,006
Excess of restated value over the revalued amount of assets measured at fair value	3.6	(505,921)	(560,006)
Other gains and losses	26	(6,682)	(33,945)
Loss before taxes		**(108,333)**	**(3,609,975)**
Income tax and alternative minimum income tax	27	57,803	540,224
NET LOSS FOR THE YEAR		**(50,530)**	**(3,069,751)**
Net loss attributable to:			
Owners of the Company		(50,573)	(3,069,749)
Non-controlling interests		43	(2)
Net loss for the year		**(50,530)**	**(3,069,751)**

(*) See note 3.23 for a detail of exceptional expenses included in such items of the consolidated statement of profit or loss.

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

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Notes	2019	2018
Net loss for the year		**(50,530)**	**(3,069,751)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(3,122)	117,957
Income tax	27	(10,248)	(11,906)
		(13,370)	106,051
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment	11	2,601,109	3,773,954
Income tax	27	(674,684)	(956,764)
		1,926,425	2,817,190
Other comprehensive income, net of income tax		**1,913,055**	**2,923,241**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**1,862,525**	**(146,510)**
Total comprehensive income (loss) attributable to:			
Owners of the Company		1,862,482	(146,508)
Non-controlling interests		43	(2)
		1,862,525	**(146,510)**

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

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Shareholders' contributions			Reserves		Retained earnings (Accumulated losses)	Equity attributable to:		Total
	Common stock	Common stock adjustment	Share premium	Foreign currency translation reserve	Property, plant and equipment revaluation reserve (Note 3.6)		Owners of the parents	Non-controlling interest	
Balance at December 31, 2017	**653,969**	**7,706,193**	**2,559,913**	**205,332**	**1,742,706**	**(958,820)**	**11,909,293**	**162**	**11,909,455**
Net loss for the year						(3,069,749)	(3,069,749)	(2)	(3,069,751)
Other comprehensive income for the year, net of income tax				106,051	2,817,190		2,923,241		2,923,241
Total comprehensive income for the year				106,051	2,817,190	(3,069,749)	(146,508)	(2)	(146,510)
Transfer to accumulated losses (1)					(164,184)	164,184			
Balance at December 31, 2018	**653,969**	**7,706,193**	**2,559,913**	**311,383**	**4,395,712**	**(3,864,385)**	**11,762,785**	**160**	**11,762,945**
Net loss for the year						(50,573)	(50,573)	43	(50,530)
Other comprehensive income for the year, net of income tax				(13,370)	1,926,425		1,913,055		1,913,055
Total comprehensive income for the year				(13,370)	1,926,425	(50,573)	1,862,482	43	1,862,525
Transfer to accumulated losses (1)					(552,826)	552,826			
Balance at December 31, 2019	**653,969**	**7,706,193**	**2,559,913**	**298,013**	**5,769,311**	**(3,362,132)**	**13,625,267**	**203**	**13,625,470**

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

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

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Note	2019	2018
Cash flows from operating activities			
Net loss for the year		(50,530)	(3,069,751)
Adjustments to reconcile net loss for the year to net cash provided by operating activities:			
Income tax and alternative minimum income tax accrued		(57,803)	(540,224)
Finance cost		1,652,879	1,336,824
Other finance losses		246,736	
Foreign exchange losses		479,080	2,807,048
Gain arising on net monetary position		(471,181)	(554,006)
Excess of restated value over the revalued amount of assets measured at fair value		505,921	560,006
Depreciation of property, plant and equipment, and others	23	1,956,039	1,536,750
Depreciation of right-of-use of assets	23	74,063	
Additions to provisions		120,702	160,320
Write-off of inventories	22	189,816	145,305
Depreciation of investment property	26	76	76
Amortization of intangible assets	23	3,492	3,492
Depreciation of other assets	26	18,723	6,504
(Gain) loss on sale of property, plant and equipment and other assets	26	(21,576)	9,487
		4,646,437	2,401,831
Changes in working capital	28	(2,363,333)	14,371
Subtotal		2,283,104	2,416,202
Payments of income tax and alternative minimum income tax		(120,684)	(96,125)
Net cash generated by operating activities		**2,162,420**	**2,320,077**
Cash flows used in investing activities			
Payments for property, plant and equipment, and others		(1,090,403)	(2,491,338)
Proceeds from disposal of property, plant and equipment and other assets		57,215	13,584
Proceeds from sale other financial assets		277	16,126
Proceeds from sale of subsidiary company			15,951
Payments for acquisition of subsidiary		(14,352)	
Net cash used in investing activities		**(1,047,263)**	**(2,445,677)**
Cash flows used in financing activities			
Proceeds from borrowings	28	1,209,978	
Repayment of borrowings	28	(791,299)	(15,543)
Repayment of leases liability	28	(45,988)	
Payment of interests	28	(1,480,511)	(1,425,583)
Net cash used in financing activities		**(1,107,820)**	**(1,441,126)**
Increase (decrease) in cash and cash equivalents		**7,337**	**(1,566,726)**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(8,193)**	**398,226**
Effect of net monetary position on cash and cash equivalents		**(208,519)**	**(96,744)**
Cash and cash equivalents at beginning of year		**885,862**	**2,151,106**
Cash and cash equivalents at end of year		**676,487**	**885,862**

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

1. GENERAL INFORMATION

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

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

The breakdown of consolidated companies in these consolidated financial statements is exposed in Note 2.6.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements for the fiscal year ended December 31, 2019 have been prepared and presented in accordance with International Financial Reporting Standards ('IFRS') adopted by the Argentine Federation of Professional Councils in Economic Sciences ("F.A.C.P.C.E.") as professional accounting standards, as they were approved by the International Accounting Standards Board ("IASB"), adopted by the Professional Council on Economic Sciences of Buenos Aires Province ("CPCEPBA") and incorporated by the Comisión Nacional de Valores ("CNV"), the Argentine Securities Commission.

These consolidated financial statements recognize the effects of changes in the purchasing power of the currency as a whole by applying the restatement method to reflect the effects of inflation established by International Accounting Standard N° 29 ("IAS 29").

For comparative purposes, these consolidated financial statements include figures and other information corresponding to the fiscal year ended December 31, 2018, which are an integral part of the aforementioned consolidated financial statements and are presented with the purpose of being interpreted exclusively in relationship with the figures and other information of the current fiscal year. These figures have been restated in order to reflect the effect of inflation for the current fiscal year, as indicated in the following section, in order to allow for their comparability with the fiscal year 2019. Such restatement would not affect the decisions taken based on the financial information corresponding to the previous fiscal year as originally reported.

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

The consolidated financial statements have been translated into English for the convenience of English-speaking readers. The consolidated financial statements are the English translation of those originally issued by Mastellone Hermanos S.A. in Spanish and presented in accordance with IFRS.

2.2 Financial information adjusted for inflation

On September 29, 2018, the FACPCE issued Resolution JG No. 539/18, approved by the CPCEPBA through Board Resolution No. 2,883, indicating, among other issues, that Argentina should be considered an inflationary economy in the terms of professional accounting standards as of July 1, 2018, in line with the vision of international organizations.

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

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

In accordance with IAS 29, figures of the financial statements which are not expressed in current purchasing power currency of the reporting period must be restated by applying a general price index. To such extent, and as established by Resolution JG N° 539 of the FACPCE, coefficients calculated based on indexes published by such Federation, have been applied. Indexes were obtained based on the combination of National Consumer Price Indexes (IPC) published by the INDEC beginning January 1, 2017 and, backwards, indexes of Wholesale Price Indexes (IPIM) elaborated by the abovementioned institute or, in its absence, indexes of consumer prices published by the Direction of General Statistics and Censuses of the Autonomous City of Buenos Aires. The variation of the index used for restatement of these consolidated financial statements has been 53.83% in the fiscal year ended on December 31, 2018 and 47.65% in the previous year.

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

2.3 Applicable accounting policies

The consolidated financial statements have been prepared under the historical cost conventions, as restated in order to reflect the effect of inflation in the case of non-monetary items, except for the revaluation of certain non-current assets and financial assets that are measured at revalued amounts (see Note 3.6) or fair values at the end of each reporting period, as explained in the accounting policies in Note 3. Usually, the historical cost is based on the fair value of the consideration given in exchange for the assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are described in Note 3.

The preparation of these financial statements are the responsibility of the Company's Board of Directors and requires accounting estimates and judgments of the administrators when applying financial standards. Areas of high complexity which require more judgments or those in which assumptions and estimations are more significant are detailed in Note 4.

2.4 New standards and interpretations effective from current fiscal year which are material to the Company

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

  As envisaged by the standard, for contracts recognized as leases during the term of IAS 17, the Company used the retrospective application with impact on cumulative results at the beginning of the application fiscal year (alternative 16. C5 (b)). For contracts that had not been previously identified as leases by applying IAS 17 and CNIIF 4, the Company adopted the practical solution set forth in IFRS 16, appendix C, Section C3. See Note 13.

- IFRIC 23 (uncertainty over income tax treatments) clarifies the accounting for uncertainties in income taxes to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. An entity has to consider whether it is probable that the tax authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing. The application of the aforementioned interpretation did not significantly affect the amounts set out in relation to assets and liabilities of the Company.

- Amendments to IFRS 9 (Financial Instruments) include changes that allow financial assets with a prepayment option that could result in the option´s holders receiving compensation for early termination of the contract, to be measured at amortized cost if certain criteria are met and clarifications regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The application of the aforementioned interpretation did not significantly affect the amounts set out in relation to assets and liabilities of the Company.

- Amendments to IAS 28 (Investments in Associates and Joint Ventures) clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates or joint ventures that form part of the net investment in these investees but to which the equity method is not applied. The application of the aforementioned interpretation did not significantly affect the amounts set out in relation to assets and liabilities of the Company.

- The annual improvements to IFRSs (2015-2017 cycle) includes amendments to the following standards: IFRS 3 (Business combinations) and IFRS 11 (Joint arrangements) (clarify the accounting treatment when an entity obtains control of a business that is a joint operation), IAS 12 (Income taxes) clarify that all income tax consequences of dividends should be recognized in profit or loss, regardless of how the tax arises and IAS 33 (Borrowing costs) clarify the treatment of specific borrowing after the related asset is ready for its intended use or sale. The application of the aforementioned interpretation did not significantly affect the amounts set out in relation to assets and liabilities of the Company.

2.5 Standards and interpretations not yet adopted

The Company did not adopt the following standards, revision of standards and interpretations as per the application of the mentioned pronouncements are not required for the fiscal year ended December 31, 2019:

Standard	Name
IFRS 17	Insurance contracts[1]
Amendments to IFRS 3	Business combinations [2]
Amendments to IAS 1 and 8	Presentation of financial statements *and* Accounting policies, changes in accounting estimates and error[2]
IFRS Conceptual Framework	Miscellaneous standards[2]
Modifications to IAS 1	Presentation of financial statements[3]

[1] Effective for fiscal years beginning on or after January 1, 2021.
[2] Effective for fiscal years beginning on or after January 1, 2020.
[3] Effective for fiscal years beginning on or after January 1, 2022.

