Mastellone Hermanos S.A.
Consolidated Financial Statements
for the fiscal year ended
December 31, 2016

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

CONSOLIDATED INFORMATIVE SUMMARY
AS OF DECEMBER 31, 2016
(in thousands of Argentine pesos)

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

The financial statements for the fiscal year ended December 31, 2016 reflect an improvement resulting from the Company's strategic actions designed to strengthen our profitability. It should be noted, however, that such recovery was adversely affected by the behavior of variables that were beyond our control.

In effect, as regards sales and in the domestic market, a new drop in domestic consumption affected our sold volumes. Also, during part of the year there was an excess of supply as part of the industry's exportable surplus due to the depressed international prices was diverted to the domestic market. In this context, we continued to strengthen our brands and emphasizing the health benefits derived from the consumption of high-quality dairy products such as those we manufacture. We decided to uphold our sales policy on the basis of the quality of our products, added to advertising campaigns that highlight this concept and prioritize the protection of prices, adjusting them in accordance with the increase in our costs.

In the international market, as we forecasted in the Informative Summary related to our financial statements for fiscal year 2015, during the first half of 2016 prices remained at the low level already observed since 2014, and an improvement was noticed during the second six-month period; by the end of the year the level of prices was more in line with past prices. If this condition continues, it would entail a significant improvement for the industry.

As regards our sales to foreign retail markets, products were delivered to Leitesol, our Brazilian subsidiary, within the volumes authorized for dispatches to such country, which allowed this company to achieve an excellent performance both in terms of sales and of financial results.

Milk production experienced a further decline, caused by the effects of low international prices and weather factors, and as a result production levels in Argentina for the year were below those of 1999.

Finally, reference must be made to the tax evasion of small competitors, which has serious effects on the industry and its competitiveness and development in Argentina. We have observed that this state of affairs has continued to increase and affects all industry activities, from primary production to the manufacturing, distribution and sale of products.

2. CONSOLIDATED FINANCIAL POSITION

	2016	2015	2014	2013	2012
	(in thousand pesos)				
Current assets	3,910,961	2,875,610	2,475,492	2,002,936	1,575,010
Non-current assets	5,917,793	4,800,951	3,957,302	1,732,122	1,597,375
TOTAL ASSETS	**9,828,754**	**7,676,561**	**6,432,794**	**3,735,058**	**3,172,385**
Current liabilities	2,755,225	2,484,585	2,244,611	1,897,221	1,433,589
Non-current liabilities	4,032,644	3,389,232	2,508,645	1,184,167	1,047,379
TOTAL LIABILITIES	**6,787,869**	**5,873,817**	**4,753,256**	**3,081,388**	**2,480,968**
Equity attributable to owners of the Company	**3,040,842**	**1,802,712**	**1,679,519**	**653,652**	**691,407**
Non-controlling interests	**43**	**32**	**19**	**18**	**10**
TOTAL EQUITY	**3,040,885**	**1,802,744**	**1,679,538**	**653,670**	**691,417**
TOTAL LIABILITIES AND EQUITY	**9,828,754**	**7,676,561**	**6,432,794**	**3,735,058**	**3,172,385**

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

	2016	2015	2014	2013	2012
	(in thousand pesos)				
Continuing operations:					
Operational results – income	596,900	353,616	192,204	278,149	149,189
Investment income, finance cost, loss on debt refinancing and foreign exchange differences	(813,021)	(1,267,291)	(711,579)	(451,895)	(266,629)
Other gains and losses	(6,306)	(84,272)	1,138	119,462	18,673
Loss before taxes	**(222,427)**	**(997,947)**	**(518,237)**	**(54,284)**	**(98,767)**
Income tax and alternative minimum income tax	127,006	381,350	102,280	15,834	(16,729)
Net loss for the year from continuing operations	**(95,421)**	**(616,597)**	**(415,957)**	**(38,450)**	**(115,496)**
Discontinued operations			**(41,717)**	**(19,360)**	
Net loss for the year	**(95,421)**	**(616,597)**	**(457,674)**	**(57,810)**	**(115,496)**
Other comprehensive income	**847,562**	**739,803**	**1,483,542**	**20,058**	**5,265**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**752,141**	**123,206**	**1,025,868**	**(37,752)**	**(110,231)**
Net income (loss) attributable to:					
Owners of the company	752,130	123,193	1,025,867	(37,755)	(110,231)
Non-controlling interests	11	13	1	3	
Total comprehensive income (loss):	**752,141**	**123,206**	**1,025,868**	**(37,752)**	**(110,231)**

4. CONSOLIDATED STATEMENT OF CASH FLOWS

	2016	2015	2014	2013	2012
	(in thousand pesos)				
Cash flows provided by operating activities	529,148	675,932	225,340	369,988	317,731
Cash flows used in investing activities	(328,855)	(102,593)	(217,129)	(117,773)	(203,264)
Cash flows (used in) provided by financing activities	(491,341)	(265,970)	46,823	(202,998)	(112,497)
Cash and cash equivalents (used in) provided in the year	**(291,048)**	**307,369**	**55,034**	**49,217**	**1,970**

5. PRODUCTION AND SALES VOLUME (*)

	ACUMULATED SALES				
	2016	**2015**	**2014**	**2013**	**2012**
	(in thousand liters of milk)				
Domestic market	1,344,204	1,477,440	1,537,862	1,580,857	1,635,882
Foreign market	304,298	278,037	196,951	311,839	324,469
Total	**1,648,502**	**1,755,477**	**1,734,813**	**1,892,696**	**1,960,351**

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

6. RATIOS

	2016	2015	2014	2013	2012
Current assets to current liabilities	1.42	1.16	1.10	1.06	1.10
Equity attributable to owners of the Company to total liabilities	0.45	0.31	0.35	0.21	0.28
Non-current assets to total assets	0.60	0.63	0.62	0.46	0.50
Loss to equity	(0.04)	(0.35)	(0.39)	(0.09)	(0.15)

7. OUTLOOK (*)

We remain confident that the Company's outlook is positive. To realize these perspectives, we will maintain in the first place some actions already taken by us (a continued strict control of costs, protection of prices, maintenance of an efficient commercial structure with lower costs, strategic investments, etc.), which will enable us to gradually achieve a substantial improvement of our economic results and our generation of funds.

With the increase in international prices recorded in recent months and if the values prevailing late in 2016 remain unchanged, the conditions in this industry may begin to be regularized. The improvement of macroeconomic conditions expected in Argentina for 2017 will also enable us to resume our growth in the Argentine domestic market, with a more balanced relationship between supply and demand.

We will continue to carry out all the actions contemplated in the “Plan Más Leche” we have launched, the primary purpose of which is to increase raw milk production in Argentina. The fulfillment of this plan will be clearly beneficial for our Company, as we have in place the production facilities and all the know-how and commercial capacity that are required to derive the utmost benefit from such greater availability of milk as raw material.

(*) Information not reviewed by the Auditors.

General Rodriguez, Province of Buenos Aires, March 9, 2017

JOSÉ A. MORENO

President

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2016
(in thousands of Argentine pesos)

	Notes	2016	2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	214,024	480,314
Other financial assets	7	33,290	61,099
Trade accounts receivable	8 and 29	1,506,465	846,615
Tax credits	9	102,160	101,668
Other receivables	10 and 29	41,772	34,729
Inventories	11 and 29	2,008,748	1,351,185
Subtotal		3,906,459	2,875,610
Assets held for sale		4,502	
Total Current Assets		**3,910,961**	**2,875,610**
NON-CURRENT ASSETS			
Other financial assets	7	19,228	61,967
Tax credits	9	17,747	16,203
Other receivables	10 and 29	35,253	42,226
Deferred tax assets	20	20,777	17,238
Property, plant and equipment, and others	12 and 29	5,811,972	4,644,845
Investment property		80	5,191
Goodwill		3,121	3,121
Intangible assets	13	1,832	2,260
Other assets		7,783	7,900
Total Non-Current Assets		**5,917,793**	**4,800,951**
TOTAL ASSETS		**9,828,754**	**7,676,561**
LIABILITIES			
CURRENT LIABILITIES			
Trade payable	14	1,866,116	1,256,772
Borrowings	15 and 29	93,684	168,043
Accrued salaries, wages and payroll taxes	16	607,756	442,106
Taxes payable	17	146,518	107,566
Advance from customers		2,833	2,253
Provisions	18	695	1,088
Contributions for future subscription of common stock	2		486,000
Other liabilities	19	37,623	20,757
Total Current Liabilities		**2,755,225**	**2,484,585**
NON-CURRENT LIABILITIES			
Trade payable		7,201	7,255
Borrowings	15 and 29	3,102,233	2,531,844
Taxes payable	17	13,911	24,088
Deferred tax liabilities	20	888,411	742,449
Provisions	18	17,969	19,827
Other liabilities	19	2,919	63,769
Total Non-Current Liabilities		**4,032,644**	**3,389,232**
TOTAL LIABILITIES		**6,787,869**	**5,873,817**
EQUITY			
Common stock and share premium		943,547	457,547
Reserves		2,724,396	2,058,338
Accumulated deficit – including net result for the year		(627,101)	(713,173)
Equity attributable to owners of the Company		**3,040,842**	**1,802,712**
Non-controlling interests		**43**	**32**
TOTAL EQUITY		**3,040,885**	**1,802,744**
TOTAL LIABILITIES AND EQUITY		**9,828,754**	**7,676,561**

