Mastellone Hermanos S.A.
Consolidated Financial Statements
for the fiscal year ended
December 31, 2014

MASTELLONE HERMANOS S.A.

ANNUAL REPORT FOR FISCAL YEAR 2014

(Information not reviewed or covered by the independent auditors' report)

1. *Introduction*

We hereby submit to the consideration of shareholders the annual report and financial statements for the fiscal year ended December 31, 2014.

We must begin this report on a sad note. Mr. Pascual Mastellone, President of our Company (and of its predecessor) passed away this year. Through his efforts and leadership along more than 60 years he led the Company to the outstanding position it currently occupies, as a benchmark for the Argentine dairy industry and business in general. His loss has been lamented by all those who were acquainted with him along the years. We trust we will be able to follow his example and his teachings, although we are aware that his contribution will be irreplaceable.

2. *Macroeconomic Aspects*

In global terms, the performance of the world economy has been in line with the amounts of previous years. Pursuant to studies conducted by the International Monetary Fund (World Economic Outlook – October 2014), the estimated changes in gross domestic product (GDP) have been as follows:

Changes in GDP	2012	2013	2014	2015
World	3,4%	3,3%	3,3%	3,8%
Advanced economies	1,2%	1,4%	1,8%	2,3%
Emergent markets and developing economies	5,1%	4,7%	4,4%	5,0%
Selected countries / regions				
China	7,7%	7,7%	7,4%	7,1%
Latin America & the Caribbean	2,9%	2,7%	1,3%	2,2%
Brazil	1,0%	2,5%	0,3%	1,4%
European Union	-0,3%	0,2%	1,4%	1,8%

A general positive trend may be noted, and an improvement is expected in the growth indicator for 2015, after several years of relative stability. As usual, developing economies are expected to have an above-average performance. However, circumstances are more complex in China and Brazil, and the performance of these two countries might have an impact on the Argentine economy and the dairy industry in particular. China's growth is clearly experiencing a slowdown, and Brazil has had only a modest growth.

The above global amounts obscure set of circumstances that vary greatly between different countries or regions. It is a fact that in central economies, such as Europe and Japan, strong promotion actions had to be taken in order to pull them off a chronic stagnation that entailed huge social costs. These promotion actions have had the immediate effect of a decrease of interest rates in those economies, which resulted in an appreciation of the U.S. dollar and a deterioration of commodity prices. No great news is to be reported on financial issues either. Interest rates are still kept at near zero levels in the U.S. market, something that is unfortunately not within the reach of Argentine companies, which are exposed to significantly higher costs and their consequent impact on their competitive position.

The Argentine economy continued to show a negative trend for the third consecutive year. Based on figures published by the Argentine Institute of Statistics and Censuses, the GDP might have increased by 2.9% in 2013, but remained virtually stagnant during the nine months ended September 30, 2014, while the Monthly Economic Activity Estimator, prepared by the same agency, showed a 0.2% drop in the accumulated amount for the first nine months in 2014 and as compared to the same period in 2013. Estimates by private analysts indicate a decrease of GDP of around 2% in 2014, with a similar expectation for 2015.A similar discrepancy may be observed between official and private estimates as regards price increases in 2014, official estimates showing a change of around 25%, while private estimates point to an increase between 35% and 40%. In the fiscal area, an increase has been experienced in the use of the so-called property income (basically, the income of the Argentine Central Bank) to take care of a public expenditure that has increased at a higher rate than revenues. In the foreign exchange area, the Argentine peso was significantly devalued in January 2014. This devaluation was then largely offset by subsequent cost increases, and the year has ended without any improvement in Argentine competitiveness. Finally, the dispute between Argentine and the financial creditors who had refused to accept the financial restructuring terms of 2005 and 2010 has escalated. These creditors obtained a favorable judgment that is now final and conclusive but has not been complied with by Argentina, and this has extended to other failures in the payment of the debt subject to restructuring.

Argentine economic perspectives for 2015 indicate, for the time being, that the difficulties referred to above will continue: (i) a very low, in the best of cases, and probably negative growth, (ii) a significant increase in price levels, (iii) a complex fiscal condition, in spite of a high tax pressure, and finally (iv) uncertainty with respect to possible agreements with the financial creditors that did not accept the 2005 and 2010 refinancing arrangements, which will add to previous restrictions to credit access and a high tax pressure. In summary, the Company will again have to face significant challenges in fiscal year 2015 in order to improve its financial results.

3. ***<u>The Dairy Industry – International Overview</u>***

3.1 Changes in 2014

Once again, the prices of dairy commodities experienced surprising changes in the course of the year, this time due to a significant fall as compared to 2013 amounts.

Year	Highest	Lowest	Year-end	Average
2012	3.638	2.750	3.325	3.229
2013	5.600	3.325	5.138	4.713
2014	5.150	2.400	2.450	3.768
Changes				
2013 vs. 2012	54,0%	20,9%	54,5%	45,9%
2014 vs. 2013	-8,0%	-27,8%	-52,3%	-20,0%

Notes:

- Average prices for Oceania exports, in US$ per ton.
- Source: United States Department of Agriculture (“USDA”)

The downward trend of international prices intensified in the last months of 2014, and the year ended with a price of US$ 2,450 per ton – less than half the price of late 2013, the cause of which is examined below.

a) Supply

Based on an analysis of the events in 2014, it may be pointed out that large dairy exporters (Argentina, Australia, the United States of America, New Zealand and the European Union, which collectively represent more than 90% of the international supply), which were very active in 2011 and 2012, increasing their physical volumes by more than 15% during such two-year period, grew by only 1.8% in 2013, but increased their supply by around 5.5% in 2014. There is no doubt that the good prices observed during 2013 have had an influence. In other words, dairy supply has reacted with an understandable one-year delay to the price signals received from the market.

b) Demand

On the side of demand, a similar growth was observed only in Chinese purchases, which doubled from 2010 to 2014, but increased much less in 2014 than in 2013. At the same time, even in those cases when short-term demand must be satisfied, a weak price scenario usually leads buyers, naturally enough, to delay the consummation of new transactions, which only aggravates the cycle.
This mismatching of supply and demand, in conjunction with other factors that were described above, explains the weakness of international prices for dairy commodities in 2014.

c) Market fundamentals

Several market fundamentals are related to the conditions observed in 2014, in addition to the mismatching of supply and demand, including:

- A revaluation of the U.S. dollar vis-à-vis all other currencies (contrary to the trend observed in the previous decade), which largely reflected different monetary and interest rate policies applied in major economies for the purpose of encouraging growth (the European Union and Japan being in a relatively weak position in relation to the United States of America, and therefore requiring promotion actions that weaken their currencies).

- The slowdown in Chinese demand, in particular during the second half of 2014.

- Other interferences from outside the market, such as the Russian prohibition of dairy imports from certain sources.

3.2 Perspectives

Again, the relation of supply and demand and changes in key market factors must be examined to understand the future perspectives of international prices:

- As to the relation of supply and demand, it is to be expected (i) on the side of supply, a decrease of primary production, which at the prices in effect in late 2014 has been significantly affected in terms of profitability, and (ii) on the side of demand, a gradual recovery to the extent a change in price trends is observed and buyers take a more active position by making their purchases at an earlier time.

- It is to be expected that the current U.S. dollar revaluation process will continue, given that it ultimately arises from interest rate differentials related to economic promotion actions taken in certain central economies (basically those that have not yet made a full recovery, while a recovery has in fact been observed in the U.S. economy), although probably at a slower pace than that experienced in recent months.

- Non-market factors, such as the restrictions applied by Russia on certain dairy imports, are difficult to forecast by their very nature.

Taking all these precedents in conjunction, a price recovery is to be expected, in particular as from the second quarter of 2015.
As we have stated above, international prices have become substantially more volatile in recent years, and we do not expect this to change in the foreseeable future.

3.3 Effects on the Argentine Dairy Industry

During the first nine months in 2014 the Argentine dairy industry was not affected by the fall in international prices, and in fact exports could be made at prices exceeding those in effect in 2013. This particular circumstance may be explained by several reasons:

- Existing transactions already in progress or committed under commercial terms established on a date prior to the global price collapse.

- Smaller exportable balances on account of the decreased primary production.

- The fact that major falls in international prices occurred in the fourth quarter of 2014.

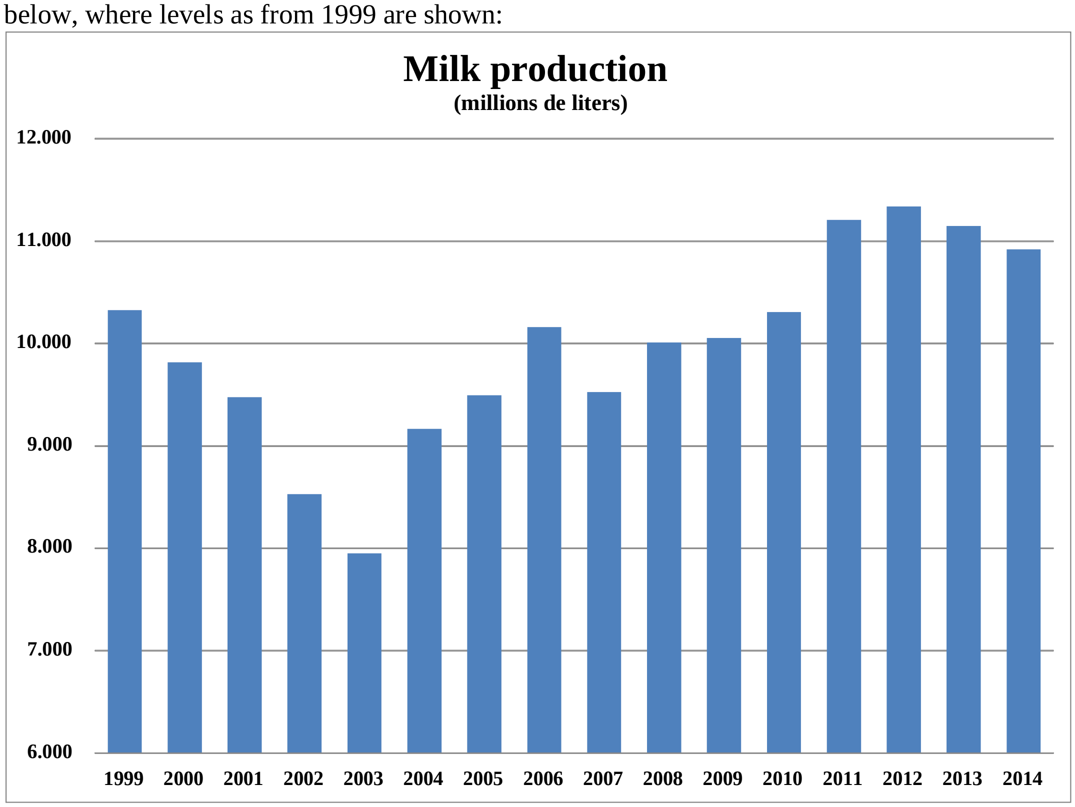
- Certain preference access conditions for Argentine exporters that provide an easier access to certain markets with a willingness to pay a preference price.

In late 2014 it became evident that the time had come for actual world events to begin having a significant effect on the Argentine dairy industry, given this industry's lack of competitiveness on account of actual raw material costs in the new price context. The scope of all this will be discussed in more detail in the following section.

4. <u>The Argentine Dairy Industry</u>

4.1 Changes in production in 2014

Milk production experienced a decrease for the second consecutive year in 2014, as shown in the graph below, where levels as from 1999 are shown:



Notes:

- In millions of liters
- Source: CIL

- 2013 and 2014 amounts are preliminary.

The major cause of the fall in production – which may be provisionally estimated at 2% - is understood to be derived from the weather conditions experienced in particular from late 2013 to mid-2014 (high temperatures followed by excessive rains that adversely affected the condition of fields to a significant degree up to several months later). These difficulties were more deeply felt in the Province of Buenos Aires, which has a larger share in our Company's supply, and consequently we have been adversely affected in excess of the Argentine average.

These events occurred at a time when domestic demand remained relatively stable and international prices, although weak, had not experienced the big fall they suffered during the last months in 2014, while being offset, for Argentine exporters, by earlier purchase orders closed at higher prices. This resulted in a significant mismatch, and its obvious effect on raw milk market prices. Finally, in the fourth quarter, the fall of international prices was fully felt, and at the same time domestic demand began to show signals of a growing weakness, which marked the beginning of a change in trend.

Also, we were affected not only by the general circumstances described above, but also by the actual occurrence of marginal transactions where, given their particular features (which involve tax elusion), buyers were able to pay a higher price than under regular market conditions, a fact that in itself intensified the fall in our receipts doubling the average rate of reduction in our area of influence.

Finally, the cause of the high sensitivity of dairy production to negative weather factors must be more fully explained, in particular to readers not familiar with the technical details of the dairy industry. In recent decades our industry has seen a process of improved efficiency, which is evidenced by the behavior of some indicators, such as average cow production. The situation is summarized in the following table, where it may be seen that the improvement of such indicator in Argentina is the highest within the group of large milk producers:

	2000	2014	Change	
Production per cow	kg per cow		liters	%
Major producers				
Argentina	4.000	5.700	1.700	42,5%
Australia	5.078	5.950	872	17,2%
European Union	5.858	6.070	212	3,6%
New Zealand	3.889	4.020	131	3,4%
United States	8.257	10.105	1.848	22,4%
Other				
Brazil	1.380	1.600	220	15,9%
China	3.629	4.160	531	14,6%
Mexico	1.368	1.800	432	31,5%
Canada	7.151	8.850	1.699	23,8%

Source: USDA

This circumstance, which is no doubt a cause of pride for our industry, in turn gives rise to undesired effects, and in particular to a higher animal sensitivity to events that affect them adversely, such as adverse weather factors or feeding changes.

4.2 Company Shares

We believe an increased level of activity is necessary, as a means to achieve the expected recovery in profitability and a more satisfactory use of assets. The availability of raw milk is the limiting factor in relation to this objective. We have contemplated the need to apply cutting-edge initiatives for this purpose, and decided to make stronger efforts for their actual implementation. These initiatives include, among others:

Increased cattle herd:

Through the use of sexed semen the proportion of future female offspring can be significantly increased, with the consequent impact on the number of cows available for production in the course of a few years.

Development of new milk producing areas:

The possible development of a new milk producing area has been examined in-depth, and the conclusion was that this option is absolutely feasible, not only from the point of view of producers but also as an activity that is supplementary to our commercial activities. The studies that were conducted show that the northwestern area of the Province of San Luis is a suitable location for this purpose. Also, if both production capacity and the company economic scale are increased, this initiative will make possible the achievement of savings in the costs of transportation of our products to end consumer markets, which provides an additional incentive for this project.

4.3 Perspectives:

In the short term, we must acknowledge that our prior positive expectations concerning an increased raw milk production have been affected by adverse factors, such as a larger-than-expected fall in international prices and its consequent impact on the industry's revenues (both manufacturing plants and producers), which will have some impact – not easily quantifiable at this time – on available milk volumes. In the medium term, we expect a return to a growing milk production in Argentina. This should make it possible to enter into a stage of further growth, which is necessary for an improvement in our income and fund generation. A remaining challenge is to get production costs to also make a contribution in this new stage, where the above mentioned primary production recovery will take place in a scenario of less dynamic domestic demand and volatile international prices that will be lower than in 2013. We trust that the proven efficiency of the Argentine dairy industry and our management ability as a Company will enable us to meet this challenge successfully.