- IFRS 17, which supersedes IFRS 4, establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

  IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted if both IFRS 15 Revenue from Contracts with customers and IFRS 9 Financial instruments have also been applied. The Company's Board of Directors has to evaluate the impact of such standard and anticipates that IFRS 17 will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2021.

- Amendments to IFRS 3 (Business combinations) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

  The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. The Company's Board of Directors does not anticipate that the application of the aforementioned modifications will have a significant impact on its financial statements.

- Amendments to IAS 1 *(Presentation of financial statements*) and IAS 8 (*Accounting policies, changes in accounting estimates and error) clarify the definition of 'material' and align the definition used in the Conceptual Framework* and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The new definition of material and the accompanying explanatory paragraphs are contained in IAS 1. The definition of material in IAS 8 has been replaced with a reference to IAS 1.

  The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Company's Board of Directors does not anticipate that the application of the aforementioned modifications will have a significant impact on its financial statements.

- In March 2018, the IASB published a revised Conceptual Framework and also issued modifications to the references to the Conceptual Framework in the IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. Not all amendments, however, update those pronouncements regarding the references and citations of the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referring to (the IASC framework adopted by the IASB in 2001, the 2010 IASB framework or the new revised 2018 framework) or to indicate that the definitions in the standard do not they have been updated with the new definitions developed in the revised Conceptual Framework.

  The amendments are effective for exercises beginning on or after January 1, 2020, allowing early adoption. The Company's Board of Directors does not anticipate that the application of the aforementioned modifications will have a significant impact on its financial statements.

- Modifications to IAS 1 (Presentation of financial statements) to clarify the classification of liabilities: changes in the classification of liabilities as current or non-current affect only the presentation of liabilities in the statement of financial position, not the amount or timing of the recognition of any asset, income or expense of liability, or the information that entities disclose about those concepts. The modifications:
  - Clarify that the classification of liabilities as current or non-current should be based on the existing rights at the end of the period reported and align the wording in all the affected paragraphs to refer to the "right" to defer settlement in at least twelve months and make explicit that only the rights in force "at the end of the reporting period" should affect the classification of a liability;
  - Clarify that the classification is not affected by expectations about whether an entity will exercise its right to defer the settlement of a liability; Y
  - Make it clear that settlement refers to the transfer to the counterpart of cash, equity instruments, other assets or services.

  The modifications are effective for the annual reporting periods beginning on January 1, 2022 and will be applied retroactively. Early adoption is permitted. The Company’s Board of Directors does not anticipate that the application of the aforementioned modifications will have a significant impact on its financial statements.

2.6 Basis of consolidation

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Company, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

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

The main consolidation adjustments are the followings:

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

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

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

The financial position statements of Mastellone Hermanos Sociedad Anónima as of December 31, 2019 and 2018 and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the fiscal years ended December 31, 2019 and 2018, were consolidated based on financial statements restated to reflect the effects of inflation of the subsidiaries companies for the years ended at such dates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Functional and presentation currency

The items of the financial statements of each consolidated entity are measured using the currency of the main economic environment in which operates (the functional currency). The functional currency of the parent company and the subsidiaries established in Argentina, is the Peso (legal currency of Argentina), which is also the presentation currency of these consolidated financial statements. The functional currency of the Brazilian subsidiaries (Leitesol Industria e Comercio S.A. and Mastellone Hermanos do Brasil Comercial e Industrial Ltda.) and the Paraguayan subsidiary are the Real and the Guaraní, respectively.

In the consolidated financial statements, assets and liabilities of foreign subsidiaries have been translated into Pesos using the exchange rate prevailing at year-end. Income and expenses have been translated at the month average exchange rate. The exchange differences are classified in other comprehensive result and included in equity under caption "Foreign currency translation reserve".

3.2 Foreign currency

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated and are restated in terms of the measuring unit current at the end of the reporting period.

Exchange differences on monetary items are recognized in profit and loss in the year in which they arise net of the effect of inflation of the respective assets and liabilities which generated them.

3.3 Financial instruments

Financial assets and liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3.4 Financial assets

A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting.

Recognized financial assets are subsequently measured at amortized cost at fair value, depending on the classification of financial assets.

<u>Classification of financial assets</u>

A financial asset shall be measured at amortized cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at fair value through profit or loss.

Despite the foregoing, the Company may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise

arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
Financial asset is any asset that is: cash, deposits in financial institutions, equity instruments of other entities, contractual rights, or a contract that will or may be liquidated with the delivery of own equity instruments.

3.4.1 Cash and cash equivalents

Include cash, bank current accounts, short-term investments with original maturity up to 90 days and investment funds, with low risk of value variation and destined to attendee short-term liabilities.

3.4.2 Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognized in consolidated statement of profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'Investment income' line in the consolidated statement of profit or loss.

3.4.3 Account receivables and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are classified as "receivables". Receivables are measured at amortized cost using the effective interest method, less any impairment.

3.4.4 Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as fair value through profit and loss (Note 3.4.2).

3.4.5 Impairment of financial assets

The Company recognizes lifetime expected credit losses for trade accounts receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the historical experience of credit losses of the Company, adjusted for factors that are specific to debtors, general economic conditions and an assessment of both current situation and of the forecast of conditions on the closing date of the fiscal year, including the time value of the money when appropriate.

For all other financial instruments, the Company recognizes the expected lifetime credit loss when there has been a significant increase in credit risk since initial recognition. However, if the credit risk in the financial instrument has not increased significantly since the initial recognition, the Company measures the provision for losses for that financial instrument in an amount equal to the expected credit loss at twelve months.

The expected lifetime credit loss represents the expected credit losses that will result from all possible default events during the expected useful life of a financial instrument. In contrast, the expected credit loss at twelve months represents the part of the expected lifetime loss that is expected to result from the predetermined events in a financial instrument that are possible within twelve months after the date of the report.

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly since initial recognition:

* Significant financial difficulties of an issuer or obligor;
* Failure in compliance with contractual provisions, such as non-payment or delayed payment of interest or principal;
* For financial or legal reasons related to a borrower's financial difficulties, the Company has given a borrower allowances or privileges that it would not have granted under other circumstances;
* It is more likely that the borrower will enter bankruptcy proceedings situation or any other financial reorganization;
* An active market for the financial asset in question has ceased to exist, due to financial difficulties; or
* Observable data indicate an appreciable decrease in the value of estimated future cash flows in a group of financial assets after the initial recognition thereof, although such decrease may not yet be attributed to individual financial assets held by the Company, including:
    (i) Adverse changes in the payment terms of Company's borrowers; and
    (ii) Local or national financial conditions bearing a relationship with the non-payment of portfolio assets.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows due to the Company in accordance with the contract and all cash flows that the Company expects to receive, discounted at the original interest effective rate.

The Company recognizes an impairment loss or loss in the result of all financial instruments with an adjustment corresponding to their carrying amount through a loss provision account.

3.4.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

3.5 Inventories

Inventories have been valued at cost using first in, first out or weighted average cost methods, as appropriate, both restated to reflect the effect of inflation as referred to in note 2.2, reduced if necessary, to the net realization value. The net realization value is the estimated sale price of the inventory minus the estimated costs to concretize the sale.

Based on the Board of Director´s analysis at December 31, 2019 and 2018, slow-moving or obsolete inventories were charged to the statement of profit or loss in the year such evaluation was performed, which evaluated the conservation status, the future use and the net realizable value of those inventories.

3.6 Property, plant and equipment, and others

- Land and buildings held for use in production, supply of services or for administrative purposes, machinery, equipment, facilities and laboratory equipment are stated at their revalued amounts, being the fair value at the date of revaluation less, if applicable, any subsequent accumulated depreciation.

  Information about the fair value hierarchy established by IFRS 13 used in the revaluation is as follows:

Classes of Property, plant and equipment	Fair value hierarchy
Land and buildings	Level 2 and 3
Machinery and equipment	Level 2 and 3
Facilities and laboratory equipment	Level 2 and 3

The comparative sales method was used for the revaluation of land, certain machinery and equipment and laboratory equipment. The cost approach was used for the revaluation of buildings, facilities and certain machinery and equipment. There were no changes in the valuation technique during fiscal year 2018.

On March 9, 2019, the Company´s Board of Directors approved the revaluation of property, plant and equipment made as of December 31, 2018. The revaluation performed as of December 31, 2019 was approved by the Company´s Board of Directors held on March 9, 2020.

The increase originated in the revaluation of the aforementioned classes of property, plant and equipment, calculated net of the effects of the inflation of the respective assets, is recognized in other comprehensive income and is included in a reserve in equity (net of the deferred tax effect). The excess of the restated value over the revalued value of the assets valued at fair value, is disclosed in the statement of profit or loss in the caption "Excess of restated value over the revalued amount of the assets measured at fair value". Lands are not depreciated. Depreciation of revalued amounts is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. At each year-end, the amount of the revaluation surplus corresponding to the depreciation of the year is transferred to retained earnings.

- Furniture, vehicles and trays are measured at cost restated to reflect the effects of inflation as mentioned in Note 2.2. less any accumulated depreciation and subsequent accumulated impairment losses

  Depreciation of furniture, vehicles and trays is recognized as a loss each year.

- Work in progress is carried at cost restated to reflect the effects of inflation as mentioned in Note 2.2, less any recognized impairment loss. Cost includes professional fees and capitalized interests determined net of the effect of inflation. These assets are classified in the appropriate category of Property, plant and equipment when the construction has been completed and it is ready for use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

- Depreciation is recognized so as to write-off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives and residual values are reviewed at each year end, with the effect of any changes in estimates being accounted for on a prospective basis.

- An item of property, plant and equipment, and others is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss derived from the write-off or disposal of an item of Property, plant and equipment is determined as the difference between the obtained sale value and the book value restated to reflect the effect of inflation and it is stated in the consolidated statement of profit or loss and other comprehensive income.

3.7 Investment property

Investment properties are properties held to earn rentals. They are stated at their cost restated to reflect the effects of inflation as mentioned in Note 2.2, less any subsequent accumulated depreciation.

3.8 Intangible assets

Intangible assets include brands and patents.

Intangible assets with finite useful life that are acquired separately are carried at cost restated to reflect the effects of inflation as mentioned in Note 2.2, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimates being accounted for on a prospective basis.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, are measured as the difference between the net disposal proceeds and the carrying amount of the asset restated to reflect the effects of inflation, and are recognized in profit or loss when the asset is derecognized.

3.9 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting year, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing impairment, assets which do not generate an independent cash flow are included in an appropriate cash-generating unit.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

At December 31, 2019 and 2018, no impairment losses were recorded.

3.10 Goodwill

Goodwill arising on an acquisition of a business is carried at cost. as established at the date of acquisition of the business less accumulated impairment losses, if any, restated to reflect the effects of inflation as mentioned in Note 2.2.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The value of goodwill does not exceed their estimated recoverable value at each year-end.

