Mastellone Hermanos S.A.
Consolidated Financial Statements
for the fiscal year ended
December 31, 2017

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

***Annual Report for Fiscal Year 2017* (*)**

Introduction

We hereby submit to the consideration of our shareholders this annual report and financial statements of Mastellone Hermanos S.A. (the “Company”) for the fiscal year ended December 31, 2017.

General scenario

The particular circumstances of the dairy industry in Argentina in 2017 might be described as complicated at least. Dairy consumption in the domestic market was always below the levels observed in previous years, and this was the category of products that experienced the biggest drop as compared with other products included in the family shopping basket, although such drop might have softened towards the last quarter of 2017.

After a significant recovery occurred late in 2016, international market prices, in particular for milk powder, did not maintain that positive trend, but rather the opposite, and have therefore not acted as an incentive to exports. Also, taking into account the manufacturing costs of milk powder, which is the major exportable product, the exchange rate and other costs involved in the exporting activity, the development of this business had almost no attractiveness, which explains to a great extent the strong year-to-year fall of milk powder exports in particular (-32%), and dairy products in general (-25%).

As regards raw milk, the floods occurred early in the year have affected the various milk producing areas in the country to a varying degree. This impact was partially counterbalanced, in general, by an improvement in production, in particular in the second half of the year, which was nonetheless insufficient to achieve a recovery from the significant drop in production observed with respect to the preceding year. This situation, added to the increased production costs of dairy farms, have created certain pressure on the prices paid for raw material, which resulted in an average 42.5% increase as compared with the previous year.

In connection with labor costs, events to be noted are the amendment to the Collective Agreement agreed upon with ATILRA, the union that represents the workers in this industry, and the reduction of the monthly Solidarity Contribution paid to such union by the companies.

Finally, it should be noted that the regular development of our business continued to be affected by the activity of unregistered companies, extending from the purchase of raw material to all stages of commercialization. Given the strong negative impact of such activity, especially on the competitiveness of formally organized dairy companies and on leading companies in particular, it is of crucial importance that efforts are redoubled and any necessary actions are implemented so that this issue will continue to be one of the strategic matters to be solved by the Government.

However, notwithstanding the adverse conditions described above, during 2017 we continued to implement all the necessary actions to achieve a significant improvement in operating profits and cash generation from our operation. This provides a strong platform for the next year which, added to positive macroeconomic expectations, may contribute to an additional period of improvement of different Company indicators.

Additional information on this matter is provided below.

Macroeconomic aspects

A summary of recent changes in and perspectives of the world economy and some selected countries or regions is shown below:

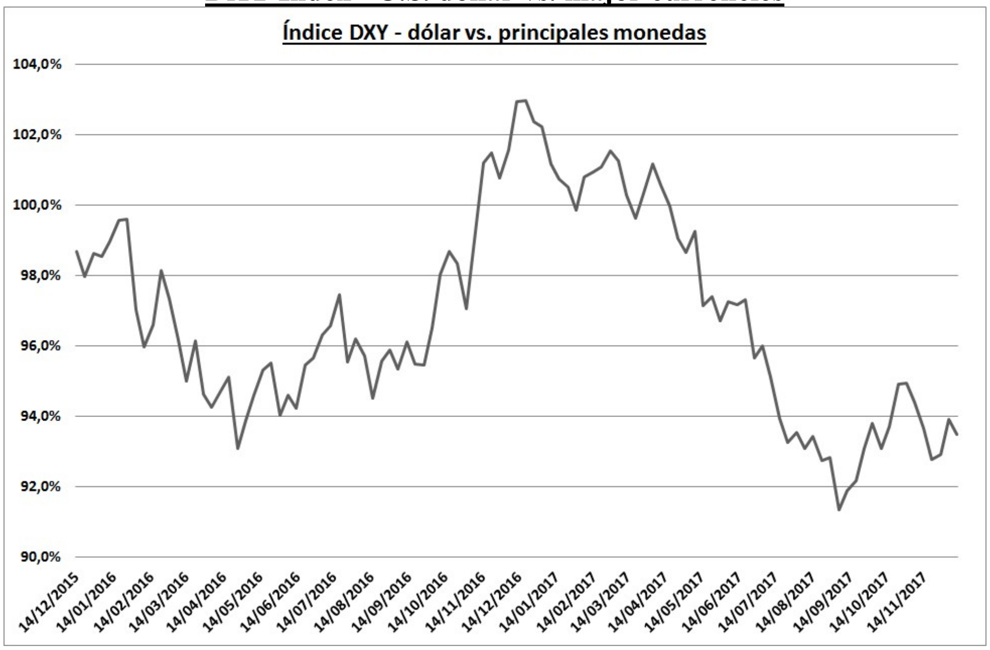
Changes in Gross Product	2015	2016	2017	2018
World	3.4%	3.2%	3.6%	3.7%
Advanced economies	2.2%	1.7%	2.2%	2.0%
Emergent markets and developing economies	4.3%	4.3%	4.6%	4.9%
Selected countries / regions				
China	6.9%	6.7%	6.8%	6.5%
Latin America & the Caribbean	0.1%	-0.9%	1.2%	1.9%
Brazil	-3.8%	-3.6%	0.7%	1.5%
European Union	2.0%	1.8%	2.1%	1.9%

Source: International Monetary Fund - World Economic Outlook - October 2017

In recent years the economy benefited from a very low level of interest rates, which was a consequence of the problems derived from the financial crisis of 2008 and 2009. This, in turn, was the cause of serious concern as to the impact that might result from a return of rates to a level compatible with historical values. Nowadays, it may be seen that an improvement in the level of global economic activity is compatible with lower inflation levels than those historically recorded, which are now in line with the rates accepted by economic authorities. This makes possible a gradual return to normal financial conditions, without impairing the growing level of activity.

By disaggregating the information by areas, it may be seen that China keeps growing at a significant rate, although lower than in recent decades (a circumstance that might have a positive effect on our industry to the extent that an export-based growth gives way to a growth based on consumption), with an improvement in Latin America driven by the recovery of Argentina and Brazil. Departing from a year-long tendency, in 2017 the U.S. dollar became increasingly weaker in comparison with major currencies, as shown in the graph presented below.

DXY Index - U.S. dollar vs. major currencies



These are favorable news for our industry and should result in an increased demand for dairy products and a better price for related commodities.

At the domestic level, the Argentine economy showed a clear, although gradual, improvement in 2017. The country was able to leave recession behind, and the gross domestic product is currently expected to grow by around 3%. Demand also increased as from the second quarter. Inflation continued to be a focus of concern for the National Government. The inflation rate recorded in 2017 was around 24.8%, which, although lower than in 2016, is still high, and has forced the Argentine Central Bank to redefine the expected inflation level for the period 2018-2020. In 2017 the Argentine peso remained overvalued with respect to the U.S. dollar, and this had an adverse effect on the volumes and results of the export business.

On the other hand, the availability of financing and the interest rate relevant for long-term investment decisions evolved favorably.

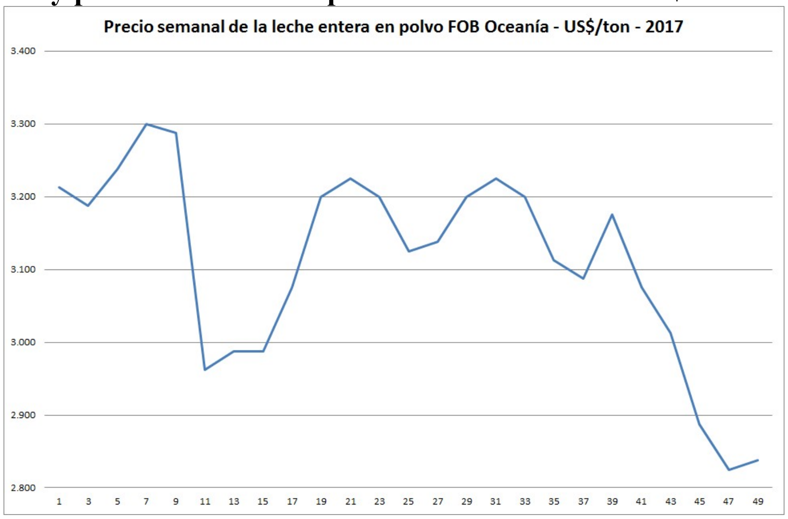
Based on the foregoing, all indicates that in 2018 our industry should find itself in a more favorable scenario. The international context, with a good level of activity (which in some moment will exert an influence on the demand for dairy commodities), the absence of any adverse effects from the readjustment of interest rates, and a relatively weak U.S. dollar, are all positive facts for the export business. At the domestic level, the recovery of economic activity and the expected decrease of the inflation rate will also create a favorable context, with perspectives of an increased consumption, more specifically in the second half of 2018.

The dairy industry

Conditions in the international market

Contrary to the expectations prevailing late in 2016, whole milk powder prices showed a negative tendency during 2017, especially so in the last part of the year, and decreased around 13% from end to end. The behavior of prices is shown in the graph below:

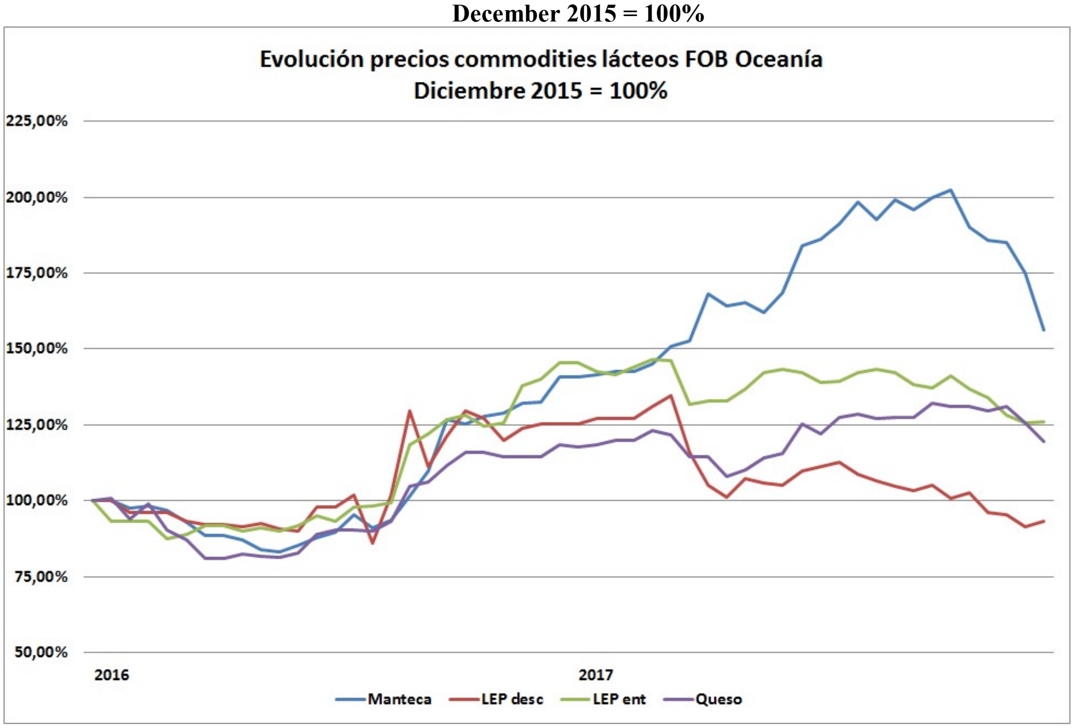
Weakly price of whole milk powder FOB Oceania - US$/ton - 2017



Source: U.S. Department of Agriculture ("USDA").

Dairy commodity prices remained volatile as usual, but now affected not only the behavior of the prices of products in the course of time, but also the relative value of prices for different products as compared at different times. During 2017, the products based on or including a high fat content had a firm demand, which led the price of butter to up to three times the price prevailing late in 2015, while at the same time low and non-fat products had a completely different behavior, as shown in the following graph:

Behavior of dairy commodity prices FOB Oceania
December 2015 = 100%



Source: USDA

This unusual circumstance now makes it even more difficult to forecast market tendencies in relation to dairy commodities as a whole. We can now estimate that the price of butter will fall with respect to the level it reached during the year (it exceeded US$ 6,000 / ton), but even so demand is expected to sustain such price at a level not below US$ 4,000 / ton, while the price of skimmed milk powder will remain low, at less than US$ 2,000 / ton, with cheese and whole milk powder prices following an intermediate tendency.

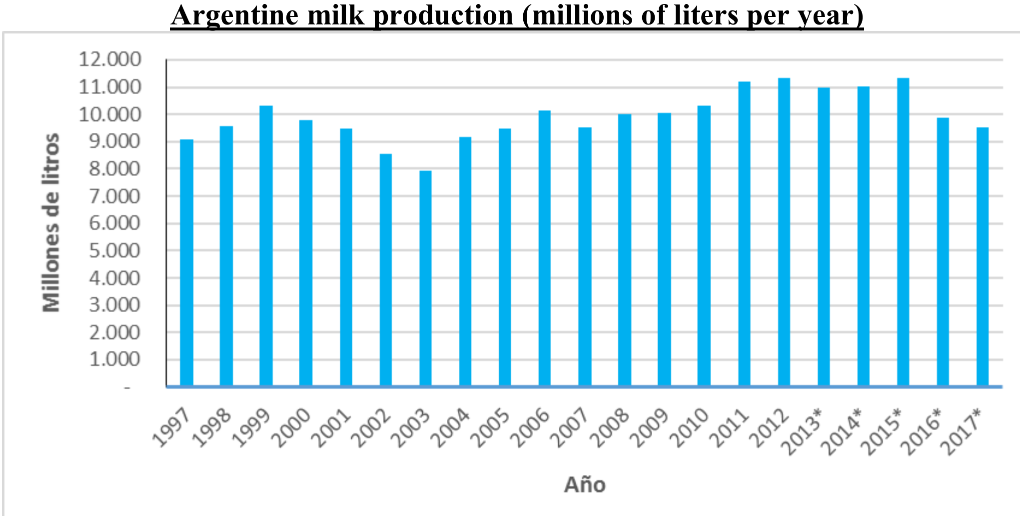
The global relationship between supply and demand did not experience great changes in 2017, except for the stronger demand for high fat products as mentioned above. The aggregate amount of products placed by major exporters in the international market did not vary significantly, while on the other hand the demand from China, although with a slight increase, is still well below 2013 levels.

Conditions in the Argentine dairy industry

Primary production

Although no final official statistics are available yet, accumulated milk production for 2017 might be at a level equal to or slightly below that of the previous year. However, when the monthly behavior of this production is examined, we may identify certain facts that have had a decisive influence on this matter. The floods occurred in the provinces of Córdoba, Santa Fe and Buenos Aires strongly affected the levels of raw milk production, especially in the first quarter of the year. In April a recovery began to be observed, although it was not sufficient to compensate the impact of the above mentioned floods. Also to be noted is the fact that the low level of investments has contributed to this result. We include below a graph showing the changes in raw milk production in Argentina during the last 20 years:

Argentine milk production (millions of liters per year)



Source: Office of the Undersecretary of Dairy Industry - Argentine Ministry of Agribusiness

2013 and subsequent years: subject to review

The industry's possibility to pay better prices to farmers - which had initially been improved in the second half of 2016 as a result, generally, of price protection and cost control actions and a smaller share of commodity exports - caused an average increase of around 42% in the course of the year, or 27% from end to end.

For 2018 the perspectives of growth in primary production are positive (although still below recorded historical amounts). Such perspectives are based on grounds that include a recovery of the prices paid for raw milk, and its positive impact on the profitability of dairy farms, added to a slight improvement of investment levels. The circumstances prevailing in international markets - where part of any existing surplus must of necessity be placed - and any actions that may be implemented to reduce costs and improve revenues, together with a decreased fiscal pressure and the maintenance of competitive exchange rates will be crucial to ensure a sustained medium and long term growth for an industry that enjoys clear competitive advantages.

Actions by the Company and perspectives

The Company was affected by the general conditions of primary production as described in the preceding paragraph. Considering all key variables (sales volumes, international prices, consumption, etc.), we have implemented a strategy that was oriented to meet the commercial needs of the different channels and to protect the profitability of our business and Company finances. While the implementation of this strategy involved a reduction of the processed volume of raw milk (8% less than in the previous year), we were able to satisfy all our commercial commitments in the year.

The price paid for raw milk increased by an average of 42% in a year to year comparison, which was in line with the behavior observed in the general market.

In a long term view, an increase in national milk production is of fundamental strategic interest, and also a permanent long-term objective for the Company, given the fact that milk availability has historically been the factor that limited our growth. In this respect, in 2017, as in all recent years, we implemented various actions designed to encourage and promote the dairy business in Argentina. All these actions were carried out in the framework of a strategic plan designated as “*Plan Más Leche*”, and included:

- A rebate on the use of sexed semen by our suppliers of raw milk. Sexed semen is supplied by different AI centers and 56,000 doses were distributed during the year. The purpose of such use of sexed semen is to increase the milk producing herd.
- Financing of and rebate on technological investments, from cold equipment, pasteurizers, etc. Transactions have been made for AR$ 21.5 million.
- Training activities developed by a team of professional veterinaries and agricultural engineers. A total of 110 events have been carried out, with a total of 4,628 participants.
- Holding of a symposium on “Dairy cattle reproduction and nutrition 2017.”
- Plan for an improved productivity in dairy farms, addressed basically to dairy farms in danger of being left out of the system, a program with clearly designed objectives, with the participation of 4 experts, and 106 dairy farms.
- Sponsorship of 8 Rural Change groups organized by the Ministry of Agribusiness and sponsored by the Company.
- A first breeding competition 2017, with 214 dairy farms registered and a final certificate issued.

Also, we began to offer a financial reward to the farmers that show improvements in the composition of the raw material supplied to us on the basis of the increased percentage of useful solids contained in it, and to reward those farmers whose material exceeds the Company’s average solids. The first payment of this bonus amounted to AR$ 6,844,000.

We believe that all these actions will have a gradual short, medium and long term impact on Argentine milk production, which will no doubt have a positive effect on our Company.