In the medium and short term we believe that, given that the sustained growth of the dairy industry necessarily involves an increase in exports, the fall of international prices introduces a factor of uncertainty. In our opinion, in spite of the existing short-term challenges, medium and long-term conditions remain positive for the dairy industry, and for our Company within it. At currently prevailing prices milk supply will decrease in international markets, which will create the basis for a price recovery (as it has in fact occurred as from late January 2015) that will lead to a sustainable average price. Given Argentina's comparative advantages, interesting possibilities can be envisaged on this basis. As we have already said in our annual report for the previous year, for this purpose to be achieved it is necessary that all participants in the milk value chain will together find a mechanism that will allow us to benefit from the advantages of the general scenario, so that the dairy industry may continue to grow, thus avoiding entering again in the typical pendular stop and go processes that took place in the industry in recent decades.

5. **Sales**

5.1 Introduction

Our consolidated total sales amounted to AR$ 12,458 million in 2014, which represents a growth of AR$ 2,971 million, or 31.3%, as compared to the preceding year. In U.S. dollar terms (that is, translating the sales for each quarter to U.S. dollars at the exchange rate published by Banco de la Nación Argentina on the last business day of each period), these sales are equivalent to US$ 1,503 million. Our sales may be divided into four segments: sales to the Argentine domestic market, sales to Brazil's and Paraguay's domestic markets, exports to third parties and other sales (basically services). The share of each segment is shown in the table below:

Segment	Sales in thousands of AR$	%
Sales to domestic market – Argentina	10,831,011	86.9%
Sales to domestic market – Brazil & Paraguay	828,553	6.7%
Exports to third parties	482,438	3.9%
Other sales	315,767	2.5%
Total sales	**12,457,768**	**100.0%**

5.2 Domestic Market

5.2.1 Argentina

(i) Physical volumes sold

(a) Retail market

The following table summarizes the changes in our sales expressed in physical units (for comparative and calculation purposes, physical deliveries to the retail market were valued at the prices of late 2014) for the last three fiscal years. During the current fiscal year we were able to preserve our market share, and to summarize our present circumstances, we currently hold the largest market share in products representing approximately two thirds of our sales to retailers, and the second largest market share as regards the remaining third.

	2011	2012	2013	2014	Acum
Milk	1,3%	4,7%	-0,9%	-0,3%	4,8%
Cheese	24,2%	17,7%	-1,1%	-0,2%	44,3%
Other	6,6%	3,6%	0,2%	-0,8%	9,8%
Total	7,9%	8,1%	-0,8%	-0,4%	15,2%

Notes:

- Other: Includes butter, cream, *dulce de* leche (caramelized condensed milk), powdered milk and mayonnaise.

For the second consecutive year sales to the Argentine domestic market decreased. Our market shares having remained stable, as stated above, this would indicate a contraction of consumption, which as estimated by supermarket chambers amounted to 2.2% in 2014 in the food and beverage segment.

In the cheese segment, the new sale levels, which had doubled in terms of physical units in the three-year period 2009 / 2012, became stable. The smaller availability of milk raw material continued to have a negative influence.

(b) Sales to Governmental Agencies

Sales to Governmental Agencies decreased again in 2014 by AR$ 52.7 million or 14.7%, basically on account of a smaller demand from the Province of Buenos Aires.

(ii) Business Developments

We occupy a clearly leading position in the Argentine dairy market, but this leading position cannot be attained and maintained in the absence of considerable commercial efforts made with a focus on permanent improvement, always aiming at the satisfaction of consumer needs. These efforts may be more clearly appreciated in relation to some activities, such as those described below:

Development of new products:

New products continued to be developed and launched, always aimed at increasing a positive effect on consumers, and also seeking to add value to the Company's product portfolio. The dairy drink line Seremix and new versions of the Finlandia cheese line were launched in 2014, in all cases with excellent results.

This activity includes a prior research and development process, which demands a significant investment in terms of time. This has enabled us to have a large product portfolio available (we believe it is the largest in the market), and in this process we have developed an experience and a technology that we believe give us a competitive advantage.

Advertising:

We have kept up our considerable investment in advertising, in this case focused on the Football World Cup held in Brazil in 2014, which was used to our benefit for the promotion of a long-term relationship with women in their role as mothers. Also, the Company celebrated its 85th anniversary in 2014, and for this reason it oriented its promotion campaigns to establish a closer relation with consumers, expressing our appreciation for their recognition of and loyalty to our Company in the course of so many years.

Distribution:

Distribution activities continued with their usual efficiency, which made it possible to reach 72,000 points of sale throughout the Argentine territory, with adequate conditions of satisfaction for customers and consumers and within competitive costs.

Our brands:

Brand La Serenísima has retained its leading position in our industry and is one of the most highly appreciated brands in Argentina (including international brands), as it may be seen in the recognition achieved in 2014 to which reference is made in another section of this annual report. At the same time, this brand has already achieved significant recognition in Brazil, where it has been used for almost twenty years, and also in Paraguay, which has laid the commercial bases for our development in the region.

5.2.2 Regional Markets

Our sales in the Brazilian retail market are carried out through our subsidiary Leitesol and consist mainly in powdered milk. Powdered milk exports from Argentina to Brazil are limited due to a quota system (which has been in effect as from the end of the 1990s), which in fact establishes a maximum limit to Leitesol sales. Import licenses were issued regularly in 2014, which made possible a more accurate sales planning.

Also, Leitesol makes sales in the Brazilian retail market (in particular in the city of Sao Paulo) Parmesan cheese and *dulce de* leche (caramelized condensed milk). Although these products still have a relatively small share of sales, these products have shown an excellent trend in 2014 and their sales increased significantly as compared to 2013.

Leitesol sales amounted to the equivalent of US$ 107.8 million in 2014 (2013: US$ 108.8 million). This is attributable to an 8.3% increase in the average price of fractioned powdered milk, because sales in terms of physical volume decreased by 10.3% as compared to the previous year.

Leitesol's results were affected by the lower price of local milk, as a result of an increased supply in a stable demand scenario. For this reason, the cost of powdered milk imported by Leitesol from Argentina at international market prices were not competitive in relation to domestic prices in the end, which caused the above mentioned decrease of volumes.

Leitesol has 3,800 customers in Brazil and reaches 17,000 points of sale, mainly in the Northwestern area, which is the main consumer of powdered milk. Leitesol has an approximate 4.0% share in the total retail powdered milk market in Brazil and a 4.65% share in the Northwestern area.

We have continued with our operations in Paraguay, which are performed along the same lines applied in Brazil. Actions were taken as planned to improve efficiency and reduce selling expenses.

5.3 Exports to third parties

Exports to third parties fell for the second consecutive year in 2014, and amounted to US$ 59 million, which represents a 45.9% decrease with respect to US$ 109 million exported in 2013. The main reason for this fall was the decreased exportable balance resulting from the smaller entry of milk raw material and the relative stability of sales to the domestic market. On the other hand, the drop of international prices in the last quarter of the year was a further cause for decreased sales, because the Company resolved to refrain from making transactions at such low price level, while a possible price recovery during 2015 was also contemplated, and consequently we postponed exports to fiscal year 2015.

Around 86% of exports in both years consisted in powdered milk sales. The average price of these sales was slightly higher than in the preceding year, in spite of the dramatic drop of international prices, as a result, as stated elsewhere, of transactions closed at an earlier time and of efforts designed to optimize the selling price. However, the new transactions closed at the end of the year (to be delivered in 2015) showed at a substantial price reduction as compared to the average price for the whole fiscal year.

6. Manufacturing Activities

The production processed at our facilities, which reached a historic record in 2012, experienced a further drop estimated at 5.4% in 2014, in line with a lower milk production. As usual, market demand was met in due time and manner, and the usual quality of our products was maintained. All actions related to the launching of new products were successfully completed within the established time periods in each case.

In respect of our investments in property, plant and equipment designed to increase Company's operations, taking in consideration our doubts as to the levels of raw milk supply and domestic demand, the condition of international markets and our own financial restrictions, during the second half of the year we decided to postpone the execution of growth investments unless financing for this purpose was available under acceptable cost and maturity terms. In February 2015 a request for financial assistance was filed with the Argentina Ministry of Economy in the framework of the Argentine Fund for Economic Development (FONDEAR); this request is currently under analysis.

7. Subsidiaries

On October 1, 2014 we sold all our shares in our subsidiary Promas S.A. (which represented 100% of its capital stock), at a total price of AR$ 62 million, to be paid to us as follows: (i) AR$ 22 million have already been received, and (ii) the remaining AR$ 40 million balance will be received in four (4) equal installments, the first of them due on October 1, 2015 and the remaining three on the same date in subsequent years; interest will accrue on the unpaid balance at a 12% annual rate. Promas shares have been pledged as security for the payment of the purchase price debt. An AR$ 8.9 million loss was derived from this transaction.

After this sale, Promas S.A. ceased to be a subsidiary guarantor of our debt under our Series F Notes due 2021.

The activities of our other subsidiaries have continued as usual, and their results are included in the consolidated financial information that is being submitted. As in the case of the Company, our subsidiaries have been generally affected, depending on their individual nature, by the limited availability of raw milk, and thus ConSer, for instance, experienced a 4% decrease in the number of trips for the transportation of this material.

8. ***Human Resources***

8.1 General

Changes in the Company's number of employees in the course of the last five years are shown below (including employees of all the group companies, whichever the nature of their respective employment relationship):

Year	Argentina	Brazil	Total
2014	4.273	107	4.380
2013	4.519	109	4.628
2012	4.473	120	4.593
2011	4.237	118	4.355
2010	3.982	116	4.098

As usual, the compensation paid to employees was determined in accordance with the collective agreements signed with the relevant unions in each case and based on market amounts and practices. The decrease in the number of employees in 2014 was in part a result of the sale of Promas S.A.

8.2 Training

A significant investment in training continued to be made in 2014. A total of 640 courses were offered in the Company's facilities, with the attendance of 5,825 participants who devoted an aggregate of 42,999 man hours. This training was implemented taking into account the Company's specific needs, and were focused on personnel skills that are relevant for the performance of their different duties. Two Tailored Training Programs were developed at the CEMA University, with the participation of 58 employees.

In 2015 we plan to continue working actively in the development of middle management. For such purpose, activities at CEMA University will be continued. Also, in-house courses will be organized by our Training Department, with an emphasis on the knowledge of new technologies and the resolution of operating problems.

9. ***Corporate Social Responsibility***

Mastellone Hnos. has based its business, in the course of its 85-year life, on a vision of sustainability and a management based on transparency, an ethical conduct when carrying out its operations, an unrelenting effort to achieve maximum quality and promote healthy food for the community. Along this line, we assume our Corporate Social Responsibility (CSR) as a commitment that requires a significant effort in order to achieve an integrated and transparent sustainable performance across all the areas of

the organization. In recognition of its efforts in this respect, our Company was ranked first in a corporate social responsibility survey conducted in 2014 by magazine Mercado.
In this framework and as a part of its management of these issues, we have carried out different activities, the most salient of them including:

Company Management:

- Implementation of a Code of Ethics: In effect for several years now, this Code contains the rules that govern day-to-day work and expresses the values to be upheld. The Code addresses all Mastellone Hnos. employees, with the ultimate purpose of strengthening our values as a company and reinforcing work culture, on the basis of personal effort, honesty, a willingness to listen to other individuals and mutual respect.
- Voluntary subscription of a letter of commitment "For a decent work and against workplace violence:" In 2014, together with business colleagues that also adhered to a Memorandum proposed by the OAVL (Workplace Violence Advisory Office, under the Argentine Ministry of Labor, Employment and Social Security), we have worked on a "Workplace Violence Awareness and Prevention Manual" in business organizations so that Argentine companies may be able to promote decent working conditions that will eliminate workplace violence and assign value to human relationships.
- Promotion of union communication and relations: Mastellone Hnos. promotes an ongoing communication with union delegates and monitors permanent compliance with Argentine and international laws on workers' rights.
- Benefits for company employees: Aimed at providing benefits for an improved quality of life for employees and their families.
- Student Internship Program: Its purpose is to give future professionals a possibility to make practices in the Company, as a supplement to their educational training, and thus gain in experience and knowledge.
- Professionalizing Practice Program: Its purpose is to provide high-school students the possibility of a first contact with the working world. Activities are monitored by tutors both internal (supervisors) and external (teachers). Students from Parochial School "San Carlos Borromeo", Technical High School "Javier Tapie" from General Rodríguez, and "Fray Luis Beltrán" School from Saliqueló took part in this experience in 2014.
- Implementation of the Healthy Argentina Plan: Under the "Healthy Argentina Plan", implemented by the Argentine Ministry of Health in order to promote healthy habits, the Company continued to perform different activities for the promotion of health, the fight against tobacco, the encouragement of physical activities and the promotion of healthy food during 2014.
- Social Inclusion Initiatives – Sensory Panel: Mastellone Hnos. has in place a sensory panel whose members are vision-impaired or blind persons specializing in the sensory (olfactory and gustative) examination of products.
- Management for an efficient use of water resources: Work was continued in 2014 under the slogan "continued improvement" to achieve a reduction of the use of well water and increase the use of recycled water, through various actions such as: its reutilization, recycling and/or recovery, permanent well monitoring, reduction of water loss, regulation of water flows used in industrial processes, reduced consumption of cooling water, modification of equipment, automation and a follow-up of the water efficient use index, among other actions.
- Campaign for an efficient use of electric power: This activity was begun in 2011 and is aimed at minimizing power consumption on the basis, among other actions, of the substitution of existing luminaires by low-consumption fixtures, LED luminaires, etc. In 2014 the General

Rodríguez plant was able to reduce its power consumption by almost 64% in the areas where it took action.

- Vegetable Oil Recycling Campaign: This activity started in 2011 and its purpose is to recycle vegetable oil waste resulting from the central plant canteen.
- Sustainable Waste Management and Waste Reduction: The industrial composting of organic materials was implemented, with the consequent benefit of resulting compost for soils. In December 2014 88% of all wastes were recycled, evidencing its efficient management.
- Internal Management Systems: We work pursuant to “certifiable” voluntary management systems under ISO 9001, ISO 17025, ISO 14001 and ISO 22000 international standards, the latter under FSSC 22000 food safety scheme. Consequently, the management, quality and environmental systems, together with all industrial management areas, take both corrective and preventive actions, through the use of methodological tools established in the system documents, with a focus on central process issues and continued improvement.
- Producer Service Office: Among the benefits provided by Mastellone to its milk producers, some training proposals focused on subjects of interest, an exclusive service office, technical assistance and advice and the possible access to technology through the provision of financial assistance are to be highlighted.
- Implementation of stringent routines for the control of raw material, products in process and finished products: With the ultimate purpose of keeping processes subject to studied and pre-established conditions, something to be noted is that the frequency of these controls takes into account the history and relevance of the measured parameter in relation to product quality and consumer health.
- Personnel awareness rising: We believe it is of central importance that all Company employees are fully aware of the significance of their individual role within the corporate social responsibility program.

External Management:

- Voluntary adherence to the United Nations Global Compact: In 2004 the Company voluntarily adhered to this world initiative promoted by the United Nations since 2004, and intended to establish a framework for the promotion of sustainable development through the inclusion, as an integral part of its strategy and operations, of the ten universal principles related to human rights, labor rules, the environment and the fight against corruption.
- Voluntary adherence to the Companies against Child Labor Network: Together with business colleagues that also support programs for the prevention and eradication of child labor.
- Membership of dairy- and food-industry related organizations and/or chambers working for sustainable development: Company officers take part in monthly meetings to do forefront work in areas related to CSR and sustainable management.
- Consumer Information Service: This service has been in operation for 24 years, receives consumers’ inquiries and claims and assists them with their requirements.
- Student Information Department: This department provides support to educational, student and teaching institutions at different levels, supplying information and answering inquiries in relation to the Company and its products, nutrition matters, the dairy chain value generally, environmental issues and CSR, among others.
- Nutritional Information Department: It provides advice and nutritional information to health professionals, consumers and Company employees. Also, it takes part in medical conferences, meetings, etc., organized by Professional Associations, providing advice, giving lectures or organizing workshops.
- Information to consumers on product packages: The Company now includes the FSC (Forest Stewardship Council) seal on some selected packages, emphasizing the importance of forests as

a source of oxygen and biodiversity. In this framework Mastellone Hnos. has worked since 2013 in conjunction with ECOPLAS to obtain a "recyclable polyethylene" certification for its fluid milk sachets and plastic bottles. These packages include a logo that not only specifies their recyclable polyethylene quality but also ensures that they will be more easily identifiable, recoverable and recyclable, also making waste separation by urban waste collectors easier.