3.11 Other assets

These include mainly a) investments in other companies where no significant influence is exercised; these investments are valued at cost restated to reflect the effects of inflation as mentioned in Note 2.2, which do not exceed their estimated recoverable value and b) lands and buildings transferred from property, plant and equipment, which are valued according to Note 3.6 until the date of transference, and then restated to reflect the effects of inflation as mentioned in Note 2.2, net of accumulated depreciation; such value does not exceed its recoverable value.

3.12 Liabilities

The Company recognizes a liability when it has a present obligation (legally enforceable as a result of the execution of a contract or a mandate contained in a legal standard) resulting from a past event and whose amount owed can be estimated reliably.

3.13 Financial liabilities

Financial liabilities initially measured at fair value, net of transaction costs are subsequently measured at amortized cost using the effective interest method. Interest charges are stated in the "Finance cost" line of the consolidated statement of profit or loss, except the part stated in the cost of work in progress of Property, plant and equipment, and others. Finance cost is disclosed net of the effect of inflation of the respective liabilities which generated it.

The Company derecognizes financial liabilities (or a part of them) when, and only when, the Company's obligations are discharged, cancelled or they expired.

The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

3.14 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The Company has been claimed in labor, civil and commercial lawsuits. Reserves for contingencies are recorded on a risk assessment basis and when the likelihood of a loss is probable. The assessment of a loss probability is based on the opinion of legal counsels of the Company.

3.15 Short-term employee benefits and other long-term benefits

A liability is recognized for benefits that correspond to employees with respect to salaries and wages, annual vacations, complementary annual salary and bonuses, plus the corresponding social charges, in the period in which the service is provided for the amount not discounted by the benefits are expected to be paid for that service.

Liabilities recognized for short-term employee benefits are valued at the amount not discounted for the benefits expected to be paid for that service.

The liabilities recognized for other long-term benefits are valued at the present value of the estimated future cash outflows that the Company expects to make related to the services provided by the employees at the closing date of the year.

3.16 Government grants

If any, the subsidized loans granted, directly or indirectly, by Governments to the Company or its controlled subsidiaries, with interest rates which are below the current market conditions are treated as a grant. Its measurement is performed considering the difference between the obtained values and the fair value resulting from applied current market rates.

Tax benefits whereas the Company is a beneficiary, are recognized directly in results of each year.

3.17 Equity accounts

Capital stock and adjustment of capital stock

Capital stock is comprised of contributions made by the shareholders, represented by shares and includes subscribed shares at their nominal value.

Common stock has been restated to reflect the effects of inflation by applying the adjustment methodology described in Note 2.2, based on the respective subscription dates. The "common stock" account is disclosed at its nominal value, in accordance with legal provisions, and the difference with its restated amount is presented in the supplementary account "common stock adjustment".

As of December 31, 2019 and 2018, capital stock amounted to 653,969 and was composed by 653,969,077 nominative, non-endorsable shares of Ps. 1 par value, with 1 vote each.

Share premium

Share premium has been restated to reflect the effects of inflation by applying the adjustment methodology described in Note 2.2 based on the respective subscription dates.

Legal reserve

The current Argentine legal regulations (Law N° 19,550) require the Company to appropriate 5% of its net income per year to a “Legal reserve”, which arises from the sum of the net income, prior year adjustments, transfers from other comprehensive result to accumulated earnings and accumulated loss from prior years, until such reserve equals 20% of the capital stock. In accordance with the Corporate Law N° 19,550, the Company should apply future earnings amounting to 68,279 to restore legal reserve used to absorb accumulated losses as of December 31, 2014 as approved in the General Shareholders’ Meeting held on April 8, 2015.

Property, plant and equipment revaluation reserve

Property, plant and equipment revaluation reserve arises on the revaluation of land and buildings, machinery and equipment and facilities and laboratory equipment classes. The reserve is shown net of the deferred tax liability effect. Items included in the revaluation reserve will not be reclassified subsequently to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. At each year-end, the amount of the revaluation surplus corresponding to the depreciation of the year is transferred to retained earnings.

Accumulated earnings (losses)

It includes the result for the year, prior year's results that were not appropriated, the amounts transferred from other comprehensive results and prior year's adjustments for the application of accounting standards.

Accumulated loses at the beginning of the application of IAS 29 (January 1, 2017) have been determined by equity difference and, thereafter, have been restated in order to reflect the effect of inflation by applying the adjustment methodology described in Note 2.2, according to the transactions of each period.

3.18 Accounts of the statement of profit or loss and other comprehensive income

Accounts of the statement of profit or loss and other comprehensive income have been recorded through the application of the following criteria:

- Accounts that accumulate monetary operations were restated by applying to the original amounts the coefficients corresponding to the month of accrual according to the adjustment methodology described in Note 2.2.

- Non-monetary asset consumption charges were calculated on the basis of the restated values of such assets by applying the adjustment procedure described in Note 2.2.

- Financial incomes, financial costs and exchange differences are disclosed net of the effect of inflation of the assets and liabilities that generated them. Under caption "Gain arising on net monetary position" the net effect of inflation over the remaining monetary assets and liabilities is disclosed.

3.19 Revenue recognition

The Company recognizes revenue from the following sources:

a) Product sales
b) Rendering of services
c) Interest income

The company recognizes revenue from ordinary activities when the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when the customer obtains control of that asset.

a) Product sales

The Company sells its products in Argentina's domestic market to wholesale and retail customers, and also exports.

For the domestic market, the sale is recognized when the control of the goods has been transferred, being when the goods are received in the warehouses or in the place specified by the customers. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods to their customers, which may or not follow suggested pricing parameters established by the Company. On the other hand, the customer is responsible for the fulfillment of the contract and bears the risks of obsolescence and loss in relation to the goods. The Company recognizes a receivable when the goods are received by the customer, and this represents the point in time at which the right to consideration becomes unconditional as only the passage of time is required before payment is due.

Under the Company´s standard contract terms, provided that products are not suitable for commercialization at the point of sale, the customer has a right to return the goods. A provision for returns is consequently recognized adjusting revenue for those returned products.

The Company uses its accumulated historical experience to estimate returns, using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent level of returns over previous years.

In addition, cash discounts and volume rebates are recorded at the point in time sale is recognized.

For foreign market, the sale is recognized when the control of the goods has been transferred, being when products are shipped to foreign customers as the term of such shipments is usually FOB Shipping Point, which means after the Company completes custom shipment procedures and delivers products to the transportation company. At that time, the Company recognizes a receivable as only the passage of time is required before payment is due.

b) Rendering of services

Revenue from services, which mainly correspond to “façon” services, is recognized in the period in which the service is provided, which means revenue is recognized over time.

c) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition, net of the inflation effect over the assets that generate them.

3.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial year of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

For the fiscal years ended December 31, 2019 and 2018, the Company capitalized in “Work in progress” of Property, plant and equipment, and others borrowing costs for 87,638 and 23,515 respectively.

All other borrowing costs are recognized in profit and loss in the period in which they are incurred, net of the effect of inflation of the respective liabilities that generated them.

3.21 Leasing

The Company as lessee

The Company assess whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- The amount expected to be payable by the lessee under residual value guarantees.
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remaesured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

The company did not make any such adjustments during the period presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated financial statement or financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, plant and equipment" policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit an loss

3.22 Income tax and alternative minimum income tax

3.22.1. – Income taxes – current and deferred

Income tax expenses represent the sum of the tax currently payable and deferred tax.

3.22.1.1 – Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rate that have been enacted or substantively enacted by the end of the reporting year. The current income tax charge is calculated on the basis of the tax laws in force in the countries in which the consolidated entities operate.

3.22.1.2 – Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements restated to reflect the effects of inflation and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets, including tax loss carryforwards, are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset realized, based on tax rates and tax laws enacted or substantially enacted at each year-end. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting year to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Under IFRS, deferred income tax assets and liabilities are classified as non-current assets and liabilities.

3.22.1.3. – Current and deferred tax for the year

Current and deferred tax are recognized as profit or loss in the consolidated statement of profit or loss and other comprehensive income, except when they relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are recognized in other comprehensive income or directly in equity or when current tax or deferred tax arises from the initial accounting for a business combination. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.22.1.4. – Tax reform

Article 48 of Law No. 27,541 on Social Solidarity and Productive Reactivation (published on 12/23/19) established the suspension of the reduction of income tax rates that had been determined by the Tax Reform Law (published in the Official Gazette on

12/29/2017). The Tax Reform Law had provided an income tax rate that taxes undistributed business profits of 25% for the years beginning on 1/1/2020, inclusive. On the other hand, the distribution of dividends generated from those years would be subject to a 13% tax when those were distributed to Argentine natural persons or to residents abroad. Law No. 27,541, effective as of December 23, 2019, provided that the 30% and 7% rate respectively will be applied until the years beginning on 1/1/2021, inclusive. Consequently, the last closings that will be subject to these rates will be the fiscal years ended 12/31/2021. The reduced rate of 25% and 7% on dividends will be effective for the years beginning on 2/1/2021, inclusive.

In relation to the application of the adjustment for fiscal inflation for income tax, the Tax Reform Law, modified by Law No. 27,468 published in the Official Gazette on 12/4/2018, provided the application parameters of said adjustment based on the variation of the IPC index and defined that the positive or negative adjustment, as the case may be, corresponding to the first, second and third fiscal year beginning as of January 1, 2018 to be calculated, should be charged one third (1 / 3) in that fiscal period and the remaining two thirds (2/3), in equal parts, in the next two (2) immediate fiscal periods. This form of calculation was modified on December 23, 2019 by Law No. 27,541, which extended the deferral period from three years to six years. That is to say, a sixth (1/6) must be charged in the first fiscal period that the inflation adjustment applies and the remaining five (5/6) in equal parts, in the next five (5) immediate fiscal periods. This deferral mechanism is applicable for fiscal years 2019 and 2020.

In the case of the Company, the adjustment for tax inflation applies for the first time at the end of the fiscal year ended December 31, 2019.

3.22.2. – Alternative minimum income tax

The alternative minimum income tax is complementary to the income tax. The Company determines the tax charge applying the enacted rate of 1% over the computable assets at year-end. The Company´s tax obligation will be the higher amount between the determined presumed income tax and the income tax liability determined applying the enacted tax rate over the estimated taxable profit of the year. Nevertheless, if the presumed income tax in a fiscal year exceeds the corresponding income tax, this excess can be taken as payment on credit of any surplus of the income tax to be paid over the presumptive income tax in any of the following ten years. It should be mentioned that on July 22, 2016, this tax was repealed through Law N° 27,260, for the periods beginning on or after January 1, 2019.