Domestic dairy market

General conditions

Data regarding Argentine consumption in 2017 has shown a recovery, in particular as from the month of September. This behavior was dissimilar for the various categories of products, as measured by specialized consulting firms. This was the case of dairy products, for which the average general consumption was always below the average amount recorded in previous years. During the first eight months of 2017 consumption fell by near 10%, a recovery was observed in the final months of the year, in line with the general tendency, with a final decline of 8%.

As regards competition, the publicly known situation of SanCor had an impact on the market, where spaces were left open in different segments that our Company and/or other companies in the industry were able to occupy. Also, it should be noted that as a result of the market circumstances described above, there continued to be a surplus supply of dairy products during the year, in particular in the long life milk and cheese lines, with products of varying quality.

Sales revenues of the Company

Itemized sales

Our sales may be classified into the following five main segments:

(i) Sales to the domestic market
(ii) Special sales (including industrial sales and competitive bids)
(iii) Sales to Mercosur domestic markets (Brazil, Uruguay and Paraguay)
(iv) Exports to third parties
(v) Other sales (mainly services)

In the fiscal year 2017, these sales, on a consolidated basis, amounted to AR$ 22.16 billion, which is equivalent to approximately US$ 1.337 billion (considering the daily average selling exchange rate prevailing in the period), an increase of around 25% with respect to the previous fiscal year. These sales may be disaggregated as follows:

Segment	2017	2016	Difference	%
Argentine domestic consumption	18,834.7	14,372.3	4,462.4	31.0%
Special sales and competitive bids	906.7	496.2	410.5	82.7%
Exports to third parties	169.9	654.9	-485.0	-74.1%
Sales abroad	1,631.0	1,461.3	169.7	11.6%
Services and other	1,168.7	1,167.7	1.0	0.1%
Subtotal	22,711.0	18,152.4	4,558.6	25.1%
Taxes	-550.5	-429.3	-121.2	28.2%
Total	22,160.5	17,723.1	4,437.4	25.0%

(i) Sales to the domestic market

Our sales were affected by the general market conditions described in other parts of this document, with a combination of positive and negative impacts. We have adjusted our selling prices to protect business profitability in the face of increases in major industry costs, sometimes above the annual average inflation rate, as in the case of raw milk.

As regards market positioning, the situation of the SanCor company permitted us to occupy spaces in different segments. Considering this circumstance, and notwithstanding the excess supply of dairy products referred to above, our Company has maintained, and in some cases increased, its market share in absolute terms. We continue to be the leaders in product families that account for almost our entire sales to the Argentine retail market. The high quality of our products, our extended portfolio, added to well-renowned brands and different marketing actions taken in the course of the year have undoubtedly helped us to achieve this market positioning.

In addition to the actions described in the preceding paragraph, in the course of the year we launched new products that not only extend our supply, but also add economic value to the Company. These newly launched products include the following:

- "Protein" fluid milk: a high protein content, wholly skimmed and partially delactosed milk. This milk is designed mainly for people who perform an intense physical activity and/or wish to lose weight.
- Finlandia "Balance" cheese: this product is designed to reinforce the supply of breakfast cheese, and its main feature is that it is a wholly skimmed spreadable cheese.
- Finlandia salmon cheese: a new flavor variety for our "Finlandia" spreadable cheese line.
- "Topping" condensed caramelized milk: a product specially designed to be used in confectionery and decoration of different desserts, among other uses.
- Aerosol Chantilly cream: this product was launched by midyear, mainly to be used in confectionery.
- Relaunched products of the Seremix line, which, in addition to milk as their basic component, include fruit juice or chocolate. These products were accompanied by important advertising patterns, mainly through social networks. A new packaging is now used to increase their attractiveness.

In summary, as we said in our previous annual report, in 2017 we have pursued our efforts to protect our profitability and to make growth possible on sound bases, for our Company and also for our dairy farmers. In this market, this means taking actions for the protection of our prices, and specifically for maintaining a strict quality control, and an efficient distribution and service to our customers.

(ii) Special sales and competitive bids

During 2017, the Company continued to make supplies in the framework of competitive bids organized by the Argentine National Ministry of Health and the Ministry of Social Development of the Province of Buenos Aires. In this latter case, a significant improvement was observed with respect to 2016 because deliveries kept a sustained pace along the whole year, which marked a difference with respect to the previous year.

Our Company will continue to provide supplies to these governmental agencies and will also pursue industrial businesses.

(iii)Sales to Mercosur domestic markets (Brazil and Paraguay)

(a) Brazil

Our major retail market outside Argentina is that of Brazil, where our sales, consisting primarily of milk powder, are made through our subsidiary Leitesol Indústria e Comercio S.A. ("Leitesol"). The exports of this product from Argentina to Brazil are still limited by a system of quotas (in effect as from the late 90s), which in fact entails a restriction on the growth of Leitesol sales.

The economic context was quite complex, after a significant recession occurred in 2015 / 2017 (a period in which the Brazilian gross domestic product decreased by 6.6%), with an impact especially in the Northwestern region, where most Leitesol sales are concentrated. Also, during 2017 the relationship between supply and demand in the dairy industry was affected by a recovery of production that was not accompanied by demand. For this reason, prices fell in the domestic market, which put a downward pressure on company margins in this industry, in spite of a decrease of the imported volume of dairy products.

Leitesol imports of milk powder manufactured in Argentina amounted to 16,684 tons, very near the 16,953 tons that were exported in 2016. Also, milk powder was purchased from other companies to supplement supplies with second brands. The sales and distribution of parmesan cheese and condensed caramelized milk under the La Serenísima brand maintained their continued growth for the fifth consecutive year.

Leitesol increased the amount of its transacted business (sales – expressed in a U.S. dollar equivalent amount - went from US$ 96.2 million in 2016 to US$ 100.3 million in 2017), an increase that was aided by the revaluation of the Brazilian real in respect of the U.S. dollar. Also to be noted, again, is the increase in the number of customers served. The total amount of milk powder sold was 19,166 tons, a figure that was also very close to the 19,856 tons sold in 2016. All products being considered, 20,320 tons were sold (2016: 21,127 tons).

Lower sale prices and higher import prices (the average FOB price of milk powder paid by Leitesol to Mastellone Hermanos increased, in line with the tendency of prices in the international market, by 32% in 2017 with respect to 2016) also had an impact on sales margins, with the consequent decrease of profits. The Company, however, achieved a significant positive result.

Leitesol serves around 3,800 customers directly, and reaches more than 20,000 points of sale, mainly in the Northwestern area of Brazil, which is the region with the highest consumption of milk powder.

It should be noted that the in the course of the year the Company received two significant recognitions, based on the indicators for 2016:

- It was ranked in the first place in the dairy products and derivatives category by the magazine *Exame Melhores & Maiores*.
- It was designated as the best company in the dairy industry by the magazine *Globo Rural - 13 anuario do agronegocio*.

(b) Paraguay

We also do business in the Paraguayan market, where our presence has become established after five years of operation, enhanced now by our business integration with Arcorpar, a subsidiary of the Arcor Group in Paraguay.

(iv) Exports

The volume of exports was restricted, in particular due to a decreased production of raw milk. On the other hand, the level of international prices, as described under "Conditions in the international market", was not an incentive to exports either, given that these prices do not cover production costs. Finally, also to be noted is the loss of competitiveness derived from an overvalued Argentine peso vis-à-vis the U.S. dollar, which was an additional reason for the development of this business to be sub-economic.

Based on the preceding comments, at the international level we have conducted certain transactions to comply with previous commitments and in relation to the export of cheese whey.

An amount of 5,026 tons of product, mainly skimmed milk powder and ricotta and cheese whey, were shipped. This amount represents a significant decrease with respect to the preceding year. Average prices also show a 12.2% drop in relation to 2016, basically considering that the price of skimmed milk powder is significantly lower than that of whole milk, which was our major export product in the previous year.

To close this section, and closely linked with the following section, the fact should be mentioned that during the year we continued with our shipments to our subsidiaries in Brazil and Paraguay, which subsequently sell the products in their respective domestic markets.

In the case of Brazil, we have shipped a total of 18,789 tons at an average price 32.4% higher than the price applied in 2016.

In the case of Paraguay, exports in FOB terms were 85.3% higher than in the preceding year, which also reflects the positive results of our alliance with Arcorpar S.A., a company of the Arcor SAIC group which is in charge of the marketing and distribution of our products in the Paraguayan domestic market.

Also, we have pursued our supplies to the Uruguayan market by means of shipments to Fort Masis S.A., a company belonging to the Danone group in Uruguay.

Sales revenues - Perspectives for next year

For 2018, we maintain our positive expectations concerning an increase in consumption levels, especially in the second half of the year. To accompany this favorable expectation, we intend to develop a strong investment plan, which in addition to benefits in terms of productivity, efficiency, etc., will enable us to add value to our product portfolio by enlarging such portfolio and keeping our focus, as always, on a higher quality, innovation and responsibility as to consumers. At the international level, we must continue monitoring market behavior, remaining cautiously optimistic as to a possible recovery of prices. Nonetheless, the possible development of our business will be tied, as usual, to a larger amount of raw milk being available, and also to our pursuit of all the actions necessary to increase the productivity of our Company.

Industrial activities

Production activities continued to be performed without any difficulties, including in the research and development areas, with the introduction of new products into the market. Actual production levels were affected by a smaller amount of available milk.

Among the investments made during the year, in the framework of the Company's strategic plan, the following may be particularly mentioned:

- Drying facility in Trenque Lauquen: By midyear in 2017 this plant began to operate at full rate. This facility has a capacity to dry cheese whey (380,000 liters/day), whole milk (550,000 liters/day) and skimmed milk (480,000 liters/day). The purpose of this facility is to reduce the cost of freight of whey and fluid milk shipments to General Rodríguez, and to use the water extracted from milk for the production process of the industrial complex.
- Canals facility, Province of Córdoba: In April 2017 we increased the capacity of this plant to 380,000 liters/day to improve productivity and standardize production. For this purpose we purchased a forming tower and an automatic pressing and demoulding line. Also, the milk, cream and whey pasteurizer and milk centrifuge were replaced. In addition to increasing the plant capacity, these actions, added to a redistribution of the available staff, enabled us to absorb activities such as mozzarella manufacturing and packaging and *Pategras* cheese packaging.

Also, it should be noted that we have modified our milk storage capacity by closing the reception facilities of Rufino and Las Varillas. The main purpose of this change, considering the smaller milk production in Argentina, was to reduce the cost of freight of raw material by concentrating milk reception activities in the industrial centers and/or other operating plants.

As specified in the section on our training activities, we have maintained and in some cases expanded our voluntary certification programs in relation to quality, food safety, environmental and energy matters.

Perspectives and projects for 2018

In 2018 we will continue to perform our strategic plan primarily oriented to increase productivity and production efficiency.

A new facility for bottling fluid milk in the premises of our cheese plant in the city of Villa Mercedes, Province of San Luis, will enable us to reduce the transportation cost of products, distributing to some areas in the interior of Argentina directly from such plant, which is expected to begin operations by mid-year in 2018. At the same time, significant investments will be made in the main industrial complex of the Company, located in General Rodríguez, Province of Buenos Aires, which will include new packaging lines, various improvements in cream, butter and spreadable cheese production, and an increased production of condensed caramelized milk, among other projects.

Subsidiaries

Each of our subsidiaries continued to develop its usual businesses. Their respective results (denominated in millions of pesos and already reflected in our consolidated financial statements) are shown below:

Company	Fiscal year 2017	Fiscal year 2016
Leitesol	106.2	233.5
Mastellone San Luis	310.0	117.8
ConSer	-5.1	-13.0
Marca 5	1.4	0.8
Marca 4	0.0	0.0
Mastellone de Paraguay	2.5	-0.4
Mastellone do Brasil	-0.3	4.6
Subtotal	415.0	343.3
Rounding effect	0.0	-0.1
Total	415.0	343.2

Human resources

General

The number of employees of the Company and its Subsidiaries (whichever the nature of their existing employment relationship) has changed as shown in the table below:

Year	Argentina	Brazil	Total
2013	4,519	109	4,628
2014	4,273	107	4,380
2015	4,111	105	4,216
2016	3,931	115	4,046
2017	3,722	121	3,843

We made no changes in our usual policy of determining employees' salaries based on the results of negotiations with the relevant unions and pursuant to market values and practices.

Training

Our usual employee training policy was maintained in 2017. We provided 811 training courses, where 9,447 employees took part, devoting to them a total of 35,828 man hours. As compared with 2016, the number of courses was increased by 13%, the number of participants grew by 41.3%, and the number of man hours remained unchanged. The main areas covered by the different courses included:

- Administration
- Environment
- Food quality and safety
- Commercial
- Energy efficiency
- Maintenance
- Production
- Human Resources

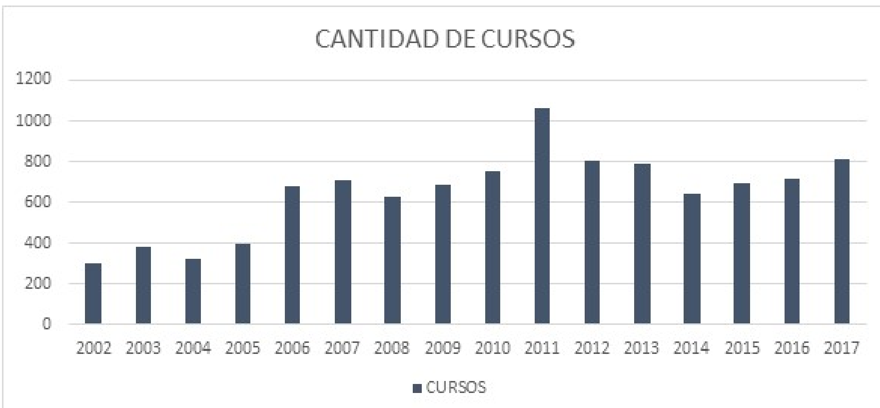
- Security
- Computer systems.

74% of these training courses were taught in-company by our own professionals.

It should be noted that efforts continued during the year to train Company employees in areas related to environmental care, such as waste management, environmental issues and impacts, energy saving and climate change. In line with our activities in 2016, during this year 9 employees of the commercial area followed courses to become university retail marketing technicians in the University of Morón.

Our training activities in recent years are summarized in the graph below.

NUMBER OF COURSES



Other training activities carried out in 2017 included:

- <u>Efficient use of energy</u>: The Company has been working for many years to implement different actions designed to improve its energy performance. During last year improvement projects were implemented in order to optimize power consumption.

- <u>Certification under voluntary quality, food safety, environmental and energy standards</u>: We have complied with requirements under the HACCP, ISO 9,001:2008, ISO 14,001, FSSC 22,000 and Good Manufacturing Practices (GMP), and ISO 50001:2011 standards (certification under this latter standard was obtained in the Armonía plant and implemented throughout our General Rodríguez industrial complex). Also, we keep working to maintain accreditation under the IRAM 301:2005 (ISO 17025) standard for the Milk Analysis and Typifying Laboratories located in our Classification Plants, the central laboratory and supporting areas inside the system, which was granted by the Argentine Standard Accrediting Agency (*Organismo Argentino de Acreditación*). With these accreditations and certifications, the Company maintains its forefront position in terms of its compliance with the standards required by various management systems.

<u>Corporate social responsibility and sustainability</u>

We believe that the concepts of corporate social responsibility and sustainability have become integrated not only to answer to a demand from the community but also because they create a value for the company, as such integration enables us to minimize risks and maximize opportunities in our activity. Pursuant to this premise, we have worked for several years now to put such vision fully in line in each of the areas of the Mastellone Group. In 2017 we created the Sustainability Committee, whose members are management officers and whose primary duties include:

- View sustainability under a multidisciplinary approach and with a shared vision.
- Define as a team the actions need to implement the change in strategy we intend to achieve (going from corporate social responsibility to sustainability).
- Evaluate performance and propose continuous improvement actions.

The initiatives we have implemented in relation to Sustainability and corporate responsibility are communicated to the different interest groups by means of the Sustainability Report, which is issued on an annual basis and may be accessed in our website www.mastellone.com.ar.

Some activities carried out in this respect are described below, classified into Company Management and External Management actions.

Company Management

- **Annual coordination of Value Workshops:** They are designed to promote opportunities for dialogue and thought on the values upheld by the Company, and also to promote human rights and reinforce a work culture.
- **Human rights:** Respect for and promotion of human rights through the use of in-company communication tools and specific actions taken by the Company to increase internal public awareness. Within this framework, a non discrimination policy is maintained in relation to matters such as the selection of employees. At the same time, visually impaired and blind people are hired through an outside consulting firm to form a panel that examines de organoleptic properties of our products.
- **"Healthy Workplace":** This certification is awarded by the Argentine National Ministry of Health under its policy of promotion of healthy habits of employees, such as physical activity and healthy eating, and the Company's being a 100% tobacco smoke free workplace.
- **"For decent work and against workplace violence"**: We adhered to this initiative promoted by the Argentine National Ministry of Labor in 2012 and agreed that actions should be taken to prevent and eradicate workplace violence.
- **Business Network against Child Labor:** We adhered in 2007 to this initiative promoted by the Argentine National Ministry of Labor.
- **In Company Training Actions:** These activities are described in more detail in the human resources section included in this Annual Report.
- **Efficient use of resources:** We have worked successfully and for several years on industrial processes and services to implement actions designed to reduce water and energy consumption.

- **Efficient solid waste management**: We have prioritized the 3 R's (reduction, reuse and recycling) so as to minimize the amount of waste to be disposed of at landfill sites.

- **Internal Communication:** Internal communication media (including digital newsletters) have been used to establish and strengthen the relationship with our employees, promote exchange opportunities and disseminate information to contribute to the achievement of business objectives. In 2017 and for the intended purpose of reinforcing communication channels, we launched a cellphone application, was launched.

External management

- **Global Compact:** The Company adhered in 2004 to this United Nations voluntary initiative, intended to establish a framework for the promotion of sustainable development on the basis of universal principles related to human rights, labor regulations, the environment and the fight against corruption.

- **DSF (Global Dairy Sustainability Framework):** In 2017 Mastellone Hnos. became the first Argentine dairy company to adhere to this framework, assuming a commitment to put its management in line with the domestic context and several key criteria.