- Functional, fortified, top quality products: They have been developed for the purpose of meeting the community's various nutritional needs, in compliance with the consensus reached by national and international reputable relevant agencies.
- Visits to manufacturing facilities: The Pascual Mastellone Industrial Complex facilities in General Rodríguez are open to community visits, under an open door policy that has been in effect for more than 40 years. In 2014, during the winter holidays, the Company opened the doors of the Mastellone San Luis industrial complex to its employees and their families.
- "La Serenísima va a la escuela" Program [*La Serenísima goes to school*]: Under this program Company officers, accompanied by nutrition professionals, makes visits to schools and conducts play activities designed to promote children's healthy habits. Subjects such as the different food groups, the importance of breakfast, calcium benefits and the need to make physical activities are discussed.
- Football World Cup for Kids: This is a world event where children from the five continents are invited to trust their own dreams and take part in a "true" World Cup. The Argentine edition, the winner of which represents Argentina in the final world competition, seeks to promote children integration and encourage them to practice sports in accordance with fair play standards.
- Promotion of communication through social networks (Facebook / YouTube): Mastellone Hnos. keeps these exchange channels open and listens to consumers, thus strengthening the relationship established with them in the course of its history.
- Student Scholarships: These scholarships are granted in conjunction with a world-renowned NGO – having its seat in General Rodríguez – to low-income high-school students with good average marks to help them pursue post-secondary and/or university studies.
- Social Investment Program: In the framework of its CSR policy and in order to strengthen its relations with the community, Mastellone Hnos. has implemented an extended Donation Program through which it is able to reach different institutions throughout Argentina. The Company, loyal to the social commitment it has assumed vis-à-vis the community since its origin, has maintained this Program in 2014.
- Public information through Internet: Basic information on the Company may be found in the future in the Company's website (www.mastellone.com.ar).

Finally, it should be noted that the Company makes available to its interest groups, on an annual basis and to strengthen its responsible management, a Sustainability Report describing the management of Mastellone Hnos. business units. This report is distributed in hard copy to each of its employees and as an e-file to the community in general through the Company's institutional website and social networks. Channels are kept open to receive feedback, suggestions and comments so as to enhance all instances of dialogue with its recipients and consequently improve its own performance.

10. Corporate Governance

In our previous annual reports we have described the features of the Company's corporate governance, which are explained in detail in those reports and also in our website (www.mastellone.com.ar). Corporate governance rules and our answers to questionnaires on this subject from the Argentine Securities Commission are attached as annexes to this report.

11. Recognitions awarded to the Company

Given the size we now have, our leading position in the dairy industry and the social sensitivity that is typical of our products, it is natural that we are highly visible in the economic and social scene of the countries where we do business. This has led us to be discussed – for several years now – in a number of studies on subjects of social and business interest. The recognitions awarded to the Company in 2013 and 2014 are detailed below:

Year	Study on	Performed by	Ranking
	Year 2013		
2013	Corporate reputation	Prensa Económica	4
2013	Brand Reputation	Prensa Económica	2
2013	100 Top image companies	Apertura - SEL Consultores	5
2013	50 Top brands	Target (Apertura) - SEL Consultores	4
2013	Brand reliability	Reader´s Digest	1
2013	Reputation of companies - general	Clarín - MERCO	10
2013	Reputation of companies - Food companies	Clarín - MERCO	2
2013	Best brands in the public's opinion	SEL Consultores	1
2013	Company reputation	Ámbito Financiero - CEOP	7
2013	Brand reputation	Ámbito Financiero - CEOP	2
2013	Corporate Social Responsibility	Mercado - Datos Claros	1
2013	Brand Footpoint	Kantar World Panel	1
	Year 2014		
2014	Corporate reputation	Prensa Económica	6
2014	Brand Reputation	Prensa Económica	2
2014	100 Top image companies	Apertura - SEL Consultores	5
2014	50 Top brands	Target (Apertura) - SEL Consultores	3
2014	Brand reliability	Reader´s Digest	1
2014	Reputation of companies - general	Clarín - MERCO	18
2014	Reputation of companies - Food companies	Clarín - MERCO	6
2014	Best brands in the public's opinion	SEL Consultores	1
2014	Company reputation	Ámbito Financiero - CEOP	5
2014	Brand Reputation	Ámbito Financiero - CEOP	1
2014	Corporate Social Responsibility	Mercado - Datos Claros	1
2014	Brand Footpoint	Kantar World Panel	1
2014	100 Hot Brands	Target (Apertura) - Young & Rubicam	1
2014	Best and Largest Companies - Food industry	Fortuna	1
2014	Company 0n line reputation	Mercado - Oh Panel	7

12. Financial Aspects

12.1 Sale of Assets

Contrary to 2013, no significant asset sales, other than the sale of subsidiary Promas, took place in this fiscal year.

12.2 Debt refinancing – new structure of indebtedness

As stated earlier, the relatively short-term maturity of the whole principal of our long-term financial debt (which in late 2013 amounted to US$ 171.2 million and included notes (*obligaciones negociables*) and loans payable in installments and with a final payment due in either 2015 or 2018) was a factor of tension that affected Company's finances. Faced with this circumstance, the Company issued notes in July 2014 for a principal amount of US$ 199.8 million, due 2021. This was the first issue of notes by an Argentine issuer (not including state-controlled entities) since 2012. Some of the notes were placed in exchange for some eligible portions of previous Company's debt, and the remaining part for cash, which was then used to finance a previous debt balance repurchase, while an amount was kept for general corporate use.

This is further proof of the Company's easy access to the investor community and marked a significant improvement in its capitalization structure, which may be appreciated by observing the now longer average maturity terms of its long-term indebtedness, which went from 2.8 years to 7 years.

13. Results of the Fiscal Year

13.1 Summary

Fiscal year results were adversely affected by (i) higher costs occurring during the year, the full incidence of which could not be passed on to sales prices, and (ii) the effect of the decline of international prices in 2014, which gave rise to a AR$ 100.2 million loss from the impairment of inventories to be exported (with a direct impact on the cost of sales).

13.2 Comparative consolidated results 2013 / 2014

	2014	**2013**
Continuing operations		
Revenue	12,457.8	9,453.8
Cost of sales	(9,012.5)	(6,722.9)
Gross profit	**3,445.3**	**2,730.9**
Selling expenses	(2,791.8)	(2,086.2)
General and administrative expeneses	(461.3)	(366.6)
Investment income	29.1	53.8
Finance cost	(267.5)	(164.9)
Loss on debt refinancing	(29.6)	0.0
Foreign exchange losses	(443.6)	(340.8)
Other gains and losses	1.1	119.5
Loss before taxes	**(518.2)**	**(54.3)**
Income tax and alternative minimum income tax	102.3	15.8
Net loss for the year from continuing operations	**(416.0)**	**(38.5)**
Discontinued operations		
Net loss for the year from discontinued operations	**(41.7)**	**(19.4)**
NET LOSS FOR THE YEAR	**(457.7)**	**(57.8)**
Other comprehensive income		
Exchange differences on traslating foreign operations	13.5	20.1
Gain on revaluation of property, plant and equipement	1,470.0	0.0
Other comprehensive income, net of income tax	**1,483.5**	**20.1**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**1,025.9**	**(37.8)**

The comparison with fiscal year 2013 results is also affected by (i) the absence of non-recurring profits in 2013 for a total amount of AR$ 126.1 million (related to the sale of assets for AR$ 90.9 and the purchase of subsidiary Compañía Puntana de Carnes Elaboradas for an amount of AR$ 35.2 million), and the presence of non-recurring losses for a total of AR$ 38.5 million in 2014 (derived from adjustments in the valuation of financial debt after its rescheduling in 2014 and losses from discontinued operations), and (ii) the impact of the change in the valuation method applied to property, plant and equipment from cost to revaluation, which has been explained elsewhere in this report.

13.3 Significant changes in Shareholders' Equity

	December 31			
	2014	**2013**	**Var.**	**%**
Total current assets	2,475.5	2,002.9	472.6	23.6%
Total non current assets	3,957.3	1,732.1	2,225.2	128.5%
Total assets	**6,432.8**	**3,735.1**	**2,697.7**	**72.2%**
Total current liabilities	2,244.6	1,897.2	347.4	18.3%
Total non current liabilities	2,508.6	1,184.2	1,324.4	111.8%
Total liabilities	**4,753.3**	**3,081.4**	**1,671.9**	**54.3%**
Non controlling interest	0.0	0.0	0.0	n/a
Total Shareholders' Equity	**1,679.5**	**653.7**	**1,025.8**	**156.9%**

13.4 Change of valuation method from cost to revaluation for certain classes of property, plant and equipment

It having become evident that using the revaluation method to measure certain classes of Property, plant and equipment would improve the quality of the information provided in the financial statements, the Board of Directors approved the change from cost to revaluation cost. For this reason, a specialized firm was hired to provide advice to the Board of Directors on the determination of the revalued amounts of certain classes included in this account. The result of their professional work is shown in the following changes in the accounts subject to analysis (amounts in thousands of Argentine pesos, as of December 31, 2014):

	Amounts as of December 31, 2014		
	Cost	**Revalued cost**	**Difference**
		(in thousands of pesos)	
Land and buildings	762,257	1,835,761	1,073,504
Machinery and equipment	259,606	1,033,129	773,523
Laboratory facilities and equipment	194,246	608,796	414,550
Total	**1,216,109**	**3,477,686**	**2,261,577**

Consequently, it was resolved that (i) the change from cost to revaluation in the valuation policy for the items of Property, plant and equipment set forth in the preceding table would be approved effective as of December 31, 2014, thus establishing a new accounting policy in these matters, (ii) the new amounts would be included in the Company's financial statements as of such date, and (iii) the above revaluation would be approved.

The remaining items included in Mastellone's Property, plant and equipment have been excluded from the change of valuation policy because of their own specific features. In effect, in the case of the works in progress, no improvement would be obtained in the information provided to readers of the Company's financial statements if they were revalued at fair value because these costs were incurred relatively recently. Other excluded assets comprise furniture, fixtures and equipment, vehicles and trays, whose book values are similar or quite close to their respective fair value, among other reasons on account of their higher turnover. Therefore, we believe that the information provided to readers of our financial statements would not be more relevant if the revalued cost method were applied.

Finally, it should be noted that the effect of the asset revaluation described above is somehow opposed to the loss from exchange differences recorded in recent fiscal years as a result of the liabilities used to finance such assets, and largely exceeds the accumulated amounts under such item in the last five years.

13.5 Treatment of results for the fiscal year

Result for fiscal year 2014 was a loss, consequently no distribution of dividends is proposed.

14. <u>Company's shares and perspectives</u>

As stated in other sections of this report, the Company has quite clear comparative advantages on which specific actions designed to improve profitability are based. They include, for instance:

- Access to a wide network of milk producers with whom a sound business relation has been established.
- An efficient industrial structure.
- A strong commercial presence, supported by brands of indisputable prestige and a distribution reaching all the points of sale for dairy products.

Based on these strengths, we trust we will be able to successfully meet the challenges of 2015 and subsequent years, through the implementation of active policies such as:

- Actions designed to preserve and improve operating results through a wide-ranging cost control, adequately neutralizing any increased costs that may arise.
- Actions designed to promote an increased receipt of raw milk, including some long-term measures such as the development of new milk producing areas and other actions aimed at increasing the size of milk producing herds.
- Actions of a commercial nature, including research and development activities in order to maximize customers' integral satisfaction and preserve our distinction with respect to competitors.

On the basis of these efforts, we hold an optimistic view of the Company's perspectives.

Buenos Aires, March 10, 2015

JOSÉ A. MORENO
President

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
ANNEX TO ANNUAL REPORT FOR FISCAL YEAR ENDED DECEMBER 31, 2014

Code of Corporate Governance
Updated at 03-10-15

1. Introduction

This Code of Governance defines the structure, composition and responsibilities of the management bodies of Mastellone Hermanos S.A. (hereinafter, "MHSA" or the "Company").

The Company is a corporation organized under the laws of Argentina and has been registered in the Public Registry of Commerce of the City of Buenos Aires on May 17, 1976.

The Company is the leading producer and distributor of fresh dairy products in Argentina, and ranks first in terms of market share for fluid milk, cream, butter and *dulce de leche* (caramelized condensed milk). It manufactures and distributes a wide-ranging line of fresh dairy products, including fluid milk, cream and butter, and also long-life dairy products, including cheese, powdered milk and *dulce de leche*.

The Company has taken active part in the dairy industry for more than 80 years. During this period, the Company has always been controlled by members of the Mastellone family.

2. Legal Framework

The Company's corporate governance practices are governed by:

a) Argentine Business Associations Law No. 19,550, as amended;

b) Argentine Law No. 26,831 – Capital Markets Law and Regulations thereunder (Executive Decree No. 1023/2013);

c) Resolutions issued by governmental agencies with competent jurisdiction on the Company; in particular, the Argentine Securities Commission ("CNV");

d) The Company's corporate bylaws;

e) Company's shareholders' agreements.

f) Agreements or contracts subscribed with the Company's financial creditors;

g) The resolutions and policies adopted by the Company's shareholders; and

h) The rules and practices established pursuant to this corporate governance code, and the Code of Ethics in particular.

3. Shareholders' Meetings

Shareholders' Meetings are the supreme governing body of the Company. Shareholders' Meetings may be Ordinary or Extraordinary, depending on the matters to be transacted, as prescribed by sections 234 and 235 of Law No. 19,550.

It has been provided that the following matters shall require approval by Class D shareholders:

- An amendment of the Corporate Bylaws.
- The creation or issuance of Company's shares or the issue of notes (negotiable obligations), whether or not convertible into Company's shares.
- The creation, purchase or disposition of any subsidiary or related company or any subsidiary's or related company's shares.
- The redemption, reimbursement and repayment of Shares, the issue or redemption of securities convertible into shares or other type of notes, modification of the terms of issue of shares, notes or convertible securities.
- An extension, tacit renewal or reduction of the duration of the Company.
- Any capital increases and the determination of an issue premium.
- A suspension or limitation of first-refusal rights.
- The acceptance of revocable or irrevocable contributions on account of future capital increases, whether made by Shareholders or third parties.
- Any merger, transformation, spinoff, initial public offering of shares or offer of shares to the public.
- A sale or disposition of the whole or a substantial portion of the Company's or any subsidiary's business or assets, including the determination of transfer prices.
- The purchase by the Company of shares, quotas or interests in any corporation, firm or company.
- The granting of guarantees, bonds or securities.
- The sale or purchase of, granting of use or franchising licenses on or any other disposition of trademarks and trade names and trademark rights generally.

The Company is a closed joint-stock company and its shareholders' meetings have always been unanimously attended by all its shareholders. Therefore, it is not deemed necessary at this time to take actions to promote the attendance of shareholders to these meetings.

At the request of shareholders representing 5% of the Company's Capital Stock, the Board of Directors shall call a Shareholders' Meeting to be held within forty days after the receipt of such request to consider the matters set forth therein and any other matters deemed advisable.