3.23 Exceptional retirement and severance expenses

The Company considers exceptional items of results to gain or losses that are at the same time: i) of very significant amount, and ii) according to its nature and magnitude, the Board of Directors does not estimate that they are recurrent. During the fiscal years ended on December 31, 2019 and 2018, exceptional expenses for retirement of senior management were incurred, as well as severance expenses for efficiency of operations, for a total amount of 63,757 and 955,204, respectively.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Company's accounting policies, which are described in Note 3, the Company's management and Board of Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that period or in the year of the revision and future periods if the revision affects both current and future years.

These estimates and significant judgements relate basically to the following:

- Impairment of property, plant and equipment, and others

The Company periodically evaluates the carrying value of its long-lived assets. The Company considers the carrying value of long-lived assets to be impaired when the expected discounted cash flows, to be derived from the use of such assets are less than their carrying value. In that event, the Company would recognize a loss based on the amount by which the carrying value exceeds the fair market value of such assets. Fair market value is determined primarily using the anticipated cash flows discounted at a rate appropriate to the risk involved.

The Company believes that the accounting estimate related to the impairment of these assets is a "critical accounting estimate" because: (1) it is highly susceptible to change from period to period as it requires management to make certain assumptions about future revenues and costs; and (2) the impact that recognizing an impairment has on the assets reported on the statement of financial position as well as the statement of profit or loss and other comprehensive income is material. The most important estimates, and those that could affect significantly the projected cash flows, are the selling price of the Company´s products on the revenue side and the availability and price of raw milk from the cost point of view.

Additionally, the value of property, plant and equipment, and others, depreciates linearly throughout its estimated useful life. The determination of their useful lives implies a significant judgment. The Company periodically reviews, at least at the end of each fiscal year, the estimated useful life of property, plant and equipment, and others.

- Provision for allowances and contingencies

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other legal proceedings. The Company routinely assesses the likelihood of adverse judgments or outcomes to those proceedings. The Company records accruals for such contingencies to the extent that it is able to determine that their occurrence is probable and the financial impact, should such a decision be rendered against the Company, is reasonably quantifiable.

In determining the likely outcome of litigation proceedings, management considers many factors, including, but not limited to, past history, reports from counsels and other available evidence, and the specifics and status of each proceeding. The evaluation may result in the recording of an accrual or a change in a previously recorded accrual. Determining the outcome of claims and litigation, and estimating related costs and exposure, involves substantial uncertainties that could cause actual costs to vary materially from estimates and accruals, which could have a material effect on the Company´s future results of operations, financial conditions and liquidity.

- Deferred income tax

Deferred income taxes are fully provided to reflect the net tax effects of temporary differences between the financial reporting and the tax base for assets and liabilities. Deferred income taxes are measured using the currently enacted or substantially enacted tax rates and laws in each of the relevant jurisdictions where the assets and liabilities are located.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The Company has generated tax losses which are deductible with respect to taxable earnings of up to five years following the year in which they were originated (in Brazil, it has no expiration date, but there are limitations concerning the maximum amount to be offset per each year).

5. CASH AND CASH EQUIVALENTS

	2019	2018
Cash and bank accounts	337,073	531,071
Investment funds	140,853	179,893
Short-term investments	198,561	174,898
Total	**676,487**	**885,862**

6. OTHER FINANCIAL ASSETS

	2019	2018
• Current		
Short-term investments – other	238	15,319
Total	**238**	**15,319**
• Non-current		
Long-term investments	-	83,451
Total	**-**	**83,451**

7. TRADE ACCOUNTS RECEIVABLE

	2019	2018
Third parties (domestic)	4,317,977	3,218,761
Foreign receivables	1,108,919	221,968
Related parties (Note 30)	519,552	1,191,064
Notes receivable	6,950	1,838
Tax incentives on exports	65,791	84,737
Subtotal	**6,019,189**	**4,718,368**
Allowance for doubtful accounts	(35,592)	(60,316)
Allowance for trade discounts and volume rebates	(83,896)	(71,704)
Total	**5,899,701**	**4,586,348**

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

	2019	2018
Balance at the beginning of the year	60,316	50,428
Additions (1)	21,318	32,006
Transfers	(28,811)	(9,594)
Write-offs	(5,092)	(6)
Charged to result arising on net monetary position	(11,981)	(13,184)
Re-measurement of foreign subsidiaries allowances	(158)	666
Balance at the end of the year	**35,592**	**60,316**

(1) Charged to selling expenses – Note 23.

The allowance for doubtful accounts was determined based on the historical experience of default, statistics, specific analyses for major clients and evaluation of management about current economic scenario. Customer accounts in bankruptcy or bankruptcy process (offset of the corresponding allowances) are excluded from current accounts receivables and included in other receivables.

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

	2019	2018
Balance at the beginning of the year	71,704	24,921
Additions (1)	93,331	117,864
Write-offs	(108,048)	(64,260)
Charged to result arising on net monetary position	27,332	(7,261)
Re-measurement of foreign subsidiaries allowances	(423)	440
Balance at the end of the year	**83,896**	**71,704**

(1) Charged to result for the year – deducted from revenue.

Payment terms are agreed with customers according to market conditions. No interest is charged on outstanding balances.

The Company believes that the carrying amount of account receivables approximates its fair value.

The Company also believes that its exposure to concentration of credit risk is limited due to the large number of customers located in different geographic locations, and the fact that its biggest customers are large companies with strong credit situations. The Company believes that it is not exposed to significant credit risk and is not dependent on a single client. In the fiscal years ended December 31, 2019 and 2018, no single customer accounted for in excess of 10% of the Company's revenue.

Trade accounts receivable that are disclosed above, include amounts that are past due at the end of the reporting year under review. The aging of trade accounts receivable is as follows:

	2019	2018
Overdue (1)	462,032	593,229
To be due:		
Between 0 and 3 months	5,496,350	4,055,208
Between 3 and 6 months	27,357	26,465
Between 6 and 9 months	17,001	21,633
Between 9 and 12 months	16,449	21,833
Subtotal	**6,019,189**	**4,718,368**
Allowance for doubtful accounts	(35,592)	(60,316)
Allowance for trade discounts and volume rebates	(83,896)	(71,704)
Total	**5,899,701**	**4,586,348**

(1)Including receivables for 85,232 in 2019 and 96,221 in 2018 from public tenders.

Age of receivables that are past due but provisioned is as follows:

	2019	2018
Between 0 and 6 months	382,137	388,255
More than 6 months	44,303	144,658
Total	**426,440**	**532,913**

Age of impaired trade receivables is as follows:

	2019	2018
Between 3 and 12 months	8,904	48,117
More than 12 months	26,688	12,199
Total	**35,592**	**60,316**

8. TAX CREDITS

	2019	2018
• Current		
Net value added tax	821,346	388,741
Turnover tax credit	151,298	80,665
Income tax credit	76,869	113,256
Other tax credits	17,209	12,031
Total	**1,066,722**	**594,693**
• Non-current		
Net value added tax	66,679	51,814
Turnover tax credit	4,033	19,677
Tax Law n° 25,413	77,816	
Other tax credits	2,557	11,552
Total	**151,085**	**83,043**

9. OTHER RECEIVABLES

	2019	2018
• Current		
Judicial impounds (1) (Note 29b)	109,706	
Prepaid expenses	58,058	57,035
Advances to services suppliers	21,974	20,046
Insurance receivable	2,849	2,417
Guarantee deposits (Note 29b)	241	200
Loans to personnel	14,773	21,601
Other (Note 29b)	14,621	10,997
Subtotal	**222,222**	**112,296**
Allowance for doubtful accounts	(1,570)	(2,415)
Total	**220,652**	**109,881**

	2019	2018
• Non-current		
Regime for the professionalization of transport (2)	13,381	20,584
Receivables from customers in receivership and in bankruptcy	96,647	64,465
Guarantee deposits mortgage	72,364	
Guarantee deposits (Note 29b)	62	197
Other	3,422	7,175
Subtotal	**185,876**	**92,421**
Allowance for doubtful accounts	(93,851)	(65,233)
Total	**92,025**	**27,188**

(1) The Judicial impound on the Company is related to an examination proceedings carried out by the "Dirección de Rentas" of the province of Cordoba ("DRPC", provincial tax authority), which started in August 2014 and ended in December 2017 with a Turnover Tax official assessment. Since the Company's Board of Directors, Management and their tax advisors considered the claim was inadmissible and illegal on the grounds that the DRPC's behavior is incompatible with legal rules and judicial precedents, the Company decided to challenge such official assessment through administrative and judicial actions.

In December 2017, the Company filed a petition requesting that the Argentine Supreme Court hear the case as a court of original jurisdiction, grant an injunction and render the debt claim inadmissible. In June 2018, the Argentine General Prosecutor rendered an opinion favorable to the Company where it argued that the Argentine Supreme Court should hear the case as a court of original jurisdiction and that the necessary conditions for an injunction had been met. Currently, the record of proceedings is being read by the Judges of the Supreme Court. In January 2018, the Company filed a review remedy with the DRPC and in December 2018, the remedy was rejected by the latter, thus confirming the debt claim. As a result, in February 2019, the Company filed an appeal with the Cordoba Court of Appeals in Administrative Litigation Matters upon prior filing of an insurance bond. The case is currently being heard by that court.

Despite the Company's challenging the assessment as explained in the paragraph above, the DRPC placed a judicial impound on the Company's bank accounts in the amount of 109,131 in August 2019 as a result of a tax collection enforcement proceeding brought in a different court. In the particular case of the judicial impound, the Company considers that this measure is incompatible with the provisions of the Provincial Tax Code in that the tax debt is not binding and final. However, the court where the judicial impound was requested, accepted the Company's petition to replace the money in the attached accounts for an insurance bond and rejected the petition filed by the DRPC, who asked for informative evidence on the financial strength of the insurance company that issued the bond.

Once all formal judicial steps were taken, on November 4, 2019, the Company was notified that the court rejected the replacement petition contradicting the decision made in September 2019. The Company will appeal the judicial decision and bring an action for nullity based on the contradicting decisions. This instance of judicial / provincial review is estimated to be solved favorably to the Company from mid-2020.

Notwithstanding this summary proceeding is still pending of decision, the Company's Board and their tax advisors believe that, based the substance of the dispute, there are high probabilities that the Supreme Court will render a decision favorable to the Company. It supports the fact that the Supreme Court accepted a new presentation that was made, providing some issues that have to do with the evolution of this discussion.

(2) In litigation.

The movement of allowance for doubtful accounts is as follows:

	2019	2018
• Current		
Balance at the beginning of the year	2,415	6,110
Additions (1)		292
Write-offs		(2,431)
Charged to result arising on net monetary position	(845)	(1,556)
Balance at the end of the year	**1,570**	**2,415**
• Non-current		
Balance at the beginning of the year	65,233	73,092
(Reversal) additions, net (1)	3,268	(15)
Transfers	28,811	9,595
Write-offs		(16,908)
Charged to result arising on net monetary position	(9,457)	(7,636)
Re-measurement of foreign subsidiaries allowances	5,996	7,105
Balance at the end of the year	**93,851**	**65,233**

(1) Net charge to selling expenses – Note 23.