- **Business Network against Child Labor: We** adhered in 2007 to this initiative promoted by the Argentine National Ministry of Labor.

- **National Program for the Reduction of Food Loss and Waste (National Ministry of Agribusiness):** We have adhered to this program.

- **Consumer / Customer Information Service (SIC):** This service hears and answers inquiries and claims from consumers and customers, received either by telephone or through social networks, to provide assistance in relation to customer requirements.

- **Doors Open Program:** The Company receives visits to its Pascual Mastellone Industrial Complex in General Rodríguez so that professionals, students, families and the general public may get acquainted with the origin of our products, which are a synonym for quality. In the course of these visits, visitors are provided information on the production circuit, thermal processes, the careful handling required by our raw material and the manufacturing of our products, and are shown the different packaging and palletizing rooms.

- **Student Information Department (DIES):** The DIES gives support to students at different educational levels and from different educational institutions, providing information and answering all their inquiries in relation to the Company, our products, etc.

- **Nutrition Information Department (DIN):** This Department provides advice and up-to-date nutritional information on behalf of the Company to health professionals and the community as a whole.

- **University internship program:** This program is intended to facilitate the initial contact between the Company and universities and to provide a learning environment to students.

- **Professionalizing practice program:** It offers technical high-school students in the vicinity of the Company's premises the possibility of a first contact with the working world by working for the Company for a certain period. This practice is performed under the supervision of teachers and plant employees.

- **Children's Museum:** This Museum (located at a shopping center in the City of Buenos Aires) was developed along the guidelines of the Declaration of the Rights of the Child and provides an enriching alternative meeting place that integrates play, movement, perception, understanding and expression. In this place, designated as "The World of Milk", the processes of milk production and condensed caramelized milk manufacturing are explained through the use of playing activities.

- **Responsible marketing:** The Company's communications (including those contained in product labels) and advertisements are performed in compliance not only with established legal requirements, but also with the requirements of advertising and marketing codes (including the Company's Code of Ethics) that the Company has voluntarily adhered to.

- **Other initiatives:** Together with Danone Argentina, the following initiatives are implemented every year:

  - **"La Serenísima va a la escuela"** Program [*La Serenísima goes to school*]: This program is designed to promote healthy habits among younger children. For this purpose, playing activities involving students and teachers are conducted in public and private schools throughout the country. The main subjects covered include the importance of breakfast, food groups, and the benefits to be derived from dairy products, physical activity and body hydration. In 2017 the program reached 50,000 girls and boys.

  - **Mundialito de Fútbol La Serenísima** [*La Serenísima Football World Cup for Kids*]: This is a world event which invites children from the five continents to take part in a "true" World Cup. This event seeks to promote sports and a healthy life, community integration and solidarity. For each child registered in this initiative dairy products are given to a civil association. It should be noted that this initiative was designated as a healthy event by the Argentine National Ministry of Health and the Ministries of Health of the provinces of Buenos Aires and Córdoba.

Corporate governance

The Company's corporate governance rules and our answers to the Argentine Securities Commission's questionnaire under General Resolution No. 606 on this subject are included as an annex to this annual report and may be accessed through our website (www.mastellone.com.ar).

Recognitions awarded to the Company

The Company and some of its commercial brands (in particular the brand La Serenísima) are quite well renowned in the Argentine market and have been so for many years. In the last three years we have been awarded the recognitions shown in the table below (among others):

Institution	Ranking	2015	2016	2017
Prensa Económica	Brand prestige	4	2	1
Prensa Económica	Business prestige	n/d	n/d	8
Target (Apertura) / SEL Consultores	50 top brands	3	3	3
Target (Apertura)	Brands of the future	n/d	1	3
Clarín/SEL Consultores	Best brands in the public's eye	1	1	2
Reader's Digest	Brand reliability	1	1	1
Mercado (OH Panel)	Online reputation	n/d	n/d	8
Mercado (Datos claros)	Socially responsible companies	n/d	28	8
Love Mondays	Salary satisfaction	n/d	n/d	1
Kantar World Panel	Brand footpoint	1	1	2
Clarín (Merco)	Company reputation (food industry)	3	5	5
Apertura (SEL Consultores)	100 best image companies	5	8	7
Ámbito Financiero (CEOP)	Brand prestige	1	1	6
Ámbito Financiero (CEOP)	Company prestige	9	7	18

Note: n/d = no data.

Also, Leitesol was recognized as the best Brazilian company in the dairy products and derivatives segment, according to the Best and Major Companies 2017 issue of the magazine *Exame*. Subsequently, La Serenísima brand was ranked first in the dairy products and derivatives category by the magazine *Globo Rural* in its thirteenth yearbook.

Economic and financial aspects

Changes during the year and subsequent trends

As stated above, significant challenges were experienced in fiscal year 2017, such as a contraction of Argentine domestic demand and persistently depressed international prices as compared to their historical levels and the production costs of exportable goods. In spite of these circumstances, our economic results and financial condition have shown a positive tendency, as it may be seen in the information presented below. This reflects the impact of the significant efforts we have made - as described in more detail in other sections of this annual report – to safeguard our profitability through a greater efficiency at all levels of Company activity. We believe that this is the only way to achieve reasonable results including at times, such as 2017, when the global context poses above-average demands. The results achieved indicate that the actions we have taken have been adequate to the prevailing circumstances, and most important, to establish a solid platform for future results. Strategic investments currently in progress, the benefits of which will be noticeable at a later date although they demand immediate efforts, are another source of improvement of future results.

Going specifically to the figures for 2017 presented below, it may be noted that a profit before taxes was achieved, which was unfortunately exceeded by higher tax charges (partly non-recurring). If comprehensive income is included, a significant net profit is shown. This - together with the shareholders' contributions received during the year - explain the net worth increase achieved, which amounts to 56.3% against an increase of only 13.8% in liabilities. The percentage increase in current assets exceeded by more than three times the growth of non current assets, with a consequent improvement of liquidity.

Results of the fiscal year

	2017	2016
Revenue	22,160.5	17,723.1
Cost of sales	(14,619.0)	(11,595.5)
Gross profit	**7,541.5**	**6,127.6**
Selling expenses	(5,743.8)	(4,691.7)
General and administrative expenses	(1,021.3)	(839.0)
Investment Income	190.5	77.7
Financial cost	(442.5)	(375.8)
Foreign Exchange Losses	(477.5)	(515.0)
Other gains and losses	20.3	(6.3)
Income (Loss) before taxes	**67.2**	**(222.5)**
Income tax and minimum presumed income tax	(87.9)	127.0
NET LOSS FOR THE PERIOD	**(20.7)**	**(95.5)**
Other comprehensive income		
Exchange differences on translating foreign operations, net of income tax	34.0	60.0
Gain on revaluation of Property, plant and equipment, net of income tax	1,143.2	788.6
Other comprehensive income, net of income tax	1,177.2	847.6
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,156.6**	**752.1**

Significant balance sheet changes

	2017	2016	Difference	%
Total current assets	5,709.1	3,911.0	1,798.1	46.0%
Total non current assets	6,770.2	5,917.8	852.4	14.4%
TOTAL ASSETS	12,479.3	9,828.8	2,650.5	27.0%
Total current liabilities	3,243.4	2,755.2	488.2	17.7%
Total non current liabilities	4,482.7	4,032.6	450.1	11.2%
TOTAL LIABILITIES	7,726.1	6,787.8	938.3	13.8%
Minority interests	0.1	-		n/a
SHAREHOLDERS' EQUITY	4,753.2	3,040.9	1,712.3	56.3%
SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES	12,479.3	9,828.7	2,650.6	27.0%

Tendencies

We expect improvements in the global scenario in 2018, with an increased domestic demand and better international prices at some point in time, which will make it easier to place abroad any milk surplus that may arise given the improvement in economic results at the farm level. This does not imply a linear but rather a gradual process, not exempt from difficulties and challenges, which we believe we will be able to face in an excellent condition.

Treatment of results of the fiscal year

Given the existing accumulated losses, no distribution of dividends is proposed.

(*) Information not reviewed by the Auditors.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

Code of Corporate Governance (*)
Date: March 7, 2018

1. Introduction

This Code of Governance defines the structure, composition and responsibilities of the management bodies of Mastellone Hermanos S.A. (hereinafter, "MHSA" or the "Company").
The Company is a corporation organized under the laws of Argentina and has been registered in the Public Registry of Commerce of the City of Buenos Aires on May 17, 1976.
The Company is the leading producer and distributor of fresh dairy products in Argentina, and ranks first in terms of market share for fluid milk, cream, butter and *dulce de leche* (caramelized condensed milk). It manufactures and distributes a wide-ranging line of fresh dairy products, including fluid milk, cream and butter, and also long-life dairy products, including cheese, powdered milk and *dulce de leche*.

The Company's capital stock consists of the following classes of shares:

Class A, B and C shares:	Held by members of the Mastellone family.
Class D shares:	Held by Dallpoint Investments LLC
Class E shares:	Held by Arcor S.A.I.C. and/or Bagley Argentina S.A. Any shares of other classes acquired by one of these shareholders under any title shall be immediately converted into class E shares.

2. Legal Framework

The Company's corporate governance practices are governed by:

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

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

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

d) The Company's corporate bylaws;

e) Agreements between Company's shareholders.

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

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

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

3. Shareholders' Meetings

Ordinary Shareholders' Meetings shall be held at least once a year. In addition to the notices required under the CL, an Ordinary or Extraordinary Shareholders' Meeting shall be convened by the Chairman of the Board by written notice given to the Shareholders not less than fifteen calendar days in advance. It shall not be necessary to comply with the fifteen calendar day prior notice requirement in the case of unanimous Shareholders' Meetings, provided all the Shareholders agree on the Agenda to be considered and on all the resolutions adopted at the Meeting.
Shareholders' Meetings monitor and approve management actions by the Board of Directors.

4. Special approval

Special approval by Class D and/or Class E shareholders shall be required for resolutions to be adopted on the following matters:

i. An amendment of the Corporate Bylaws.

ii. The creation or issuance of Company's shares or the issue of notes (negotiable obligations), whether or not convertible into Company's shares.

iii. The creation, purchase or disposition of any subsidiary or related company or any subsidiary's or related company's shares.

iv. The redemption, reimbursement and repayment of Shares, issue or redemption of securities convertible into shares, modification of the terms of issue of shares or notes convertible into shares.

v. An extension, tacit renewal or reduction of the duration of the Company.

vi. Capital increases and determination of the relevant issue premium, unless required by law.

vii. A suspension or limitation of first-refusal rights.

viii. The acceptance of revocable or irrevocable contributions on account of future capital increases, whether made by Shareholders or third parties.

ix. A merger, transformation, spinoff, initial public offering of shares or offer of shares to the public.

x. The sale or disposition of the whole or a substantial portion of the Company's or any subsidiary's business or assets, including the determination of transfer prices, except for any business lines or assets that may give rise to recurrent losses.

xi. The purchase by the Company of shares, quotas or interests in any corporation, firm or company, for an amount exceeding US$ 5,000,000.

xii. The granting of guarantees, bonds or securities (1) unless they are given in favor of Subsidiaries on transactions by such Subsidiaries which must be guaranteed or secured by the Company, or (2) in favor of third-party suppliers, provided they shall not violate any covenant under the Company's notes or other debt instruments.

xiii. The sale or granting of use or franchise licenses on or any other disposition of trademarks and trade names and trademark rights generally.

xiv. Approval of the annual budget.

xv. Transactions or contracts for an amount exceeding US$ 5,000,000 and not contemplated in the Company's budget.

xvi. Approval of investments or expenses not exceeding by 5% or US$ 1,000,000 (whichever is less) the investments or expenses contemplated in the annual budget.

xvii. Debt transactions involving an amount exceeding US$ 5,000,000.

xviii. A substantial change in the Company's current accounting, regulatory and tax policies and practices.

xix. A distribution of dividends in excess of the dividend policy established pursuant to the Shareholders' Agreement.

xx. Any transactions with Affiliates other than those contemplated in Section 3.15 (c) (meaning transactions with companies owned by Class A, B or C shareholders supplying milk or transportation services under market conditions).

xxi. The Company's liquidation, dissolution, voluntary petition in bankruptcy and any other process involving a general restructuring of the Company's debts or liabilities.

xxii. Settlement agreements (either in court or out of court) or the commencement of legal actions, in both cases for an amount exceeding US$ 500,000 individually and US$ 5,000,000 on an annually accumulated basis.

xxiii. Appointment of the CEO, appointment of the CFO, approval or change of their respective remunerations and benefit packages (including, without limitation, any golden parachutes, pension plans, bonuses, etc.).

xxiv. Any employee remuneration policy and benefit plan other than those approved under the annual budget.

xxv. Approval of transactions involving new categories of products not including milk supplies. In all events, any new products other than those currently manufactured, whether or not including milk supplies, shall be manufactured in a manner such that it will not entail any non-performance of previously existing obligations.

The following approvals shall be required in these cases:

a) If Class E shares represent less than 51% of the capital stock, the approval of Class E and Class D shareholders shall be required in the cases contemplated in items i. to xxv.

b) If Class E shares represent 51% or more and Class D shares represent 20% or more of the capital stock, the approval of Class D shareholders shall be required in the cases contemplated in items i. to xiii. and xvii. to xxii.

5. Board of Directors

5.1 General

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

The number of Board members and the rules for their appointment are governed by the Corporate ByLaws and the shareholders' agreement. Under the current circumstances, the Board of Directors shall have seven members, of which Class A, Class B and Class C Shareholders shall be entitled to appoint one director each; the Class D shareholder shall appoint two directors and Class E shareholders shall appoint two directors. The same procedure shall be used to designate an equal number of alternate directors. The appointment rights of the different shareholder groups shall be equitably adjusted in accordance with any future changes in the equity interests respectively held by each group.

Class D and Class E shareholders shall be entitled to designate at least one member of the boards of directors of the Company's subsidiaries.

For so long as Class E shares represent less than 51% of the Company's capital stock, the Chairman of the Board of Directors shall be appointed by the shareholders of all other classes of shares, and the Vice Chairman shall be elected by Class E shareholders. If Class E shares represent 51% or more of the capital stock, these shareholders shall appoint the Chairman of the Board of Directors, and the Vice Chairman shall be designated by the remaining shareholders.

5.2 Directors' Powers and Duties

Each director acts independently and is expected to adopt decisions prioritizing the Company's best interest, leaving aside any other interest that they may have.
Each director shall verify that no conflict exists between his/her interests and those of the Company. In the event of any such conflict, the director shall inform the other members of the Board and refrain from taking part in the consideration of any subject where such conflict is involved.

All Board members shall have the same powers and duties, and Board decisions shall be adopted by the majorities prescribed by the CL (fully in compliance with any qualified majority requirements applicable in specific cases).

5.3 Special Committees – Independent Directors

Given the Company's current equity structure and its particular operating features, the creation of an execution committee under section 269 of the CL or the appointment of independent directors has not been deemed necessary. The creation of the following special committees has been decided: (a) Operations Committee, (b) Finance Committee, (c) Human Resources Committee, (d) Compliance Committee, and (e) Sustainability Committee, which was created in 2017. The members of each Committee may or may not be directors of the Company. Each Committee shall hold meetings not less than once (1 time) every three (3) months, unless a meeting is requested by any of its members, in which case the Committee shall assemble within five (5) days after having been convened. The decisions of each Committee shall be adopted by a plurality of votes, except in respect of certain matters for which a qualified majority is required.

The creation of a body to evaluate the actions taken by the Board of Directors has not been deemed necessary either, such evaluation being left to the discretion of shareholders' meetings. As to the relationship with shareholders, the general principle, which is set forth in the Shareholders' Agreement, is that all shareholders shall be entitled to an ample and direct access to information on the Company and its subsidiaries, which includes a review of all corporate documents and the possible conduct of audits of the Company, either by themselves or through third parties. The shareholders agree to cause the Company and its Subsidiaries to keep their respective books and records in accordance with the International Financial Reporting Standards (IFRS) and the Law in any other manner as necessary, in order to comply with any existing legal requirements applicable to the Company and its Subsidiaries, and in a manner such that any Shareholder of the Company may be able to act sufficiently in compliance with any legal requirements applicable to such Shareholder as a result of its ownership of Company shares and with its own management financial reporting system.

Each Shareholder shall have access, during regular working hours and upon reasonable prior notice given in writing, to all the books and records of the Company and its subsidiaries, provided that such access shall be the responsibility of the Shareholder that has requested the review, which shall be carried out in as orderly a manner as possible.

Also, shareholders have agreed to create special committees that will provide them the most adequate information on the handling of matters that are considered of key importance in the Company's management.

5.4 Appointment and Duties of First-Line Managers

The Board of Directors shall appoint and remove first-line managers, applying in each case criteria based on their respective professional capacity and experience. The appointment and removal of first-line managers shall be informed through the channels established by the CNV for such purpose. The Company's Board of Directors believes that such publication provides sufficient information to outside parties.

Similar criteria shall be applied in the case of subsidiaries.

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

5.5 Training

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

5.6 No discrimination

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

5.7 Remuneration of the Board of Directors

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

6. Transactions between Related Parties

It has been established that no Class A, Class B or Class C Shareholders or any relatives thereof, either by consanguinity or affinity in any degree, shall be an employee of the Company and/or of any subsidiary or related company thereof, except upon a decision adopted by the Board of Directors on well-founded grounds and on the basis of the operating needs then existing.
Also, Class A, Class B and Class C Shareholders and any relatives thereof shall not be hired as contractors or suppliers of the Company, acting either directly or indirectly, through other companies or intermediaries. However, in the case of those that supply raw milk or transportation and logistics services to the Company, it has been agreed that the current relationship with them shall be maintained, under market conditions.

7. Dividend policy

Shareholders have agreed to take actions and use their best efforts to cause the Company to distribute seventy five per cent (75%) of its net realized gains for each fiscal year or the maximum amount distributable under the Law (whichever is less) as dividends, unless otherwise agreed.

8. Relations with the Community

8.1 Public Communication

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

The information contained in this website is kept under proper protection.