Shareholders' Meetings monitor and approve management actions by the Board of Directors.

4. <u>Board of Directors</u>

4.1 <u>General</u>

The Company's management is the responsibility of the Board of Directors appointed by a Shareholders' Meeting, which usually decides also the corresponding assignment of positions in the Board. The Board of Directors must answer for its actions and results to the shareholders. It directs and conducts the Company's business and monitors its implementation.

The number of board members and the rules for their appointment are governed by the corporate bylaws and any shareholders' agreements.

In accordance with such documents, the Board of Directors is formed by 5 Directors and up to 5 Alternate Directors, of which Class A, Class B and Class C Shareholders are entitled to appoint 1 Director and 1 Alternate Director each, while Class D shareholders are entitled to appoint 2 Directors and 2 Alternate Directors.

The Company's Shareholders have resolved that the number of Directors may be modified, and that this body may have up to 9 members. In such an event, Class A, Class B and Class C Shareholders shall be entitled to appoint 2 Directors and up to 2 Alternate Directors each, respectively, while Class D Shareholders shall be entitled to appoint 3 Directors and up to 3 Alternate Directors.

It has also been decided that Pascual Mastellone, Victorio B. Mastellone and José Mastellone shall be elected for life as Directors of the Company by Class A, Class B and Class C Shareholders, respectively. Upon Mr. Pascual Mastellone's death, Shareholders have resolved that Mr. José A. Moreno, the former First Vice President of the Company, shall fill the position of Executive Director and President thereof.

Decisions by the Board of Directors of the Company must be adopted with the approval of not less than one (1) Director appointed by Class D Shareholders.

The Board of Directors is responsible for the major decisions of the Company on strategic, economic, corporate, financial and technological matters. Its responsibilities include, among others:

- Determination of the strategic plan and management objectives.

- Approval of annual budgets and investment and financing policies, and monitoring the implementation thereof.

- Periodic management controls.

- Establishment of corporate governance, environmental and corporate social responsibility policies.

- Determination of the Company's internal control and risk management policies.

- Development of management training and education programs.

- Approval of any information issued by the Company, in particular any information addressed to shareholders, ensuring that such information is relevant, comparable, reliable and accurate, in accordance with applicable accounting principles.

The Board of Directors may delegate to first-line managers and external advisors, as it deems advisable, the analysis, implementation and subsequent control of each of the above mentioned matters.

The Board of Directors holds meetings – called by its Chairperson or at the request of any of its members – whenever necessary and not less than once every three months. The Chairperson establishes the agenda to be considered at each meeting.

4.2 Directors' Powers and Duties

Each director acts independently and is expected to adopt decisions prioritizing the Company's best interest, leaving aside any other interest that they may have.

Each director shall ensure that there is no conflict between his/her interests and those of the Company. In the event of any such conflict of interest, the director shall inform thereof to the other members of the Board and refrain from taking part in the consideration of the subject where such conflict is involved.

All Board members shall have the same powers and duties, and Board decisions shall be adopted by a majority of members (fully in compliance with the provisions of any existing shareholders' agreements), although the positive vote of a Director appointed by Class D shareholders shall be required.

4.3 Specialized Committees – Independent Directors

Given the Company's current shareholding structure and its particular operating features, the creation of specialized committees or appointment of independent directors has not been deemed necessary. The Board of Directors as such assumes the duties that might be delegated to specialized committees (as in the case of appointments and remunerations), assisted in each case by competent first-line managers.

For the same reason, no specific system of communication with shareholders has been developed. Shareholders are, however, entitled to the most ample access to information on the Company under the law and pursuant to shareholders' agreements. Notwithstanding the foregoing, they are kept regularly informed of the Company's management.

The creation of a body in charge of evaluating the Board of Directors' performance has not been deemed necessary either, this evaluation being left to the relevant shareholders' meeting.

4.4 Appointment and Duties of First-Line Managers

The Board of Directors appoints and removes first-line managers, applying in each case criteria based on their respective professional capacity and experience. The appointment and removal of first-line managers are reported through the channels established by the CNV (Argentine Securities Commission) for such purpose. The Company's Board of Directors believes that such publication provides sufficient information to outside parties.

Similar criteria are applied in the case of subsidiaries.

First-line managers answer to the Board of Directors for the results obtained in their respective areas.

4.5 Training

It is the Company's policy to promote training for all its employees, with particular emphasis on those that are believed capable of occupying higher ranking positions in the future. In relation to the Board of Directors and first-line management, the Company's policy is to support each individual member's and manager's training as deemed advisable by each of them at his/her own personal discretion, and assume any resulting costs.

4.6 No discrimination

While the appointment of Board members is the sole responsibility of shareholders' meetings (and in certain cases of the Supervisory Committee), the Company has included in its Code of Ethics (which is also applicable to its subsidiaries) certain provisions prescribing an equal, non-discriminatory treatment in all corporate actions.

4.7 Remuneration of the Board of Directors

Members of the Board of Directors may be paid a compensation for their duties, provided such compensation is in accordance with applicable regulations. The Company does not have in place any policy restricting the participation of Board members in companies other than those of the Group, provided the rules on possible conflicts of interest are duly observed.

5. Transactions between Related Parties

It has been established that no Class A Shareholders, Class B Shareholders or Class C Shareholders or any relatives thereof, either by consanguinity or affinity in any degree, shall be an employee and/or contractor of the Company and/or of any subsidiary or related company thereof.

Also, Class A Shareholders, Class B Shareholders and Class C Shareholders and any relatives thereof shall not be hired as contractors or suppliers of the Company, acting either directly or indirectly, through other companies or intermediaries.

Any relations of this kind that might possibly exist at this date shall be ended on December 31, 2018.

6. Relations with the Community

6.1 Public Communication

The Company operates a website where key information (financial statements, corporate bylaws, corporate responsibility reports, Code of Ethics, access to controlling agencies' websites, etc.) may be obtained.

The information contained in this website is under proper protection.

6.2 Company Actions as to the community

The Company has developed and plans to continue developing a number of actions indicative of its commitment to the community, such as economic contributions, manufacturing plants visit program, etc.

A detail of these actions shall be included in the corporate social responsibility balance sheets or similar documents to be published by the Company.

6.3 Environmental issues

The Company has made a commitment to the protection and preservation of the environment, with the ultimate purpose of having such environment transferred to future generations in a better condition in the course of years. To this end, the Company believes it advisable that this principle should not only govern its own daily operations but also be shared by its customers, suppliers and employees.

Code of Ethics

The Company's Code of Ethics, as it has been enacted and as may be amended in the future, establishes a basis for the behavior of all Company members and those of its subsidiaries, whichever their position or responsibilities.

However, higher ranking employees (such as Board members, first-line managers) are clearly expected to be more earnestly devoted to compliance therewith. They must not only take utmost care in their own personal compliance with the Code, but also (i) monitor compliance by all other members of the organization, and (ii) introduce any changes or updating that may be necessary.

7. Supervisory Committee

The Supervisory Committee is formed by three members and three alternate members, designated by a shareholders' meeting to hold office for one year. A policy encouraging or providing for the rotation of members has not been deemed necessary or advisable.

The Company does not believe it is necessary either to restrict the participation of Supervisory Committee members in other companies, to such an extent as no conflict of interest arises on such account.

It is not deemed improper – although this is not currently the case – for one person to be a member of the Supervisory Committee and at the same time perform duties as an external auditor.

8. <u>Independent Auditors</u>

Independent auditors are appointed by a shareholders' meeting. They must be members of well-renowned accounting firm.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

CONSOLIDATED INFORMATIVE SUMMARY
AS OF DECEMBER 31, 2014
(in thousands of Argentine pesos)

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

During the last quarter, international prices of dairy products deepened their fall and affected the closing values of new operations. At the same time, for the weakness in the prices, the demand has showed itself less active, which promoted this situation. Considering this situation, we had to postpone the closing of some exports in order to not confirming low prices, with the subsequent impact on cash flows (for the increase of inventories). For the same reason, we had to recognize a loss of approximately $ 100 million, related to the write-off of inventories, according to the new market prices.

2. CONSOLIDATED FINANCIAL POSITION

	2014	2013	2012	2011
		(in thousand pesos)		
Current assets	2,475,492	2,002,936	1,575,010	1,460,548
Non-current assets	3,957,302	1,732,122	1,597,375	1,479,482
TOTAL ASSETS	**6,432,794**	**3,735,058**	**3,172,385**	**2,940,030**
Current liabilities	2,244,611	1,897,221	1,433,589	1,067,418
Non-current liabilities	2,508,645	1,184,167	1,047,379	1,070,964
TOTAL LIABILITIES	**4,753,256**	**3,081,388**	**2,480,968**	**2,138,382**
Equity attributable to owners of the Company	**1,679,519**	**653,652**	**691,407**	**801,638**
Non-controlling interests	**19**	**18**	**10**	**10**
TOTAL EQUITY	**1,679,538**	**653,670**	**691,417**	**801,648**
TOTAL LIABILITIES AND EQUITY	**6,432,794**	**3,735,058**	**3,172,385**	**2,940,030**

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

	2014	2013	2012	2011
		(in thousand pesos)		
Continuing operations:				
Operational results – income	192,204	278,149	149,189	168,814
Investment income, finance cost, loss on debt refinancing and foreign exchange differences	(711,579)	(451,895)	(266,629)	(179,850)
Other gains and losses	1,138	119,462	18,673	4,259
Loss before taxes	**(518,237)**	**(54,284)**	**(98,767)**	**(6,777)**
Income tax and alternative minimum income tax	102,280	15,834	(16,729)	(1,446)
Net loss for the year from continuing operations	**(415,957)**	**(38,450)**	**(115,496)**	**(8,223)**
Discontinued operations	**(41,717)**	**(19,360)**		
Net loss for the year	**(457,674)**	**(57,810)**	**(115,496)**	**(8,223)**
Other comprehensive income (loss)	**1,483,542**	**20,058**	**5,265**	**(3,776)**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**1,025,868**	**(37,752)**	**(110,231)**	**(11,999)**
Net income (loss) attributable to:				
Owners of the company	1,025,867	(37,755)	(110,231)	(11,999)
Non-controlling interests	1	3		
Total comprehensive income (loss):	**1,025,868**	**(37,752)**	**(110,231)**	**(11,999)**

4. CONSOLIDATED STATEMENT OF CASH FLOWS

	2014	2013	2012	2011
	(in thousand pesos)			
Cash flows provided by operating activities	225,340	369,988	317,731	219,628
Cash flows used in investing activities	(217,129)	(117,773)	(203,264)	(139,114)
Cash flows provided by (used in) financing activities	46,823	(202,998)	(112,497)	(56,320)
Cash and cash equivalents provided in the year	**55,034**	**49,217**	**1,970**	**24,194**

5. PRODUCTION AND SALES VOLUME (*)

	ACUMULATED SALES			
	2014	2013	2012	2011
	(in thousand liters of milk)			
Domestic market	1,537,862	1,580,857	1,635,882	1,508,729
Foreign market	196,951	311,839	324,469	317,185
Total	**1,734,813**	**1,892,696**	**1,960,351**	**1,825,914**

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

6. RATIOS

	2014	2013	2012	2011
Current assets to current liabilities	1.10	1.06	1.10	1.37
Equity attributable to owners of the Company to total liabilities	0.35	0.21	0.28	0.37
Non-current assets to total assets	0.62	0.46	0.50	0.50
Loss to equity	(0.39)	(0.09)	(0.15)	(0.01)

7. OUTLOOK (*)

We believe the Company has clear competitive advantages, which could be seen as a strong platform for specific actions to improve its profitability. For instance:

- The access to a wide network of dairy farms, with a strong commercial relationship
- An efficient industrial structure
- A strong commercial position, supported by highly appreciated brands and a distribution reaching any point of sales of dairy products in Argentina

Based on these strengths, we believe the challenges of 2015 and the years after can be successfully faced, applying policies as the following:

- Actions to preserve and improve operating results, through a wide cost controls, properly offsetting the cost increases that could arise
- Actions to increase our milk reception, including some long-term programs such as the development of new dairy basins and other to increase the number of dairy cows
- Actions in the commercial aspect, including research and development to maximize the customer satisfaction and keeping our leadership in our business

Based on these actions, we are optimistic about the prospects for the Company.

(*) Information not reviewed by the Auditors.

City of Buenos Aires, March 10, 2015

JOSÉ A. MORENO

President

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2014
(in thousands of Argentine pesos)

	Notes	2014	2013
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	169,818	115,288
Other financial assets	6	77,930	20,755
Trade accounts receivable	7 & 28	801,575	796,551
Tax credits	8	73,827	65,505
Other receivables	9 & 28	39,526	40,887
Inventories	10 & 28	1,312,816	963,950
Total Current Assets		**2,475,492**	**2,002,936**
NON-CURRENT ASSETS			
Other financial assets	6	9,328	6,671
Tax credits	8	27,538	52,677
Other receivables	9 & 28	56,017	24,216
Deferred tax assets	19	6,568	11,633
Advances to suppliers			18,185
Property, plant and equipment, and others	3.6, 11 & 28	3,821,752	1,555,039
Investment property		1,190	1,360
Goodwill		3,121	3,121
Intangible assets	12	24,005	50,581
Other assets		7,783	8,639
Total Non-Current Assets		**3,957,302**	**1,732,122**
TOTAL ASSETS		**6,432,794**	**3,735,058**
LIABILITIES			
CURRENT LIABILITIES			
Trade payable	13	1,281,471	941,978
Borrowings	14 & 28	470,945	457,386
Accrued salaries, wages and payroll taxes	15	348,422	263,076
Taxes payable	16	110,735	106,924
Advance from customers		14,906	110,976
Provisions	17	1,522	1,273
Other liabilities	18 & 28	16,610	15,608
Total Current Liabilities		**2,244,611**	**1,897,221**
NON-CURRENT LIABILITIES			
Trade payable		10,583	9,731
Borrowings	14 & 28	1,655,561	952,266
Taxes payable	16 & 28	39,431	51,498
Deferred tax liabilities	19	758,697	125,772
Provisions	17	22,494	22,444
Other liabilities	18 & 28	21,879	22,456
Total Non-Current Liabilities		**2,508,645**	**1,184,167**
TOTAL LIABILITIES		**4,753,256**	**3,081,388**
EQUITY			
Common stock		457,547	457,547
Reserves		1,679,647	253,918
Retained earnings – including net result for the year		(457,675)	(57,813)
Equity attributable to owners of the Company		**1,679,519**	**653,652**
Non-controlling interests		**19**	**18**
TOTAL EQUITY		**1,679,538**	**653,670**
TOTAL LIABILITIES AND EQUITY		**6,432,794**	**3,735,058**

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, 2014
(in thousands of Argentine pesos)

	Notes	2014	2013
Continuing operations			
Revenue	20	12,457,768	9,453,799
Cost of sales	21	(9,012,467)	(6,722,914)
Gross profit		**3,445,301**	**2,730,885**
Selling expenses	22	(2,791,820)	(2,086,183)
General and administrative expenses	22	(461,277)	(366,553)
Investment income	23	29,143	53,842
Finance cost	24	(267,542)	(164,929)
Loss on debt refinancing	14	(29,602)	
Foreign exchange losses		(443,578)	(340,808)
Other gains and losses	25	1,138	119,462
Loss before taxes		**(518,237)**	**(54,284)**
Income tax and alternative minimum income tax	26	102,280	15,834
Net loss for the year from continuing operations		**(415,957)**	**(38,450)**
Discontinued operations			
Net loss for the year from discontinued operations	34	**(41,717)**	**(19,360)**
NET LOSS FOR THE YEAR		**(457,674)**	**(57,810)**
Net loss attributable to:			
Owners of the Company		(457,675)	(57,813)
Non-controlling interests		1	3
Net loss for the year		**(457,674)**	**(57,810)**