10. INVENTORIES

	2019	2018
Resale goods	124,599	139,967
Finished goods	2,524,724	2,068,614
Work in progress	1,481,807	1,262,858
Raw materials, packaging and other materials	2,631,691	1,953,842
Goods in transit	133,049	381,501
Subtotal	**6,895,870**	**5,806,782**
Advances to suppliers	20,940	60,860
Total	**6,916,810**	**5,867,642**

11. PROPERTY, PLANT AND EQUIPMENT, AND OTHERS

	2019													
	Cost or revalued cost							Depreciation						Net Value
	Value at the beginning of the year	Exchange difference on translating foreign operations	Acquisitions	Transfers	Retire-ment and disposal	Revalua-tion variance (Note 3.6) (1)	Value at the end of the year	Accumulated depreciation at the beginning of the year	Exchange difference on translating foreign operations	Retire-ment and disposal	Depreciation Rate %	Depreciation Of the period	Acumulated depreciation at the end of the period	
Land and buildings (2)	7,224,260	(755)	21,103	243,465	14,439	95,398	7,569,032	372,217	(379)	9,532	2, 2.5, 2.86, 3.33, 4 & 5	191,716	554,022	7,015,010
Machinery and equipment (2)	10,034,641	(3,399)	76,272	906,647	106,154	1,636,248	12,544,255	1,742,872	(300)	90,616	5 & 10	945,059	2,597,015	9,947,240
Facilities and laboratory equipment (2)	4,524,966	(916)	24,594	506,766	1,883	363,542	5,417,069	1,494,368	(147)	903	5, 10 & 25	379,791	1,873,109	3,543,960
Furniture	668,623		19,726	8,377	28,337		668,389	632,174		28,141	25	19,713	623,746	44,643
Vehicles (3)	1,762,772	(80)	479	1,051	77,984		1,686,238	1,579,311	(19)	75,104	10 & 20	39,660	1,543,848	142,390
Work in progress	1,230,521		717,795	(1,424,680)	11,138		512,498							512,498
Advances to suppliers	223,360	7	41,305	(241,626)			23,046							23,046
Subtotal	**25,669,143**	**(5,143)**	**901,274**	-	**239,935**	**2,095,188**	**28,420,527**	**5,820,942**	**(845)**	**204,296**		**1,575,939**	**7,191,740**	**21,228,787**
Other:														
Trays	1,470,205		276,766				1,746,971	1,022,905			33	380,100	1,403,005	343,966
Carrying amount as of December 31, 2019	**27,139,348**	**(5,143)**	**1,178,040**	**-**	**239,935**	**2,095,188**	**30,167,498**	**6,843,847**	**(845)**	**204,296**		**1,956,039**	**8,594,745**	**21,572,753**

(1) Charged to other comprehensive income for 2,601,109 (profit) and to profit or loss for 505.921 (loss) in the heading "Excess of restated value over the revalued amount of assets measured at fair value".

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

Land and buildings	5,738,221
Machinery and equipment	3,473,260
Facilities and laboratory equipment	2,268,203

(3) Includes vehicles operated by freighters of Con-Ser S.A. and Logística La Serenísima S.A. with a net value of 114,774 as of December 31, 2019.

2018

	Cost or revalued cost								Depreciation								Net value
	Value at the beginning of the year	Exchange difference on translating foreign operations	Acquisitions	Transfers	Transfers to other assets	Retirement and disposal	Revaluation variance (Note 3.6) (1)	Value at the end of the year	Accumulated depreciation at the beginning of the year	Exchange difference on translating foreign operations	Transfers to other assets	Retirement and disposal	Depreciation Rate %	Depreciation Of the period	Eliminated on revaluation (Note 3.6) (1)	Accumulated depreciation at the end of the year	
Land and buildings (2)	7,346,202	18,343	15,786	171,014	(81,450)	4,727	(240,908)	7,224,260	317,325	12,225	17,009	61	2, 2,5, 2,86, 3,3, 4 & 5	193,433	(167,714)	372,217	6,852,043
Machinery and equipment (2)	7,266,852	14,640	111,392	419,241		13,935	2,236,451	10,034,641	1,697,505	8,850		3,052	5 & 10	707,320	(667,751)	1,742,872	8,291,769
Facilities and laboratory equipment (2)	3,983,582	5,413	33,417	365,975	(6,106)	2,812	145,497	4,524,966	1,426,153	3,706	(611)	2,070	5, 10 & 25	304,633	(237,443)	1,494,368	3,030,598
Furniture	662,290		14,569	3,803		12,039		668,623	621,372			11,988	10, 20, 25 & 33	22,790		632,174	36,449
Vehicles (3)	1,754,166	843	41,430	3,044		36,711		1,762,772	1,571,047	1,035		31,814	10 & 20	39,043		1,579,311	183,461
Work in progress	383,369		1,771,434	(922,450)		1,832		1,230,521									1,230,521
Advances to suppliers	68,963	683	194,341	(40,627)				223,360									223,360
Subtotal	**21,465,424**	**39,922**	**2,182,369**	**-**	**(87,556)**	**72,056**	**2,141,040**	**25,669,143**	**5,633,402**	**25,816**	**16,398**	**48,985**		**1,267,219**	**(1,072,908)**	**5,820,942**	**19,848,201**
Other:																	
Trays	1,161,236		308,969					1,470,205	753,374				33	269,531		1,022,905	447,300
Carrying amount as of December 31, 2018	**22,626,660**	**39,922**	**2,491,338**	**-**	**(87,556)**	**72,056**	**2,141,040**	**27,139,348**	**6,386,776**	**25,816**	**16,398**	**48,985**		**1,536,750**	**(1,072,908)**	**6,843,847**	**20,295,501**

(1) Charged to other comprehensive income for 3,773,954 (profit) and to profit or loss for 560,006 (loss) in the heading "Excess of restated value of the revalued amount of assets measured at fair value".

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

Land and buildings	5,697,685
Machinery and equipment	2,983,735
Facilities and laboratory equipment	2,099,322

(3) Includes vehicles operated by freighters of Con-Ser S.A. and Logística La Serenísima S.A. with a net value of 143,686 as of December 31, 2018.

12. OTHER ASSETS

	2019	2018
Assets retired from productive service	212,091	230,777
Participation in other entities	7,812	11,975
Total	**219,903**	**242,752**

13. LEASES

- **Right of use of asset**

	2019					
	Cost			Depreciation		Net Value
	Value at the beginning of the application of IFRS 16	Acquisitions	Value at the end of the year	Of the period	Accumulated depreciation at the end of the year	
Machinery and equipment	242,755	224,231	466,986	74,063	74,063	392,923

- **Leases liabilities**

The balance of the liability for leases as of December 31, 2019 amounts to 460,085. Fixed payments of 65,982 were paid during the fiscal year ended in 2019.

The payment of liabilities for leases due:

	2019
Current	69,366
Total current	**69,366**
Between 1 and 2 Years	79,027
Between 2 and 3 Years	82,392
Between 3 and 4 Years	74,865
Between 4 and 5 Years	51,315
Between 5 and 6 Years	42,433
Between 6 and 7 Years	47,815
Between 7 and 8 Years	12,872
Total non-current	**390,719**
Total	**460,085**

- **Charged to other gains and losses**

	2019
Depreciation of period	74,063
Accrued interest of period	42,487
Charges for short-term and low-value rentals	25,592

14. TRADE PAYABLE - CURRENT

	2019	2018
Trade payables	3,863,535	3,382,418
Related parties (Note 30)	892,238	870,574
Note payables	913,269	748,830
Foreign suppliers	91,091	426,740
Total	**5,760,133**	**5,428,562**

The aging of trade payable is as follows:

	2019	2018
Overdue:	19,225	23,890
To be due:		
Between 0 and 3 months	5,738,822	5,358,735
Between 3 and 6 months	1,154	8,109
Between 6 and 9 months	757	
Between 9 and 12 months	175	37,828
Total	**5,760,133**	**5,428,562**

The average credit period on purchases is between 30 and 60 days. No interest is charged on the trade payables.

15. BORROWINGS

	2019	2018
Short-term debt		
Principal:		
Financial debt:		
Unsecured debt	240,552	
Secured debt (Note 29a)	240,311	
Total - Financial debt	**480,863**	**-**
Accrued interest:		
Secured and Unsecured	3.156	
Total – Accrued interest	**3.156**	**-**
Total	**484.019**	**-**
Long-term debt		
Principal:		
Senior Notes Series F - due 2021 (net of issue costs and adjustment to amortized cost for 12,938 as of 12/31/2019 and 133,836 as of 12/31/2018)	11,946,701	11,447,347
Total - Senior Notes	**11,946,701**	**11,447,347**

Main loans agreements

Senior Notes – Series F – due 2021

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

The main characteristics of the Senior Notes are as follows:

Amount:	US$ 199,693,422
Issuing price:	100%
Maturity:	July 3, 2021
Payment:	Principal: 100% at maturity; interests: semi-annually on arrears
Annual interest rate:	12.625%
Use of proceeds (net amount of US$ 113,733,744):	• Repurchase of existing debt • Expenses related to the transaction (including taxes) • Payment of other short term debt • Working capital • Capital expenditures in Argentina

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

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

Global program for issuing Senior Notes

The General Ordinary and Extraordinary Shareholder´s Meeting held on October 17, 2017, resolved the creation of a global program for issuing Senior Notes for up to US$ 500,000,000 (US dollars five hundred million). The Board of Directors approved on November 7, 2017 the terms and conditions of such program, which was approved by the CNV on February 15, 2018 through its resolution N° 19.362.

16. ACCRUED SALARIES, WAGES AND PAYROLL TAXES

	2019	2018
Payroll and bonus to management	923,951	953,522
Social security taxes	382,521	406,586
Total	**1,306,472**	**1,360,108**

17. TAXES PAYABLE AND ACCRUAL FOR TAX RELIEF

	2019	2018
• Current		
Tax withholdings	213,046	221,806
Taxes, rates and contributions (net from advances)	43,518	37,262
Payment plan – Law N° 26,476 and others		4,630
Total	**256,564**	**263,698**

18. PROVISIONS

	2019	2018
• Current		
Accrued litigation	2,625	258
Other	2,928	196
Total	**5,553**	**454**
• Non-current		
Accrued litigation	10,943	29,044
Other	875	2,135
Total	**11,818**	**31,179**

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

• Current		
Balance at the beginning of the year	454	4,253
Payments made	(7,643)	(6,438)
Charged to result arising on net monetary position	(157)	(807)
Transfer from non-current allowance	12,899	3,446
Balance at the end of the year	**5,553**	**454**

	2019	2018
• Non-current		
Balance at the beginning of the year	31,179	32,251
Increases (1)	2,785	10,173
Payments made	(2,966)	(1,246)
Re-measurement of foreign subsidiaries allowances	(1,202)	1,567
Charged to result arising on net monetary position	(5,079)	(8,120)
Transfer to current allowance	(12,899)	(3,446)
Balance at the end of the year	**11,818**	**31,179**

(1) Charged to other gain and losses - Note 26.