8.2 Sustainability

Along the years MHSA has made the notion of sustainability an integral part of its actions, with the certainty that this will create an added value for the Company and public interest groups, and will be reflected, in the course of time, in a permanent optimization of our economic, social and environmental performance. As a clear expression of the commitment the Company has assumed, in 2017 the Sustainability Committee was created to consider various matters with an integral, multidisciplinary and cross-functional management approach that will enable it to achieve its objectives in a framework of transparency.

The company is committed to the protection and responsible use of natural resources and the preservation of the environment, its final objective being to be able to satisfy its current needs without impairing the possibilities of future generations along the process.

9. Code of Ethics

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

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

10. Supervisory Committee

With the Company's current equity structure, the Supervisory Committee shall have five members, two of them to be jointly designated by Class A, Class B and Class C shareholders, one by Class D shareholders and two by Class E shareholders.

If Class E shareholders hold 51% or more of the Company's capital stock, they shall be able to designate three members of the Supervisory Committee, the remaining members being designated one by Class A, Class B and Class C shareholders jointly, and the other by Class D shareholders.

In all events, an equal number of alternate members of the Supervisory Committee shall be appointed pursuant to the same criteria.

A policy encouraging or providing for the rotation of members has not been deemed necessary or advisable. The Company does not believe it is necessary either to restrict the participation of Supervisory Committee members in other companies, provided that no conflict of interest shall arise on such account.

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

11. Independent Accountants

Independent Accountants shall be designated from any one of the audit service firms traditionally known as the "Big Four" (or such number as may correspond at the date of the auditors' designation as a result of any mergers or spinoffs of those firms), or else, a second-line international audit firm with a strong presence in Argentina and the United States, and experienced in financial and international capital market transactions, may be appointed. To replace the currently designated independent accountants and to appoint and remove any substitutes thereof, the favorable vote of Class D and Class E shareholders shall be required.

(*) Information not reviewed by the Auditors.

Code of Corporate Governance (*)

Annex IV

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
PRINCIPLE I. PROVIDE A TRANSPARENT DEPICTION OF RELATION BETWEEN ISSUER, THE ECONOMIC GROUP THAT IT CONTROLS AND/OR IS A MEMBER OF AND RELATED ENTITIES				
Recommendation I.1: Ensure dissemination by the Management Board of the policies applicable to the relation between the Issuer and the economic group that it controls and/or is a member of and any related entities. Indicate whether Issuer has in place an internal rule or policy regarding the authorization of transactions between related parties pursuant to Section 73, Law No 17,811, transactions made with shareholders and Management Board members, senior managers and statutory auditors and/or surveillance committee members, within the scope of the economic group that it controls and/or is a member of. Explain the main guidelines of the internal rule or policy.	X			A rule of procedure (which has been made known to management officers) provides that (i) any exception to the restrictions applicable to transactions with related parties must be previously approved by the Board of Directors of the Company – in addition to any third-party authorizations that might possibly be required, and (ii) in case of doubt, the responsible officers must request, through their respective senior managers, the opinion of the Company's Legal Department. 1. Documents / background from which restrictions are derived: a) Restrictions arising from the shareholders' agreement entered into in 2016, which, among other things, (i) prohibits any employment and commercial relations with shareholders and their relatives, except for (i-i) current senior management positions, subject to any extension of such exception that may be approved by the Board of Directors, as required at any time on the basis of operating needs, and (i-ii) the supply of raw milk and transportation services, which can continue to be provided subject to market conditions. b) Restrictions arising from the terms of the Company's long-term debt, which include (among others) limitations to (i) restricted payments (dividends, stock redemptions, etc.), and (ii) transactions with related parties generally. c) Restrictions arising from the Code of Ethics (which is known to all Company employees). d) Company's customs and usual practices. 2. Controls: The Internal Audit Department shall, within the scope of its competence, exercise control over any possible transactions with related entities, which shall in turn be reflected in the Company's balance sheets.
Recommendation I.2: Ensure that mechanisms to prevent conflicts of interest are in place. Indicate whether Issuer has, notwithstanding any applicable rules and regulations, clear policies and specific procedures to identify, deal with and solve any conflicts of interest which may arise among Management Board members, senior managers and statutory auditors and/or surveillance committee	X			Reference is made in general to the statements contained in the preceding item. Specifically, any potential (and obviously unauthorized) departure from rules shall be the subject of actions by the Internal Audit Department, internal audit quarterly reviews, and the report on transactions with related entities included in each Company's balance sheet.

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
members in respect of their relationship with the Issuer or any related person. Please provide a description of the main features of any such policies and procedures.				
Recommendation I.3: Prevent the improper use of privileged information. Indicate whether Issuer has in place, notwithstanding applicable rules and regulations, proper policies and mechanisms to prevent undue use of privileged information by Management Board members, senior managers, statutory auditors and/or surveillance committee members, shareholders controlling or exerting a substantial influence on the Company's operation, acting professional experts and other persons listed in Sections 7 and 33, Decree No 677/01. Please provide a description of the main features of such policies and mechanisms.	X			The Company's Code of Ethics contains limitations to the use of confidential information in the Company. This Code has been distributed to all employees (including those of its subsidiaries), with acknowledgement of receipt requested. Company suppliers fall also within the scope of Code rules. Also, MHSA has in effect Rule of Procedure No. 499 – Use of Computer Tools, and No 615 – Safe Use of Mobile Devices, which are intended to ensure the protection, integrity, accuracy and availability of information and an adequate management of computer systems for the performance of each employee's assigned duties. In addition, MHSA has created a document entitled "Classification and Control of MHSA Data", which specifies the obligations assumed for the protection of any confidential information contained in the Company's databases. In this connection it should be noted, given the significance of the information contained in personal databases, that MHSA has in place Rule of Procedure No 560 –Personal Databases, including the following headings: (i) Registration of Databases, (ii) Rights of Data Owners, (iii) Databases Registered by MHSA, (iv) Security of Personal Data, (v) Control Routines, (vi) Record of Incidents, (vii) Protection of Personal Data Contained in Websites and Advertisement, (viii) International Personal Data Transfer.
PRINCIPLE II. LAY GROUNDWORK FOR A SOUND MANAGEMENT AND SUPERVISION OF ISSUER				
Recommendation II.1: Ensure that the Management Board assumes the management and supervision of Issuer and its strategic guidance.				
II.1.1 Indicate whether approval by the Management Board is required for:				
II.1.1.1 Indicate whether the business or strategic plan, as well as management objectives and annual budgets, are approved by the Management Board.	X			The Company's strategic plan, objectives and investment policies are approved and monitored by the Board of Directors (where, it should be noted, all shareholder groups are represented) through the use of several tools: a) A comprehensive annual budget.

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
				b) A frequent (usually monthly) updating of the comprehensive annual budget, which might possibly include forecasts for the first months of the following fiscal year, so as to ensure an adequate planning horizon. c) A quarterly review and report, accompanying the publication of the Company's financial statements, providing more detailed information attached to the annual balance sheet. d) Permanent monitoring of the evolution of corporate business. e) Periodic reports issued by senior management.
II.1.1.2 Indicate whether investment (in financial assets and capital investments) and financing policies are approved by the Management Board.	X			See II.1.1.1.
II.1.1.3 Indicate whether corporate governance policies are approved by the Management Board. (Compliance with Code of Corporate Governance)	X			Sustainability and Corporate Governance policies are approved by the Board of Directors.
II.1.1.4 Indicate whether senior managers' selection, examination and remuneration policies are approved by the Management Board.	X			Senior managers are designated by the Board of Directors, based on efficiency and dedication criteria and within the scope of such body's natural powers. Managers' specific powers are also determined by the Board of Directors. Criteria for the designation of senior management are established in the shareholders' agreement. The designation, powers, etc. of each senior manager is deemed implicitly confirmed each year upon the remittance of the relevant information to the controlling authority.
II.1.1.5 Indicate whether policies for the allocation of senior management duties are approved by the Management Board.	X			See II.1.1.4
II.1.1.6 Indicate whether the supervision of senior managers' succession plans are approved by the Management Board.	X			A training program is in place for successors to senior manager positions, if applicable; this includes postgraduate courses provided by well-renowned universities.
II.1.1.7 Indicate whether corporate social responsibility policies are approved by the Management Board.	X			Corporate Governance and Sustainability policies are approved by the Board of Directors.
II.1.1.8 Indicate whether global risk management and internal control policies, and fraud prevention policies are approved by the Management Board.	X			Company policies: a) Risk management: (i) there is an Insurance Department that is responsible for the coverage, among others, of property and business interruption risks; this department applies standard industry practices; and (ii) in respect of all other Company activities, given that risk is inherent in each of them, this factor is particularly

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References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
				taken into account in the decision-making process. b) Internal control and fraud prevention: (i) a natural control is exercised by segregation of duties in the regular operation of the Company; (ii) Company systems allow an adequate follow-up of corporate transactions; (iii) the Internal Audit Department conducts, within the scope of its competence, internal control activities and an evaluation of such control, etc.
II.1.1.9 Indicate whether permanent training and education policies for Management Board members and senior managers are approved by the Management Board. If such policies are in place, please provide a description of their main features.	X			The Company believes that the definition and implementation of permanent training and education is part of the individual professional duties of Board members and senior managers. Any costs derived from such training activities as may be deemed necessary by each party shall be borne by the Company.
II.1.2 Add any other policies applied by the Management Board which are deemed material and are not included herein, and describe their main features.				No comments.
II.1.3 Indicate whether Issuer has in place policies designed to ensure that all material information is available to the Management Board so that it may take relevant actions, and a direct line of inquiry open to all management members (executive officers, outside and independent members) on an equal basis and sufficiently in advance so as to make an appropriate analysis of such information. Please explain.	X			Material information for decision-making purposes – derived mainly from reliable systems – is deemed appropriate for decision-making purposes and is widely shared among different Company areas. Each shareholder has wide access to all Company information, as set forth in the respective agreement.
II.1.4 Indicate whether matters submitted to the consideration of the Management Board are accompanied by an analysis of the risks associated to the action to be taken, considering the level of business risk which is deemed acceptable by Issuer. Please explain.	X			Business risk is taken in consideration in the decision-making process. In general, given the type of industry where the Company does business, this risk is lower than average in the economy. At the same time, based on management and Company's experience in this industry, we have an extended knowledge of the risk involved in Company's operations.
Recommendation II.2: Ensure an effective Management Control of Issuer.				
II.2.1 Indicate whether Management Board verifies compliance with the annual budget and business plan.	X			The Board of Directors (where all shareholder groups are represented) conducts a permanent evaluation of the progress of corporate business, including compliance with budgets and the achievement of basic strategic objectives and (explicitly or impliedly) performance by senior managers. This is implemented, among other occasions (i) at the time of budget reviews (usually on a monthly basis), (ii) upon the approval of interim and annual financial statements (it is noted that each balance sheet is jointly submitted to all Board members, Statutory

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
				Auditors, Auditors and senior managers), (iii) by means of regular reports prepared by senior managers, etc.
II.2.2 Indicate whether the Management Board verifies senior manager's performance and compliance with relevant objectives (expected level of profits vs actual profits, credit ratings, financial report sufficiency, market share, etc.) Please provide a description of the relevant features of the Issuer's Management Control policies, the techniques used and frequency of monitoring by the Management Board.	X			See II.2.1.
Recommendation II.3: Disclose the process and impact of performance evaluation by the Management Board.				
II.3.1 Indicate whether each member of the Management Board complies with Corporate By-Laws and the Rules applicable to the Management Board, if any. Please detail the main features of such Rules. Indicate the degree of compliance with Corporate By-Laws and Rules.			X	All shareholder groups are represented in the Board of Directors (and each group is in turn composed of not more than five members), and consequently, this evaluation occurs automatically.
II.3.2 Indicate whether Management Board discloses the results of its performance taking into account the expected objectives established at the beginning of the relevant period, so that shareholders may evaluate the degree of compliance with such objectives, which are financial and also non-financial. Also, the Management Board submits its opinion on the degree of compliance with policies under Recommendation II, clauses II.1.1 and II.1.2. Please describe the main features of the evaluation by the General Shareholders' Meeting of the Management Board's compliance with established objectives and policies referred to in Recommendation II, items II.1.1 and II.1.2, and specify the date of such Shareholders' Meeting.			X	See II.3.1.
Recommendation II.4: Issuer's Management Body should include a significant proportion of external independent members.				
II.4.1 Indicate whether the proportion of executives, external and independent members (the latter as defined under the rules of this Committee) of the Management			X	Given the specific composition of the Board of Directors (all shareholder groups being represented in it, and each such group having not more than five members), and given that relations

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
Board is in proportion to the Issuer's capital structure. Please explain.				with creditors are clearly governed by capital market regulations and the respective financing agreements, the presence of independent directors is not considered necessary.
II.4.2 Indicate whether shareholders have decided, at a General Meeting held in current year, to maintain not less than 20% of independent members over the aggregate number of Management Board members. Please provide a description of the main features of any such policy and any other shareholders agreement so that the method for the appointment and office terms of Management Board members may be understood. Please indicate whether the independent capacity of any Management Board members has been challenged during the current year, and whether any abstentions have occurred due to a conflict of interest.			X	See II.4.1.
Recommendation II.5: There should be a commitment to have in place rules and procedures for the selection and nomination of Management Board members and senior managers.				
II.5.1 Indicate whether Issuer has a Nomination Committee in place:			X	The Company has not established a Nomination Committee. As provided by the Corporate Bylaws, the Board of Directors has powers to designate Senior Management officers. In turn, the Shareholders' Agreement establishes guidelines regarding the designation of Company managers.
II.5.1.1 Indicate whether Issuer has in place a Nomination Committee composed of not less than three members of the Management Board, a majority of such members being independent.			X	See II.5.1.
II.5.1.2 Indicate whether Issuer has in place a Nomination Committee presided over by an independent member of the Management Board.			X	See II.5.1
II.5.1.3 Indicate whether Issuer has in place a Nomination Committee whose members have provided evidence that they are sufficiently qualified and experienced in matters of human resources policies.			X	See II.5.1
II.5.1.4 Indicate whether Issuer has in place a Nomination Committee that holds meetings at least twice a year.			X	See II.5.1

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
II.5.1.5 Indicate whether Issuer has in place a Nomination Committee whose decisions are not necessarily binding on a General Shareholders' Meeting but which acts on an advisory capacity in respect of the selection of Management Board members.			X	See II.5.1
II.5.2 If Issuer has a Nomination Committee in place, please indicate whether such Committee:			X	Not applicable due to the absence of a Nomination Committee.
II.5.2.1. Indicate whether the Nomination Committee verifies the annual review and evaluation of its Rules and suggests changes to be approved by the Management Board.			X	See II.5.2
II.5.2.2 Indicate whether the Nomination Committee submits proposals for the development of criteria (qualifications, experience, professional reputation and ethics, other) for the selection of new members of the Management Board and senior managers.			X	See II.5.2
II.5.2.3 Indicate whether the Nomination Committee identifies Management Board candidates to be proposed by the Committee to the General Shareholders' Meeting.			X	See II.5.2
II.5.2.4 Indicate whether the Nomination Committee nominates Management Board members to be appointed as members of the various Management Board Committees, based on their respective background.			X	See II.5.2
II.5.2.5 Indicate whether the Nomination Committee recommends that the Chairman of the Board should not also be the Issuer's CEO.			X	See II.5.2
II.5.2.6 Indicate whether the Nomination Committee ensures that the professional résumé of Management Board members and senior managers will be available in the Issuer's website, expressly setting forth the term of office of Management Board members.			X	See II.5.2
II.5.2.7 Indicate whether the Nomination Committee verifies that there is a plan in place for the succession of Management Board members and senior managers.			X	See II.5.2
II.5.3 If deemed relevant, add any other policies implemented by the Issuer's Nomination Committee not referred to in the preceding section.			X	Not applicable due to the absence of a Nomination Committee.