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, 2016
(in thousands of Argentine pesos)

	Notes	2016	2015
Revenue	21	17,723,057	14,079,578
Cost of sales	22	(11,595,462)	(9,653,100)
Gross profit		**6,127,595**	**4,426,478**
Selling expenses	23	(4,691,685)	(3,500,213)
General and administrative expenses	23	(839,010)	(572,649)
Investment income	24	77,738	119,973
Finance cost	25	(375,764)	(385,704)
Foreign exchange losses		(514,995)	(1,001,560)
Other gains and losses	26	(6,306)	(84,272)
Loss before taxes		**(222,427)**	**(997,947)**
Income tax and alternative minimum income tax	27	127,006	381,350
NET LOSS FOR THE YEAR		**(95,421)**	**(616,597)**
Net loss attributable to:			
Owners of the Company		(95,432)	(616,610)
Non-controlling interests		11	13
Net loss for the year		**(95,421)**	**(616,597)**

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, 2016
(in thousands of Argentine pesos)

	Notes	2016	2015
Net loss for the year		**(95,421)**	**(616,597)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		61,489	6,385
Income tax	27	(1,536)	(2,416)
		59,953	3,969
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment		1,211,707	1,132,055
Income tax	27	(424,098)	(396,221)
		787,609	735,834
Other comprehensive income, net of income tax		**847,562**	**739,803**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**752,141**	**123,206**
Total comprehensive income attributable to:			
Owners of the Company		752,130	123,193
Non-controlling interests		11	13
		752,141	**123,206**

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, 2016
(in thousands of Argentine pesos)

	Shareholders' contributions		Reserves					Retained earnings (Accumulated losses)	Equity attributable to:		Total
	Common stock	Share premium	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 4.7)		Owners of the parents	Non controlling interest	
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**
Net loss for the year								(616,610)	(616,610)	13	(616,597)
Other comprehensive income for the year, net of income tax					3,969		735,834		739,803		739,803
Total comprehensive income (loss) for the year		-			3,969		735,834	(616,610)	123,193	13	123,206
Resolution of General Ordinary and Extraordinary Shareholders' Meeting held on April 8, 2015:											
Absorption of accumulated losses			(15,273)	(30,682)		(128,603)		174,558			
Transfer to accumulated losses (1)							(186,554)	186,554			
Balance at December 31, 2015	**457,547**	**-**	**-**	**-**	**39,033**	**-**	**2,019,305**	**(713,173)**	**1,802,712**	**32**	**1,802,744**
Net loss for the year								(95,432)	(95,432)	11	(95,421)
Other comprehensive income for the year, net of income tax					59,953		787,609		847,562		847,562
Total comprehensive income (loss) for the year	-	-	-	-	59,953	-	787,609	(95,432)	752,130	11	752,141
Resolution of General Ordinary and Extraordinary Shareholders' Meeting held on February 23, 2016 (Note 2f):											
Capital stock increase	115,542	370,458							486,000		486,000
Transfer to accumulated losses (1)							(181,504)	181,504			
Balance at December 31, 2016	**573,089**	**370,458**	**-**	**-**	**98,986**	**-**	**2,625,410**	**(627,101)**	**3,040,842**	**43**	**3,040,885**

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

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

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016
(in thousands of Argentine pesos)

	Note	2016	2015
Cash flows from operating activities			
Net loss for the year		(95,421)	(616,597)
Adjustments to reconcile net loss for the year to net cash provided by operating activities:			
Income tax and alternative minimum income tax accrued		(127,006)	(381,350)
Finance cost		375,764	385,704
Foreign exchange losses		570,738	947,433
Depreciation of property, plant and equipment, and others		459,267	345,787
Additions to provision for doubtful accounts, sale rebates and provisions		46,559	17,253
Write-off of inventories		129,570	234,293
Depreciation of investment property		610	409
Amortization of intangible assets		428	21,745
(Gain) loss on sale of property, plant and equipment, and others		(8,042)	71,612
		1,352,467	1,026,289
Changes in working capital	28	(713,148)	(319,983)
Subtotal		639,319	706,306
Payments of income tax and alternative minimum income tax		(110,171)	(30,374)
Net cash generated by operating activities		**529,148**	**675,932**
Cash flows used in investing activities			
Payments for property, plant and equipment, and others		(380,918)	(174,160)
Proceeds from sale other financial assets		50,341	11,621
Proceeds from sale of subsidiary company		4,500	10,976
Proceeds from disposal of property, plant and equipment, and others		12,374	66,625
Payments for acquisition of subsidiary		(15,152)	(13,128)
Payments for investment property			(4,410)
Increase of other assets			(117)
Net cash used in investing activities		**(328,855)**	**(102,593)**
Cash flows used in financing activities			
Contributions for future subscription of common stock			486,000
Proceeds from borrowings		102.336	103,956
Repayment of borrowings		(186,354)	(421,187)
Payment of interests		(407.323)	(434,739)
Net cash used in financing activities		**(491,341)**	**(265,970)**
(Decrease) increase in cash and cash equivalents		**(291,048)**	**307,369**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**24,758**	**3,127**
Cash and cash equivalents at beginning of year		**480,314**	**169,818**
Cash and cash equivalents at end of year		**214,024**	**480,314**

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 Almirante Brown 957, General Rodriguez, Province of Buenos Aires.

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

The breakdown of consolidated companies in these consolidated financial statements is exposed in Note 3.5.

2. AGREEMENTS WITH ARCOR S.A.I.C. AND BAGLEY ARGENTINA S.A. – SUBSCRIPTION OF SHARES AND CAPITAL STOCK INCREASE

a) Initial subscription of shares (the "Initial Subscription")

On December 3, 2015, the Company and its shareholders offered Arcor S.A.I.C. ("Arcor") and its subsidiary Bagley Argentina S.A. ("Bagley"), the subscription of shares to be issued ("initial shares") by the Company amounting to 115,542,240 common, nominative, non-endorsable shares, 1 (one) vote each, nominal value $1 per share, representing after the subscription, 20.16% of the capital stock and voting rights of the Company, so Arcor and Bagley would subscribe and pay-in 50% of the shares each for a price equivalent to US dollars 50 million which was paid by Arcor and Bagley on December 4, 2015, as an irrevocable contribution for future subscription of shares.

The subscription of the initial shares was subject to the prior or concurrent compliance, among other terms, with the approval of Brazil´s authority of competition defense which was obtained on January 26, 2016, in full force after 15 days subsequent to the public filing of such decision. In order to guarantee the issuance of the Company´s initial issuance of shares in favor of Arcor and Bagley and in guarantee of possible adjustments for issues prior to the agreements, the Company´s shareholders established a first degree privilege security on 173,313,359 shares, representing 30% of the Company´s capital stock. After the issuance of shares, the quantity of pledge shares was reduced to 34,662,672 shares representing 6% of the Company´s capital stock.

b) Transfer of share ownership

On the other hand, certain shareholders informed the Company that on December 3, 2015 they had sold part of their Company shareholding to Arcor and Bagley and that, the day after, such companies paid to them the purchase price for a total of shares representing 4.99% of the capital and voting rights of the Company.

c) Additional subscription of shares (the "Additional Subscription")

The Company and its shareholders also granted Arcor and Bagley an irrevocable option for one time only to require the Company to issue 80,879,568 shares ("additional shares") common, nominative, non-endorsable, 1 (one) vote each, nominal value $1 per share, representing after the initial subscription of 12.37% of the capital stock and voting rights of the Company paying-in each 50% of the additional shares.