19. OTHER LIABILITIES

	2019	2018
• Current		
Debt for acquisition of subsidiary company (Note 29a)		14,499
Other	28,465	28,782
Total	**28,465**	**43,281**
• Non – current		
Deferred revenue on trademark licence	9,663	9,770
Other	11,802	
Total	**21,465**	**9,770**

20. DEFERRED TAX

Deferred tax assets:

	2019	2018
Temporary differences:		
Provisions and other non-deductible accrued expenses	39,218	37,989
Cash and cash equivalents	(22)	
Inventories	3,086	
Property, plant and equipment, and others	(184)	346
Trade payables	680	
Tax inflation allowance	387	
Tax loss carry-forwards	907	
Total	**44,072**	**38,335**

Deferred tax liabilities:

	2019	2018
Temporary differences:		
Provisions and other non-deductible accrued expenses	234,985	97,939
Cash and cash equivalents	(15)	(935)
Inventories	157,876	104,651
Intangible assets	443	205
Other assets	(51,902)	(55,547)
Property, plant and equipment, and others	(4,528,508)	(4,244,071)
Net right of use	17,739	
Investment property	(9,486)	(8,116)
Trade payables		(163)
Borrowings	(3,882)	(40,122)
Tax inflation allowance	(474,027)	
Deferred revenue	(7,213)	
Tax loss carry-forwards	1,281,925	1,303,157
Alternative minimum income tax	65,858	365,148
Total	**(3,316,207)**	**(2,477,854)**

The unused tax loss carry-forwards filed with tax authorities by Mastellone Hermanos S.A. and its subsidiaries recognized as of December 31, 2019 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
2015	778,456	30%	233,537	2020
2016	303,091	30%	90,926	2021
2017	9,153	30%	2,746	2022
2018	2,398,166	30%/25%	677,176	2023
2019	1,111,047	25%	277,857	2024
2019	1,720	34%	590	Non Limit (1)
			1,282,832	

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

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

	Balance at the beginning of the year	Reduction of tax loss carry-forwards	Foreign currency exchange differences	Charge to profit (loss) for the year (Note 27)	Charge to Other comprehensive income (loss) (Note 27)	Balance at the end of the year
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(4,107,824)		(202)	161,885	(674,684)	(4,620,825)
Tax loss carry-forwards	1,303,157	(31,869)		21,792	(10,248)	1,282,832
Total 2019	**(2,804,667)**	**(31,869)**	**(202)**	**183,677**	**(684,932)**	**(3,337,993)**
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(3,344,452)		4,517	188,875	(956,764)	(4,107,824)
Tax loss carry-forwards	742,082	(2,715)		575,696	(11,906)	1,303,157
Total 2018	**(2,602,370)**	**(2,715)**	**4,517**	**764,571**	**(968,670)**	**(2,804,667)**

In addition to the registered tax losses, as of December 31, 2018, there were 105,049, 17,328 and 872,685 of the Company's tax losses (taxable base) whose prescription dates were 2019, 2020 and 2023, respectively, and 324,483 subsidiaries with prescription dates between 2019 and 2024 that had not been recognized as assets considering that at the date of issuance of these financial statements there are no elements to validate their recoverability.

21. REVENUE

	2019	**2018**
Product sales		
Local Market	55,113,060	55,461,569
Foreign Market	9,831,862	5,054,849
Services provided	1,072,538	1,178,453
Turnover tax	(1,672,673)	(1,267,507)
Sales discounts and volume rebates	(5,404,071)	(6,736,482)
Sales returns	(1,021,334)	(1,028,939)
Total	**57,919,382**	**52,661,943**

Sales commitments

- The Company has agreed to meet export commitments of powdered milk and whey until February 2020 for a total of approximately 5,528 tons with an estimated contract value US$ 17,100 thousand.

- Additionally, the Company has entered into agreements with national public agencies until March 2020 for the sale of approximately 2,862 tons of powdered milk with an estimated contract value of 729,200.

22. COST OF SALES

	2019	2018
Cost of goods sold:		
Inventories at the begging of the year	5,806,782	5,961,292
Purchases	30,931,120	25,015,428
Write-off of inventories	189,816	145,305
Production expenses (Note 23)	11,404,700	11,559,736
Re-measurement of foreign subsidiaries inventories	(4,779)	122,972
Benefits from industrial promotion (1)	(623,292)	(729,912)
Inventories at the end of the year	(6,895,870)	(5,806,782)
Subtotal - cost of goods sold	**40,808,477**	**36,268,039**
Cost of services rendered:		
Purchases	42,012	72,024
Production expenses (Note 23)	501,315	646,731
Subtotal - cost of services rendered	**543,327**	**718,755**
Total cost of sales	**41,351,804**	**36,986,794**

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

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

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

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

Pursuant to the decision rendered by the Federal Court of San Luis on March 19, 2015, which granted the injunction requested by Compañía Puntana de Carnes Elaboradas S.A. (a company merged into MSL), the Court ordered AFIP to credit the benefits accrued under the promotion regime, as requested. On May 23, 2016 and October 27, 2016, the Federal Court of Appeals of Mendoza decided to reject the appeal and the extraordinary remedy filed, respectively, by AFIP. Concerning the substantive issue, on September 27, 2016, a favorable judgement was granted to MSL, which was subsequently appealed. On June 28, 2017, the Federal Court of Appeals of Mendoza decided to reject the appeal filed by the AFIP. On September 27, 2017, the Federal Court of Appeals of Mendoza decided to reject the extraordinary remedy filed by the AFIP.

On March 31, 2015, the Federal Court of San Luis granted the injunction requested by MSL in relation to the recognition of benefits under the promotion regime for 15 years and ordered the AFIP to credit the promotional benefits for the restatement provided in resolution N° ME 1280/92. Such accreditation took place in June 2015. On April 4, 2017, the Federal Court of Appeals of Mendoza granted the appeal filed by the AFIP, revoking the injunction requested. On April 21, 2017 MSL filed an extraordinary appeal with the Federal Court of Appeals. On September 27, 2017, the Federal Court of Appeals accepted the extraordinary appeal filed by MSL. Concerning the substantive issue, on July 25, 2016, a favorable judgement was granted to MSL, which was subsequently appealed. On September 27, 2017, the Federal Court of Appeals of Mendoza decided to reject the appeal filed by the AFIP. The AFIP filed an extraordinary remedy, which was admitted by the Federal Court of Appeals of Mendoza on March 27, 2018. It is configured the federal issue that enables the Supreme Court of Justice instance ("CSJN"). On November 21, 2019, the CSJN rejects the Extraordinary Appeal presented by the AFIP and leaves the decision of the federal Chamber in favor of MSL.

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 DA.

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

	2019				
	Production expenses	Cost of services	Selling expenses	General and administrative expenses	Total
Remuneration to members of the Board of Directors and members of the statutory Audit Committee				45,694	45,694
Fees and compensation for services	1,020,232	2,228	2,741,293	269,793	4,033,546
Payroll, bonus and social security charges (*)	4,384,447	240,730	1,853,490	1,072,601	7,551,268
Depreciation of property, plant and equipment, and others	1,781,025	53,282	81,678	40,054	1,956,039
Amortization of intangible assets	3,492				3,492
Depreciation of right of use assets	74,063				74,063
Provision for bad debts			24,586		24,586
Freights	1,813,877		6,692,257	15	8,506,149
Maintenance and repair	310,172	14,788	43,262	838	369,060
Office and communication	3,447	1,140	5,155	8,244	17,986
Fuel, gas and energy	1,123,635	99,703	101,307		1,324,645
Vehicles expenses	53,915		53,275	9,085	116,275
Publicity and advertising			562,020		562,020
Taxes, rates and contributions	519,711	5,310	14,229	399,875	939,125
Insurance	192,597	3,872	60,327	19,297	276,093
Travelling	7,671		12,259	5,755	25,685
Export and import	935		125,558	772	127,265
Miscellaneous	115,481	80,262	28,152	87,283	311,178
Total	**11,404,700**	**501,315**	**12,398,848**	**1,959,306**	**26,264,169**

(*) Including exceptional expenses of senior management retirement as well as severance, incurred in order to increase operational efficiency for 63,757.

	2018				
	Production expenses	Cost of services	Selling expenses	General and administrative expenses	Total
Remuneration to members of the Board of Directors and members of the statutory Audit Committee				408,025	408,025
Fees and compensation for services	1,164,144	1,544	2,811,467	321,173	4,298,328
Payroll, bonus and social security charges(*)	5,053,193	314,144	1,937,924	1,355,133	8,660,394
Depreciation of property, plant and equipment, and others	1,370,771	48,340	88,612	29,027	1,536,750
Amortization of intangible assets	3,492				3,492
Provision for bad debts			32,283		32,283
Freights	1,860,977		6,726,165	38	8,587,180
Maintenance and repair	277,323	33,222	44,122	1,420	356,087
Office and communication	3,414	898	5,521	8,692	18,525
Fuel, gas and energy	1,115,626	157,047	119,392	242	1,392,307
Vehicles expenses	63,360		56,592	10,674	130,626
Publicity and advertising			800,333		800,333
Taxes, rates and contributions	316,687	6,076	12,731	362,337	697,831
Insurance	209,261	4,138	71,201	18,875	303,475
Travelling	14,269		8,408	5,639	28,316
Export and import	112		108,656	775	109,543
Miscellaneous	107,107	81,322	49,950	88,890	327,269
Total	**11,559,736**	**646,731**	**12,873,357**	**2,610,940**	**27,690,764**

(*) Including exceptional expenses of senior management retirement as well as severance, incurred in order to increase operational efficiency for 955,204.