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
Recommendation II.6: Assess the advisability of having Management Board members and/or statutory auditors and/or surveillance committee members performing duties for various Issuers. Indicate whether any limitations have been established by Issuer to Management Board members' and/or statutory auditors' and/or surveillance committee members' performance of duties for other entities not belonging to the economic group controlled by and/or including the Issuer. Please specify any such limitations and whether any infringement thereto occurred in the course of the year.			X	No limitation has been established to offices being held by Directors and Statutory Auditors in other entities not belonging to the economic group. No circumstances have been observed which might give rise to a possible conflict of interest.
Recommendation II.7: Ensure the Training and Development of Issuer's Management Board members and senior managers.				
II.7.1 Indicate whether Issuer has continuous Training Programs in place in relation to Issuer's existing requirements for Management Board members and senior managers, including with reference to their respective roles and responsibilities, comprehensive business risk management, specific expertise regarding the Company's business and regulations, corporate governance dynamics and corporate social responsibility matters. In the case of Audit Committee members, with reference to international accounting, audit and internal control standards, and specific capital market regulations. Please describe any programs carried out in the course of the year and their degree of effective implementation.			X	The Company believes that directors' and senior managers' continuous training process is included among their direct professional duties, and expects them to take any necessary actions to such end.
II.7.2 Indicate whether Issuer encourages, by other means not referred to in II.7.1, Management Board members and senior managers to keep up continuous training activities to complement their respective formal education so as to add value to the Issuer. Specify how this is done by Issuer.			X	The Company bears the cost of each director' and senior manager's training activities in connection with their respective professional duties.
PRINCIPLE III. ENDORSE AN EFFECTIVE POLICY DESIGNED TO IDENTIFY, MEASURE, MANAGE AND DISCLOSE BUSINESS RISK				
Recommendation III: The Management Board should have in place a				

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References: **1. Full compliance – 2. Partial compliance – 3. Non-compliance**				
comprehensive business risk management policy and monitor its adequate implementation.				
III.1 Indicate whether Issuer has in place comprehensive business risk management policies (concerning compliance with strategic, operating and financial objectives, accounting information reporting, laws and regulations, other). Please include a description of the most relevant features of such policies.	X			MHSA has identified those processes the development of which must be paid attention to in order to minimize the uncertainty arising from certain events or occurrences and which, if not taken care of or properly considered, might cause an undesired harm. Moreover, benefits will be derived from the proper identification and management of these processes. Given the nature of the Company's operations (which involve a large number of similar transactions that may be grouped in a few categories, for relatively small amounts and within the Company's usual business), risk control is largely based on available electronic data processing systems and the segregation of duties among different participants and ample possibilities of external control. Identifying these transactions at their source, specifying the way they will be managed and establishing their development enables us to mitigate or eliminate risk environments that might adversely affect the results expected from these processes, including decisions and responsibilities. This is the way we take care of processes that bear a direct relation, not only with economic and financial but also with operating, legal and technological risks. By way of illustration, some procedures are detailed below, which have been formally established or are currently in process of development for their publication in the form of Company rules referring to and describing the treatment of: - Budget control. - Financial budget. - Credit risk control (for the admission of new customers) - Purchase of Raw Milk - System ISO documents Also, mention must be made of the follow-up activities implemented by the Board of Directors on the development of corporate business at different meetings held during the year.
III.2 Indicate whether a Risk Management Committee reporting to the Management Board or CEO's office is in place. Inform of any existing manual of procedure and detail major risk factors	X			MHSA Board of Directors has assigned the responsibility of Company's risk management to the CEO's office. The CEO's office, in conjunction with the Board of Directors, has identified the risks and processes that must be

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
specific to the Issuer or the Issuer's activity and any implemented mitigating actions. If no such Committee is in place, the supervision role played by the Audit Committee with respect to risk management should be described. Also, please specify the degree of interaction between Management Board and Management Board Committees with the Issuer's CEO's office in relation to a comprehensive business risk management.				taken care of. The CEO's office assumes this management and assigns requirements and instructions to the different areas based on the nature of the relevant risk and taking or causing to be taken actions aimed at identifying and classifying such risks in order to prevent, eliminate or mitigate the effects of any event that might prevent established strategies and objectives to be pursued.
III.3 Indicate whether an independent officer reporting to the Issuer's CEO's office is in charge of implementing any comprehensive risk management (Risk Management or equivalent officer). Please specify.	X			The CEO is responsible for Business Risk Management actions, with the assistance of the Company's management structure as a source of information, follow-up and performance of actions designed to mitigate risks and identify any risks not recognized in the initial analysis.
III.4 Indicate whether comprehensive risk management policies are permanently updated in accordance with applicable recommendations and recognized methods. Please specify such recommendations and methods.	X			The Company has decided that risk control actions shall be conducted with the utmost efficiency. To this effect, we have in place controls implemented by means of electronic data processing and the permanent control of the progress of corporate business by the board of directors. At the same time, a large number of similar operations are carried out on a continued basis, and they remain stable in the course of time, which ensures the implementation of good practices in this area, always intended to comply with the policies established in applicable rules.
III.5 Indicate whether the Management Board informs about the results of risk management supervision applied in conjunction with the CEO's office in the financial statements and its Annual Report. Please specify the main items of any information provided.	X			In the case of the Company, the fact that (i) all shareholder groups are represented in the board of directors, and (ii) the board of directors holds meetings frequently, ensures that members are regularly informed on the control of any risks assumed. As to financial creditors, major agreements include provisions that tacitly limit the level of risk that may be assumed by the Company.
PRINCIPLE IV. SAFEGUARD THE INTEGRITY OF FINANCIAL INFORMATION THROUGH INDEPENDENT ACCOUNTING FIRMS				
Recommendation IV: Ensure independency and transparency in the performance of the duties assigned to the Audit Committee and Independent Accountant.				
IV.1 Indicate whether the Management Board, when selecting Audit Committee members taking into account the			X	The duty to implement and safeguard an adequate control system is a responsibility of the Board of Directors. The Board shall maintain a fluent and

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References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
requirement that a majority of them must be independent, assesses the advisability of such Committee being presided over by an independent member.				permanent communication with the head of the Company's Internal Audit Department to ensure that all actions designed to monitor the regular and proper operation of the different areas are performed and any departures that may occur are detected.
IV.2 Indicate whether there is an internal audit officer reporting to the Audit Committee or the Chairman of the Management Board who is in charge of evaluating the internal control system. Indicate whether the Audit Committee or Management Board conducts an annual evaluation of the performance of the internal audit area and its degree of independence in relation to its professional duties, meaning that the professionals in charge of such duties are independent of all other operating areas and are also meet independence requirements in respect of any controlling shareholders or related entities having a significant influence on the Issuer. Please specify also whether the internal audit officer performs his/her duties in accordance with the international standards on the professional performance of internal audits issued by the Institute of Internal Auditors (IIA).	X			The Company has established an Internal Audit area, which defines an annual review plan. This plan is based on the analysis of any risks involved in the Company's processes and is established on the basis of their impact and probability of occurrence. It includes material features and procedures related to our main operations. The final results of any tests conducted under the above mentioned plan are set forth in reports that are submitted to the Chairman of the Board and other Company officers. Also, the Internal Audit department makes internal control suggestions to the various management areas, which are responsible for the effective implementation of key controls, and monitors the implementation of such suggestions in the course of subsequent reviews. The Board of Directors receives an annual report on the operation of the Internal Audit department, which is prepared by an external consulting firm. This report is considered for purposes of ensuring compliance with the audit plan and a proper behavior and independence in the performance of the relevant activities.
IV.3 Indicate whether Audit Committee members conduct an annual evaluation of the qualifications, independence and performance of the Independent Accountants appointed by the Shareholders' Meeting. Please describe any relevant features of the procedures used to perform such evaluation.			X	The Company does not have an Audit Committee in place.
IV.4 Indicate whether the Issuer has in place an alternation policy for Supervisory Committee members and/or Independent Accountants; in respect of Independent Accountants, please specify whether such alternation includes the independent accountant firm or individual accountants only.			X	The Annual Shareholders' Meeting annually considers and elects Supervisory Committee members and appoints independent accountants for the next fiscal year. No alternation of such members or accountants is contemplated.
PRINCIPLE V. OBSERVE SHAREHOLDERS' RIGHTS				
Recommendation V.1: Ensure shareholders' access to information on				

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References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
Issuer.				
V.1.1 Indicate whether the Management Board promotes regular informational meetings with shareholders at the time the interim financial statements are published. Please explain, specifying the number and frequency of any meetings held in the course of the year.	X			At the time of publication of each (interim or year-end) financial statement, the Board of Directors invites shareholders to an informational meeting. Also, as all shareholder groups are represented in the board of directors (each such group comprising not more than six persons), a regular flow of information is ensured.
V.1.2 Indicate whether Issuer has in place any mechanisms to report information to investors, and a specialized area to answer inquiries. Also, whether Issuer has a website that may be accessed by shareholders and other investors and which provides them with a channel contact each other. Please describe.	X			As regards shareholders, reference is made to our statements in the previous item. As to any other investors, the Head of Market Relations receives and answers any inquiries submitted by the holders of Company debt. Finally, we have a website where the relevant information may be found.
Recommendation V.2: Promote active participation of all shareholders.				
V.2.1 Indicate whether the Management Board takes any actions to promote the attendance of all shareholders to General Shareholders' Meetings. Please explain, distinguishing between actions required by law and actions voluntarily offered by Issuer to its shareholders.			X	Not applicable, because (i) the Company's shares are not publicly listed, and (ii) all shareholder groups are represented in the board of directors (each such group including not more than five persons).
V.2.2 Indicate whether General Shareholders' Meetings are governed by Rules that ensure that information is available to shareholders sufficiently in advance for their decision making. Please describe the main guidelines of such Rules.			X	Not applicable: (i) the Company's shares are not publicly listed, (ii) all shareholder groups (each such group including not more than six persons) are represented in the board of directors, and (iii) shareholders' meetings are attended by all shareholders.
V.2.3 Indicate whether any mechanisms implemented by Issuer are applicable so that minority shareholders may propose matters to be discussed at a General Shareholders' Meeting in accordance with the provisions of applicable law. Please explain results.			X	Not applicable: (i) the Company's shares are not publicly listed, (ii) all shareholder groups (each such group including not more than six persons) are represented in the board of directors, and (iii) shareholders' meetings are attended by all shareholders.
V.2.4 Indicate whether Issuer has in place any policies designed to encourage the attendance of the most relevant shareholders, such as institutional investors. Please specify.			X	Not applicable: (i) the Company's shares are not publicly listed, (ii) all shareholder groups (each such group including not more than six persons) are represented in the board of directors, and (iii) shareholders' meetings are attended by all shareholders.
V.2.5 Indicate whether in Shareholders' Meetings where nominations are made for the appointment of Management Board members the following is made known before the relevant voting: (i) the position of each candidate in respect of the adoption or non adoption of a Code of Corporate	X			At the shareholders' meeting that examined the balance sheet for fiscal year 2012 the Code of Corporate Governance prepared by the Board of Directors was unanimously approved by the shareholders. An updated copy of such Code is attached to annual reports, if applicable.

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Governance; and (ii) the grounds for such position.				
Recommendation V.3: Ensure the principle of equivalence between shares and votes. Indicate whether Issuer has in place a policy to promote the principle of equivalence between shares and votes. Please specify how the composition of outstanding shares by classes has changed in the last three years.	X			Each share entitles its holder to 1 vote.
Recommendation V.4: Establish mechanisms for the protection of all shareholders in the event of a takeover. Indicate whether Issuer has adhered to mandatory tender offer regulations. Otherwise, please explain whether any other mechanisms are contemplated in the corporate bylaws, such as tag along or other rights.			X	Not applicable, since the Company's shares are not publicly listed. Certain mechanisms have been provided for in the shareholders' agreement in contemplation of a transfer of shares.
Recommendation V.5: Encourage Issuer's shareholding dispersion. Indicate whether Issuer has a shareholding dispersion of not less than 20 per cent of its ordinary shares. Otherwise, whether Issuer has in place a policy designed to increase its shareholding dispersion in the market. Please indicate the shareholding dispersion percentage as a percentage of the Issuer's capital stock and how such percentage has changed in the course of the last three years.			X	Not applicable, since the Company's shares are not publicly listed.
Recommendation V.6: Ensure the implementation of a transparent dividend policy.				
V.6.1 Indicate whether Issuer has in place a dividend distribution policy contemplated in its Corporate Bylaws and approved by a Shareholders' Meeting, setting forth the conditions for a distribution of cash or stock dividends. In case such policy is in place, please indicate the criteria, frequency and conditions to be satisfied for a payment of dividends.			X	Not applicable, since the Company's shares are not publicly listed.
V.6.2 Indicate whether Issuer has in place documented processes to prepare a proposal for the use of any Issuer's accumulated earnings which may result in the creation of a legal, statutory or voluntary reserve, carry forward and/or payment of dividends. Please explain such processes and specify			X	Not applicable, since the Company's shares are not publicly listed.

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the General Shareholders' Meeting Minutes evidencing the approval of such (cash or stock) distribution, if not contemplated in the Corporate Bylaws.				
PRINCIPLE VI. MAINTAIN A DIRECT, RESPONSIBLE RELATION WITH THE COMMUNITY				
Recommendation VI: Disclose Issuer-related matters to the community and provide a direct communication channel with the Company.				
VI.1 Indicate whether Issuer has a public-access, updated website that not only provides relevant information about the Company (Corporate Bylaws, economic group, members of the Management Board, financial statements, Annual Report, among other data) but also receives inquiries from users generally.	X			In its website (www.mastellone.com.ar) MHSA provides information related to legal, accounting and financial matters. Also, users' inquiries or concerns may be received through the site. This website provides access to: Corporate Bylaws, Board Members, Financial Statements, Annual Report, Code of Ethics, Business Sustainability Report, Résumés of Board members and Senior Managers, a channel of access to contact shareholders and other investors. At the website www.laserenisima.com.ar, the general public may find documents and learn about subjects of interest in relation to the Company. The Company: mission and values, history, current matters, human resources, quality, foreign trade, logistics, Sustainability, visits to plants, our products, our cooking recipes, access for health professionals, student section, media, advertising spots. Also, it should be noted that MHSA has in place other means of communication such as the Consumer Information Service (SIC) and social networks (Facebook, Twitter), Instagram, YouTube).
VI.2 Indicate whether Issuer publishes a Corporate Social and Environmental Responsibility Balance Sheet on an annual basis, which is verified by an Independent Accountant. In case such Balance Sheet is published, please specify the legal or geographical scope or extent thereof and how it is made available. Please specify the rules or initiatives that have been adopted to implement the Company's corporate social responsibility policy (Global Reporting Initiative and/or the United Nations Global Compact, ISO 26,000, SA8000, Millennium Development Goals, SGE 21-Foretica, AA 1000, The Equator Principles, among others).	X			The Company prepares an annual Sustainability Report to reflect the results achieved and the commitment we have assumed to improve our economic, social and environmental performance. This document is verified by an Independent Accountant. The Sustainability Report reaffirms our commitment to a sustainable management based on five central issues: Management Transparency, Observance of Human Rights, Commitment to the Protection and Preservation of the Environment, a Social Contribution to Children and the Community as a whole and a Sustainable Behavior as to employees and other interest groups. They are implemented through internal or external Company activities, depending on the nature of their respective beneficiaries. For the development and implementation of such commitment, MHSA drew inspiration from the United Nations Global Compact principles, ISO

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References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
				26000 guidelines, Global Reporting Initiative indicators and Millennium Development Goals, among others. The Company's Human Resources Department, which created the MHSA Sustainability Committee in 2017, is responsible for preparing this Report, obtaining the independent accountant's approval and disseminating it throughout the Company. This document may be accessed through our website under "Rules" and Quality Control System.
PRINCIPLE VII. PROVIDE FAIR AND RESPONSIBLE REMUNERATION				
Recommendation VII: Establish clear remuneration policies applicable to Management Body members and senior managers, taking care in particular to define any limitations established by contract or under the corporate bylaws, based on the presence or absence of profits.	X			As provided by the Corporate Bylaws, the remuneration of Board members is determined by a Shareholders' Meeting. Their remuneration is established taking into account the duties assigned to each member, the time devoted by each member to the performance of his/her respective duties, and also their respective professional qualification and reputation. Also, the value of such services is reviewed pursuant to market guidelines. The remuneration of senior managers is determined and established by the Board of Directors, on the assumption that managers have the skills required for the position they occupy and demanded by the market, are committed to the achievement of the goals of their respective areas in pursuit of the Company's mission and vision, respecting the values on which the organization is based. MHSA has implemented annual incentive plans for Directors and senior managers. The amount of these incentives is derived from a calculation made by the Board of Directors and recorded in the relevant Board Meeting Minutes. Also, the Board of Directors decides on the promotion, removal or suspension of key Company employees, and in the event of any existing retirement plans for Board members and senior managers.
VII.1 Indicate whether Issuer has a Remuneration Committee in place.			X	See Recommendation VII.
VII.1.1 Indicate whether the Issuer's Remuneration Committee includes not less than three members of the Management Board, a majority of them being independent.			X	See Recommendation VII.
VII.1.2 Indicate whether Issuer's Remuneration committee is presided over by an independent member of the Management Board.			X	See Recommendation VII.

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References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
VII.1.3 Indicate whether Issuer's Remuneration Committee members have provided evidence of sufficient qualifications and experience in matters of human resources policies.			X	See Recommendation VII.
VII.1.4 Indicate whether Issuer's Remuneration Committee holds meetings not less than twice a year.			X	See Recommendation VII.
VII.1.5 Indicate whether Issuer has a Remuneration Committee in place whose decisions are not necessarily binding on a General Shareholders' Meeting or the Surveillance Committee, but which acts on an advisory capacity in respect of the remuneration of Management Board members.			X	See Recommendation VII.
VII.2 Indicate whether the Remuneration Committee, if any:			X	See Recommendation VII.
VII.2.1 Indicate whether the Remuneration Committee ensures that a clear relationship exists between key employees' performance and fixed and variable remuneration, taking into account any risks assumed and their handling thereof.			X	See Recommendation VII:
VII.2.2 Indicate whether the Remuneration Committee supervises that the variable portion of the remuneration of Management Board members and senior managers is linked to the Issuer's medium and/or long term performance.			X	See Recommendation VII.
VII.2.3 Indicate whether the Remuneration Committee reviews the competitive position of the Issuer's policies and practices in respect of the remunerations and benefits of similar companies, and whether it does or does not recommend any changes.			X	See Recommendation VII.
VII.2.4 Indicate whether the Remuneration Committee defines and communicates the retention, promotion, severance and suspension policies in relation to key employees.			X	See Recommendation VII.
VII.2.5 Indicate whether the Remuneration Committee informs about the criteria used to determine retirement plans applicable to Issuer's Management Board members and senior managers.			X	See Recommendation VII.
VII.2.6 Indicate whether the Remuneration Committee informs the Management Board			X	See Recommendation VII.