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, 2014
(in thousands of Argentine pesos)

	Notes	2014	2013
Net loss for the year		**(457,674)**	**(57,810)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		14,580	20,922
Income tax	26	(1,063)	(864)
		13,517	20,058
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment	3.6	2,261,577	
Income tax	26	(791,552)	
		1,470,025	-
Other comprehensive income, net of income tax		**1,483,542**	**20,058**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**1,025,868**	**(37,752)**
Total comprehensive income (loss) attributable to:			
Owners of the Company		1,025,867	(37,755)
Non-controlling interests		1	3
		1,025,868	**(37,752)**

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, 2014
(in thousands of Argentine pesos)

	Shareholders' contributions	Reserves					Retained earnings (losses)	Equity attributable to:		Total
	Common Stock	Legal reserve	Facultative reserve	Foreign currency translation reserve	Special reserve established by General Resolution N° 609/12 of the CNV	Property, plant and equipment revaluation reserve (Note 3.6)		Owners of the parents	Non controlling interest	
Balance at December 31, 2012	**457,547**	**15,273**	**30,682**	**1,489**			**186,416**	**691,407**	**10**	**691,417**
Net loss for the year							(57,813)	(57,813)	3	(57,810)
Other comprehensive income for the year, net of income tax				20,058				20,058		20,058
Total comprehensive income (loss) for the year				20,058			(57,813)	(37,755)	3	(37,752)
Resolution of General Ordinary Shareholders' Meeting held on March 26, 2013:										
Appropriation to special reserve (Note 3.17)					186,416		(186,416)			
Non-controlling interest arising on the acquisition of Compañia Puntana de Carnes Elaboradas S.A. and its capital increase									5	5
Balance at December 31, 2013	**457,547**	**15,273**	**30,682**	**21,547**	**186,416**		**(57,813)**	**653,652**	**18**	**653,670**
Net loss for the year							(457,675)	(457,675)	1	(457,674)
Other comprehensive income for the year, net of income tax				13,517		1,470,025		1,483,542		1,483,542
Total comprehensive income (loss) for the year				13,517		1,470,025	(457,675)	1,025,867	1	1,025,868
Resolution of General Ordinary and Extraordinary Shareholders' Meeting held on April 10, 2014:										
Absorption of accumulated losses					(57,813)		57,813			
Balance at December 31, 2014	**457,547**	**15,273**	**30,682**	**35,064**	**128,603**	**1,470,025**	**(457,675)**	**1,679,519**	**19**	**1,679,538**

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, 2014
(in thousands of Argentine pesos)

	Note	2014	2013
Cash flows from operating activities			
Net loss for the year		(457,674)	(57,810)
Adjustments to reconcile net loss for the year to net cash provided by operating activities:			
Income tax and alternative minimum income tax accrued		(102,280)	(16,754)
Finance cost		267,542	164,930
Loss on debt refinancing		29,602	
Foreign exchange losses		370,462	356,513
Depreciation of property, plant and equipment, and others		144,180	123,595
Additions to provision for doubtful accounts, sale rebates and provisions		24,453	31,933
Write-off of inventories		100,290	
Write-off of spare parts			681
Depreciation of investment property		170	170
Amortization of intangible assets		26,576	16,214
Gain on acquisition of subsidiary			(35,194)
Net loss from discontinued operations		41,717	
Gain on sale of investments in other companies			(25,077)
Gain on sale of property, plant and equipment, and others and investment property		(6,064)	(30,833)
		438,974	528,368
Changes in working capital	27	(170,563)	(125,655)
Subtotal		268,411	402,713
Payments of income tax and alternative minimum income tax		(43,071)	(32,725)
Net cash generated by operating activities		**225,340**	**369,988**
Cash flows used in investing activities			
Payments for property, plant and equipment, and others		(201,980)	(199,948)
Payments for intangible assets			(680)
(Payments) proceeds (to acquire) from sale of other financial assets		(57,577)	663
Proceeds from sale of subsidiary company		37,652	2,772
Proceeds from disposal of property, plant and equipment, and others and investment property		13,970	59,595
Net cash outflow on acquisition of subsidiary		(10,050)	(6,845)
Contributions from non-controlling interest on acquisition of subsidiary			5
Proceeds from sale of investments in other companies			26,605
Payments for other assets		856	60
Net cash used in investing activities		**(217,129)**	**(117,773)**
Cash flows from (used in) financing activities			
Proceeds from issue of Senior Notes – Series F		925,452	
Proceeds from other borrowings		152,734	184,358
Payment of Senior Notes and loans tranche A and B		(695,446)	(191,590)
Repayment of borrowings		(30,322)	(51,255)
Payment for refinancing debt issue costs		(41,856)	
Payment of interests		(263,739)	(144,511)
Net cash generated by (used in) financing activities		**46,823**	**(202,998)**
Increase in cash and cash equivalents		**55,034**	**49,217**
Decrease in cash from discontinued operations		**(504)**	
Cash and cash equivalents at beginning of year		**115,288**	**66,071**
Cash and cash equivalents at end of year		**169,818**	**115,288**

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 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 Juana Manso N° 555, 3rd Floor, Suite "A", City 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 Fortuna and to a lesser extent, the brand of some of its major customers.

The breakdown of consolidated companies in these financial statements is exposed in Note 2.5.

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, 2014 have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The adoption of such standards, as issued by the International Accounting Standards Board ('IASB'), was established by Technical Resolution N° 26 issued by the Argentine Federation of Professional Councils in Economic Sciences ("F.A.C.P.C.E.") and by the Comisión Nacional de Valores ("CNV"), Argentine Securities Commission. In accordance with the above mentioned accounting standards and regulatory standards, IFRS are mandatory for fiscal year beginning January 1st 2012.

The figures and other information for the fiscal year ended December 31, 2013 are an integral part of these consolidated financial statements and are intended to be read only in relation to those financial statements.

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 Applicable accounting policies

The consolidated financial statements have been prepared under the historical cost conventions, 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 share-based payment transactions that are within the scope of IFRS 2, 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.

2.3 New standards and interpretations effective from fiscal year beginning on January 1st, 2014 which are material to the Company

- The amendments to IAS 32 (Financial instruments: presentation) clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off". The application of this standard did not affect significantly the disclosures in the financial statements of the Company.

- The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity’s investment activities. Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities. The application of this standard did not affect significantly the amounts set out in relation to assets and liabilities of the Company

- IFRIC 21 (Levies) provides guidance on when to recognize a liability for a levy imposed by a government. The application of this standard did not affect significantly the amounts set out in relation to assets and liabilities of the Company.

2.4 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, 2014.

Standard	Name
IFRS 9	Financial instruments[1]
IFRS 15	Revenue [2]
Amendments to IFRSs (annual cycle 2010-2012)	Various IFRSs[3]
Amendments to IFRSs (annual cycle 2011-2013)	Various IFRSs[3]
Amendments to IFRSs (annual cycle 2012-2014)	Various IFRSs[4]
Amendments to IAS 27	Separate Financial Statements[4]
Amendments to IAS 16 and 38	Property, plant and equipment and Intangible assets [4]
Amendments to IFRS 10, 12 and IAS 28	Consolidated Financial Statements, Disclosure of Interests in Other Entities and Investments in Associates and Joint Ventures [4]
Amendments to IAS 1	Presentation of Financial Statements [4]

[1] Effective for fiscal years beginning on or after January 1st, 2018.
[2] Effective for fiscal years beginning on or after January 1st, 2017.
[3] Effective for fiscal years beginning on or after July 1st, 2014.
[4] Effective for fiscal years beginning on or after January 1st, 2016.

- IFRS 9 Financial Instruments issued in July 2014 replaces IAS 39 “Financial Instruments: Recognition and Measurement”. The new Standard includes requirements for the classification and measurement of financial assets and liabilities, a new expected loss impairment model and a substantially-reformed model for hedge accounting. The version of IFRS 9 launched in 2014 was issued as a complete standard and supersedes all previous versions.

  IFRS 9 is effective for reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company´s Board of Directors has to evaluate the impact of such standard and anticipates that IFRS 9 will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2018.

- IFRS 15 will replace IAS 11 and IAS 18 and the related interpretations (IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the new criteria, the way by which goods or services are grouped in order to recognize revenue can change. This core principle is delivered in a five-step model framework that will be applied to all contracts with costumers: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when the entity satisfies a performance obligation.

  IFRS 15 is effective for reporting periods beginning on or after 1 January 2017 with early application permitted. The Company’s Board of Directors has to evaluate the impact of such standard and anticipates that IFRS 15 will be adopted in the financial statements on the Company for the fiscal year beginning January 1, 2017.

- The annual improvements to IFRSs (2010-2012 cycle) introduce amendments to various standards, including amendments to IAS 16 (Property, plant and equipment), to IAS 19

(Employee benefits), to IAS 24 (Related parties), to IAS 38 (Intangible assets), to IFRS 2 (Share based payments), to IFRS 3 (Business combination) and to IFRS 8 (Operating segments).

The Company´s Board of Directors anticipates that such amendments will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2015. It is likely that changes will not affect significantly the amounts set out in relation to assets and liabilities of the Company. However, it is not possible to determine the potential impact in a reasonable manner until a detailed review is completed.

- The annual improvements to IFRSs (2011-2013 cycle) introduce amendments to various standards, including amendments to IAS 40 (Investment property), to IFRS 1 (First time adoption), to IFRS 3 (Business combination) and to IFRS 13 (Fair value measurement).

  The Company´s Board of Directors anticipates that such amendments will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2015. It is likely that changes will not affect significantly the amounts set out in relation to assets and liabilities of the Company. However, it is not possible to determine the potential impact in a reasonable manner until a detailed review is completed.

- The annual improvements to IFRSs (2012-2014 cycle) introduce amendments to various standards, including amendments to IFRS 5 (Non-current assets held for sale and discontinued operations), to IFRS 7 (Financial Instruments: Disclosures), to IAS 19 (Employee Benefits) and to IAS 34 (Interim Financial Reporting).

  The Company´s Board of Directors anticipates that such amendments will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2016. It is likely that changes will not affect significantly the amounts set out in relation to assets and liabilities of the Company. However, it is not possible to determine the potential impact in a reasonable manner until a detailed review is completed.

- IASB has amended IAS 27, “Separate Financial Statements” to allow the option of using the equity method of accounting for investments in subsidiaries, joint ventures and associates in the separate financial statements of an entity according to IAS 28.

  The Company´s Board of Directors anticipates that such amendment will not have effect on the separate financial statements of the Company, as subsidiaries are valued according to the equity method mentioned in Note 2.5 to the separate financial statements.

- The improvements to IAS 16 and IAS 38 were issued by the IASB to clarify when a depreciation method that is based on revenue that is generated by an activity may be appropriate. The improvement to IAS 16 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. Also, the improvement to IAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. This presumption may be rebutted only under limited circumstances set forth in the standard.

  The Company´s Board of Directors anticipates that such amendments will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2016. It is likely that changes will not affect significantly the amounts set out in relation to assets and liabilities of the Company. However, it is not possible to determine the potential impact in a reasonable manner until a detailed review is completed.

- IASB has amended IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” to address issues that have arisen in the context of applying the consolidation exception for investment entities.

  The Company´s Board of Directors anticipates that such amendments will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2016. It is likely that changes will not affect significantly the amounts set out in relation to assets and liabilities of the Company. However, it is not possible to determine the potential impact in a reasonable manner until a detailed review is completed.

- IASB has amended IAS 1 “Presentation of Financial Statements” to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply; clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that the order of the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

  The Company´s Board of Directors anticipates that such amendments will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2016. It is likely that changes will not affect significantly the disclosures in the financial statements of the Company. However, it is not possible to determine the potential impact in a reasonable manner until a detailed review is completed.

2.5 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 subsidiaries, with registered offices abroad, 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 2014	2013
Compañía Puntana de Carnes Elaboradas S.A. (1)	Slaughtering, preparation and preservation of meat and production and storage of miscellaneous food products	Argentina	99.99	99.99
Con-Ser S.A.	Transportation services, services for vehicle, sale of parts and distribution of cooling equipments	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
Promas S.A. (2)	Agricultural exploitation	Argentina		100.00

(1) Company acquired in 2013 fiscal year.
(2) Company sold in 2014 fiscal year. See note 34.

The financial position statements of Mastellone Hermanos Sociedad Anónima as of December 31, 2014 and 2013 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, 2014 and 2013, were consolidated based on financial statements of the subsidiaries companies for the years ended at such dates.

The Company acquired 99.99% of the capital stock of Compañía Puntana de Carnes Elaboradas S.A. ("Copuce") in May 2013. Such company is located in the city of Villa Mercedes, Province of San Luis and is included in the régime for promoted industrial activities for the developing of certain activities, including the manufacturing of dairy products. The acquisition price was approximately 35 million of pesos, from which (i) 20% was paid at the date of acquisition, (ii) 5% was retained to settle eventually payments related to unexpected issues at the date of acquisition (the remaining balance, according to the definitions established in the purchase agreement, if any, will be reimbursed to the sellers) and (iii) the remaining balance is being paid in four annual and consecutive installments, the first three installments corresponding each to 20% of the purchase price, and the last one for the remaining 15%, each installment being due on May 21, from years 2014 to 2017.

In accordance with the acquisition method described in IFRS 3 "Business combinations", the Company allocated the cost of the business combination of Copuce shares at the acquisition date. The identifiable assets acquired and liabilities assumed were measured at fair value, based on financial information as of May 31, 2013. At the date of acquisition, assets acquired amounted to 71 million and liabilities assumed amounted to 1 million. As a consequence of such allocation, the value of Copuce´s net assets was higher than the book value of Copuce in approximately 63 million pesos. The excess of the acquirer's interest in the net fair value of acquirer's identifiable assets and liabilities over the acquisition cost, which amounts to 35 million pesos, was recognized in profit and loss as a "bargain purchase" in fiscal year 2013. Such gain is exposed in other gains and losses caption in the consolidated statement of profit or loss.

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.

Exchange differences on monetary items are recognized in profit and loss in the year in which they arise.

3.3 Financial instruments

Financial assets and financial 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 recognised immediately in profit or loss.

3.4 Financial assets

Financial asset is any asset like: cash, time deposits in financial entities, equity instruments of other companies, contractual rights, or a contract which can or could be liquidated with the delivery of equity instruments of the Company.

Financial assets are classified into the following specified categories: “financial assets measured at fair value through profit and loss”, “available for sale”, “held-to-maturity” and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets must be recognized on trade date, it means date where the Company commits to purchase or sale an asset. The recognition method is consistent for all purchases or sales of financial assets of the same category.

3.4.1 Cash and cash equivalents

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

3.4.2 Financial assets at fair value through profit and loss

Financial assets are classified as at fair value through profit and loss when the financial asset is available for sale. A financial asset is classified as available for sale if it has been acquired principally for the purpose of selling it in the near term.

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 Held-to-maturity financial assets

Comprises corporate bonds with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. Revenue is recognized on an effective yield basis.

3.4.4 Loans and 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.

3.4.5 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).

3.4.6 Impairment of financial assets

Financial assets are assessed by the Company for indicators of impairment at the end of each reporting year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

3.4.7 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 are stated at the acquisition weighted average cost adjusted, if necessary at net realizable value. The net realizable value is the estimated price of sale less estimated costs to conclude such sale.

Based on the Board of Director´s analysis at December 31, 2014 and 2013, 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

- Beginning December 31, 2014 (effective date of revaluation), 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.