24. INVESTMENT INCOME

	2019	2018
Interest and profits	284,251	151,896
Rental income	19,139	17,225
Other	154	204
Total	**303,544**	**169,325**

25. FINANCE COST

	2019	2018
Senior Notes	1,493,783	1,311,001
Other loans interest	49,920	10,553
Leases interest	42,487	
Other interests	66,689	15,270
Total	**1,652,879**	**1,336,824**

26. OTHER GAINS AND LOSSES

	2019	2018
Gain (Loss) on sale of property, plant and equipment and other assets	21,576	(9,487)
Charges to freighters	4,560	10,007
Provision for litigation and other expenses	(2,785)	(10,173)
Donations	(3,766)	(4,863)
Recovery of claims	2,779	2,103
Depreciation of investment property	(76)	(76)
Depreciation of other assets	(18,723)	(6,504)
Recovery of tax credits		3,866
Tax moratorium		(16,382)
Miscellaneous	(10,247)	(2,436)
Total – net (loss)	**(6,682)**	**(33,945)**

27. INCOME TAX AND ALTERNATIVE MINIMUM INCOME TAX

	2019	2018
Included in net loss for the year**:**		
Current income tax	(142,913)	(113,016)
Tax loss carry-forwards for the year	477,821	792,141
Net change in temporary differences	161,885	188,875
Effect of inflation in tax loss carry forwards	(456,029)	(216,445)
Alternative minimum income tax	17,039	(111,331)
Total – gain	**57,803**	**540,224**
Included in other comprehensive income**:**		
Current income tax	(10,248)	(11,906)
Net change in temporary differences	(674,684)	(956,764)
Total – (loss)	**(684,932)**	**(968,670)**

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

	2019	2018
Loss before income tax and alternative minimum income tax	(108,333)	(3,609,975)
Statutory income tax rate	30%	30%
Income tax at statutory income tax rate	32,500	1,082,993
Permanent differences		
Benefits from industrial promotion	186,988	218,974
Unrecognized tax loss carry-forwards	56,929	(166,876)
Rate change impact	69,742	(133,710)
Effects of restatement for inflation and others	(305,395)	(349,825)
Alternative minimum income tax	17,039	(111,332)
Total –gain	**57,803**	**540,224**

28. ADDITIONAL CASH FLOW INFORMATION

Changes in working capital

	2019	2018
Trade accounts receivable	(3,593,527)	(1,823,849)
Other receivables	(173,733)	(48,857)
Tax credits	(814,602)	(504,810)
Inventories	(1,253,751)	64,093
Trade payables	2,860,523	2,380,169
Accrued salaries, wages and payroll taxes	480,940	374,180
Taxes payable	99,978	55,955
Advances from customers	20,178	(501,315)
Provisions	(14,348)	(13,859)
Other liabilities	25,009	32,664
Total	**(2,363,333)**	**14,371**

Reconciliation of liabilities arising from the financing activity

	2019		2018
	Borrowings (current and non-current)	**Leases liabilities (current and non-current)**	**Borrowings (current and non-current)**
Balance at the beginning of the year	11,447,347		8,320,022
Increase by application of IFRS 16 and additions of year		466,986	
Proceeds from borrowings (1)	1,209,978		
Repayment of borrowings (1)	(791,299)	(45,988)	(15,543)
Accrued interests	1,627,491	42,487	1,344,870
Payment of interests (1)	(1,460,517)	(19,994)	(1,425,583)
Exchange differences and other financial income/losses generated in the year (net of the effect of inflation)	397,720	16,594	3,223,581
Balance at the end of the year	**12,430,720**	**460,085**	**11,447,347**

(1) Figures included in financing activities

29. PLEDGED AND RESTRICTED ASSETS

a) There are accounts receivable for 241,400 of the subsidiary Leitesol I.C.S.A. as of December 31, 2019 in guarantee of current loans for 240,311 at that date.

There are shares of Mastellone San Luis S.A. from the merger with Compañía Puntana de Carnes Elaboradas S.A. for a value of 22,407 as of December 31, 2018 in guarantee of other liabilities for 14,499.

b) Additionally, as of December 31, 2019 there were other receivables – guarantee deposits (current and non-current) for an amount of 303 (397 as of December 31, 2018) in guarantee of financial and commercial transactions and judicial garnishments and restricted assets disclosed in caption "other receivables – other" (current) for 109,706 as of December 31, 2019 (45 as of December 31, 2017).

c) The subsidiary company Con-Ser S.A. held certain properties encumbered with privilege of first grade for a net value of 20,822 as of December 31, 2019 (21,099 as of December 31, 2018) in guarantee of the business relationship with suppliers, for an undefined period while the commercial relationship between the parties is maintained. The guarantee amounts to US$ 1,395 thousand.

d) See also commitments for the financial debt described in Note 15.

30. RELATED PARTIES OUTSTANDING BALANCES

Company	Trade account receivables (current)		Trade payable (current)		Advances from customers (current)	
	2019	2018	2019	2018	2019	2018
Arcorpar S.A.	33,581	17,820	2,547	1,991		
Arcor Alimentos Bolivia S.A.	2,274	7,255		1,561		
Arcor S.A.I.C.		7,982	4,175	4,938		
Bagley S.A.	7,800		44			
Cartocor S.A.			15,694	21,535		
Frigorífico Nueva Generación S.A.	13	23				
Logística La Serenísima S.A.	475,850	1,157,904	869,167	839,943	1,919	14,979
Los Toldos S.A.	34	80	611	606		
TOTAL	**519,552**	**1,191,064**	**892,238**	**870,574**	**1,919**	**14,979**

31. RELATED PARTIES OPERATIONS

Transactions with related parties for the fiscal years ended December 31, 2019 and 2018 were as follows:

	2019	**2018**
Revenues		
Arcorpar S.A.	190,204	124,635
Arcor Alimentos Bolivia S.A.	18,273	33,197
Arcor S.A.I.C.	30,597	164,865
Bagley Argentina S.A.	79,970	10,817
Fideicomiso Formu	6,117	7,296
Logística La Serenísima S.A.	181,504	219,174
Los Toldos S.A.		26
Mundo Dulce S.A. de C.V.	15,565	
Purchase of goods and services		
Arcor S.A.I.C.	45,924	37,237
Arcor Alimentos Bolivia S.A.	2,614	
Bagley Argentina S.A.	37	
Cartocor S.A.	202,580	146,073
Logística La Serenísima S.A.	3,141,526	3,654,676
Los Toldos S.A.	8,850	7,149
Investment income		
Logística La Serenísima S.A.	18,700	49,892
Other gain and losses		
Logística La Serenisima S.A.	4,560	8,022

During the fiscal years ended December 31, 2019 and 2018, the Company paid a total of 144,128 and 742,983, respectively, in concept of remuneration and fees to members of the Board of Directors and executive officers. Abovementioned amounts include exceptional expenses for senior management retirement for 479,022 in 2018. The Company does not provide its Directors or executive officers with any type of pension, retirement or similar benefits.

Sales to related parties were made at the usual list prices of the Company. Purchases of goods and services were conducted at market prices.

The outstanding receivable and payable amounts are unsecured and will be settled in cash. No guarantees have been given or received, except for the guarantees described in Note 29. It has not been recognized any expense in the current year or in prior years regarding bad or doubtful accounts related to amounts owed by related parties

32. FINANCIAL INSTRUMENTS

32.1 – Capital management

The Company manages its capital in order to maximize its shareholders' return, by optimization of debt and equity balances according to its business plan. For that end, it takes part - directly or through its subsidiaries - in operations that involve financial instruments, which can give rise to several risks.

The Company is not subject to any requirement of capital settled externally.

Capital structure and debt ratio

	2019	**2018**
Debt (1)	12,430,720	11,447,347
Cash and cash equivalents	676,487	885,862
Net debt	11,754,233	10,561,485
Equity	13,625,267	11,762,785
Indebtness ratio	0.86	0.90

(1) Debt is defined as current and non-current borrowings, as detailed in Note 15.

32.2 – Financial instruments categories

Financial instruments were classified according to IFRS 7 in the following categories:

	2019	**2018**
Financial assets		
At fair value with changes to profit and loss		
Investment funds	140,853	179,893
Amortized cost:		
Cash and banks and short-term investments	535,634	705,969
Other financial assets	238	98,770
Trade accounts receivable	5,899,701	4,586,348
Tax credits	1,217,807	677,736
Other receivables	312,677	137,069
	8,106,910	**6,385,785**
Financial liabilities		
Amortized cost:		
Trade payables	5,770,681	5,444,639
Borrowings	12,430,720	11,447,347
Other liabilities	1,630,963	1,701,821
	19,832,364	**18,593,807**

32.3 – Risk management

The Company and its subsidiary companies are exposed to several risks derived from the ordinary course of business, from the debt taken in order to finance such operations and from the nature of the financial instruments that the Company has. Among the major risks that the Company is exposed to are: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

32.4 – Management of foreign exchange risk

The Company has assets and liabilities and performs transactions in foreign currency; consequently, exposures to exchange rate fluctuations are generated.

Balances of assets and liabilities denominated in foreign currency, considering as such currencies that are different from the functional currency of each company, are the following:

	2019	2018
Assets		
United States Dollar	945,637	156,215
Euro	428	395
Guarani	67,780	48,819
Brazilian Reais	1,168,254	1,017,414
Liabilities		
United States Dollar	12,024,788	11,626,771
Euro	24,997	381,597
Guarani	12,024	5,247
Brazilian Reais	449,688	150,910
Net currency exposure	(10,329,398)	(10,941,682)

Foreign currency sensitivity analysis

Considering the definition of functional currency for each company, the Company made transactions with foreign currency mainly in United States Dollar, and, to a lesser extent in Euro, Brazilian Reais and Guarani.

The impact it would have on the net foreign exchange position as of December 31, 2019, the increase in the value of foreign currencies by 43%, expressed in real terms considering inflation of 45%, would be a gain of 207 million Argentine pesos, with impact on other gains or losses in the year of 222 million Argentine pesos (gain) and by 14 million Argentine pesos (loss) in other comprehensive results.

The Company estimates that the risk emerging from the exposure of liabilities in foreign currency to devaluation is mitigated by the fact that, directly or through subsidiaries, there are sales denominated in foreign currencies (principally exports from Argentina and sales made in the Brazilian domestic market through the subsidiary Leitesol) which are summarized below for each of the year 2019 and 2018:

	2019	2018
Exports and foreign sales (consolidated amounts)	9,105,514	7,309,471

The Company understands that, for the reasons above outlined, it has a natural (although imperfect) coverage for the devaluation risk. Notwithstanding that, the Company, through the relevant areas, performs a permanent evaluation of these risks, in order to minimize it using the available alternatives.

32.5 – Management of the interest rates risk

The long-term debt of the Company is composed by Senior Notes Series F due 2021, which accrues interest at a nominal annual fixed rate of 12.625%. As of December 31, 2019, the Company does not have financial debt with variable interest rate.

32.6 – Management of the credit risks

Credit risk refers to risk arising from the possibility that a part fails to comply with its contractual obligations resulting in a loss to the Company or its subsidiaries. The greatest risk arises from trade accounts receivable. The Company considers that this risk is significantly limited by several factors:

- sales in the domestic markets of Argentina and Brazil are highly diversified to a large number of customers in different locations. At the same time, due to the nature of the products, sales operations are conducted on an ongoing basis, making it easier to track the status of the client. For larger customers, there is individual monitoring. In the fiscal years 2019 and 2018, no single customer sales represented more than 10% of total revenues of each year. Receivables from customers in receivership and in bankruptcy have been reclassified to other receivables and adequately provisioned.

- Exports to third parties take place almost exclusively through letters of credit confirmed locally.

Trade accounts receivable and other receivables are exposed to their nominal values less the related provisions for doubtful accounts, regardless of the guarantees covering certain accounts receivable. These balances do not differ significantly from their fair values.