The exercise price of the option for the additional shares is an amount equivalent to US dollars 35 million. The option was exercised by Arcor and Bagley on January 17, 2017. On such date, the Company received a cash contribution of 555,800, equivalent to the mentioned US dollars 35 million (see Note 35).

In the case Arcor and Bagley had not exercised the above-mentioned subscription, such companies granted the Company an irrevocable option for one time only during a 30 days-term to require Arcor and Bagley to make the additional subscription.

The initial shares, the additional shares (once issued) and the shares described in paragraph b), will jointly represent 33.53% of the Company´s capital stock.

d) Options granted by the Company's shareholders

On December 3, 2015, the Company's shareholders reported as well they had offered Arcor, Bagley and Bagley Latinoamericana S.A. an agreement establishing purchase-options in favor of such companies and sale-options in favor of the Company's shareholders, which price calculation is defined in the proposal (i) up to year 2020 and in several transactions up to 49% of the capital stock and voting rights of the Company, and (ii) as from year 2020 up to year 2025, for the balance of shares which were not previously transferred and that Arcor and Bagley had accepted the shareholders proposal, the same being fully in force at present.

e) Shareholders agreement

Also, the Company shareholders and Arcor and Bagley have entered into a shareholders agreement with effect from the above-mentioned subscription of initial shares. Such agreement rules certain aspects of the transference of shares to third parties and the administration and management of the Company, granting rights to Arcor and Bagley on certain Company strategic decisions.

f) Resolution of the Ordinary and Extraordinary Shareholders Meeting held on February 23, 2016, capital stock increase and modification of the bylaws

The Ordinary and Extraordinary Shareholders Meeting held on February 23, 2016 decided the capital stock increase in $ 115,542,240, going from $ 457,547,269 to $ 573,089,509 represented by 115,542,240 common, nominative, non-endorsable shares, 1 (one) vote each, nominal value $1 per share, which have an additional paid-in capital of 3.20625392064 per share, through the capitalization of the contribution received on December 4, 2015 from Arcor S.A.I.C. and Bagley Argentina S.A. totaling 486,000. As of December 31, 2015, such contribution was disclosed in the statement of financial position in the caption "Contributions for future subscription of common stock" of current liabilities, because at such year-end, the authorization of Brazil´s authority of competition defense mentioned in paragraph a) had not yet been obtained.

The Shareholders Meeting also decided to modify sections five, eight, nine, eleven, thirteen and fifteen of the bylaws, approve the management of the Board and Supervisory Committee up to the date of the Meeting, approve the increase of directors members establishing 7 principal and

7 substitutes, approve the increase of the Supervisory Committee members establishing 5 principals and 5 substitutes and approve the text amended of the bylaws.

3. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements for the fiscal year ended December 31, 2016 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, 2015 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.

3.2 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 4.7) or fair values at the end of each reporting period, as explained in the accounting policies in Note 4. 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 4.

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 5.

3.3 New standards and interpretations effective from fiscal year beginning on January 1st, 2016 which are material to the Company

- 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 application of these improvements did not affect the amounts set out in relation to assets and liabilities of the Company.

- 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 application of this amendment had not have effect on the separate financial statements of the Company, given that subsidiaries are valued according to the equity method.

- 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 application of these improvements did not affect the disclosures in the financial statements of the Company.

3.4 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, 2016:

Standard	Name
IFRS 9	Financial instruments[1]
IFRS 15	Revenue [1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IAS 40	Investment property[1]
Amendments to IFRSs (annual cycle 2014-2016)	Various IFRSs[3]

[1] Effective for fiscal years beginning on or after January 1st, 2018.
[2] Effective for fiscal years beginning on or after January 1st, 2019.
[3] Effective for fiscal years beginning on or after January 1st, 2017 or 2018, as applicable.

- 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 2018 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, 2018.

- IFRS 16 issued in January 2016 specifies how issuers recognize, measure and disclose the leases in the financial statements. The standard introduces a single lessee accounting model, eliminating distinction between financial and operating leases. The standard does not included significant changes to the requirement for accounting by lessors, maintaining the distinction between operating and financial leases.

  IFRS 16 is effective for reporting periods beginning on or after January 1, 2019 and early adoption is permitted. However, the entity cannot adopt IFRS 16 before adopting IFRS 15, "Revenue". The Company's Board of Directors anticipates that IFRS 16 will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2019. 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.

- IFRIC 22 (foreign currency transactions and advance consideration) addresses foreign currency transactions or parts of transactions where there is a consideration that is denominated or priced in a foreign currency, the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income and the prepayment asset or deferred liability is non-monetary. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred liability and if there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

  IFRIC 22 is effective for annual reporting periods beginning on or after January 2018. The Company's Board of Directors has to evaluate the impact of such standard and anticipates that IFRIC 22 will be adopted in the financial statements on the Company for the fiscal year beginning January 1, 2018.

- Amendments to IAS 40 (investment property) are: a) Paragraph 57 has been amended to state that an entity shall a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. b) The list of evidence in paragraph 57 (a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

  The amendments to IAS 40 are effective for periods beginning on or after January 2018. Earlier application is permitted. The Company’s Board of Directors has to evaluate the impact of such standard and anticipates that amendments to IAS 40 will be adopted in the financial statements on the Company for the fiscal year beginning January 1, 2018.

- The annual improvements to IFRSs (2014-2016 cycle) includes amendments to the following standards: IFRS 1 (First-time adoption of IFRS) deleted the short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose; IFRS 12 (Disclosure of interests in other entities) clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 (Non current assets held for sale and discontinued operations) and IAS 28 (Investment in associates and joint ventures) clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

  The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017. The Company’s Board of Directors has to evaluate the impact of such standards and anticipates that will be adopted in the financial statements on the Company for the fiscal year beginning January 1, 2017 or 2018, accordingly.

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

The main consolidation adjustments are the followings:

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

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

Company	Main activity	Country	% of direct and indirect participation in capital stock and votes 2016	2015
Con-Ser S.A.	Transportation services, services for vehicle, sale of parts and distribution of cooling equipment	Argentina	100.00	100.00
Leitesol Industria e Comercio S.A.	Production and distribution of dairy products	Brazil	100.00	100.00
Marca 4 S.A.	Ownership, administration and legal defense of trademarks *Ser* and *La Serenísima*	Argentina	99.99	99.99
Marca 5 Asesores en Seguros S.A.	Insurance broker	Argentina	99.99	99.99
Mastellone de Paraguay S.A.	Import and distribution of dairy products	Paraguay	100.00	100.00
Mastellone Hermanos do Brasil Comercial e Industrial Ltda.	Inactive	Brazil	100.00	100.00
Mastellone San Luis S.A.	Manufacturer of dairy products	Argentina	99.99	99.99

The financial position statements of Mastellone Hermanos Sociedad Anónima as of December 31, 2016 and 2015 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, 2016 and

2015, were consolidated based on financial statements of the subsidiaries companies for the years ended at such dates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 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”.

4.2 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.

4.3 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.

4.4 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.

4.4.1 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.

4.4.2 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.

4.4.3 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.

4.4.4 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.

4.4.5 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 4.4.2).

4.4.6 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.

4.4.7 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.

4.5 Derivative financial instruments

Derivatives (assets and liabilities) are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each fiscal year. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

4.6 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, 2016 and 2015, 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.

4.7 Property, plant and equipment, and others

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

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

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

The comparative sales method was used for the revaluation of land, certain machinery and equipment and laboratory equipment. The cost approach was used for the revaluation of buildings, facilities and certain machinery and equipment. There were no changes in the valuation technique during fiscal year 2016.

On March 8, 2016, the Company´s Board of Directors approved the revaluation of property, plant and equipment made as of December 31, 2015. The revaluation performed as of December 31, 2016 was approved by the Company´s Board of Directors held on March 9, 2017.