The Board of Directors decided to adopt the revaluation model as its accounting policy for such classes of Property, plant and equipment, in order to improve the quality of the information provided in the financial statements. The Board of Directors engaged a specialist valuer firm to advise them on the determination of the revalued amounts. 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.

On March 5, 2015, the Board of Directors approved the abovementioned revaluation of property, plant and equipment.

Any revaluation increase arising on the revaluation of such classes of property, plant and equipment is recognized in other comprehensive income and accumulated in equity (net of deferred tax liability effect). Land is not depreciated. Depreciation on 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.

Until December 31, 2014, land and buildings held for use in production, supply of services or for administrative purposes, machinery, equipment, facilities and laboratory equipment were measured at cost less accumulated depreciation and accumulated loss for any subsequent impairment.

- Furniture, vehicles and trays are measured at cost 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, less any recognized impairment loss. Cost includes professional fees and capitalized interests. 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.

- Assets acquired under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

- 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 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 less any subsequent accumulated depreciation.

3.8 Intangible assets

Intangible assets include costs of development of projects, brands and patents. The accounting policies for the recognition and measurement of these intangible assets are described below.

3.8.1. – Intangible assets acquired separately

Intangible assets with finite useful life that are acquired separately are carried at cost 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.

3.8.2. – Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the year in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.8.3. – Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately

3.8.4. – Derecognition of an intangible asset

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, 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, 2014 and 2013 no impairment losses were recorded.

3.10 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquire and the equity interests issued by the Company in exchange for control of the acquire. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively*;*
- liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net amounts at the acquisition-date of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net amount at the acquisition-date of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

3.11 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see previous paragraph) less accumulated impairment losses, if any.

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.

3.12 Other assets

These include mainly investments in other companies where no significant influence is exercised. These investments are valued at cost, which do not exceed their estimated recoverable value.

3.13 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.

3.14 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.

3.14.1 - Derecognition of financial liabilities

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.

3.15 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 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.

3.16 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

<u>Capital stock</u>

Capital stock is composed by contributions made by the shareholders, represented by shares and includes subscribed shares at their nominal value. Capital stock, which amounted to 457,547 as of December 31, 2014 and 2013, is composed by 194,428 nominative, non-endorsable shares of Ps. 1 par value, with 5 votes each and 263,119 nominative, non-endorsable shares of Ps. 1 par value, with 1 vote each.

<u>Legal reserve</u>

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.

<u>Facultative reserve</u>

These are reserves approved by Shareholders' Meeting for a special purpose.

The General Ordinary Shareholders' Meeting held on March 27, 2012 approved the appropriation to facultative reserve of the accumulated earnings.

<u>Special reserve established by General Resolution N° 609/12 of the CNV</u>

On September 13, 2012, the CNV issued Resolution No. 609, which establishes the appropriation of the positive difference between the opening balance of retained earnings disclosed in the financial statements for the first fiscal year in which application of IFRS is mandatory and the ending balance of retained earnings of the last fiscal year in which Argentine accounting standards were mandatory. Accordingly, entities that prepare for the first time financial statements in accordance with IFRS, must allocate the positive difference arising from such application to a special reserve. This reserve will not be distributed in cash or in kind to the shareholders or owners of the entity and could only be used for increases in capital stock or to offset retained losses. The Shareholders meeting celebrated on March 26, 2013 resolved the appropriation of this special reserve for 186,416 in accordance with such resolution (the amount corresponds to the net amount between 301,912 related to the positive difference between the closing balance of the previous standards and the opening balance of IFRS and the absorption of fiscal year 2012 net loss amounting to 115,496). During fiscal year 2014 this reserve was used to absorb accumulated losses.

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, being the effective date December 31, 2014. 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.

Accumulated earnings

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

3.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.18.1 Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company records cash discounts and volume rebates at the time the related revenue from product sale is recognized.

3.18.2 Services rendered

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

3.18.3 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.

3.19 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, 2014 and 2013, the Company capitalized in "Work in progress" of Property, plant and equipment, and others borrowing costs for 14,358 and 14,065 respectively.

All other borrowing costs are recognized in profit and loss in the period in which they are incurred.

3.20 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. There are no situations in which the Company qualifies as a lessor.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.21 Income tax and alternative minimum income tax

3.21.1. – Income taxes – current and deferred

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

3.21.1.1 – 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.

3.21.1.2 – Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements 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.

3.21.1.3. – 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

3.21.2. – 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 35% 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.

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 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.

- 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 and alternative minimum 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).

In Argentina, the Company is also subject to the payment of an alternative minimum income tax, which is calculated regardless of the economic results for the period. This tax is calculated using a rate of 1% of the total value of the assets, with certain deductions mostly to avoid double taxation and to encourage capital expenditures. The amounts paid on such tax can be credited against Argentine income tax obligation for a period of ten years.

5. CASH AND CASH EQUIVALENTS

	2014	2013
Cash and bank accounts	153,988	68,451
Investment funds	286	31,800
Short-term investments	15,544	15,037
Total	**169,818**	**115,288**

6. OTHER FINANCIAL ASSETS

	2014	2013
• Current		
Government bonds (1)	60,689	
Restricted investment funds (Note 28d)	8,872	9,554
Corporate bonds	7,513	7,506
Short-term investments - related parties (Note 29)		1,029
Short-term investments - other	856	2,666
Total	**77,930**	**20,755**

(1) The detail of Government bonds is as follows:

Class of bond	Nominal value	Quote	Recorded value
AA17 Bonar X	155	11.3450	1,758
AY24 Bonar 2024	358	11.5975	4,152
Par Ley USA	5,100	5.7000	29,070
Discount Ley USA	1,933	13.3000	25,709
			60,689

	2014	2013
• Non-current		
Long-term investments	9,328	6,671
Total	**9,328**	**6,671**

7. TRADE ACCOUNTS RECEIVABLE

	2014	2013
Third parties (domestic)	709,052	725,481
Related parties (Note 29)	89,188	62,645
Foreign receivables	11,066	7,219
Notes receivables	420	5,269
Tax incentives on exports	20,566	26,208
Subtotal	**830,292**	**826,822**
Allowance for doubtful accounts	(17,127)	(14,825)
Allowance for trade discounts and volume rebates	(11,590)	(15,446)
Total	**801,575**	**796,551**

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

	2014	2013
Balance at the beginning of the year	14,825	11,161
Additions (1)	6,021	5,336
Transfers	(332)	(1,321)
Write-offs	(3,968)	(511)
Re-measurement of foreign subsidiaries allowances	581	160
Balance at the end of the year	**17,127**	**14,825**

(1) Charged to selling expenses – Note 22.

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. An allowance for doubtful accounts with an age over 90 days past due is recorded, if necessary.

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

	2014	2013
Balance at the beginning of the year	15,446	6,192
Additions (1)	12,344	15,446
Write-offs	(16,200)	(6,192)
Balance at the end of the year	**11,590**	**15,446**

(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, 2014 and 2013, 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:

	2014	**2013**
Overdue	55,672	59,313
To be due:		
Between 0 and 3 months	752,572	733,009
Between 3 and 6 months	775	6,126
Between 6 and 9 months	301	1,734
Between 9 and 12 months	20,972	26,640
Subtotal	**830,292**	**826,822**
Allowance for doubtful accounts	(17,127)	(14,825)
Allowance for trade discounts and volume rebates	(11,590)	(15,446)
Total	**801,575**	**796,551**

Age of receivables that are past due but not impaired is as follows:

	2014	**2013**
Between 0 and 6 months	38,042	43,957
Between 6 and 12 months	503	531
Total	**38,545**	**44,488**

Age of impaired trade receivables is as follows:

	2014	**2013**
Between 3 and 12 months	12,756	10,788
More than 12 months	4,371	4,037
Total	**17,127**	**14,825**

8. TAX CREDITS

	2014	**2013**
• Current		
Net value added tax	37,401	44,750
Turnover tax credit	13,893	5,244
Income tax and alternative minimum income tax receivable	7,329	4,687
Other tax credits	15,204	10,824
Total	**73,827**	**65,505**
• Non-current		
Net value added tax	24,948	51,219
Turnover tax credit	491	730
Other tax credits	2,099	728
Total	**27,538**	**52,677**

9. OTHER RECEIVABLES

	2014	2013
• Current		
Prepaid expenses	9,283	10,445
Receivable from sale of subsidiary company	10,300	14,117
Receivable from sale of property, plant and equipment, and others	413	3,373
Advances to services suppliers	4,618	2,105
Recovery of decrees N° 7290/67 and 9038/78	3,992	
Insurance receivable	1,542	3,255
Guarantee deposits (Note 28c)	165	148
Related parties (Note 29)		41
Receivables from customers in receivership and in bankruptcy	225	215
Other (Note 28c)	9,846	7,778
Subtotal	**40,384**	**41,477**
Allowance for doubtful accounts	(858)	(590)
Total	**39,526**	**40,887**
• Non-current		
Receivable from sale of subsidiary company	30,882	
Régime for the professionalization of transport	17,567	17,567
Receivables from customers in receivership and in bankruptcy	16,530	16,906
Recovery of decrees N° 7290/67 and 9038/78		3,992
Receivable from sale of property, plant and equipment	5,845	
Guarantee deposits (Note 28c)	338	904
Other	119	1,558
Subtotal	**71,281**	**40,927**
Allowance for doubtful accounts	(15,264)	(16,711)
Total	**56,017**	**24,216**

The movement of allowance for doubtful accounts is as follows:

	2014	2013
• Current		
Balance at the beginning of the year	590	587
Additions (1)	323	3
Write-offs	(55)	
Balance at the end of the year	**858**	**590**

	2014	2013
• <u>Non-current</u>		
Balance at the beginning of the year	16,711	12,854
(Recovery) additions (1)	(386)	2,476
Transfers	332	1,321
Write-offs	(2,327)	(965)
Re-measurement of foreign subsidiaries allowances	934	1,025
Balance at the end of the year	**15,264**	**16,711**

(1) Net charge to selling expenses – Note 22.

10. INVENTORIES

	2014	2013
Resale goods	43,327	45,638
Finished goods	620,474	356,657
Work in progress	244,700	252,245
Raw materials, packaging and other materials	365,276	238,228
Goods in transit	23,968	66,720
Subtotal	**1,297,745**	**959,488**
Advances to suppliers	15,071	4,462
Total	**1,312,816**	**963,950**

11. PROPERTY, PLANT AND EQUIPMENT, AND OTHERS

2014

	Cost or revalued cost								Depreciation								Net value at the end of the year
	Value at the beginning of the year	Foreign currency exchange differences	Acquisi-tions	Transfers	Derecog-nised on disposal of a subsidiary	Retire-ment and disposal	Revaluation increase (Note 3.6)	Value at the end of the year	Accumu-lated depreciation at the beginning of the year	Foreign curren-cy exchan-ge differen ces	Eliminated on disposal of a subsidiary	Retire-ment and disposal	Depreciation Rate %	Depreciation Of the year	Eliminated on revaluation	Accumulated depreciation at the end of the year	
Land and buildings (1)	908,309	3,266	2,708	21,060	7,741	100	939,505	1,867,007	136,969	1,716	2,382		2, 2,5, 3,3 and 5	28,942	133,999	31,246	1,835,761
Olive plantations	50,166				50,166				15,465		15,465		2				
Machinery and equipment (1)	1,049,917	1,665	10,589	41,320	17,821	9,667	110,841	1,186,844	801,487	1,119	15,281	3,929	5 and 10	33,001	662,682	153,715	1,033,129
Facilities and laboratory equipment (1)	733,129	632	10,308	16,467	10,717	3,465	3,205	749,559	534,241	524	8,633	2,437	5, 10, 25 and 33	28,413	411,345	140,763	608,796
Furniture	50,371		3,174	127		643		53,029	40,972			634		4,562		44,900	8,129
Vehicles (2)	150,660	171	11,836		1,589	3,241		157,837	102,760	73	1,552	2,210	10 and 20	7,693		106,764	51,073
Work in progress	182,577		87,246	(64,878)	1,840			203,105									203,105
Advances to suppliers	4,315		13,436	(14,096)	499			3,156									3,156
Subtotal	**3,129,444**	**5,734**	**139,297**	**-**	**90,373**	**17,116**	**1,053,551**	**4,220,537**	**1,631,894**	**3,432**	**43,313**	**9,210**		**102,611**	**1,208,026**	**477,388**	**3,743,149**
Other:																	
Trays	94,578		62,683					157,261	37,089				33	41,569		78,658	78,603
Carrying amount as of December 31, 2014	**3,224,022**	**5,734**	**201,980**	**-**	**90,373**	**17,116**	**1,053,551**	**4,377,798**	**1,668,983**	**3,432**	**43,313**	**9,210**		**144,180**	**1,208,026**	**556,046**	**3,821,752**

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

Land and buildings	762,257
Machinery and equipment	259,606
Facilities and laboratory equipments	194,246

(2) Includes vehicles operated by freighters of Con-Ser S.A. and Logística la Serenísima S.A. with a net value of 26,072 as of December 31, 2014.

	2013													
	Cost or deemed cost						Depreciation							Net value at the end of the year
	Value at the beginning of the year	Foreign currency exchange differences	Acquisitions	Transfers and balances of acquired subsidiary	Retirement and disposal	Value at the end of the year	Accumulated depreciation at the beginning of the year	Foreign currency exchange differences	Transfers and balances of acquired subsidiary	Retirement and disposal	Depreciation Rate %	Depreciation Of the year (3)	Accumulated depreciation at the end of the year	
Land and buildings	892,389	5,586	15,867	11,005	16,538	908,309	101,282	2,384	5,343	938	2, 2,5, 3,3 and 5	28,898	136,969	771,340
Olive plantations	50,166					50,166	13,485				2	1,980	15,465	34,701
Machinery and equipment (1)	1,019,888	2,669	19,527	24,624	16,791	1,049,917	778,135	1,191	3,500	12,258	5 and 10	30,919	801,487	248,430
Facilities and laboratory equipment	701,336	1,133	27,930	14,854	12,124	733,129	521,232	570	2,398	8,998	5, 10, 25 and 33	19,039	534,241	198,888
Furniture	82,728		2,694	913	35,964	50,371	71,839			35,852		4,985	40,972	9,399
Vehicles (2)	150,389	254	13,620	2,797	16,400	150,660	108,084	87	240	12,246	10 and 20	6,595	102,760	47,900
Work in progress	143,322		72,853	(33,559)	39	182,577								182,577
Advances to suppliers	3,763		5,438	(3,837)	1,049	4,315								4,315
Subtotal	**3,043,981**	**9,642**	**157,929**	**16,797**	**98,905**	**3,129,444**	**1,594,057**	**4,232**	**11,481**	**70,292**		**92,416**	**1,631,894**	**1,497,550**
Other:														
Trays	123,186		42,019		70,627	94,578	76,537			70,627	33	31,179	37,089	57,489
Carrying amount as of December 31, 2013	**3,167,167**	**9,642**	**199,948**	**16,797**	**169,532**	**3,224,022**	**1,670,594**	**4,232**	**11,481**	**140,919**		**123,595**	**1,668,983**	**1,555,039**

(1) Includes machinery operated by Promas S.A. with a net value of 9,780 as of December 31, 2013.
(2) Includes vehicles operated by freighters of Con-Ser S.A. and Logística la Serenísima S.A. with a net value of 21,025 as of December 31, 2013.
(3) Includes 120,407 charged to continuing operations and 3,188 charged to discontinued operations.