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and Shareholders' Meeting, on a regular basis, about any actions taken and matters discussed in its meetings.				
VII.2.7 Indicate whether the Remuneration Committee ensures that the Chairman of the Remuneration Committee will attend the General Shareholders' Meeting that will approve the Management Board remuneration to explain the Issuer's policy in respect of the remuneration of Management Board members and senior managers.			X	See Recommendation VII.
VII.3 If deemed relevant, please describe any other policies applied by the Issuer's Remuneration Committee which have not been referred to in the preceding section.			X	See Recommendation VII.
VII.4 If no Remuneration Committee is in place, please explain how the duties described in VII. 2 are performed within the Management Board itself.			X	See Recommendation VII.
PRINCIPLE VIII. PROMOTE BUSINESS ETHICS				
Recommendation VIII: Ensure the ethical behavior of Issuer.				
VIII.1 Indicate whether Issuer has a Corporate Code of Ethics in place. Please describe its major guidelines and whether it is known by the general public. Indicate whether such Code is signed at least by Management Board members and senior managers. Please indicate whether its application by suppliers and customers is encouraged.	X			MHSA has implemented a Code of Ethics that is deemed an essential Company document, as it covers and provides a framework for all Company actions and decisions. This Code was implemented in 2005, and its approval is evidenced in the Board Meeting Minutes dated November 16, 2005. The Code provides guidelines for employees to carry out their daily duties and represents the values that they will be required to advocate and uphold. The Chairman of the Board has said that the Company's growth will become established if each and every member adheres to the spirit and the letter of this significant document. The Code of Ethics has been made known to all Company employees and the notice given to and signed by all members of the Board of Directors, senior managers and all employees is duly kept on file. A copy of the Code of Ethics is also provided to suppliers.
VIII.2 Indicate whether Issuer has in place mechanisms to receive illicit or non ethical behavior reports, either in person or by electronic means, ensuring that the information conveyed is subject to strict confidentiality and integrity standards, and	X			MHSA has prepared a Manual of Procedure that governs the operation of the bodies responsible for the implementation and enforcement of the Code of Ethics, and the relations between Company employees and such bodies. This Manual describes the applicable procedures to file reports,

Principles and Recommendations	1	2	3	*Explain*
References: 1. Full compliance – 2. Partial compliance – 3. Non-compliance				
to record and preserve such information. Please indicate whether the system for the receipt and evaluation of reports is provided by Issuer's employees or by external, independent experts for a better protection of whistleblowers.				ensuring the confidentiality of any information provided and any persons involved in the event. Also, the Manual explicitly sets forth the records that will be kept, the manner in which the information contained in the relevant report will be safeguarded, and the persons that will take part in the study, analysis and determination of any cases that may arise.
VIII.3 Indicate whether Issuer has in place policies, processes and systems for the management and determination of any reports referred to in paragraph VIII. 2. Please provide a description of the most relevant features of such policies and specify the degree of involvement of the Audit Committee in such determination, in particular in connection with any reports associated with matters of internal control for accounting purposes and the behavior of Management Board members and senior managers.	X			The Manual of Procedure sets forth the policy and activities that will be carried out upon the receipt of a report up to the determination of each case (including issues involving internal control for accounting reports and Board members' and senior managers' behavior). In summary, the following chapters may be mentioned: bodies involved; duties of each body; reports; audits; budget.
PRINCIPLE IX. EXTEND THE SCOPE OF THE CODE				
Recommendation IX: Promote the inclusion of provisions concerning good governance practices in the Corporate Bylaws. Indicate whether the Management Board evaluates whether the provisions of the Code of Corporate Governance should be wholly or partially set forth in the Corporate Bylaws, including the Management Board's general and specific duties. Please specify the provisions that have been effectively included in the Corporate Bylaws from the time the Code came into effect to this date.	X			The different matters contemplated in the Code of Corporate Governance are contemplated in the Corporate Bylaws.

(*) Information not reviewed by the Auditors.

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

CONSOLIDATED INFORMATIVE SUMMARY
AS OF DECEMBER 31, 2017
(in thousands of Argentine pesos)

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

Our consolidated financial statements for the fiscal year ended December 31, 2017, are showing an improvement in its results in comparison with the preceding years. That situation reflects the impact of a series of actions carried out to protect the profitability of every liter of milk received and processed, in spite of an overall scenario in many cases not favorable.

We have to point out that domestic consumption of dairy products for the whole year remained below the records of the prior year, despite a recovery seen during the last four months. In the export market, international prices for powdered milk were in a depressed level for our industry and therefore there was for the whole year an excess of offer in the domestic market, in some cases at prices below the production costs.

In spite of the situation described above, we maintained our sales volumes, sustaining and even increasing our market share. We understand that it is due to their quality, diversity and affordability of our products, in conjunction with the brand name "La Serenísima", preferred by most of the families in the country.

In the export market, we prioritize sales in the markets of Brazil, Paraguay and Uruguay, given the fact that, on one hand, there was a reduction in raw milk production, and, on the other hand, depressed international prices made unattractive the sales of powdered milk to other markets.

Finally, we continued with the execution of our strategic investment plan, being one of its main milestones the inauguration of the new, dual, drying plant for fluid milk and whey, within our industrial facilities in the city of Trenque Lauquen, recently renamed as Complejo Industrial Victorio Mastellone.

2. CONSOLIDATED FINANCIAL POSITION

	2017	2016	2015	2014	2013
			(in thousand pesos)		
Current assets	5,709,069	3,910,961	2,875,610	2,475,492	2,002,936
Non-current assets	6,770,244	5,917,793	4,800,951	3,957,302	1,732,122
TOTAL ASSETS	**12,479,313**	**9,828,754**	**7,676,561**	**6,432,794**	**3,735,058**
Current liabilities	3,243,379	2,755,225	2,484,585	2,244,611	1,897,221
Non-current liabilities	4,482,694	4,032,644	3,389,232	2,508,645	1,184,167
TOTAL LIABILITIES	**7,726,073**	**6,787,869**	**5,873,817**	**4,753,256**	**3,081,388**
Equity attributable to owners of the Company	**4,753,169**	**3,040,842**	**1,802,712**	**1,679,519**	**653,652**
Non-controlling interests	**71**	**43**	**32**	**19**	**18**
TOTAL EQUITY	**4,753,240**	**3,040,885**	**1,802,744**	**1,679,538**	**653,670**
TOTAL LIABILITIES AND EQUITY	**12,479,313**	**9,828,754**	**7,676,561**	**6,432,794**	**3,735,058**

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

	2017	2016	2015	2014	2013
	(in thousand pesos)				
Continuing operations:					
Operational results – income	776,305	596,900	353,616	192,204	278,149
Investment income, finance cost, loss on debt refinancing and foreign exchange differences	(729,394)	(813,021)	(1,267,291)	(711,579)	(451,895)
Other gains and losses	20,273	(6,306)	(84,272)	1,138	119,462
Profit (loss) before taxes	**67,184**	**(222,427)**	**(997,947)**	**(518,237)**	**(54,284)**
Income tax and alternative minimum income tax	(87,864)	127,006	381,350	102,280	15,834
Net loss for the year from continuing operations	**(20,680)**	**(95,421)**	**(616,597)**	**(415,957)**	**(38,450)**
Discontinued operations				**(41,717)**	**(19,360)**
Net loss for the year	**(20,680)**	**(95,421)**	**(616,597)**	**(457,674)**	**(57,810)**
Other comprehensive income	**1,177,235**	**847,562**	**739,803**	**1,483,542**	**20,058**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**1,156,555**	**752,141**	**123,206**	**1,025,868**	**(37,752)**
Net income (loss) attributable to:					
Owners of the company	1,156,527	752,130	123,193	1,025,867	(37,755)
Non-controlling interests	28	11	13	1	3
Total comprehensive income (loss):	**1,156,555**	**752,141**	**123,206**	**1,025,868**	**(37,752)**

4. CONSOLIDATED STATEMENT OF CASH FLOWS

	2017	2016	2015	2014	2013
	(in thousand pesos)				
Cash flows provided by operating activities	991,525	529,148	675,932	225,340	369,988
Cash flows used in investing activities	(330,543)	(328,855)	(102,593)	(217,129)	(117,773)
Cash flows provided by (used in) financing activities	24,978	(491,341)	(265,970)	46,823	(202,998)
Cash and cash equivalents provided in (used in) the year	**685,960**	**(291,048)**	**307,369**	**55,034**	**49,217**

5. PRODUCTION AND SALES VOLUME (*)

	ACUMULATED SALES				
	2017	**2016**	**2015**	**2014**	**2013**
	(in thousand liters of milk)				
Domestic market	1,371,017	1,344,204	1,477,440	1,537,862	1,580,857
Foreign market	162,692	304,298	278,037	196,951	311,839
Total	**1,533,709**	**1,648,502**	**1,755,477**	**1,734,813**	**1,892,696**

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

6. RATIOS

	2017	2016	2015	2014	2013
Current assets to current liabilities	1.76	1.42	1.16	1.10	1.06
Equity attributable to owners of the Company to total liabilities	0.62	0.45	0.31	0.35	0.21
Non-current assets to total assets	0.54	0.60	0.63	0.62	0.46
Loss to equity	(0.01)	(0.04)	(0.35)	(0.39)	(0.09)

7. OUTLOOK (*)

During 2018 we will continue executing all the actions needed to increase our productivity and efficiency in order to make sure the solvency of our businesses, providing for a reasonable profitability and a sustainable development. We have to face a series of challenges, including the execution of a significant investment program and the definition of a new, appropriated financial structure.

On the commercial side, we are optimistic regarding the demand for our main segments of products, and accordingly will keep our traditional, wide, products portfolio, reinforced with those to be launched in the year, and maintaining profitable prices We are working with the development of new markets in the region, enabling us to be present with a series of brand named products which would add value to the export business.

We understand that 2018 will be a very favorable year for raw milk production in Argentina, and will remain close to the dairy farmers, especially through the Plan More Milk, aimed, among other goals, to contribute to the growth of raw milk production at the national level.

(*) Information not reviewed by the Auditors.

General Rodriguez, Province of Buenos Aires, March 7, 2018

JOSÉ A. MORENO

Chairman

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2017
(in thousands of Argentine pesos)

	Notes	2017	2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	947,095	214,024
Other financial assets	7	28,587	33,290
Trade accounts receivable	8	1,992,769	1,506,465
Tax credits	9	142,967	102,160
Other receivables	10 and 29	63,700	41,772
Inventories	11	2,529,794	2,008,748
Subtotal		5,704,912	3,906,459
Assets held for sale		4,157	4,502
Total Current Assets		**5,709,069**	**3,910,961**
NON-CURRENT ASSETS			
Other financial assets	7	-	19,228
Tax credits	9	28,670	17,747
Other receivables	10 and 29	18,526	35,253
Deferred tax assets	20	23,407	20,777
Property, plant and equipment, and others	12 and 29	6,652,642	5,811,972
Investment property		77	80
Goodwill		3,121	3,121
Intangible assets	13	1,403	1,832
Other assets		42,398	7,783
Total Non-Current Assets		**6,770,244**	**5,917,793**
TOTAL ASSETS		**12,479,313**	**9,828,754**
LIABILITIES			
CURRENT LIABILITIES			
Trade payable	14	2,178,275	1,866,116
Borrowings	15 and 29	9,269	93,684
Accrued salaries, wages and payroll taxes	16	654,722	607,756
Taxes payable	17	141,755	146,518
Advance from customers		242,811	2,833
Provisions	18	1,873	695
Other liabilities	19	14,674	37,623
Total Current Liabilities		**3,243,379**	**2,755,225**
NON-CURRENT LIABILITIES			
Trade payable		7,121	7,201
Borrowings	15 and 29	3,653,894	3,102,233
Taxes payable	17	2,865	13,911
Deferred tax liabilities	20	796,659	888,411
Provisions	18	14,200	17,969
Other liabilities	19	7,955	2,919
Total Non-Current Liabilities		**4,482,694**	**4,032,644**
TOTAL LIABILITIES		**7,726,073**	**6,787,869**
EQUITY			
Common stock and share premium		1,499,347	943,547
Reserves		3,666,600	2,724,396
Accumulated deficit – including net result for the year		(412,778)	(627,101)
Equity attributable to owners of the Company		**4,753,169**	**3,040,842**
Non-controlling interests		**71**	**43**
TOTAL EQUITY		**4,753,240**	**3,040,885**
TOTAL LIABILITIES AND EQUITY		**12,479,313**	**9,828,754**

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, 2017
(in thousands of Argentine pesos)

	Notes	2017	2016
Revenue	21	22,160,462	17,723,057
Cost of sales	22	(14,619,044)	(11,595,462)
Gross profit		**7,541,418**	**6,127,595**
Selling expenses	23	(5,743,776)	(4,691,685)
General and administrative expenses	23	(1,021,337)	(839,010)
Investment income	24	190,549	77,738
Finance cost	25	(442,468)	(375,764)
Foreign exchange losses		(477,475)	(514,995)
Other gains and losses	26	20,273	(6,306)
Income (loss) before taxes		**67,184**	**(222,427)**
Income tax and alternative minimum income tax	27	(87,864)	127,006
NET LOSS FOR THE YEAR		**(20,680)**	**(95,421)**
Net loss attributable to:			
Owners of the Company		(20,708)	(95,432)
Non-controlling interests		28	11
Net loss for the year		**(20,680)**	**(95,421)**

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, 2017
(in thousands of Argentine pesos)

	Notes	2017	2016
Net loss for the year		**(20,680)**	**(95,421)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		35,501	61,489
Income tax	27	(1,487)	(1,536)
		34,014	59,953
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment		1,078,393	1,211,707
Income tax	27	64,828	(424,098)
		1,143,221	787,609
Other comprehensive income, net of income tax		**1,177,235**	**847,562**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,156,555**	**752,141**
Total comprehensive income attributable to:			
Owners of the Company		1,156,527	752,130
Non-controlling interests		28	11
		1,156,555	**752,141**

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, 2017
(in thousands of Argentine pesos)

	Shareholders' contributions		Irrevocable	Reserves		Retained	Equity attributable to:		Total
	Common stock	Share premium	contributions for future subscription of common stock	Foreign currency translation reserve	Property, plant and equipment revaluation reserve (Note 4.7)	earnings (Accumulated losses)	Owners of the parents	Non controlling interest	
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**
Net (loss) income for the year						(20,708)	(20,708)	28	(20,680)
Other comprehensive income for the year, net of income tax				34,014	1,143,221		1,177,235		1,177,235
Total comprehensive income (loss) for the year	-	-		34,014	1,143,221	(20,708)	1,156,527	28	1,156,555
Irrevocable contributions accepted by the Board of Directors on January 17, 2017 (Note 2.c)			555,800				555,800		555,800
Resolution of General Ordinary and Extraordinary Shareholders' Meeting held on April 7, 2017 (Note 2.g):									
Capital stock increase	80,880	474,920	(555,800)						
Transfer to accumulated losses (1)					(235,031)	235,031			
Balance at December 31, 2017	**653,969**	**845,378**	**-**	**133,000**	**3,533,600**	**(412,778)**	**4,753,169**	**71**	**4,753,240**

(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, 2017
(in thousands of Argentine pesos)

	Note	2017	2016
Cash flows from operating activities			
Net loss for the year		(20,680)	(95,421)
Adjustments to reconcile net loss for the year to net cash provided by operating activities:			
Income tax and alternative minimum income tax accrued		87,864	(127,006)
Finance cost		442,468	375,764
Foreign exchange losses		518,620	570,738
Depreciation of property, plant and equipment, and others		572,585	459,267
Additions to provision		47,261	46,559
Write-off of inventories		198,291	129,570
Depreciation of investment property		104	610
Amortization of intangible assets		429	428
Depreciation of other assets		478	
Gain on sale of property, plant and equipment and other assets		(21,911)	(8,042)
		1,825,509	1,352,467
Changes in working capital	28	(765,771)	(713,148)
Subtotal		1,059,738	639,319
Payments of income tax and alternative minimum income tax		(68,213)	(110,171)
Net cash generated by operating activities		**991,525**	**529,148**
Cash flows used in investing activities			
Payments for property, plant and equipment, and others		(388,929)	(380,918)
Proceeds from sale other financial assets		10,301	50,341
Proceeds from sale of subsidiary company		9,800	4,500
Proceeds from disposal of property, plant and equipment and other assets		50,968	12,374
Payments for acquisition of subsidiary		(12,683)	(15,152)
Net cash used in investing activities		**(330,543)**	**(328,855)**
Cash flows used in financing activities			
Irrevocable contributions for future subscription of common stock		555,800	
Proceeds from borrowings		22,539	102.336
Repayment of borrowings		(91,948)	(186,354)
Payment of interests		(461,413)	(407.323)
Net cash generated by (used in) financing activities		**24,978**	**(491,341)**
Increase (decrease) in cash and cash equivalents		**685,960**	**(291,048)**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**47,111**	**24,758**
Cash and cash equivalents at beginning of year		**214,024**	**480,314**
Cash and cash equivalents at end of year		**947,095**	**214,024**

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 Finlandia, among others, and to a lesser extent, the brand of some of its major customers.

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

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

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 December 3, 2015

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”)

On December 3, 2015, 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 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 US dollars 35 million (exercise price of the option), as irrevocable contributions for future subscription of shares. On the same day, the Company´s Board of Directors resolved the acceptance of the contribution. The subscription of the additional shares was subject to prior or concurrent compliance, among other terms, with the approval of Brazil´s authority of competition defense, which was obtained on February 24, 2017, in full force after 15 days subsequent to the public filling of such decision. To secure the contribution received and until the effective issuance of the corresponding shares, certain shareholders had pledged 97,055,482 shares representing 17% of the Company´s capital stock, which was cancelled on April 7, 2017.

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, on December 3, 2015, 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.

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.

g) Resolution of the Ordinary and Extraordinary Shareholders Meeting held on April 7, 2017: capital stock increase

The Ordinary and Extraordinary Shareholders Meeting held on April 7, 2017 decided the capital stock increase in $ 80,879,658, going from $ 573,089,509 to $ 653,969,077 represented by 80,879,658 common, nominative, non-endorsable shares, 1 (one) vote each, nominal value $1 per share, which have an additional paid-in capital of 5.8719457057431 per share, through the capitalization of the contribution received on January 17, 2017 from Arcor S.A.I.C. and Bagley Argentina S.A. totaling 555,800.

h) Transfers of share ownership on April 20, 2017 and on February 1, 2018

On April 20, 2017, certain shareholders informed that under the agreements mentioned in note 2.d), they have sold to Arcor S.A.I.C. and Bagley Argentina S.A. a total of 31,818,189 common, nominative, non-endorsable shares, 1 (one) vote each, nominal value $1 per share. On February 1, 2018, certain shareholders informed a similar sale of shares to Arcor S.A.I.C. and Bagley Argentina S.A. for a total of 12,110,844 shares, representing 1.85% of the total shares of the Company.

The initial shares, the additional shares and the shares described in paragraph b) and in the current paragraph, jointly represent 40.24% of the Company´s capital stock.

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, 2017 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, 2016 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 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 current fiscal year which are material to the Company

The application of new standards and interpretations adopted in the current year did not affect significantly the amounts set out in relation to assets and liabilities 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, 2017:

Standard	Name
IFRS 9	Financial instruments[1]
IFRS 15	Revenue [1]
IFRS 16	Leases[2]
IFRS 17	Insurance contracts[3]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IAS 40	Investment property[1]
Amendments to IFRSs (annual cycle 2014-2016)	Various IFRSs[1]
Amendments to IFRS 9	Financial instruments[2]
Amendments to IAS 28	Investments in Associates and Joint Ventures [2]
Amendments to IFRSs (annual cycle 2015-2017)	Various IFRSs[2]

[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, 2021.