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. At each year-end, the amount of the revaluation surplus corresponding to the depreciation of the year is transferred to retained earnings.

- Furniture, vehicles and trays are measured at cost 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.

4.8 Investment property

Investment properties are properties held to earn rentals. They are stated at their cost less any subsequent accumulated depreciation.

4.9 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.

4.9.1. – 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.

4.9.2. – 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.

4.9.3. – 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

4.9.4. – 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.

4.10 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, 2016 and 2015 no impairment losses were recorded.

4.11 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.

4.12 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.

4.13 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.

4.14 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.

4.15 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.

4.15.1 - 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.

4.16 Provisions

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

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

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

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

4.17 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.

4.18 Equity accounts

Capital stock

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

As of December 31, 2015 capital stock amounted to 457,547 and was 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.

The General Ordinary and Extraordinary Shareholders' Meeting held on February 23, 2016 decided the capital stock increase in $ 115,542,240, from $ 457,547,269 to $ 573,089,509 represented by 115,542,240 common, nominative, non-endorsable shares, 1 (one) vote each, nominal value $1 per share, through the capitalization of the contribution received from Arcor S.A.I.C. and Bagley Argentina S.A. The capital stock increase was approved by the CNV on November 24, 2016.

As of December 31, 2016 capital stock amounted to 573,089 and was composed by 194,428 nominative, non-endorsable shares of Ps. 1 par value, with 5 votes each and 378,661 nominative, non-endorsable shares of Ps. 1 par value, with 1 vote each.

Share premium

The General Ordinary and Extraordinary Shareholders' Meeting held on February 23, 2016 decided the capital stock increase through the capitalization of the contribution received from Arcor S.A.I.C. and Bagley Argentina S.A. represented by 115,542,240 shares which had a share premium of 3.20625392064 per share, amounting 370,458.

Legal reserve

The current Argentine legal regulations (Law N° 19,550) require the Company to appropriate 5% of its net income per year to a "Legal reserve", which arises from the sum of the net income, prior year adjustments, transfers from other comprehensive result to accumulated earnings and accumulated loss from prior years, until such reserve equals 20% of the capital stock. In accordance with the Corporate Law N° 19,550, the Company should apply future earnings amounting to 15,273 to restore legal reserve used to absorb accumulated losses as of December 31, 2014 as approved in the General Shareholders' Meeting held on April 8, 2015.

Facultative reserve

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. During fiscal year 2015 this reserve was used to absorb accumulated losses.

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

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 years 2014 and 2015 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. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. At each year-end, the amount of the revaluation surplus corresponding to the depreciation of the year is transferred to retained earnings.

Accumulated earnings (losses)

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

4.19 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.

4.19.1 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.

4.19.2 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 and (ii) provision of marketing and other administrative services to Logística La Serenísima Sociedad Anónima – over the agreed service period.

4.19.3 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.

4.20 Borrowing costs

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

For the fiscal years ended December 31, 2016 and 2015, the Company capitalized in "Work in progress" of Property, plant and equipment, and others borrowing costs for 29,336 and 7,743 respectively.

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

4.21 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.

4.22 Income tax and alternative minimum income tax

4.22.1. – Income taxes – current and deferred

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

4.22.1.1 – Current tax

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

4.22.1.2 – Deferred tax

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

4.22.1.3. – Current and deferred tax for the year

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

4.22.2. – Alternative minimum income tax

The alternative minimum income tax is complementary to the income tax. The Company determines the tax charge applying the enacted rate of 1% over the computable assets at year-end. The Company´s tax obligation will be the higher amount between the determined presumed income tax and the income tax liability determined applying the enacted 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.

4.23 Adjustment for inflation

IAS 29, "Financial reporting in hyperinflationary economies", requires the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy to be stated in terms of the measuring current unit at the end of the fiscal year. For such purpose, in general, inflation is to be computed on non-monetary items from the acquisition or revaluation date, as applicable. The standard lists a set of quantitative and qualitative characteristics to be taken into account in order to determine whether an economy is considered hyperinflationary. Considering the inflation decreasing trend, the absence of qualitative factors that may lead to a definitive conclusion, and the anomalies detected in the information on inflation published by the INDEC, the Company's Board of Directors has concluded that there is no sufficient evidence to consider the Argentina's economy as hyperinflationary as of December 2016, according to the guidelines established by the IAS 29. Therefore, restatement principles established in the mentioned standard have not been applied in this fiscal year.

Over the last years, certain macroeconomic variables affecting the Company's business, such as payroll costs, row material and other input prices, borrowing and exchange rates, have experienced significant changes. In case that the restatement of the financial statements becomes applicable, the corresponding adjustment should be resumed, and calculated from the last date the Company had restated its financial statements in order to reflect inflation effects, as established by the applicable Standard. Both circumstances should be taken into consideration by the users of these consolidated financial statements.

5. 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.

6. CASH AND CASH EQUIVALENTS

	2016	2015
Cash and bank accounts	111,732	96,481
Investment funds	7,543	366,414
Short-term investments	94,749	17,419
Total	**214,024**	**480,314**

7. OTHER FINANCIAL ASSETS

	2016	2015
• Current		
Derivative financial instruments	20,207	25
Corporate bonds	7,517	7,517
Short-term investments – other	5,566	9,629
Restricted investment funds (Note 29d)		43,928
Total	**33,290**	**61,099**
• Non-current		
Long-term investments	19,228	15,383
Derivative financial instruments		46,584
Total	**19,228**	**61,967**

8. TRADE ACCOUNTS RECEIVABLE

	2016	2015
Third parties (domestic)	1,247,592	757,689
Related parties (Note 30)	264,932	85,147
Foreign receivables	5,139	7,237
Notes receivables	844	689
Tax incentives on exports	27,625	22,051
Subtotal	**1,546,132**	**872,813**
Allowance for doubtful accounts	(25,815)	(22,322)
Allowance for trade discounts and volume rebates	(13,852)	(3,876)
Total	**1,506,465**	**846,615**

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

	2016	2015
Balance at the beginning of the year	22,322	17,127
Additions (1)	9,718	9,157
Transfers	(7,563)	(2,121)
Write-offs	(825)	(2,107)
Re-measurement of foreign subsidiaries allowances	2,163	266
Balance at the end of the year	**25,815**	**22,322**

(1) Charged to selling expenses – Note 23.

The allowance for doubtful accounts was determined based on the historical experience of default, statistics, specific analyses for major clients and evaluation of management about current economic scenario. Customer accounts in bankruptcy or bankruptcy process (offset of the corresponding allowances) are excluded from current accounts receivables and included in other receivables. An allowance for doubtful accounts with an age over 180 days past due is recorded, if necessary.

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

	2016	2015
Balance at the beginning of the year	3,876	11,590
Additions (1)	27,994	3,876
Write-offs	(18,116)	(11,590)
Re-measurement of foreign subsidiaries allowances	98	
Balance at the end of the year	**13,852**	**3,876**

(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, 2016 and 2015, 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:

	2016	2015
Overdue (1)	250,077	44,971
To be due:		
Between 0 and 3 months	1,271,396	802,461
Between 3 and 6 months	9,181	2,181
Between 6 and 9 months	7,979	785
Between 9 and 12 months	7,499	22,415
Subtotal	**1,546,132**	**872,813**
Allowance for doubtful accounts	(25,815)	(22,322)
Allowance for trade discounts and volume rebates	(13,852)	(3,876)
Total	**1,506,465**	**846,615**

(1) Including receivables for 95,917 in 2016 from public tenders.