12. INTANGIBLE ASSETS

	2014	2013
Rights to use fiscal bonds (Note 2.5)	21,316	47,463
Trademarks and patents	2,689	3,118
Total	**24,005**	**50,581**

The movement of intangible assets is as follows:

Balance at the beginning of the year	50,581	2,870
Additions		680
Acquisitions through business combinations (Note 2.5)		63,245
Amortization (Note 22)	(26,576)	(16,214)
Total	**24,005**	**50,581**

13. TRADE PAYABLE - CURRENT

	2014	2013
Trade payables	835,123	674,427
Related parties (Note 29)	204,255	80,904
Note payables	232,646	173,626
Foreign suppliers	9,447	13,021
Total	**1,281,471**	**941,978**

The aging of trade payable is as follows:

	2014	2013
To be due:		
Between 0 and 3 months	1,277,565	939,777
Between 3 and 6 months	3,675	2,013
Between 6 and 9 months	123	64
Between 9 and 12 months	108	124
Total	**1,281,471**	**941,978**

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

14. BORROWINGS

	2014	2013
Short-term debt		
Principal:		
Senior Notes and loan debt:		
Senior Notes:		
Series A, B and C – final due 2018		47,302
Series D – final due 2015		19,563
Subtotal	-	66,865
Loan:		
Tranche A – final due 2015		65,442
Tranche B – final due 2018		4,700
Subtotal	-	70,142
Subtotal – Senior Notes and loan debt	**-**	**137,007**
Other financial debt:		
Unsecured debt	42,431	17,001
Unsecured debt – related parties (Note 29)		1,742
Secured debt	385,697	256,662
Secured debt – related parties (Note 29)	41,200	41,387
Subtotal – Other financial debt	**469,328**	**316,792**
Total principal	**469,328**	**453,799**
Accrued interest:		
Unsecured - related parties (Note 29)		113
Unsecured and secured debt	1,617	3,474
Total accrued interest	**1,617**	**3,587**
Total	**470,945**	**457,386**

	2014	2013
Long-term debt		
Principal:		
Senior Notes and loan debt:		
Senior Notes:		
Series F - due 2021 (net of issue costs and adjustment to amortized cost for 72,910)	1,634,669	
Series A, B and C – final due 2018		786,806
Series D – final due 2015		26,084
Subtotal	1,634,669	812,890
Loan:		
Tranche A – final due 2015		87,256
Tranche B – final due 2018		79,900
Subtotal	-	167,156
Subtotal – Senior Notes and loan debt	**1,634,669**	**980,046**
Other financial debt:		
Unsecured debt	8,919	14,736
Secured debt	11,973	20,943
Subtotal – Other financial debt	**20,892**	**35,679**
Total principal	**1,655,561**	**1,015,725**
Adjustment to amortized cost:		
Senior Notes Series A, B and C – final due 2018		(44,434)
Senior Notes Series D – final due 2015		(3,338)
Loan debt – tranche A – final due 2015		(11,190)
Loan debt – tranche B – final due 2018		(4,497)
Total adjustment to amortized cost	**-**	**(63,459)**
Total	**1,655,561**	**952,266**

Main loans agreements

14.1. Senior Notes – Series F – due 2021

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

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

Amount:	U$S 199,693,422
Issuing price:	100%
Maturity:	July 3, 2021
Payment:	Principal: 100% at maturity; interests: semi-annually on arrears
Annual interest rate:	12.625%
Use of proceeds (net amount of U$S 113,733,744):	• 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., Compañía Puntana de Carnes Elaboradas S.A., Leitesol Industria e Comercio Ltda., Mastellone San Luis S.A. and Promas S.A. (until the sale of its holding) are jointly and severally liable for the Series F Senior Notes.

14.2 Payment of financial debt

On June 4, 2014, the Company launched an offer (subject to obtaining the required financing resources) to all holders of Senior Notes issued by the Company (Series A, B, C and D) and to the holders of the floating rate loan debt final due 2015 and fixed rate loan debt final due 2018 ("the existing debt", which main characteristics are described in paragraph 14.3), to repurchase such debt for the equivalent of its 100% principal amount plus accrued and unpaid interest or, in the case of holders of Senior Notes Series A and C, to exchange at par for new Senior Notes to be issued by the Company, also informing the Company´s intention to exercise the call option included in those debt agreements for the part of such debt which did not accept the exchange or repurchase. Total Debt under the refinancing process was – in thousands - U$S 160,795.

Having obtained under the issuance of the above mentioned Series F Senior Notes, the financing resources required to execute the payment of the financial debt subject to offer, such offer was executed. Accordingly, the existing debt was totally paid through (i) an exchanged with the new Series F Senior Notes by thousands of U$S 85,960, (ii) thousands of U$S 53,289 were paid in cash to the holders who accepted the offer and (iii) thousands of U$S 21,546 were cancelled exercising the above mentioned call option.

As of December 31, 2014, the Company has recognized a loss of 29,602 as a result of the debt refinancing, amount which is included in the statement of profit or loss.

14.3 Financial debt – final due 2015 and 2018

The Senior Notes due in 2015 and 2018 (ON Series A, B, C and D) and the fixed rate loan debt and floating rate loan debt were refinanced in July 2014 (see previous paragraph) according to the following detail:

Debt	Amount in the original currency – in thousands of U$S			
	Refinanced amount	**Exchanged for Series F Senior Notes**	**Cash payment**	**Call option**
Senior Notes Series A, B and C – final due 2018	124,284	85,960	31,694	6,630
Senior Notes Series D – final due 2015	5,500		4,887	613
Loan debt – tranche A – final due 2015	18,398		4,095	14,303
Loan debt – tranche B – final due 2018	12,613		12,613	
	160,795	**85,960**	**53,289**	**21,546**

Senior Notes A, B and C, and loan debt tranche B final due 2018, had the right to semi-annual payments for amortization of principal, with final due in 2018 and accrued interest at a fixed rate plus a contingent interest rate. Senior Notes Series D and loan debt tranche A final due

2015 had the right to semi-annual payments for amortization of principal, with final due in 2015 and accrued variable interest (LIBO rate plus a spread of 2.5%) provided that such rate did not exceed 6% per annum. This debt had been refinanced in May 2010.

The agreements contained certain commitments, including reporting requirements, and imposed certain limitations affecting the Company's ability and the restricted subsidiaries' ability to: borrow money, pay dividends, redeem capital stock or redeem subordinated debt, make investments, sell capital stock of subsidiaries, guarantee other indebtedness, enter into agreements that restrict dividends or other distributions from restricted subsidiaries, enter into transactions with unrestricted subsidiaries and affiliates outside the ordinary course of business, create or assume certain liens, engage in mergers or consolidations, and enter into a sale of all or substantially all of the Company's assets. Subsidiaries Con-Ser S.A., Compañía Puntana de Carnes Elaboradas S.A., Leitesol Industria e Comercio Ltda., Mastellone San Luis S.A. and Promas S.A. were jointly and severally liable for the Senior Notes and loan debt.

15. ACCRUED SALARIES, WAGES AND PAYROLL TAXES

	2014	2013
Payroll and bonus to management	241,209	177,805
Social security taxes	107,213	85,271
Total	**348,422**	**263,076**

16. TAXES PAYABLE AND ACCRUAL FOR TAX RELIEF

	2014	2013
• Current		
Tax withholdings	72,163	74,450
Taxes, rates and contributions (net from advances)	23,694	17,371
Payment plan – Law N° 26,476	9,321	8,177
Tax – Law N° 23,966	978	2,347
Accrual for tax relief (Note 28a) (1)	4,579	4,579
Total	**110,735**	**106,924**
• Non-current		
Payment plan – Law N° 26,476	25,695	33,183
Accrual for tax relief (Note 28a) (1)	13,736	18,315
Total	**39,431**	**51,498**

(1) Régime for industrial promoted activities of subsidiaries

Mastellone Hnos. S.A. has made use of the benefits of Law No. 22,021 and its complementary; General Resolutions D.G.I. Nos. 2,004 / 80, 2,895 / 92 and 3,754 / 94 and Decrees Nos. 1,653 / 96 and 1,654 / 96, and partially fused fit Decrees Nos. 1,879 / 93, 1,880 / 93, 548/94, 341/95, 1,212 / 95 and 68/03 of the Province of La Rioja, which allow investors to Promas SA the deferral of payment of certain national taxes (see Note 34).

17. PROVISIONS

	2014	2013
• Current		
Accrued litigation expenses	902	280
Other	620	993
Total	**1,522**	**1,273**
• Non-current		
Accrued litigation expenses	21,970	21,980
Other	524	464
Total	**22,494**	**22,444**

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

• Current		
Balance at the beginning of the year	1,273	1,897
Payments made	(5,462)	(5,434)
Transfer from non-current allowance	5,711	4,810
Balance at the end of the year	**1,522**	**1,273**
• Non-current		
Balance at the beginning of the year	22,444	21,030
Balance of acquired subsidiary		416
Increases (1)	6,151	8,672
Payments made	(1,201)	(3,624)
Re-measurement of foreign subsidiaries allowances	855	760
Derecognised on disposal of a subsidiary	(44)	
Transfer to current allowance	(5,711)	(4,810)
Balance at the end of the year	**22,494**	**22,444**

(1) Charged to other gain and losses - Note 25.

18. OTHER LIABILITIES

	2014	2013
• Current		
Debt for acquisition of subsidiary company (Note 28a)	10,951	10,185
Other	5,659	5,423
Total	**16,610**	**15,608**
• Non – current		
Debt for acquisition of subsidiary company (Note 28a)	20,197	21,133
Deferred revenue	1,682	1,323
Total	**21,879**	**22,456**

19. DEFERRED TAX

Deferred tax assets:

	2014	2013
Temporary differences:		
Provisions and other non-deductible accrued expenses	6,254	4,881
Inventories	285	6,453
Property, plant and equipment, and others	4	(2)
Tax loss carry-forwards		236
Alternative minimum income tax	25	65
Total	**6,568**	**11,633**

Deferred tax liabilities:

	2014	2013
Temporary differences:		
Provisions and other non-deductible accrued expenses	34,746	22,003
Inventories	63,658	40,107
Intangible assets	910	760
Other assets	(187)	(185)
Property, plant and equipment, and others	(1,091,764)	(314,027)
Borrowings	(25,883)	(22,512)
Tax loss carry-forwards	174,087	43,247
Alternative minimum income tax	85,736	104,835
Total	**(758,697)**	**(125,772)**

The unused tax loss carry-forwards filed with tax authorities by Mastellone Hermanos S.A. and its subsidiaries recognized as of December 31, 2014 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
2013	22,554	35%	7,894		2018
2014	474,836	35%	166,193	(1)	2019
			174,087		

(1) It corresponds to the tax loss carry-forwards estimated for the fiscal year ended December 31, 2014.

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	Decrease of discontinued operations	Reduction of tax loss carry-forwards	Charge to loss for the year (continuing operations)	Charge to loss for the year discontinued operations)	Charge to Other comprehen -sive income	Balance at the end of the year
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(262,522)	9,988		32,109		(791,552)	(1,011,977)
Tax loss carry-forwards	43,483	(3,060)	(2,106)	136,833		(1,063)	174,087
Total 2014	**(219,039)**	**6,928**	**(2,106)**	**168,942**	**-**	**(792,615)**	**(837,890)**
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(308,893)			45,700	671		(262,522)
Tax loss carry-forwards	25,358		(216)	18,773	432	(864)	43,483
Total 2013	**(283,535)**		**(216)**	**64,473**	**1,103**	**(864)**	**(219,039)**

20. REVENUE

	2014	**2013**
Product sales	13,559,679	10,255,731
Services provided	338,933	237,716
Turnover tax	(374,439)	(283,294)
Sales discounts and volume rebates	(860,929)	(585,378)
Sales returns	(205,476)	(170,976)
Total	**12,457,768**	**9,453,799**

Sales commitments

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

- The Company has agreed to meet export commitments of powdered milk and whey for a total of approximately 9,400 tons with an estimated contract value US$ 24,600 thousand.

- Additionally, the Company has entered into agreements with provincial and national public agencies for the sale of approximately 4,400 tons of powdered and fluid milk with an estimated contract value of 249,000.

21. COST OF SALES

	2014	2013
Cost of goods sold:		
Inventories at the beginning of the year		
Resale goods	45,638	26,981
Finished goods	356,657	290,625
Work in progress	252,245	177,717
Raw materials, packaging and other materials	238,228	190,044
Goods in transit	66,720	20,618
	959,488	705,985
Decrease of discontinued operations	(11,158)	
Incorporation of consolidated company		293
Purchases	6,866,160	4,985,859
Production expenses (Note 22)	2,351,932	1,842,195
Write-off of spare parts		681
Re-measurement of foreign subsidiaries inventories	20,191	10,421
Benefits from industrial promotion	(35,896)	(38,412)
Inventories at the end of the year		
Resale goods	(43,327)	(45,638)
Finished goods	(620,474)	(352,109)
Work in progress	(244,700)	(246,124)
Raw materials, packaging and other materials	(365,276)	(237,739)
Goods in transit	(23,968)	(66,720)
	(1,297,745)	(948,330)
Subtotal - cost of goods sold	**8,852,972**	**6,558,692**
Cost of services rendered:		
Purchases	28,582	29,896
Production expenses (Note 22)	130,913	134,326
Subtotal - cost of services rendered	**159,495**	**164,222**
Total cost of sales	**9,012,467**	**6,722,914**

Purchase commitments:

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

Logística with its duties under the agreement. Moreover, the same penalty should be paid by the Company or MSL if one of these companies produces products similar to products currently marketed by Danone.

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

	2014				
	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				29,372	29,372
Fees and compensation for services	250,104	287	545,754	51,385	847,530
Payroll, bonus and social security charges	1,067,542	79,376	384,060	231,111	1,762,089
Depreciation of property, plant and equipment, and others	124,105	5,775	9,418	4,882	144,180
Amortization of intangible assets	26,576				26,576
Provision for bad debts			5,958		5,958
Freights	502,999		1,422,869		1,925,868
Maintenance and repair	70,467	3,383	11,821	668	86,339
Office and communication	1,409	147	552	2,041	4,149
Fuel, gas and energy	153,251	20,090	10,829	53	184,223
Vehicles expenses	20,197		10,557	1,529	32,283
Publicity and advertising			338,397		338,397
Taxes, rates and contributions	60,191	4,784	4,461	122,886	192,322
Insurance	36,607	351	11,708	2,967	51,633
Travelling	1,278		2,861	519	4,658
Export and import			23,095	348	23,443
Miscellaneous	37,206	16,720	9,480	13,516	76,922
Total	**2,351,932**	**130,913**	**2,791,820**	**461,277**	**5,735,942**

	2013				
	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				30,326	30,326
Fees and compensation for services	196,083	223	411,553	44,391	652,250
Payroll, bonus and social security charges	812,350	77,176	297,523	173,376	1,360,425
Depreciation of property, plant and equipment, and others	97,192	9,391	9,420	4,404	120,407
Amortization of intangible assets	16,171			43	16,214
Provision for bad debts			7,815		7,815
Freights	404,525		1,052,780	10	1,457,315
Maintenance and repair	66,385	6,060	12,661	394	85,500
Office and communication	1,281	112	473	1,462	3,328
Fuel, gas and energy	124,864	15,974	8,544	70	149,452
Vehicles expenses	19,438		8,571	1,426	29,435
Publicity and advertising			227,478		227,478
Taxes, rates and contributions	63,339	10,444	2,264	94,066	170,113
Insurance	24,326	315	8,070	2,080	34,791
Travelling	1,234		2,265	479	3,978
Export and import			26,560	287	26,847
Miscellaneous	15,007	14,631	10,206	13,739	53,583
Total	**1,842,195**	**134,326**	**2,086,183**	**366,553**	**4,429,257**

23. INVESTMENT INCOME

	2014	2013
Interest	32,100	19,289
Government bonds holding results	873	27,244
(Loss) gain from foreign currency forwards transactions	(7,662)	4,357
Rental income	3,832	2,952
Total	**29,143**	**53,842**

24. FINANCE COST

	2014	2013
Senior Notes and long-term loans interest (1)	185,822	107,457
Other loans interest	75,778	52,063
Other interests	5,942	5,409
Total	**267,542**	**164,929**

(1) Includes 2,804 and 16,275 for the fiscal years ended December 31, 2014 and 2013, respectively, related to adjustments to amortized cost of debt.