- 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 evaluated that the impact of such standard, which will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2018, will not have a significant impact in the financial statements.

- 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 evaluated that the impact of such standard, which will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2018, will not have a significant impact in the financial statements.

- 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 has to evaluate the impact of such standard and anticipates that IFRS 16 will be adopted in the financial statements of the Company for the fiscal year beginning January 1, 2019.

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

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

- 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 evaluated that this interpretation, which will be adopted for the fiscal year beginning January 1, 2018, will not have a significant impact in the financial statements.

- IFRIC 23 (uncertainty over income tax treatments) clarifies the accounting for uncertainties in income taxes to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. An entity has to consider whether it is probable that the tax authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing.

  IFRIC 23 is effective for annual reporting periods beginning on or after January 2019. The Company's Board of Directors has to evaluate the impact of such interpretation and anticipates that IFRIC 23 will be adopted in the financial statements on the Company for the fiscal year beginning January 1, 2019.

- 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 evaluated that these amendments, which will be adopted for the fiscal year beginning January 1, 2018, will not have a significant impact in the financial statements.

- 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 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 Company's Board of Directors has evaluated that these amendments, which will be adopted for the fiscal year beginning January 1, 2018, will not have a significant impact in the financial statements.

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

  The amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2019 with early application permitted. The Company's Board of Directors has to evaluate the impact of such amendments and anticipates that will be adopted in the financial statements on the Company for the fiscal year beginning January 1, 2019.

- Amendments to IAS 28 (Investments in Associates and Joint Ventures) clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates or joint ventures that form part of the net investment in these investees but to which the equity method is not applied.

The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2019 with early application permitted. The Company’s Board of Directors has to evaluate the impact of such amendments and anticipates that will be adopted in the financial statements on the Company for the fiscal year beginning January 1, 2019.

- The annual improvements to IFRSs (2015-2017 cycle) includes amendments to the following standards: IFRS 3 (Business combinations) and IFRS 11 (Joint arrangements) (clarify the accounting treatment when an entity obtains control of a business that is a joint operation), IAS 12 (Income taxes) clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises and IAS 33 (Borrowing costs) clarify the treatment of specific borrowing after the related asset is ready for its intended use or sale.

  The amendments are effective for annual periods beginning on or after January 1, 2019 with early application permitted. The Company’s Board of Directors has to evaluate the impact of such amendments and anticipates that will be adopted in the financial statements on the Company for the fiscal year beginning January 1, 2019.

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 2017	2016
Con-Ser S.A.	Transportation services, services for vehicle, sale of parts and distribution of cooling equipments	Argentina	100.00	100.00
Leitesol Industria e Comercio S.A.	Production and distribution of dairy products	Brazil	100.00	100.00
Marca 4 S.A.	Ownership, administration and legal defense of trademarks *Ser* and *La Serenísima*	Argentina	99.99	99.99
Marca 5 Asesores en Seguros S.A.	Insurance broker	Argentina	99.99	99.99
Mastellone de Paraguay S.A.	Import and distribution of dairy products	Paraguay	100.00	100.00
Mastellone Hermanos do Brasil Comercial e Industrial Ltda.	Inactive	Brazil	100.00	100.00
Mastellone San Luis S.A.	Manufacturer of dairy products	Argentina	99.99	99.99

The financial position statements of Mastellone Hermanos Sociedad Anónima as of December 31, 2017 and 2016 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, 2017 and 2016, 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, short-term investments with original maturity up to 90 days and investment funds, with low risk of value variation and destined to attendee short-term liabilities.

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, 2017 and 2016, 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 2017.

  On March 9, 2017, the Company´s Board of Directors approved the revaluation of property, plant and equipment made as of December 31, 2016. The revaluation performed as of December 31, 2017 was approved by the Company´s Board of Directors held on March 7, 2018.

  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.

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.

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 pretax 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, 2017 and 2016 no impairment losses were recorded.

4.11 Goodwill

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

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.

4.12 Other assets

These include mainly a) investments in other companies where no significant influence is exercised; these investments are valued at cost, which do not exceed their estimated recoverable value and b) lands and buildings transferred from property, plant and equipment, which are valued according to Note 4.7 until to the date of transference, net of accumulated depreciation; such value does not exceed its recoverable value.

4.13 Liabilities

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

4.14 Financial liabilities

Financial liabilities initially measured at fair value, net of transaction costs are subsequently measured at amortized cost using the effective interest method. Interest charges are stated in the “Finance cost” line of the consolidated statement of profit or loss, except the part stated in the cost of work in progress of Property, plant and equipment, and others.

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.

4.15 Provisions

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

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

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

The Company has been claimed in 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.

4.16 Government grants

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

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

4.17 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.

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 and by the "Dirección Provincial de Personas Jurídicas de la Provincia de Buenos Aires", on February 6, 2018.

As of December 31, 2016 capital stock amounted to 573,089 and was composed by 573,089,509 nominative, non-endorsable shares of Ps. 1 par value, with 1 vote each.

The General Ordinary and Extraordinary Shareholders' Meeting held on April 7, 2017 decided the capital stock increase in $ 80,879,568, from $ 573,089,509 to $ 653,969,077 represented by 80,879,568 common, nominative, non-endorsable shares, 1 (one) vote each, nominal value $1 per share, through the capitalization of the contribution received on January 17, 2017 from Arcor S.A.I.C. and Bagley Argentina S.A. for a total amount of 555,800. The capital stock increase in pending of registration under the CNV.

As of December 31, 2017 capital stock amounted to 653,969 and was composed by 653,969,077 nominative, non-endorsable shares of Ps. 1 par value, with 1 vote each.

Share premium

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.

The General Ordinary and Extraordinary Shareholders' Meeting held on April 7, 2017 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 80,879,568 shares which had a share premium of 5.8719457057431 per share, amounting 474,920.

As of December 31, 2017 and 2016, the outstanding balance of share premium amounts to 845,378 and 370,458, respectively.

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.

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.

4.18 Revenue recognition

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

4.18.1 Sale of goods

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

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

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

4.18.2 Services rendered

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

4.18.3 Interest income

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

4.19 Borrowing costs

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

For the fiscal years ended December 31, 2017 and 2016, the Company capitalized in "Work in progress" of Property, plant and equipment, and others borrowing costs for 4,337 and 29,336 respectively.

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

4.20 Leasing

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

The Company as lessee

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

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

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

4.21 Income tax and alternative minimum income tax

4.21.1. – Income taxes – current and deferred

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

4.21.1.1 – Current tax

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

4.21.1.2 – Deferred tax

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

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

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

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

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

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

4.21.1.3. – Current and deferred tax for the year

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

4.21.1.4. – Tax reform

On December 29, 2017, law N° 27,430 of Tax Reform was published in the official gazette. Such law was effective on the following day to the publication. One of the main changes is the reduction of the income tax rate which taxes entrepreneur retained profits from 35% to 25% beginning 2020, with a transition scheme for fiscal years beginning January 1, 2018 and until December 31, 2019, inclusive, where the tax rate will be 30%.

The main impact of the tax reform in these financial statements was in the recognition of deferred tax assets and liabilities (including tax loss carryforwards) as these have to be recognized applying the enacted tax rate in the period the temporary differences between the carrying amounts of assets and liabilities and the tax basis and tax loss carryforwards will be reversed or used.

Consequently, as of December 31, 2017, the deferred tax asset or liability of the Company and its subsidiaries domiciled in Argentina, was measured considering the rates of 30% and 25%, according to the period in which the temporary differences and tax loss carryforwards are expected to be reversed or used. The impact of the application of the new rates is disclosed in Income tax Note (Note 27).

Other modification introduced by the tax reform is related to dividends arising from earnings generated in fiscal years beginning January 1, 2018 and until December 31, 2019,, payable to physical persons living in Argentina or resident abroad, which will subject to a tax rate of 7%, while dividends arising from fiscal year 2020, will be subject to a tax rate of 13%.

4.21.2. – Alternative minimum income tax

The alternative minimum income tax is complementary to the income tax. The Company determines the tax charge applying the enacted rate of 1% over the computable assets at year-end. The Company´s tax obligation will be the higher amount between the determined presumed income tax and the income tax liability determined applying the enacted tax rate over the estimated taxable profit of the year. Nevertheless, if the presumed income tax in a fiscal year exceeds the corresponding income tax, this excess can be taken as payment on credit of any surplus of the income tax to be paid over the presumptive income tax in any of the following ten years. It should be mentioned that on July 22, 2016, this tax was repealed through Law No. 27,260, for the periods beginning on or after January 1, 2019.

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 2017, 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 4, 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:

- <u>Impairment of property, plant and equipment, and others</u>

  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.

- <u>Provision for allowances and contingencies</u>

  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.

- <u>Deferred income tax and alternative minimum income tax</u>

  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

	2017	2016
Cash and bank accounts	239,509	111,732
Investment funds	674,372	7,543
Short-term investments	33,214	94,749
Total	**947,095**	**214,024**

7. OTHER FINANCIAL ASSETS

	2017	2016
• Current		
Derivative financial instruments		20,207
Corporate bonds	4,298	7,517
Short-term investments – other	24,289	5,566
Total	**28,587**	**33,290**
• Non-current		
Long-term investments		19,228
Total	**-**	**19,228**

8. TRADE ACCOUNTS RECEIVABLE

	2017	2016
Third parties (domestic)	1,617,623	1,247,592
Related parties (Note 30)	366,546	264,932
Foreign receivables	17,521	5,139
Notes receivables	848	844
Tax incentives on exports	23,406	27,625
Subtotal	**2,025,944**	**1,546,132**
Allowance for doubtful accounts	(22,203)	(25,815)
Allowance for trade discounts and volume rebates	(10,972)	(13,852)
Total	**1,992,769**	**1,506,465**

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

	2017	2016
Balance at the beginning of the year	25,815	22,322
Additions (1)	8,179	9,718
Transfers	(9,795)	(7,563)
Write-offs	(3,499)	(825)
Re-measurement of foreign subsidiaries allowances	1,503	2,163
Balance at the end of the year	**22,203**	**25,815**

(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:

	2017	2016
Balance at the beginning of the year	13,852	3,876
Additions (1)	30,262	27,994
Write-offs	(33,455)	(18,116)
Re-measurement of foreign subsidiaries allowances	313	98
Balance at the end of the year	**10,972**	**13,852**

(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, 2017 and 2016, 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:

	2017	2016
Overdue (1)	175,847	250,077
To be due:		
Between 0 and 3 months	1,828,011	1,271,396
Between 3 and 6 months	7,673	9,181
Between 6 and 9 months	8,315	7,979
Between 9 and 12 months	6,098	7,499
Subtotal	**2,025,944**	**1,546,132**
Allowance for doubtful accounts	(22,203)	(25,815)
Allowance for trade discounts and volume rebates	(10,972)	(13,852)
Total	**1,992,769**	**1,506,465**

(1) Including receivables for 7,173 in 2017 and 95,917 in 2016 from public tenders.

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

	2017	2016
Between 0 and 6 months	83,101	186,072
More than 6 months	70,543	32,274
Total	**153,644**	**218,346**

Age of impaired trade receivables is as follows:

	2017	2016
Between 3 and 12 months	16,866	12,068
More than 12 months	5,337	19,663
Total	**22,203**	**31,731**

9. TAX CREDITS

	2017	2016
• Current		
Net value added tax	63,920	59,151
Turnover tax credit	27,704	32,601
Income tax and alternative minimum income tax receivable	49,334	6,834
Other tax credits	2,009	3,574
Total	**142,967**	**102,160**
• Non-current		
Net value added tax	7,077	1,441
Turnover tax credit	16,947	14,467
Other tax credits	4,646	1,839
Total	**28,670**	**17,747**

10. OTHER RECEIVABLES

	2017	2016
• Current		
Prepaid expenses	16,794	10,898
Receivable from sale of subsidiary company	13,622	12,183
Advances to services suppliers	6,116	7,545
Receivable from sale of property, plant and equipment	10,142	331
Insurance receivable	632	532
Guarantee deposits (Note 29b)		6
Receivables from customers in receivership and in bankruptcy		178
Related parties (Note 30)		144
Loans to personnel	11,137	2,563
Other (Note 29b)	7,947	9,028
Subtotal	**66,390**	**43,408**
Allowance for doubtful accounts	(2,690)	(1,636)
Total	**63,700**	**41,772**

	2017	2016
• Non-current		
Receivable from sale of subsidiary company		12,037
Régime for the professionalization of transport (1)	13,381	13,381
Receivables from customers in receivership and in bankruptcy	31,975	20,047
Receivable from sale of property, plant and equipment		8,195
Guarantee deposits (Note 29b)	79	68
Other	5,272	1,336
Subtotal	**50,707**	**55,064**
Allowance for doubtful accounts	(32,181)	(19,811)
Total	**18,526**	**35,253**

(1) In litigation

The movement of allowance for doubtful accounts is as follows:

	2017	2016
• Current		
Balance at the beginning of the year	1,636	1,488
Additions (1)	2,879	400
Write-offs	(2,017)	(252)
Transfers	192	
Balance at the end of the year	**2,690**	**1,636**
• Non-current		
Balance at the beginning of the year	19,811	17,805
Additions (1)	749	758
Transfers	9,603	7,563
Write-offs		(10,114)
Re-measurement of foreign subsidiaries allowances	2,018	3,799
Balance at the end of the year	**32,181**	**19,811**

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

11. INVENTORIES

	2017	2016
Resale goods	80,469	57,983
Finished goods	1,256,469	891,913
Work in progress	475,946	444,502
Raw materials, packaging and other materials	587,259	549,889
Goods in transit	111,815	63,002
Subtotal	**2,511,958**	**2,007,289**
Advances to suppliers	17,836	1,459
Total	**2,529,794**	**2,008,748**

12. PROPERTY, PLANT AND EQUIPMENT, AND OTHERS

2017

	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	Transfers to other assets	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	Transfers to other assets	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)	2,770,874	6,759	612	174,444	(38,669)	8,862	32,437	2,937,595	46,119	4,161	(2,610)	1	2, 2.5, 2.86, 3.3, 4 and 5	91,190	(86,807)	52,052	2,885,543
Machinery and equipment (1)	1,787,626	4,628	21,135	185,882		9,273	535,210	2,525,208	174,061	2,495		1,423	5 and 10	275,829	(259,456)	191,506	2,333,702
Facilities and laboratory equipment (1)	1,019,053	1,802	3,888	129,472	(3,359)	1,897	61,457	1,210,416	164,855	1,244	(168)	1,101	5, 10 and 25	113,520	(103,027)	175,323	1,035,093
Furniture	62,166		5,228	1,599		93		68,900	50,782			93	10, 20, 25 and 33	4,809		55,498	13,402
Vehicles (2)	158,344	401	7,006	9,873		18,593		157,031	117,714	191		11,444	10 and 20	10,734		117,195	39,836
Work in progress	442,264		200,068	(478,262)				164,070									164,070
Advances to suppliers	17,986		34,790	(23,008)				29,768									29,768
Subtotal	**6,258,313**	**13,590**	**272,727**	**-**	**(42,028)**	**38,718**	**629,104**	**7,092,988**	**553,531**	**8,091**	**(2,778)**	**14,062**		**496,082**	**(449,290)**	**591,574**	**6,501,414**
Other:																	
Trays	279,537		120,541			102,257		297,821	172,347			102,257	33	76,503		146,593	151,228
Carrying amount as of December 31, 2017	**6,537,850**	**13,590**	**393,268**	**-**	**(42,028)**	**140,975**	**629,104**	**7,390,809**	**725,878**	**8,091**	**(2,778)**	**116,319**		**572,585**	**(449,290)**	**738,167**	**6,652,642**

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

Land and buildings	822,318
Machinery and equipment	403,312
Facilities and laboratory equipments	294,961

(2) Includes vehicles operated by freighters of Con-Ser S.A. and Logística la Serenísima S.A. with a net value of 33,523 as of December 31, 2017.

	2016														
	Cost or revalued cost							Depreciation							Net value at the end of the year
											Depreciation				
	Value at the beginning of the year	Foreign currency exchange differences	Acquisi-tions	Transfers	Retire-ment and disposal	Revaluation increase (Note 4.7)	Value at the end of the year	Accumu-lated depreciation at the beginning of the year	Foreign currency exchange differences	Retire-ment and disposal	Rate %	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.

13. INTANGIBLE ASSETS

	2017	2016
Trademarks and patents	1,403	1,832
Total	**1,403**	**1,832**

The movement of intangible assets is as follows:

Balance at the beginning of the year	1,832	2,260
Amortization (Note 23)	(429)	(428)
Total	**1,403**	**1,832**

14. TRADE PAYABLE - CURRENT

	2017	2016
Trade payables	1,332,018	1,237,764
Related parties (Note 30)	505,560	413,313
Note payables	313,297	198,567
Foreign suppliers	27,400	16,472
Total	**2,178,275**	**1,866,116**

The aging of trade payable is as follows:

	2017	2016
Overdue:	41,560	20,119
To be due:		
Between 0 and 3 months	2,125,354	1,843,243
Between 3 and 6 months	8,950	1,264
Between 6 and 9 months	1,553	1,117
Between 9 and 12 months	858	373
Total	**2,178,275**	**1,866,116**

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

15. BORROWINGS

	2017	2016
Short-term debt		
Principal:		
Financial debt:		
Unsecured debt	1,891	90,778
Secured debt	7,378	2,891
Total - Financial debt	**9,269**	**93,669**
Accrued interest:		
Unsecured and secured debt	-	15
Total - Accrued interest	**-**	**15**
Total	**9,269**	**93,684**

Long-term debt

	2017	2016
Principal:		
Senior Notes Series F - due 2021 (net of issue costs and adjustment to amortized cost for 70,188 as of 12/31/2017 and 77,243 as of 12/31/2016)	3,653,894	3,095,885
Total - Senior Notes	**3,653,894**	**3,095,885**
Other financial debt:		
Secured debt		6,348
Total - Other financial debt	**-**	**6,348**
Total	**3,653,894**	**3,102,233**

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 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.