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

	2016	2015
Between 0 and 6 months	186,072	22,375
More than 6 months	32,274	274
Total	**218,346**	**22,649**

Age of impaired trade receivables is as follows:

	2016	2015
Between 3 and 12 months	12,068	10,645
More than 12 months	19,663	11,677
Total	**31,731**	**22,322**

9. TAX CREDITS

	2016	2015
• Current		
Net value added tax	59,151	59,911
Turnover tax credit	32,601	20,504
Income tax and alternative minimum income tax receivable	6,834	9,546
Other tax credits	3,574	11,707
Total	**102,160**	**101,668**
• Non-current		
Net value added tax	1,441	6,051
Turnover tax credit	14,467	9,880
Other tax credits	1,839	272
Total	**17,747**	**16,203**

10. OTHER RECEIVABLES

	2016	2015
• Current		
Prepaid expenses	10,898	10,488
Receivable from sale of subsidiary company	12,183	10,422
Advances to services suppliers	7,545	6,278
Receivable from sale of property, plant and equipment	331	344
Insurance receivable	532	953
Guarantee deposits (Note 29c)	6	224
Receivables from customers in receivership and in bankruptcy	178	225
Related parties (Note 30)	144	
Other (Note 29c)	11,591	7,283
Subtotal	**43,408**	**36,217**
Allowance for doubtful accounts	(1,636)	(1,488)
Total	**41,772**	**34,729**
• Non-current		
Receivable from sale of subsidiary company	12,037	19,278
Régime for the professionalization of transport (1)	13,381	13,381
Receivables from customers in receivership and in bankruptcy	20,047	18,790
Receivable from sale of property, plant and equipment	8,195	6,716
Guarantee deposits (Note 29c)	68	48
Other	1,336	1,818
Subtotal	**55,064**	**60,031**
Allowance for doubtful accounts	(19,811)	(17,805)
Total	**35,253**	**42,226**

(1) In litigation

The movement of allowance for doubtful accounts is as follows:

	2016	2015
• Current		
Balance at the beginning of the year	1,488	858
Additions (1)	400	251
Write-offs	(252)	(32)
Transfers		411
Balance at the end of the year	**1,636**	**1,488**
• Non-current		
Balance at the beginning of the year	17,805	15,264
Additions (1)	758	829
Transfers	7,563	1,710
Write-offs	(10,114)	(357)
Re-measurement of foreign subsidiaries allowances	3,799	359
Balance at the end of the year	**19,811**	**17,805**

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

11. INVENTORIES

	2016	2015
Resale goods	57,983	44,236
Finished goods	891,913	575,714
Work in progress	444,502	311,051
Raw materials, packaging and other materials	549,889	375,429
Goods in transit	63,002	40,303
Subtotal	**2,007,289**	**1,346,733**
Advances to suppliers	1,459	4,452
Total	**2,008,748**	**1,351,185**

12. PROPERTY, PLANT AND EQUIPMENT, AND OTHERS

2016

	Cost or revalued cost							Depreciation								Net value at the end of the year
	Value at the beginning of the year	Foreign currency exchange differences	Acquisitions	Transfers	Retirement and disposal	Revaluation increase (Note 4.7)	Value at the end of the year	Accumulated depreciation at the beginning of the year	Foreign currency exchange differences	Retirement and disposal	Depreciation: Rate %	Depreciation: Of the year	Eliminated on revaluation (Note 4.7)	Accumulated depreciation at the end of the year	
Land and buildings (1)	2,223,131	13,346	2,356		6	532,047	2,770,874	34,699	7,630		2, 2.5, 2.86, 3.3, 4 and 5	67,467	63,677	46,119	2,724,755
Machinery and equipment (1)	1,512,420	6,605	13,718	17,412	918	238,389	1,787,626	164,017	4,778	175	5 and 10	213,928	208,487	174,061	1,613,565
Facilities and laboratory equipment (1)	907,401	3,085	13,680	13,142	50	81,795	1,019,053	147,906	2,247	50	5, 10 and 25	102,064	87,312	164,855	854,198
Furniture	56,465		6,640	266	1,205		62,166	47,661		1,156	10, 20, 25 and 33	4,277		50,782	11,384
Vehicles (2)	154,711	672	3,448	5,979	6,466		158,344	111,909	288	2,932	10 and 20	8,449		117,714	40,630
Work in progress	190,404		275,546	(23,686)			442,264								442,264
Advances to suppliers	8,232		22,867	(13,113)			17,986								17,986
Subtotal	**5,052,764**	**23,708**	**338,255**	**-**	**8,645**	**852,231**	**6,258,313**	**506,192**	**14,943**	**4,313**		**396,185**	**359,476**	**553,531**	**5,704,782**
Other:															
Trays	230,282		71,999		22,744		279,537	132,009		22,744	33	63,082		172,347	107,190
Carrying amount as of December 31, 2016	**5,283,046**	**23,708**	**410,254**	**-**	**31,389**	**852,231**	**6,537,850**	**638,201**	**14,943**	**27,057**		**459,267**	**359,476**	**725,878**	**5,811,972**

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

Land and buildings	683,821
Machinery and equipment	250,356
Facilities and laboratory equipments	203,784

(2) Includes vehicles operated by freighters of Con-Ser S.A. and Logística la Serenísima S.A. with a net value of 24,791 as of December 31, 2016.

	2015														
	Cost or revalued cost							Depreciation							Net value at the end of the year
	Value at the beginning of the year	Foreign currency exchange differences	Acquisitions	Transfers	Retirement and disposal	Revaluation increase (Note 4.7)	Value at the end of the year	Accumulated depreciation at the beginning of the year	Foreign currency exchange differences	Retirement and disposal	Depreciation Rate %	Depreciation Of the year	Eliminated on revaluation (Note 4.7)	Accumulated depreciation at the end of the year	
Land and buildings (1)	1,867,007	1,200	1,369	13,638	133,908	473,825	2,223,131	31,246	689		2, 2.5, 2.86, 3.3, 4 and 5	53,585	50,821	34,699	2,188,432
Machinery and equipment (1)	1,186,844	712	18,640	10,067	24	296,181	1,512,420	153,715	479	8	5 and 10	157,385	147,554	164,017	1,348,403
Facilities and laboratory equipment (1)	749,559	325	3,054	55,504	1,943	100,902	907,401	140,763	242	396	5, 10 and 25	70,068	62,771	147,906	759,495
Furniture	53,029		4,052	799	1,415		56,465	44,900		965	10, 20, 25 and 33	3,726		47,661	8,804
Vehicles (2)	157,837	132	1,351	115	4,724		154,711	106,764	56	2,583	10 and 20	7,672		111,909	42,802
Work in progress	203,105		62,695	(75,396)			190,404								190,404
Advances to suppliers	3,156		9,978	(4,727)	175		8,232								8,232
Subtotal	**4,220,537**	**2,369**	**101,139**	**-**	**142,189**	**870,908**	**5,052,764**	**477,388**	**1,466**	**3,952**		**292,436**	**261,146**	**506,192**	**4,546,572**
Other:															
Trays	157,261		73,021				230,282	78,658			33	53,351		132,009	98,273
Carrying amount as of December 31, 2015	**4,377,798**	**2,369**	**174,160**	**-**	**142,189**	**870,908**	**5,283,046**	**556,046**	**1,466**	**3,952**		**345,787**	**261,146**	**638,201**	**4,644,845**

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

Land and buildings	701,936
Machinery and equipment	252,177
Facilities and laboratory equipments	220,123

(2) Includes vehicles operated by freighters of Con-Ser S.A. and Logística la Serenísima S.A. with a net value of 22,402 as of December 31, 2015.

13. INTANGIBLE ASSETS

	2016	2015
Trademarks and patents	1,832	2,260
Total	**1,832**	**2,260**

The movement of intangible assets is as follows:

Balance at the beginning of the year	2,260	24,005
Amortization (Note 23)	(428)	(21,745)
Total	**1,832**	**2,260**

14. TRADE PAYABLE - CURRENT

	2016	2015
Trade payables	1,237,764	778,645
Related parties (Note 30)	413,313	266,489
Note payables	198,567	201,616
Foreign suppliers	16,472	10,022
Total	**1,866,116**	**1,256,772**

The aging of trade payable is as follows:

	2016	2015
Overdue:	20,119	
To be due:		
Between 0 and 3 months	1,843,243	1,256,298
Between 3 and 6 months	1,264	474
Between 6 and 9 months	1,117	
Between 9 and 12 months	373	
Total	**1,866,116**	**1,256,772**

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

15. BORROWINGS

	2016	2015
Short-term debt		
Principal:		
Financial debt:		
Unsecured debt	90,778	49,277
Secured debt	2,891	115,817
Total - Financial debt	**93,669**	**165,094**
Accrued interest:		
Unsecured and secured debt	15	2,949
Total - Accrued interest	**15**	**2,949**
Total	**93,684**	**168,043**

Long-term debt

	2016	2015
Principal:		
Senior Notes Series F - due 2021 (net of issue costs and adjustment to amortized cost for 77,243 as of 12/31/2016 and 79,815 as of 12/31/2015)	3,095,885	2,524,187
Total - Senior Notes	3,095,885	**2,524,187**
Other financial debt:		
Secured debt	6,348	7,657
Total - Other financial debt	**6,348**	**7,657**
Total	**3,102,233**	**2,531,844**

Main loans agreements

Senior Notes – Series F – due 2021

On July 3, 2014, the Company issued its Series F Senior Notes, under the Senior Notes Issuance Program for an amount up to 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., Leitesol Industria e Comercio Ltda. and Mastellone San Luis S.A. are jointly and severally liable for the Series F Senior Notes.