25. OTHER GAINS AND LOSSES

	2014	2013
Gain on sale of trademarks (1)		39,922
Gain on sale of property, plant and equipment, and others and investment property (2)	6,064	30,833
Gain on sale of investments in other companies (3)		25,077
Gain on acquisition of subsidiary (Note 2.5)		35,194
Charges to freighters	1,761	2,433
Provision for litigation and other expenses	(6,151)	(8,672)
Donations	(1,527)	(1,243)
Depreciation of investment property	(170)	(170)
Miscellaneous	1,161	(3,912)
Total – net gain	**1,138**	**119,462**

(1) Sales performed to Danone Group, including several trademarks of special milks and powdered juice.

(2) Includes in 2013, 25,902 corresponding to the sale to Danone Argentina S.A. of a raw milk sorting plant for third parties, together with the equipment, vehicles and software related to such plant.

(3) Corresponds to the gain obtained in 2013 by the sale of the 0.273% holding of Danone Argentina S.A.´s shares to Dairy Latam S.L.

26. INCOME TAX AND ALTERNATIVE MINIMUM INCOME TAX

	2014	2013
Included in net loss for the year:		
Current income tax	(16,519)	(29,834)
Tax loss carry-forwards for the year	136,833	18,773
Net change in temporary differences	32,109	45,700
Alternative minimum income tax	(50,143)	18,806
Total - gain	**102,280**	**15,834**
Included in other comprehensive result:		
Current income tax	(1,063)	(864)
Net change in temporary differences	(791,552)	
Total - loss	**(792,615)**	**(864)**

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

	2014	2013
Net loss before income tax and alternative minimum income tax	(518,237)	(74,564)
Statutory income tax rate	35%	35%
Income tax at statutory income tax rate	**181,383**	**26,097**
Permanent differences	(79,103)	(9,343)
Total - gain	**102,280**	**16,754**

27. ADDITIONAL CASH FLOW INFORMATION

27.1 Changes in working capital

	2014	2013
Trade accounts receivable	(13,909)	(117,230)
Other receivables	(31,974)	(13,152)
Tax credits	8,066	(57,446)
Inventories	(440,562)	(240,090)
Trade payables	328,454	133,503
Accrued salaries, wages and payroll taxes	86,380	91,953
Taxes payable and accrual for tax relief	(8,634)	1,509
Advances from customers	(96,070)	88,195
Provisions	(6,701)	(9,058)
Other liabilities	4,387	(3,839)
Total	**(170,563)**	**(125,655)**

27.2 Non-cash transactions

During fiscal year 2013, the Company entered into the following non-cash investing activity which is not reflected in the consolidated statement of cash flows:

- A portion of the acquisition cost of the subsidiary Compañia Puntana de Carnes Elaboradas S.A. was outstanding for an amount of 31,318 as of December 31, 2013.

28. PLEDGED AND RESTRICTED ASSETS

a) Certain assets owned by the Company are pledged as collateral for bank, financial and fiscal liabilities, tax debt (tax régime for promoted activities) and other liabilities for a total amount of 139,684 as of December 31, 2014 (106,900 as of December 31, 2013). Detail of pledged assets is as follows:

	2014	**2013**
Trade accounts receivable	41,200	46,245
Property, plant and equipment, and others	3,162	3,689
Equity value of holding in subsidiary company Promas S.A.		40,213
Equity value of holding in subsidiary Compañía Puntana de Carnes Elaboradas S.A.	97,606	104,125

b) The Company also has pre-export credit lines in order to finance exports, which have as collateral, according to each case, a trust set up over the collections obtained from sales to the domestic retail market, inventories (of the parent Company and its subsidiary company Mastellone San Luis S.A.) and the assignment of purchase orders of the subsidiary company Leitesol I.C.S.A. As of December, 31, 2014, inventories were collateralized for an amount of 195,623 (191,742 as of December 31, 2013). The outstanding balance of the debt amounts to 281,940 and 219,944 as of December 31, 2014 and 2013 respectively.

c) Additionally, as of December 31, 2014 there were other receivables – guarantee deposits (current and non-current) for an amount of 503 (1,052 as of December 31, 2013) in guarantee of financial and commercial transactions and restricted assets disclosed in caption "other receivables – other" (current) for 1,328 as of December 31, 2014 (579 as of December 31, 2013).

d) There are financial assets – investment funds by 8,872 of restricted availability as of December 31, 2014 (9,554 as of December 31, 2013), to secure transactions to purchase foreign currency forwards.

e) The subsidiary company Con-ser S.A. held certain properties encumbered with privilege of first grade for a net value of 5,599 as of December 31, 2014 and 2013 in guarantee of the business relationship with YPF S.A. and Oil Combustibles S.A., for an indefinite period while the commercial relationship between the parties is maintained. The guarantee amounts to US$ 2,400 thousand.

f) See also commitments for the financial debt described in Note 14.

29. RELATED PARTIES OUTSTANDING BALANCES

Company	Other financial assets (current)	Trade account receivables (current)		Other receivables (current)
	2013	2014	2013	2013
Afianzar S.G.R.		3	3	
Fideicomiso Formu			102	
Frigorífico Nueva Generación S.A.		364	611	
Logística La Serenísima S.A.		88,350	61,704	
Los Toldos S.A.	1,029	471	225	41
TOTAL	**1,029**	**89,188**	**62,645**	**41**

Company	Trade payable (current)		Borrowings (current)		Advances from customers (current)
	2014	2013	2014	2013	2013
Afianzar S.G.R.	9	12			
Fideicomiso Formu			41,200	41,387	
Juan Rocca S.R.L.				1,855	
Logística La Serenísima S.A.	204,246	80,892			6
TOTAL	**204,255**	**80,904**	**41,200**	**43,242**	**6**

30. RELATED PARTIES OPERATIONS

Transactions with related parties for the fiscal years ended December 31, 2014 and 2013 were as follows:

	2014	**2013**
Revenues		
Afianzar S.G.R.	8	6
Antonio Mastellone	8	
Danone Argentina S.A.		182,355
Fideicomiso Formu	1,141	857
Frigorífico Nueva Generación S.A.	247	69
José Mastellone	23	
Logística La Serenísima S.A.	25,681	14,006
Los Toldos S.A.	390	435
Victorio Mastellone	1	
Purchase of goods and services		
Afianzar S.G.R.		123
Danone Argentina S.A.		35,937
Frigorifico Nueva Generación S.A.		181
Logística La Serenísima S.A.	732,342	555,126
Los Toldos S.A.	4,908	3,955
Masleb S.R.L.		457

	2014	2013
Investment income		
Danone Argentina S.A.		890
Frigorífico Nueva Generación S.A.		1
Logística La Serenísima S.A.	3,614	
Los Toldos S.A.	77	72
Finance cost		
Fideicomiso Formu	12,522	8,909
Juan Rocca S.R.L.		45
Other gain and losses		
Danone Argentina S.A. and related parties – sale of trademarks		39,922
Danone Argentina S.A. – sale of property, plant and equipment		50,550
Logística La Serenisima S.A.	371	

During the fiscal years ended December 31, 2014 and 2013, the Company paid a total of 54,038 and 53,059, respectively, in concept of remuneration and fees to members of the Board of Directors and executive officers. The Company does not provide its Directors or executive officers with any type of pension, retirement or similar benefits.

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 28. 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.

31. FINANCIAL INSTRUMENTS

31.1 – 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

	2014	2013
Debt (1)	2,126,506	1,409,652
Cash and cash equivalents	169,818	115,288
Net debt	1,956,688	1,294,364
Equity	1,679,519	653,652
Indebtness ratio	1.17	1.98

(1) Debt is defined as current and non-current borrowings, as detailed in Note 14.

31.2 – Financial instruments categories

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

	2014	2013
Financial assets		
Cash and banks and short-term investments	169,532	83,488
At fair value with changes to profit and loss		
Investment funds	9,158	41,354
Government bonds	60,689	
Held to maturity investments		
Corporate bonds	7,513	7,506
Loans and receivables		
Other financial assets	10,184	10,366
Trade accounts receivable	801,575	796,551
Tax credits	101,365	118,182
Other receivables	95,543	65,103
	1,255,559	**1,122,550**

	2014	2013
Financial liabilities		
Amortized cost:		
Trade payables	1,292,054	951,709
Borrowings	2,126,506	1,409,652
Other liabilities	551,983	570,538
	3,970,543	**2,931,899**

31.3 – 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.

It is not a practice of the Company and its subsidiaries to trade financial instruments for speculative purposes for significant amounts. As of December 31, 2014 and 2013 there were no outstanding derivative financial contracts.

31.4 – 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:

	2014	2013
Assets		
United States Dollar	51,171	56,728
Euro	1,218	176
Guarani	3,926	2,110
Brazilian Reais	114,684	100,287
Liabilities		
United States Dollar	2,038,091	1,479,890
Euro	74	2,059
Guarani	1,136	773
Brazilian Reais	72,553	67,181
Net currency exposure	(1,940,855)	(1,390,602)

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 of each 1% increase in the exchange rate of foreign currency in Argentina Pesos is as follows:

	(Loss)	
	2014	**2013**
Impact in profit or loss and equity for each 1% increase in the exchange rate of foreign currency in thousands of Argentine pesos	(19,409)	(13,906)

The Company estimates that the risk emerging from this exposure 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 2014 and 2013:

	2014	2013
Exports and foreign sales (consolidated amounts)	1,310,991	1,242,221

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.

31.5 – 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%. With regard to short-term debt with variable interest rate, there is a denominated peso loan amounting to 10,000, which accrues interest at a rate based on "BADLAR corrected for private banks" plus a spread of 5%; therefore, considering the outstanding amount for such loan, the impact of a change in the variable rate would be minor.

At each year-end, the Company´s net exposure to interest rates over financial assets and liabilities is the following:

Features	Net financial assets (liabilities) 2014	2013
Non-interest bear	(678,008)	(435,216)
Fixed-rate financial instruments	(2,010,723)	(1,203,272)
Variable-rate financial instruments	(26,253)	(170,861)
	(2,714,984)	**(1,809,349)**

31.6 – 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 2014 and 2013, 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.

31.7 – 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 financial liabilities as from each year end. The amounts presented are the contractual cash flows without discount.

	2014	2013
Less than three months	1,822,867	1,473,738
Between three months and a year	420,222	422,174
Between one and five year	91,599	1,096,213
More than five years	1,708,765	3,233
	4,043,453	**2,995,358**

The following table details the expected cash flows as from each year-end.

	2014	2013
Less than three months	1,089,634	929,993
Between three months and a year	73,042	107,236
Between one and five years	92,699	74,067
More than five years	184	11,254
	1,255,559	**1,122,550**

31.8 – Fair value measurements

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

Some of the Company's financial assets 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 are determined.

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**
	2014	**2013**		
Cash and cash equivalent – Investment funds	286	31,800	Level 1	Quoted bid prices in an active market.
Other financial assets - Government bonds	60,689		Level 1	Quoted bid prices in an active market.
Other financial assets – Restricted investment funds	8,872	9,554	Level 1	Quoted bid prices in an active market.

31.8.2 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.

	2014		**2013**	
	Book value	**Fair value**	**Book value**	**Fair value**
		(1)		(1)
Senior Notes due 2021	1,634,669	1,635,003		
Senior Notes due 2018			789,674	750,697

(1) Fair value hierarchy: Level 1.

32. 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 in order to allocate resources to the segments and to assess their performance.

The accounting policies used for the preparation of the information for the segments that are reported are the same that the Company's accounting policies described in Notes 2 and 3.

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

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

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

Information	2014		
	Dairy	Other	Total
Revenue from external customers	11,894,311	563,457	12,457,768
Intersegment revenue	1,501	468,492	469,993
Net (loss) income for the year	(418,314)	2,357	(415,957)
Assets allocated to the business lines	6,238,798	193,996	6,432,794
Liabilities allocated to the business lines	4,625,282	127,974	4,753,256
Additions to property, plant and equipment, and others	198,333	3,647	201,980
Depreciation of property, plant and equipment, and others	138,412	5,768	144,180
Amortization of intangible assets	26,576		26,576
Depreciation of investment property	170		170
Net domestic revenue	10,583,320	563,457	11,146,777

Information	2013		
	Dairy	Other	Total
Revenue from external customers	9,039,455	414,344	9,453,799
Intersegment revenue	1,414	374,958	376,372
Net loss for the year	(32,518)	(5,932)	(38,450)
Assets allocated to the business lines	3,485,168	158,490	3,643,658
Liabilities allocated to the business lines	2,975,203	94,826	3,070,029
Additions to property, plant and equipment, and others	190,525	8,286	198,811
Depreciation of property, plant and equipment, and others	115,167	5,240	120,407
Amortization of intangible assets	16,214		16,214
Depreciation of investment property	170		170
Net domestic revenue	7,797,234	414,344	8,211,578

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	
2014	11,146,777	828,553	482,438	12,457,768
2013	8,211,578	617,213	625,008	9,453,799

33. 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 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 Juana Manso Street N° 555, 3rd Floor, Suite "A", City of Buenos Aires, whereas the complete corporate and statutory accounting books are kept at the Company's main administrative offices 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 main administrative offices 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.

34. SALE OF SUBDIDIARY COMPANY PROMAS S.A.

On October 1, 2014, the Company entered into a share purchase agreement with Forcam S.A., whereby the Company sold its wholly owned equity interest in the subsidiary Promas S.A. for a total amount of 60,760, to be paid as follows: 10,780 upon the execution of the agreement; 10,780, on November 1, 2014 free from any interest or adjustment whatsoever; and 39,200, accruing compensatory interest at a 12% annual rate as from the agreement execution date, payable in 4 annual installments of 9,800 each. The first installment is due on October 1, 2015 and the following installments are due on the same date the following years, with the fourth installment being payable on October 1, 2018. Furthermore, as guarantee of payment of the price, Forcam S.A. granted a security interest over the shares in favor of the Company.

The results of Promas S.A. for the years ended December 31, 2014 and 2013, including the loss on disposal recorded in 2014, have been included in the loss for the year from discontinued operations.

The results of discontinued operations included in the loss for the year are detailed below:

	2014	**2013**
Revenue	8,544	41,664
Cost of sales	(21,978)	(58,826)
Expenses	(1,919)	(3,688)
Other gains and losses	(17,763)	570
Loss before taxes	(33,116)	(20,280)
Income tax	325	920
Subtotal	(32,791)	(19,360)
Impairment loss	(8,926)	
Loss of the year from discontinued operations	**(41,717)**	**(19,360)**

35. APPROVAL OF THESE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorized to be issued on March 10, 2015.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mastellone Hermanos Sociedad Anónima
Juana Manso N° 555 – 3rd Floor – Suite "A"
City 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, 2014 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 35.

Amounts and other disclosures for the fiscal year ended December 31, 2013, 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 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 as adopted by the Argentina Federation of Professional Councils in Economic Sciences through the Technical Resolution No. 32, as were approved by the International Audit and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC). 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. <u>Opinion</u>

In our opinion, the consolidated financial statements as of December 31, 2014, referred to in the first paragraph of section 1, present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2014, 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.

<u>English translation of the financial statements</u>

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.

City of Buenos Aires, March 10, 2015.

Deloitte S.C.

GUSTAVO A. NACHON
(Partner)