32.7 – Management of liquidity risk

The Board of Directors has the final responsibility on managing liquidity risk, having established a suitable framework in order for the Company´s management to be able to handle requirements of financing for short, medium and long term and liquidity requirements. The Company manages liquidity risk by maintaining reserves and appropriate level of financial borrowings, and continuously monitoring future and real cash flows, and reconciling the maturity profile of financial assets and liabilities.

The following table details the due date of the Company´s non-derivative financial liabilities as from each year end. The amounts presented are the contractual cash flows without discount.

	2019	**2018**
Less than three months	7,007,552	6,600,403
Between three months and a year	845,527	520,210
Between one and two years	11,983,486	16,972
Between two and five years	2,522	11,583,615
More than five years	6,215	6,443
	19,845,302	**18,727,643**

The following table details the expected cash flows of the Company´s non-derivative financial assets as from each year-end.

	2019	**2018**
Less than three months	7,025,044	5,811,875
Between three months and a year	838,756	380,228
Between one and five years	243,009	193,445
More than five years	101	237
	8,106,910	**6,385,785**

32.8 – Fair value measurements

32.8.1 Fair value of the Company's financial assets and liabilities that are measured at fair value on a recurring basis:

Some of the Company's financial assets and liabilities are measured at fair value at the end of each year. The following table gives information about how the fair values of these financial assets and liabilities are determined.

Financial assets/liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	2019	2018		
Financial assets:				
Cash and cash equivalent:				Quoted bid prices in
Investment funds	140,853	179,893	Level 1	an active market.

32.8.2 Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except for the following, the Board of Directors considers that outstanding balances of financial assets and liabilities included in the financial statements represent their approximate fair value at the end of each year.

	2019		2018	
	Book value	Fair value	Book value	Fair value
		(1)		(1)
Senior Notes due 2021	11,946,701	10,015,002	11,447,347	11,725,947

(1) Fair value hierarchy: Level 2.

33. SEGMENT INFORMATION

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

The accounting criteria used for the preparation of management financial information which has been used by the Board of Directors of the Company during 2019 and 2018 were based on the application of the accounting rules described in Notes 2 and 3., with the exception of IAS 29 referred to in Note 2.1, i.e., with historical currency financial information, and without computing income tax expense.

The company’s Board of Directors has identified the following segments:

- **Dairy products:** Includes the sales of products manufactured with the raw milk purchased by the Company directly to dairy farmers located in Argentina and, to a lower extent, to other dairy companies. Such sales are made in the Argentine domestic market (mainly retailers and public agencies), in the Brazilian domestic market (retailers) and the international markets (exports to third parties).

- **Other:** Includes principally services related to the transportation of raw milk and other associated to the coordination of such transport (purchases and sales of trucks, spare parts, etc.).

The reconciliation between the information reported by the segments and the consolidated financial information is as follows:

Information	2019				
	Dairy	**Other**	**Total**	**Adjustments (1)**	**Total consolidated financial information**
Revenue from external customers	47,011,781	931,208	47,942,989	9,976,393	57,919,382
Intersegment revenue	5,455	79,195	84,650	19,162	103,812
Cost of sales	31,592,070	732,879	32,324,949	9,026,855	41,351,804
Selling and administrative expenses	11,553,861	215,176	11,769,037	2,589,117	14,358,154
Investment income, finance cost, exchange differences (loss) gain, Gain arising on net monetary position and Excess of restated value over the revalued amount of assets measured at fair value	(5,678,508)	24,787	(5,653,721)	3,342,646	(2,311,075)
Other gains and losses	(4,700)	(5,413)	(10,113)	3,431	(6,682)
Net (loss) income	(1,807,958)	13,353			(108,333)
Assets allocated to the business line	34,930,221	259,888	35,190,109	2,095,919	37,286,028
Liabilities allocated to the business line	23,393,721	200,177	23,593,898	66,660	23,660,558
Additions to property, plant & equipment and others	980,956	4,108	985,064	192,976	1,178,040
Depreciation of property, plant & equipment and others	1,102,104	2,128	1,104,232	851,807	1,956,039
Amortization of intangible assets	428		428	3,064	3,492
Depreciation of right of use assets	52,568		52,568	21,495	74,063
Depreciation of investment property	4		4	72	76
Depreciation of other assets	7,348		7,348	11,375	18,723
Write-off of inventories	172,134		172,134	17,682	189,816
Income from domestic market	39,082,518	931,208	40,013,726	8,800,142	48,813,868

Information	2018				
	Dairy	**Other**	**Total**	**Adjustments (1)**	**Total consolidated financial information**
Revenue from external customers	27,235,242	944,691	28,179,933	24,482,010	52,661,943
Intersegment revenue	1,941	72,216	74,157	70,752	144,909
Cost of sales	17,939,676	838,380	18,778,056	18,208,738	36,986,794
Selling and administrative expenses	8,107,800	185,209	8,293,009	7,191,288	15,484,297
Investment income, finance cost, exchange differences (loss) gain, Gain arising on net monetary position and Excess of restated value over the revalued amount of assets measured at fair value	(3,583,632)	7,016	(3,576,616)	(190,266)	(3,766,882)
Other gains and losses	(7,922)	4,742	(3,180)	(30,765)	(33,945)
Net (loss) income	(2,403,788)	(67,140)	(2,470,928)	(1,139,047)	(3,609,975)
Assets allocated to the business line	19,865,464	207,261	20,072,725	12,793,514	32,866,239
Liabilities allocated to the business line	13,386,892	168,778	13,555,670	7,547,624	21,103,294
Additions to property, plant & equipment and others	1,399,009	4,031	1,403,040	1,088,298	2,491,338
Depreciation of property, plant & equipment and others	604,849	1,977	606,826	929,924	1,536,750
Amortization of intangible assets	429		429	3,063	3,492
Depreciation of investment property	4		4	72	76
Depreciation of other assets	2,431		2,431	4,073	6,504
Write-off of inventories	79,369		79,369	65,936	145,305
Income from domestic market	23,210,681	944,691	24,155,372	21,197,100	45,352,472

(1) It corresponds to the effect of the restatement of the financial information to reflect the effects of inflation by application of the methodology established by IAS 29. In addition, the information corresponding to the fiscal year ended on December 31, 2018, includes the restatement of the figures in order to reflect the effects of inflation as of December 2019 currency.

Additionally, the Board of Directors reviews the information based on the following geographical segments:

Year	Revenue			
	Domestic market	Exports		Total
		Brazil and Paraguay	Other countries	
2019	40,013,726	4,446,669	3,482,594	47,942,989
2018	24,155,372	2,671,001	1,353,560	28,179,933

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

In compliance with General Resolution N° 629 issued by the CNV, we hereby report that the Company's corporate books (namely, the Book of Minutes of Shareholders' Meetings, the Book of Minutes of Board of Directors' Meetings, the Share Deposit Book, the Book of Attendance to Shareholders' Meetings and the Book of Minutes of the Statutory Auditing Committee) and statutory accounting books (namely, the Journal, the Inventory and Financial Statements Book and the Subsidiary Journals) that are currently in use are kept at the Company's legal address located at Almirante Brown Street N° 957, General Rodriguez, Province of Buenos Aires.

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

35. NEW FOREIGN EXCHANGE AND CUSTOMS REGULATIONS

1- Current exchange regulations

On September 1, 2019, the National Executive Power issued Executive Order No. 609 authorizing the Central Bank of Argentina (BCRA) to apply foreign exchange controls and tighter terms for currency settlement. Below are the main provisions of the Executive Order:

1. until December 31, 2019, the value of exports of goods and services shall be remitted into the country in foreign currency and/or converted in Pesos in the foreign exchange market; and

2. the purchase of foreign currency in the foreign exchange market and its transfer abroad shall be subject to prior approval, with the treatment differing depending on whether the transactions are made by individuals or legal persons.

As a result of this Executive Order, the BCRA issued several communications intended to adjust and govern foreign trade and foreign exchange regulations until December 31, 2019.

The Company's Board is monitoring the development of the situations described above and has concluded that they do not have a significant impact on the Company's financial position.

On December 28, 2019, National Executive Power Executive Order No. 91/2019 was published, amending Executive Order No. 609/19 that established the obligation to enter and liquidate foreign exchange currency in the local market for exports of goods and services, eliminating the application limit temporary until December 31, 2019 of said obligation. Consequently, it will govern permanently and until otherwise provided.

2- Regulations

On December 14, 2019, Executive Order No. 37/2019 was published, which amended the withholding regime or export rights of goods, and canceled the $ 4 limit for each exported US dollar established in Article No. 2 of the Executive Order No. 793/18 and its modifications.

In this way, the withholdings for the export of goods are the following:

i. Raw materials: the $ 4 cap was eliminated, so the 12% rate established in Executive Order No. 793/18 and amendments are applied;
ii. for merchandise included in the tariff positions of the Common Mercosur Nomenclature it is established that the additional rate will be 9% instead of 12%;
iii. manufactures: continue to apply the cap of $ 3 for each dollar exported.

Additionally, after the assumption of the new Government in December 2019, Law No. 27,541 of Social Solidarity and Productive Reactivation was issued, regulated by Executive Order No. 99/2019 published on December 28, 2019. The aforementioned Law contemplates the declaration of the public emergency until December 31, 2020, to apply measures to the economic and social situation, and includes a series of changes in the powers of the National Executive Power to administer the State in economic, financial, fiscal, administrative, pension, tariff, energy, health and social matters.

The Company's Board is monitoring the development of the situations described above and has concluded that they do not have a significant impact on the Company's financial position as of December 31, 2019.

36. APPROVAL OF THESE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorized to be issued on March 9, 2020.

Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

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

Report on the consolidated financial statements

1. Identification of the consolidated financial statements subject to audit

We have audited the accompanying consolidated financial statements of Mastellone Hermanos Sociedad Anónima (hereinafter "Mastellone Hermanos Sociedad Anónima" or the "Company") and its subsidiaries (detailed in Note 2.5 to the consolidated financial statements), which comprise the consolidated statement of financial position as of December 31, 2019 and the related consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other selected explanatory information presented in Notes 1 to 36.

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

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

The Company's Board of Directors is responsible for the preparation and presentation of the accompanying consolidated financial statements of the Company in accordance with International Financial Reporting Standards (IFRS) adopted by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE) as accounting standards, as they were approved by the International Accounting Standard Board (IASB), and incorporated by the National Securities Commission to its regulations, and for the internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements.

3. Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) issued by the International Audit and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), adopted in Argentina with the term established by the FACPCE through Technical Resolution N° 32 and Circulars of Adoption of Standards issued by the IAASB and the IESBA of IFAC N° 1 to 4. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures, substantially on a test basis, to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to errors or to irregularities. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

4. Opinion

In our opinion, the consolidated financial statements as of December 31, 2019, 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, 2019, and the consolidated profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the fiscal year then ended, in accordance with International Financial Reporting Standards.

English translation of the financial statements

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

General Rodriguez, Province of Buenos Aires, March 9, 2020.

Deloitte & Co. S.A.

GABRIEL GÓMEZ PAZ
Partner