16. ACCRUED SALARIES, WAGES AND PAYROLL TAXES

	2016	2015
Payroll and bonus to management	393,484	280,561
Social security taxes	214,272	161,545
Total	**607,756**	**442,106**

17. TAXES PAYABLE AND ACCRUAL FOR TAX RELIEF

	2016	2015
• Current		
Tax withholdings	79,512	67,309
Taxes, rates and contributions (net from advances)	55,815	27,479
Payment plan – Law N° 26,476 and others	8,160	9,747
Accrual for tax relief	3,031	3,031
Total	**146,518**	**107,566**
• Non-current		
Payment plan – Law N° 26,476 and others	10,880	18,025
Accrual for tax relief	3,031	6,063
Total	**13,911**	**24,088**

18. PROVISIONS

	2016	2015
• Current		
Accrued litigation expenses	73	466
Other	622	622
Total	**695**	**1,088**
• Non-current		
Accrued litigation expenses	17,172	19,364
Other	797	463
Total	**17,969**	**19,827**

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

• Current		
Balance at the beginning of the year	1,088	1,522
Payments made	(2,689)	(3,911)
Transfer from non-current allowance	2,296	3,477
Balance at the end of the year	**695**	**1,088**
• Non-current		
Balance at the beginning of the year	19,827	22,494
Increases (1)	7,689	3,140
Payments made	(10,409)	(2,825)
Re-measurement of foreign subsidiaries allowances	3,158	495
Transfer to current allowance	(2,296)	(3,477)
Balance at the end of the year	**17,969**	**19,827**

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

19. OTHER LIABILITIES

	2016	2015
• Current		
Debt for acquisition of subsidiary company (Note 29a)	16,252	13,548
Derivative financial instruments	11,750	
Other	9,621	7,209
Total	**37,623**	**20,757**
• Non – current		
Deferred revenue	2,919	2,482
Debt for acquisition of subsidiary company (Note 29a)		13,039
Derivative financial instruments		48,248
Total	**2,919**	**63,769**

20. DEFERRED TAX

Deferred tax assets:

	2016	2015
Temporary differences:		
Provisions and other non-deductible accrued expenses	15,938	15,163
Inventories	1,442	1,301
Property, plant and equipment, and others	(8,610)	(8,261)
Tax loss carry-forwards	6,385	4,644
Alternative minimum income tax	5,622	4,391
Total	**20,777**	**17,238**

Deferred tax liabilities:

	2016	2015
Temporary differences:		
Provisions and other non-deductible accrued expenses	35,430	35,537
Inventories	56,926	34,736
Intangible assets	1,208	1,060
Cash and cash equivalents	(271)	(2,209)
Other assets	(185)	(185)
Property, plant and equipment, and others	(1,681,783)	(1,354,036)
Borrowings	(26,091)	(26,790)
Tax loss carry-forwards	569,029	453,561
Alternative minimum income tax	157,326	115,877
Total	**(888,411)**	**(742,449)**

The unused tax loss carry-forwards filed with tax authorities by Mastellone Hermanos S.A. and its subsidiaries recognized as of December 31, 2016 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	23,864	35%	8,352	2018
2014	510,729	35%	178,755	2019
2015	781,275	35%	273,446	2020
2016	328,173	35%	114,861	2021
			575,414	

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

	Balance at the beginning of the year	Reduction of tax loss carry-forwards	Charge to loss for the year (Note 27)	Charge to Other comprehensive income (Note 27)	Balance at the end of the year
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(1,303,684)		121,786	(424,098)	(1,605,996)
Tax loss carry-forwards	458,205	(3,314)	122,059	(1,536)	575,414
Total 2016	**(845,479)**	**(3,314)**	**243,845**	**(425,634)**	**1,030,582**
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(1,011,977)		104,514	(396,221)	(1,303,684)
Tax loss carry-forwards	174,087		286,534	(2,416)	458,205
Total 2015	**(837,890)**	**-**	**391,048**	**(398,637)**	**(845,479)**

21. REVENUE

	2016	2015
Product sales	19,911,821	15,657,689
Services provided	514,772	384,986
Turnover tax	(429,314)	(396,712)
Sales discounts and volume rebates	(1,922,005)	(1,316,268)
Sales returns	(352,217)	(250,117)
Total	**17,723,057**	**14,079,578**

Sales commitments

- The Company has agreed to meet export commitments of powdered milk and whey for a total of approximately 8,066 tons with an estimated contract value US$ 23,700 thousand.
- Additionally, the Company has entered into agreements with national public agencies for the sale of approximately 6,755 tons of powdered milk with an estimated contract value of 629,100.

22. COST OF SALES

	2016	2015
Cost of goods sold:		
Inventories at the begging of the year	1,346,733	1,297,745
Purchases	7,927,880	6,311,329
Write-off of inventories	129,570	234,293
Production expenses (Note 23)	4,058,693	3,152,295
Re-measurement of foreign subsidiaries inventories	55,775	4,778
Benefits from industrial promotion (1)	(185,629)	(201,788)
Inventories at the end of the year	(2,007,289)	(1,346,733)
Subtotal - cost of goods sold	**11,325,733**	**9,451,919**
Cost of services rendered:		
Purchases	38,509	32,136
Production expenses (Note 23)	231,220	169,045
Subtotal - cost of services rendered	**269,729**	**201,181**
Total cost of sales	**11,595,462**	**9,653,100**

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

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

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

In June 2007, MSL filed with the Federal Court of San Luis a request for a declaratory judgment of unconstitutionality so that the subsequent credits to be made annually by the Federal Tax Collection Agency ("Administración Federal de Ingresos Públicos", "AFIP") in the computerized current account, which reflects the benefits granted under promotion schemes, be currency restated as set forth in ruling N° 1280/92 since and including 2002 until the effective use of the bonds. In addition, on June 20, 2007, the hearing judge granted the injunction requested by MSL, which injunction should remain in force until the judicial proceedings were resolved. In addition, the Court allowed the application of the above mentioned restatement. On November 15, 2012, the Federal Court of San Luis ordered AFIP to apply the currency restatement. The AFIP appealed the decision, but it was rejected by the Supreme Court on June 9, 2015.

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

On March 31, 2015, the Federal Court of San Luis granted the injunction requested in relation to the recognition of benefits under the promotion regime for 15 years and ordered the AFIP to credit the benefits resulting from the restatement set forth in Ruling N° 1280/92 issued by the Ministry of Economy. The benefits were actually credited in June 2015.