Global program for issuing Senior Notes

The General Ordinary and Extraordinary Shareholder´s Meeting held on October 17, 2017, resolved the creation of a global program for issuing Senior Notes for up to US$ 500,000,000 (US dollars five hundred million). The Board of Directors approved on November 7, 2017 the terms and conditions of such program, which was approved by the CNV on February 15, 2018 through its resolution N° 19362.

16. ACCRUED SALARIES, WAGES AND PAYROLL TAXES

	2017	2016
Payroll and bonus to management	439,392	393,484
Social security taxes	215,330	214,272
Total	**654,722**	**607,756**

17. TAXES PAYABLE AND ACCRUAL FOR TAX RELIEF

	2017	2016
• Current		
Tax withholdings	84,172	79,512
Taxes, rates and contributions (net from advances)	45,958	55,815
Payment plan – Law N° 26,476 and others	8,594	8,160
Accrual for tax relief	3,031	3,031
Total	**141,755**	**146,518**
• Non-current		
Payment plan – Law N° 26,476 and others	2,865	10,880
Accrual for tax relief		3,031
Total	**2,865**	**13,911**

18. PROVISIONS

	2017	2016
• Current		
Accrued litigation expenses	1,278	73
Other	595	622
Total	**1,873**	**695**
• Non-current		
Accrued litigation expenses	13,146	17,172
Other	1,054	797
Total	**14,200**	**17,969**

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

	2017	2016
• Current		
Balance at the beginning of the year	695	1,088
Payments made	(4,614)	(2,689)
Transfer from non-current allowance	5,792	2,296
Balance at the end of the year	**1,873**	**695**
• Non-current		
Balance at the beginning of the year	17,969	19,827
Increases (1)	5,192	7,689
Payments made	(3,786)	(10,409)
Re-measurement of foreign subsidiaries allowances	617	3,158
Transfer to current allowance	(5,792)	(2,296)
Balance at the end of the year	**14,200**	**17,969**

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

19. OTHER LIABILITIES

	2017	2016
• Current		
Debt for acquisition of subsidiary company (Note 29a)		16,252
Derivative financial instruments		11,750
Other	14,674	9,621
Total	**14,674**	**37,623**
• Non – current		
Deferred revenue	3,293	2,919
Debt for acquisition of subsidiary company (Note 29a)	4,662	
Total	**7,955**	**2,919**

20. DEFERRED TAX

Deferred tax assets:

	2017	2016
Temporary differences:		
Provisions and other non-deductible accrued expenses	17,147	15,938
Cash and cash equivalents	(2)	
Inventories	1,618	1,442
Property, plant and equipment, and others	(5,065)	(8,610)
Tax loss carry-forwards	3,927	6,385
Alternative minimum income tax	5,782	5,622
Total	**23,407**	**20,777**

Deferred tax liabilities:

	2017	2016
Temporary differences:		
Provisions and other non-deductible accrued expenses	28,912	35,430
Cash and cash equivalents	(8,913)	(271)
Inventories	96,730	56,926
Intangible assets	1,014	1,208
Other assets	(7,539)	(185)
Property, plant and equipment, and others	(1,408,667)	(1,681,783)
Trade payables	(1,226)	
Borrowings	(19,552)	(26,091)
Tax loss carry-forwards	305,899	569,029
Alternative minimum income tax	216,683	157,326
Total	**(796,659)**	**(888,411)**

The unused tax loss carry-forwards filed with tax authorities by Mastellone Hermanos S.A. and its subsidiaries recognized as of December 31, 2017 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
2014	459,506	30%	137,852	2019
2015	369,099	25%	92,275	2020
2016	316,181	25% / 30%	79,699	2021
			309,826	

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	(1,605,996)		235,625	64,828	(1,305,543)
Tax loss carry-forwards	575,414	(48,730)	(215,371)	(1,487)	309,826
Total 2017	**1,030,582**	**(48,730)**	**20,254**	**63,341**	**(995,717)**
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**

In addition to the accumulated losses recorded as of December 31, 2017, there are approximately 15,690 and 409,358 of tax loss carry-forwards (tax base) corresponding to the controlling company, which year of expiration is 2019 and 2020, respectively, and 88,445 of tax loss carry-forwards (tax base) of subsidiaries which dates of expiration are between 2018 and 2023, which have not been recognized as assets for considering that at the date of issuance of these financial statements, there is no evidence for the recoverability of such assets.

21. REVENUE

	2017	2016
Product sales	24,841,970	19,911,821
Services provided	578,739	514,772
Turnover tax	(550,521)	(429,314)
Sales discounts and volume rebates	(2,338,312)	(1,922,005)
Sales returns	(371,414)	(352,217)
Total	**22,160,462**	**17,723,057**

Sales commitments

- The Company has agreed to meet export commitments of powdered milk and whey for a total of approximately 7,196 tons with an estimated contract value US$ 17,651 thousand.

- Additionally, the Company has entered into agreements with national public agencies for the sale of approximately 2,200 tons of powdered milk with an estimated contract value of 231,817.

22. COST OF SALES

	2017	2016
Cost of goods sold:		
Inventories at the begging of the year	2,007,289	1,346,733
Purchases	9,952,653	7,927,880
Write-off of inventories	198,291	129,570
Production expenses (Note 23)	4,967,223	4,058,693
Re-measurement of foreign subsidiaries inventories	31,681	55,775
Benefits from industrial promotion (1)	(346,958)	(185,629)
Inventories at the end of the year	(2,511,958)	(2,007,289)
Subtotal - cost of goods sold	**14,298,221**	**11,325,733**
Cost of services rendered:		
Purchases	42,384	38,509
Production expenses (Note 23)	278,439	231,220
Subtotal - cost of services rendered	**320,823**	**269,729**
Total cost of sales	**14,619,044**	**11,595,462**

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

Acts N° 22,021 and 22,702, as supplemented, Executive Orders N° 2054/92 and N° 804/96 issued by the National Executive Power, as duly supplemented and amended, as well as all executive orders and rulings issued by the Province of San Luis grant Mastellone San Luis S. A. ("MSL") a tax relief for certain national taxes 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 7, 2015.

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

On March 31, 2015, the Federal Court of San Luis granted the injunction requested by MSL in relation to the recognition of benefits under the promotion regime for 15 years and ordered the AFIP to credit the promotional benefits for the reexpression provided in resolution N° ME 1280/92. Such accreditation took place in June 2015. On April 4, 2017, the Federal Court of Appeals of Mendoza granted the appeal filed by the AFIP, revoking the injunction requested. On April 21, 2017 MSL filed an extraordinary appeal with the Federal Court of Appeals. On September 27, 2017, the Federal Court of Appeals accepted the extraordinary appeal filed by MSL. Concerning the substantive issue, on July 25, 2016, a favorable judgement was granted to MSL, which was subsequently appealed. On September 27, 2017, the Federal Court of Appeals of Mendoza decided to reject the appeal filed by the AFIP.

Purchase commitments:

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

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

	2017				
	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				54,242	54,242
Fees and compensation for services	506,194	1,065	1,287,440	124,947	1,919,646
Payroll, bonus and social security charges	2,405,739	147,748	913,277	596,656	4,063,420
Depreciation of property, plant and equipment, and others	508,499	19,277	35,780	9,029	572,585
Amortization of intangible assets	429				429
Provision for bad debts			11,807		11,807
Freights	781,741		2,855,121		3,636,862
Maintenance and repair	109,273	5,819	19,495	427	135,014
Office and communication	1,444	427	1,544	4,365	7,780
Fuel, gas and energy	329,039	66,384	36,810	107	432,340
Vehicles expenses	30,181		26,009	3,948	60,138
Publicity and advertising			466,374		466,374
Taxes, rates and contributions	141,484	1,819	4,614	191,332	339,249
Insurance	106,682	848	35,961	8,851	152,342
Travelling	4,468		4,145	777	9,390
Export and import			19,787	670	20,457
Miscellaneous	42,050	35,052	25,612	25,986	128,700
Total	**4,967,223**	**278,439**	**5,743,776**	**1,021,337**	**12,010,775**

	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**

24. INVESTMENT INCOME

	2017	2016
Interest and profits	182,947	83,120
Loss from foreign currency forwards transactions		(11,495)
Rental income	7,602	6,113
Total	**190,549**	**77,738**

25. FINANCE COST

	2017	2016
Senior Notes	425,783	351,984
Other loans interest	9,577	16,864
Other interests	7,108	6,916
Total	**442,468**	**375,764**

26. OTHER GAINS AND LOSSES

	2017	2016
Gain on sale of property, plant and equipment and other assets	21,911	8,042
Charges to freighters	2,849	4,107
Provision for litigation and other expenses	(5,192)	(7,689)
Donations	(1,302)	(1,096)
Recovery of claims	1,044	1,194
Depreciation of investment property	(104)	(610)
Depreciation of other assets	(478)	
Impairment of tax credits	3,182	
Tax moratorium	(654)	(5,371)
Miscellaneous	(983)	(4,883)
Total – net Gain (loss)	**20,273**	**(6,306)**

27. INCOME TAX AND ALTERNATIVE MINIMUM INCOME TAX

	2017	2016
Included in net loss for the year:		
Current income tax	(100,365)	(112,441)
Tax loss carry-forwards for the year		122,059
Tax loss carry-forwards not recognized	(82,801)	
Rate change impact on tax loss carry-forwards	(132,570)	
Net change in temporary differences	181,870	121,786
Rate change impact on temporary differences	53,755	
Alternative minimum income tax	(7,753)	(4,398)
Total – (loss) gain	**(87,864)**	**127,006**
Included in other comprehensive result:		
Current income tax	(1,487)	(1,536)
Net change in temporary differences	(377,127)	(424,098)
Rate change impact on temporary differences	441,955	
Total – gain (loss)	**63,341**	**(425,634)**

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:

	2017	2016
Income (loss) before income tax and alternative minimum income tax	67,184	(222,427)
Statutory income tax rate	35%	35%
Income tax at statutory income tax rate	(23,514)	77,849
Permanent differences		
Benefits from industrial promotion	121,435	64,970
Unrecognized tax loss carry-forwards	(96,953)	(23,443)
Rate change impact	(78,815)	
Others	(2,264)	12,028
Alternative minimum income tax	(7,753)	(4,398)
Total – (loss) gain	**(87,864)**	**127,006**

28. ADDITIONAL CASH FLOW INFORMATION

Changes in working capital

	2017	2016
Trade accounts receivable	(500,181)	(658,578)
Other receivables	(77,923)	(4,233)
Tax credits	(50,651)	16,031
Inventories	(687,656)	(731,358)
Trade payables	327,822	549,898
Accrued salaries, wages and payroll taxes	48,065	163,389
Taxes payable	(64,657)	(16,335)
Advances from customers	239,978	580
Provisions	(8,400)	(9,940)
Other liabilities	7,832	(22,602)
Total	**(765,771)**	**(713,148)**

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 11,932 as of December 31, 2017 (25,151 as of December 31, 2016). Detail of pledged assets is as follows:

	2017	2016
Property, plant and equipment, and others	20,620	15,967
Mastellone San Luis S.A. shares arising from the merger with Compañía Puntana de Carnes Elaboradas S.A.	10,009	6,375

b) Additionally, as of December 31, 2017 there were other receivables – guarantee deposits (current and non-current) for an amount of 79 (74 as of December 31, 2016) in guarantee of financial and commercial transactions and restricted assets disclosed in caption "other receivables – other" (current) for 230 as of December 31, 2017 (1,792 as of December 31, 2016).

c) The subsidiary company Con-Ser S.A. held certain properties encumbered with privilege of first grade for a net value of 5,179 as of December 31, 2017 (5,112 as of December 31, 2016) 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, 2017 and 2016.

d) 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)	
	2017	2016	2016	2017	2016	2017	2016
Afianzar S.G.R.	2	2			18		
Arcorpar S.A.	7,105	3,242		989	279		
Arcor S.A.I.C.				2,234	1,417		
Bagley S.A.	323						
Cartocor S.A.				6,689	8,473		
Frigorífico Nueva Generación S.A.	41	120					
Logística La Serenísima S.A.	358,940	261,442		495,401	403,011	5,060	717
Los Toldos S.A.	135	126	144	247	115		
TOTAL	**366,546**	**264,932**	**144**	**505,560**	**413,313**	**5,060**	**717**

31. RELATED PARTIES OPERATIONS

Transactions with related parties for the fiscal years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Revenues		
Afianzar S.G.R.	12	15
Arcorpar S.A.	46,072	17,653
Arcor S.A.I.C.	33,866	32,728
Bagley Argentina S.A.	3,730	665
Fideicomiso Formu	3,171	2,330
Frigorífico Nueva Generación S.A.	9	133
Logística La Serenísima S.A.	85,432	62,159
Los Toldos S.A.	162	254
Purchase of goods and services		
Afianzar S.G.R.		21
Arcor S.A.I.C.	14,625	7,913
Cartocor S.A.	43,279	40,599
Logística La Serenísima S.A.	1,670,224	1,425,320
Los Toldos S.A.	5,298	4,488
Investment income		
Logística La Serenísima S.A.	7,820	5,370
Other gain and losses		
Logística La Serenisima S.A.	1,949	1,523
Purchases Property, plant and equipment, and others		
Logística La Serenisima S.A.		1,911

During the fiscal years ended December 31, 2017 and 2016, the Company paid a total of 188,893 and 201,845, 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

	2017	2016
Debt (1)	3,663,163	3,195,917
Cash and cash equivalents	947,095	214,024
Net debt	2,716,068	2,981,893
Equity	4,753,169	3,040,842
Indebtness ratio	0.57	0.98

(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:

	2017	2016
Financial assets		
Cash and banks and short-term investments	272,723	206,481
At fair value with changes to profit and loss		
Investment funds	674,372	7,543
Derivative financial instruments		20,207
Held to maturity investments		
Corporate bonds	4,298	7,517
Loans and receivables		
Other financial assets	24,289	24,794
Trade accounts receivable	1,992,769	1,506,465
Tax credits	171,637	119,907
Other receivables	82,226	77,025
	3,222,314	**1,969,939**
Financial liabilities		
Amortized cost:		
Trade payables	2,185,396	1,873,317
Borrowings	3,663,163	3,195,917
Other liabilities	1,064,782	799,810
At fair value with changes to profit and loss:		
Derivative financial instruments		11,750
	6,913,341	**5,880,794**

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:

	2017	2016
Assets		
United States Dollar	520,968	55,116
Euro	182	686
Guarani	11,915	9,364
Brazilian Reais	373,899	323,546
Liabilities		
United States Dollar	3,758,471	3,201,530
Euro	281	1,229
Guarani	2,540	812
Brazilian Reais	195,196	108,622
Net currency exposure	(3,049,524)	(2,923,481)

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)	
	2017	2016
Impact in profit or loss and equity for each 1% increase in the exchange rate of foreign currency in thousands of Argentine pesos	(30,495)	(29,235)

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 2017 and 2016:

	2017	2016
Exports and foreign sales (consolidated amounts)	1,697,706	2,026,446

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, 2017, the Company does not have financial debt with variable interest rate, except for an outstanding balance of 108.

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)	
	2017	**2016**
Non-interest bear	(786,382)	(956,423)
Fixed-rate financial instruments	(3,612,123)	(2,966,248)
Variable-rate financial instruments	707,478	3,359
	(3,691,027)	**(3,919,312)**

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 2017 and 2016, 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.

	2017	**2016**
Less than three months	2,799,062	2,461,795
Between three months and a year	442,444	280,985
Between one and five year	3,739,805	3,201,505
More than five years	2,218	2,002
	6,983,529	**5,946,287**

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

	2017	2016
Less than three months	2,882,821	1,802,946
Between three months and a year	292,297	74,558
Between one and five years	45,356	72,126
More than five years	1,840	102
	3,222,314	**1,949,732**

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**
	2017	**2016**		
Financial assets:				
Cash and cash equivalent: Investment funds	674,372		Level 1	Quoted bid prices in an active market.
Other financial assets - current: Derivative financial instruments - Sale option		20,207	Level 3	Black & Scholes
Financial liabilities:				
Other liabilities – current Derivative financial instruments – Purchase option		11,750	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.

	2017		2016	
	Book value	**Fair value**	**Book value**	**Fair value**
		(1)		(1)
Senior Notes due 2021	3,653,894	4,122,551	3,095,885	3,506,307

(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	2017		
	Dairy	**Other**	**Total**
Revenue from external customers	21,431,524	728,938	22,160,462
Intersegment revenue	2,875	86,090	88,965
Net loss for the year	(16,950)	(3,730)	(20,680)
Assets allocated to the business lines	12,314,098	161,058	12,475,156
Liabilities allocated to the business lines	7,589,098	136,975	7,726,073
Additions to property, plant and equipment, and others	392,664	604	393,268
Depreciation of property, plant and equipment, and others	565,457	7,128	572,585
Amortization of intangible assets	429		429
Depreciation of investment property	104		104
Depreciation of other assets	478		478
Net domestic revenue	19,733,818	728,938	20,462,756

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 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

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	
2017	20,462,756	1,527,837	169,869	22,160,462
2016	15,696,611	1,371,582	654,864	17,723,057

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. APPROVAL OF THESE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorized to be issued on March 7, 2018.

Deloitte.

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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, 2017 and the related consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other selected explanatory information presented in Notes 1 to 35.

Amounts and other disclosures for the fiscal year ended December 31, 2016, 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. Opinion

In our opinion, the consolidated financial statements as of December 31, 2017, 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, 2017, and the consolidated profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the fiscal year then ended, in accordance with International Financial Reporting Standards.

English translation of the financial statements

This report and the accompanying consolidated financial statements referred to in section 1 above have been translated into English for the convenience of English-speaking readers. As further explained in Note 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 7, 2018.

Deloitte & Co. S.A.

ALBERTO LÓPEZ CARNABUCCI
Partner