<u>Purchase commitments:</u>

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

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

	2016				
	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				129,514	129,514
Fees and compensation for services	426,579	1,410	1,070,521	99,959	1,598,469
Payroll, bonus and social security charges	1,917,137	123,432	721,229	428,571	3,190,369
Depreciation of property, plant and equipment, and others	408,269	15,812	28,376	6,810	459,267
Amortization of intangible assets	428				428
Provision for bad debts			10,876		10,876
Freights	668,555		2,333,204		3,001,759
Maintenance and repair	106,479	3,216	13,021	408	123,124
Office and communication	1,887	342	1,026	3,041	6,296
Fuel, gas and energy	277,650	55,402	31,001	6	364,059
Vehicles expenses	22,785		21,086	3,116	46,987
Publicity and advertising			366,292		366,292
Taxes, rates and contributions	84,745	1,465	3,415	144,095	233,720
Insurance	93,457	982	30,111	7,262	131,812
Travelling	2,345		3,235	887	6,467
Export and import	2		39,701	553	40,256
Miscellaneous	48,375	29,159	18,591	14,788	110,913
Total	**4,058,693**	**231,220**	**4,691,685**	**839,010**	**9,820,608**

	2015				
	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				50,087	50,087
Fees and compensation for services	341,401	519	755,713	66,022	1,163,655
Payroll, bonus and social security charges	1,440,990	100,953	540,155	294,354	2,376,452
Depreciation of property, plant and equipment, and others	304,328	14,450	20,672	6,337	345,787
Amortization of intangible assets	21,745				21,745
Provision for bad debts			10,237		10,237
Freights	565,678		1,743,672		2,309,350
Maintenance and repair	75,068	6,124	11,752	456	93,400
Office and communication	1,600	263	665	2,220	4,748
Fuel, gas and energy	173,577	28,100	14,442	34	216,153
Vehicles expenses	21,255		16,346	2,142	39,743
Publicity and advertising			322,078		322,078
Taxes, rates and contributions	60,430	1,385	2,823	130,675	195,313
Insurance	63,059	433	20,236	5,111	88,839
Travelling	2,341		2,862	656	5,859
Export and import			26,977	424	27,401
Miscellaneous	80,823	16,818	11,583	14,131	123,355
Total	**3,152,295**	**169,045**	**3,500,213**	**572,649**	**7,394,202**

24. INVESTMENT INCOME

	2016	2015
Interest and profits	83,120	48,679
(Loss) gain from foreign currency forwards transactions	(11,495)	65,999
Rental income	6,113	4,370
Government bonds holding results		925
Total	**77,738**	**119,973**

25. FINANCE COST

	2016	2015
Senior Notes	351,984	227,928
Other loans interest	16,864	132,815
Other interests	6,916	24,961
Total	**375,764**	**385,704**

26. OTHER GAINS AND LOSSES

	2016	2015
Gain (loss) on sale of property, plant and equipment	8,042	(71,612)
Charges to freighters	4,107	4,094
Provision for litigation and other expenses	(7,689)	(3,140)
Donations	(1,096)	(1,062)
Recovery of claims	1,194	
Depreciation of investment property	(610)	(409)
Impairment of tax credits		(10,948)
Tax moratorium	(5,371)	
Miscellaneous	(4,883)	(1,195)
Total – net loss	**(6,306)**	**(84,272)**

27. INCOME TAX AND ALTERNATIVE MINIMUM INCOME TAX

	2016	2015
Included in net loss for the year:		
Current income tax	(112,441)	(157)
Tax loss carry-forwards for the year	122,059	286,534
Net change in temporary differences	121,786	104,514
Alternative minimum income tax	(4,398)	(9,541)
Total – gain	**127,006**	**381,350**
Included in other comprehensive result:		
Current income tax	(1,536)	(2,416)
Net change in temporary differences	(424,098)	(396,221)
Total – loss	**(425,634)**	**(398,637)**

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:

	2016	2015
Net loss before income tax and alternative minimum income tax	(222,427)	(997,947)
Statutory income tax rate	35%	35%
Income tax at statutory income tax rate	**77,849**	**349,281**
Permanent differences		
Benefits from industrial promotion	64,970	70,626
Unrecognized tax loss carry-forwards	(23,443)	(14,784)
Others	12,028	(14,232)
Alternative minimum income tax	(4,398)	(9,541)
Total – gain	**127,006**	**381,350**

28. ADDITIONAL CASH FLOW INFORMATION

Changes in working capital

	2016	2015
Trade accounts receivable	(658,578)	(54,142)
Other receivables	(4,233)	15,884
Tax credits	16,031	(23,401)
Inventories	(731,358)	(267,614)
Trade payables	549,898	(34,306)
Accrued salaries, wages and payroll taxes	163,389	93,462
Taxes payable	(16,335)	(31,660)
Advances from customers	580	(12,653)
Provisions	(9,940)	(5,431)
Other liabilities	(22,602)	(122)
Total	**(713,148)**	**(319,983)**

29. PLEDGED AND RESTRICTED ASSETS

a) Certain assets owned by the Company are pledged as collateral for bank, financial and other liabilities for a total amount of 25,151 as of December 31, 2016 (35,919 as of December 31, 2015). Detail of pledged assets is as follows:

	2016	2015
Property, plant and equipment, and others	15,967	2,635
Mastellone San Luis S.A. shares arising from the merger with Compañía Puntana de Carnes Elaboradas S.A.	6,375	3,255

b) As of December 31, 2015, the Company had pre-export credit lines in order to finance exports for an outstanding balance of the debt amounting to 89,089, which had as collateral inventories (of the parent Company and its subsidiary company Mastellone San Luis S.A.) for an amount of 115,062.

c) Additionally, as of December 31, 2016 there were other receivables – guarantee deposits (current and non-current) for an amount of 74 (272 as of December 31, 2015) in guarantee of financial and commercial transactions and restricted assets disclosed in caption "other receivables – other" (current) for 1,792 as of December 31, 2016 (357 as of December 31, 2015).

d) There were financial assets – investment funds by 43,928 of restricted availability as of December 31, 2015, 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 5,112 as of December 31, 2016 (5,402 as of December 31, 2015) in guarantee of the business relationship with suppliers, for an indefinite period while the commercial relationship between the parties is maintained. The guarantee amounts to US$ 3,150 thousand as of December 31, 2016 (3,262 as of December 31, 2015).

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

30. RELATED PARTIES OUTSTANDING BALANCES

Company	Trade account receivables (current)		Other receivables (current)	Trade payable (current)		Advances from customers (current)
	2016	2015	2016	2016	2015	2016
Afianzar S.G.R.	2	4		18	8	
Arcorpar S.A.	3,242			279		
Arcor S.A.I.C.				1,417		
Cartocor S.A.				8,473		
Frigorífico Nueva Generación S.A.	120	485				
Logística La Serenísima S.A.	261,442	84,312		403,011	266,481	717
Los Toldos S.A.	126	346	144	115		
TOTAL	**264,932**	**85,147**	**144**	**413,313**	**266,489**	**717**

31. RELATED PARTIES OPERATIONS

Transactions with related parties for the fiscal years ended December 31, 2016 and 2015 were as follows:

	2016	**2015**
Revenues		
Afianzar S.G.R.	15	6
Arcorpar S.A.	17,653	
Arcor S.A.I.C.	32,728	
Bagley Argentina S.A.	665	
Fideicomiso Formu	2,330	1,627
Frigorífico Nueva Generación S.A.	133	222
Logística La Serenísima S.A.	62,159	38,325
Los Toldos S.A.	254	437
Purchase of goods and services		
Afianzar S.G.R.	21	
Arcor S.A.I.C.	7,913	
Cartocor S.A.	40,599	
Logística La Serenísima S.A.	1,425,320	996,965
Los Toldos S.A.	4,488	4,021
Investment income		
Logística La Serenísima S.A.	5,370	4,159

	2016	2015
Finance cost		
Fideicomiso Formu		17,360
Other gain and losses		
Logística La Serenisima S.A.	1,523	1,529
Purchases Property, plant and equipment, and others		
Logística La Serenisima S.A.	1,911	1,384

During the fiscal years ended December 31, 2016 and 2015, the Company paid a total of 201,845 and 95,980, 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 29. It has not been recognized any expense in the current year or in prior years regarding bad or doubtful accounts related to amounts owed by related parties.

32. FINANCIAL INSTRUMENTS

32.1 – Capital management

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

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

Capital structure and debt ratio

	2016	2015
Debt (1)	3,195,917	2,699,887
Cash and cash equivalents	214,024	480,314
Net debt	2,981,893	2,219,573
Equity	3,040,842	1,802,712
Indebtness ratio	0.98	1.23

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

32.2 – Financial instruments categories

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

	2016	**2015**
Financial assets		
Cash and banks and short-term investments	206,481	113,900
At fair value with changes to profit and loss		
Investment funds	7,543	410,342
Derivative financial instruments	20,207	46,609
Held to maturity investments		
Corporate bonds	7,517	7,517
Loans and receivables		
Other financial assets	24,794	25,012
Trade accounts receivable	1,506,465	846,615
Tax credits	119,907	117,871
Other receivables	77,025	76,955
	1,969,939	**1,644,821**
Financial liabilities		
Amortized cost:		
Trade payables	1,873,317	1,264,027
Borrowings	3,195,917	2,699,887
Other liabilities	799,810	1,098,291
At fair value with changes to profit and loss:		
Derivative financial instruments	11,750	48,248
	5,880,794	**5,110,453**

32.3 – Risk management

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

32.4 – Management of foreign exchange risk

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

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

	2016	2015
Assets		
United States Dollar	55,116	85,840
Euro	686	195
Guarani	9,364	5,056
Brazilian Reais	323,546	127,277
Liabilities		
United States Dollar	3,201,530	2,747,128
Euro	1,229	383
Guarani	812	2,629
Brazilian Reais	108,622	42,975
Net currency exposure	(2,923,481)	(2,574,747)

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)	
	2016	2015
Impact in profit or loss and equity for each 1% increase in the exchange rate of foreign currency in thousands of Argentine pesos	(29,235)	(25,747)

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 2016 and 2015:

	2016	2015
Exports and foreign sales (consolidated amounts)	2,026,446	1,097,837

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

32.5 – Management of the interest rates risk

The long-term debt of the Company is composed by Senior Notes Series F due 2021, which accrues interest at a nominal annual fixed rate of 12.625%. As of December 31, 2016, the Company does not have financial debt with variable interest rate, except for an outstanding balance of 340.

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) 2016	2015
Non-interest bear	(956,423)	(1,205,062)
Fixed-rate financial instruments	(2,966,248)	(2,663,126)
Variable-rate financial instruments	3,359	404,195
	(3,919,312)	**(3,463,993)**

32.6 – Management of the credit risks

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

- sales in the domestic markets of Argentina and Brazil are highly diversified to a large number of customers in different locations. At the same time, due to the nature of the products, sales operations are conducted on an ongoing basis, making it easier to track the status of the client. For larger customers, there is individual monitoring. In the fiscal years 2016 and 2015, no single customer sales represented more than 10% of total revenues of each year. Receivables from customers in receivership and in bankruptcy have been reclassified to other receivables and adequately provisioned.

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

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

32.7 – Management of liquidity risk

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

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

	2016	**2015**
Less than three months	2,461,795	2,251,123
Between three months and a year	280,985	232,374
Between one and five year	3,201,505	52,791
More than five years	2,002	2,605,732
	5,946,287	**5,142,020**

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

	2016	2015
Less than three months	1,802,946	1,415,102
Between three months and a year	74,558	109,298
Between one and five years	72,126	73,628
More than five years	102	184
	1,949,732	**1,598,212**

32.8 – Fair value measurements

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

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

Financial assets/liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**
	2016	**2015**		
Financial assets:				
Cash and cash equivalent: Investment funds		366,414	Level 1	Quoted bid prices in an active market.
Other financial assets - current: Restricted investment funds		43,928	Level 1	Quoted bid prices in an active market.
Purchase of future United States currency		25	Level 1	Quoted bid prices in an active market.
Derivative financial instruments - Sale option	20,207		Level 3	Black & Scholes
Other financial assets – non-current:				
Derivative financial instruments - Sale option		46,584	Level 3	Black & Scholes
Financial liabilities:				
Other liabilities – current Derivative financial instruments – Purchase option	11,750		Level 3	Black & Scholes
Other liabilities – non-current Derivative financial instruments – Purchase option		48,248	Level 3	Black & Scholes

The following is reported in relation to hierarchy 3 financial assets and liabilities:

Financial assets / liabilities	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
Other financial assets – Derivative financial instruments – Share sell option	• Volatility of the value of the Company • Interpolated value of the risk-free rate of the US treasury bonds	• Increases in volatility will generate increases in the price of the option • Increases in the risk-free rate will reduce the price of the option
Other liabilities – Derivative financial instruments – Share purchase option	• Volatility of the value of the Company • Interpolated value of the risk-free rate of the US treasury bonds	• Increases in volatility will generate increases in the price of the option • Increases in the risk-free rate will increase the price of the option

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

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

	2016		2015	
	Book value	**Fair value**	**Book value**	**Fair value**
		(1)		(1)
Senior Notes due 2021	3,095,885	3,506,307	2,524,187	2,760,242

(1) Fair value hierarchy: Level 2.

33. SEGMENT INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports regarding components of the Company that are regularly reviewed by the Board of Directors 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 3 and 4.

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	2016		
	Dairy	**Other**	**Total**
Revenue from external customers	17,033,852	689,205	17,723,057
Intersegment revenue	1,702	92,200	93,902
Net (loss) income for the year	(82,194)	(13,227)	(95,421)
Assets allocated to the business lines	9,663,240	161,012	9,824,252
Liabilities allocated to the business lines	6,661,312	126,557	6,787,869
Additions to property, plant and equipment, and others	406,768	3,486	410,254
Depreciation of property, plant and equipment, and others	453,043	6,224	459,267
Amortization of intangible assets	428		428
Depreciation of investment property	610		610
Net domestic revenue	15,007,406	689,205	15,696,611

Information	2015		
	Dairy	Other	Total
Revenue from external customers	13,469,312	610,266	14,079,578
Intersegment revenue	2,226	232,476	234,702
Net (loss) income for the year	(606,697)	(9,900)	(616,597)
Assets allocated to the business lines	7,528,078	148,483	7,676,561
Liabilities allocated to the business lines	5,771,106	102,711	5,873,817
Additions to property, plant and equipment, and others	172,539	1,621	174,160
Depreciation of property, plant and equipment, and others	340,259	5,528	345,787
Amortization of intangible assets	21,745		21,745
Depreciation of investment property	409		409
Net domestic revenue	12,371,475	610,266	12,981,741

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	
2016	15,696,611	1,371,582	654,864	17,723,057
2015	12,981,741	642,661	455,176	14,079,578

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

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

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

35. SUBSEQUENT EVENTS

As it is mentioned in Note 2.c), on January 17, 2017 Arcor S.A.I.C. ("Arcor") and Bagley Argentina S.A. ("Bagley") exercised their option to subscribe additional shares as established in the Share Subscription Agreement in an amount equal to US dollars 35 million. As a result, on such date the Company received a contribution of 555,800. On January 17, 2017 the Company´s Board of Directors decided to accept the offer of the irrevocable contribution made by Arcor and Bagley.

The issuance of the shares is subject to the approval of Brazil´s authority of competition defense which was obtained on February 24, 2017, and will be in full force after 15 days subsequent to the public filing of such decision without opposition from third parties.

The contribution received will be applied to a capital stock increase by 80,880 through the issuance of 80,879,568 ordinary, nominative, non-endorsable shares with a par value of $1 per share and entitled to one vote for share, which will be issued with a share premium of 474,920 (5.87 per share).

To secure the contribution received and until the effective issuance of the corresponding shares, certain shareholders have pledged 97,055,482 shares – representing 17% of the Company's capital stock – in favor of investors.

36. APPROVAL OF THESE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorized to be issued on March 9, 2017.

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

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

INDEPENDENT AUDITORS' REPORT

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

Report on the consolidated financial statements

1. Identification of the consolidated financial statements subject to audit

We have audited the accompanying consolidated financial statements of Mastellone Hermanos Sociedad Anónima (hereinafter "Mastellone Hermanos Sociedad Anónima" or the "Company") and its subsidiaries (detailed in Note 3.5 to the consolidated financial statements), which comprise the consolidated statement of financial position as of December 31, 2016 and the related consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other selected explanatory information presented in Notes 1 to 36.

Amounts and other disclosures for the fiscal year ended December 31, 2015, are included as an integral part of the above mentioned financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current year.

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

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

3. Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) issued by the International Audit and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), adopted in Argentina with the term established by the FACPCE through Technical Resolution No. 32 and Circulars of Adoption of Standards issued by the IAASB and the IESBA of IFAC No. 1 and 2. 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, 2016, 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, 2016, 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 3.1 to the accompanying consolidated financial statements, the financial statements are the English translation of those originally prepared by the Company in Spanish and presented in accordance with IFRS. The effects of the differences between IFRS and the accounting principles generally accepted in the countries in which these financial statements are to be used have not been quantified. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, profit or loss, profit or loss and other comprehensive income, changes in stockholders' equity and cash flows in accordance with accounting principles generally accepted in the countries of users of the financial statements that have not adopted the IFRS.

General Rodriguez, Province of Buenos Aires, March 9, 2017.

Deloitte & Co. S.A.

ALBERTO LÓPEZ CARNABUCCI
Partner