Mastellone Hermanos S.A.
Consolidated Financial Statements
for the fiscal year ended
December 31, 2018

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA

CONSOLIDATED INFORMATIVE SUMMARY
AS OF DECEMBER 31, 2018

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

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

Our consolidated financial statements for the fiscal year ended December 31st, 2018, were affected by a negative macroeconomic situation. A sharp increase of inflation, as a result of a significate devaluation of the Peso combined with higher energy tariffs (among other factors), impacted on the levels of consumption and economy growth. Also, such overall situation produced an increased consumer's preference for lower prices rather than product quality.

Under such baseline scenario, the profitability was affected by a higher cost for raw milk, packaging, energy, etc., even over inflation, and not compensated by sales prices. Also, we had to apply commercial rebates and discounts in order to avoid negative impacts on sales volumes. Regarding international businesses, it is important to highlight that we increased exported volumes destined to foreign subsidiaries and third markets. Such performance was possible due to the existence of available inventories, stable international prices and an improvement of the profitability as a result of the Peso devaluation. However, such betterment was negatively affected during the last quarter of the year due to a new tax on exports.

As for the operational activities, it is worth to mention, that the Company executed during the fiscal year capital expenditures for more than U$S 27 million. Such investments were destined to improve the Company´s productivity and operative efficiencies in order to ensure the financial sustainability of the Company.

Finally, it corresponds to point out that, in compliance with the International Accounting Standards, the economy of Argentina should be considered as hyperinflationary. Therefore, the financial statements are adjusted to reflect the effects of inflation according to the methodology established by the accounting standards. It is important to highlight that such adjustment for inflation methodology did not affect nominal cash inflows and outflows or cash flow generation. The main objective of the adjustment for inflation is to value balance sheet accounts and measure results at closing period purchasing power currency on which it is reported.

2. CONSOLIDATED FINANCIAL POSITION

	2018	2017
	(in thousand pesos - as restated to reflect the effects of inflation)	
Current assets	7,839,535	8,618,715
Non-current assets	13,525,431	10,746,843
TOTAL ASSETS	**21,364,966**	**19,365,558**
Current liabilities	4,629,109	4,800,727
Non-current liabilities	9,089,260	6,822,994
TOTAL LIABILITIES	**13,718,369**	**11,623,721**
Equity attributable to owners of the Company	**7,646,493**	**7,741,732**
Non-controlling interests	**104**	**105**
TOTAL EQUITY	**7,646,597**	**7,741,837**
TOTAL LIABILITIES AND EQUITY	**21,364,966**	**19,365,558**

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

	2018	2017
	(in thousand pesos - as restated to reflect the effects of inflation)	
Operational results – income	124,065	390,982
Investment income, finance cost, foreign exchange differences and gain arising on net monetary position	(2,084,656)	(66,894)
Excess of restated value over the revalued amount of assets measured at fair value	(364,036)	(1,614,890)
Other gains and losses	(22,066)	4,584
Loss before taxes	**(2,346,693)**	**(1,286,218)**
Income tax and alternative minimum income tax	351,177	441,462
Net loss for the year	**(1,995,516)**	**(844,756)**
Other comprehensive income	**1,900,276**	**1,083,951**
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	**(95,240)**	**239,195**
Net (loss) income attributable to:		
Owners of the company	(95,239)	239,170
Non-controlling interests	(1)	25
Total comprehensive (loss) income	**(95,240)**	**239,195**

4. CONSOLIDATED STATEMENT OF CASH FLOWS

	2018	2017
	(in thousand pesos - as restated to reflect the effects of inflation)	
Cash flows provided by operating activities	1,508,185	1,335,908
Cash flows used in investing activities	(1,589,832)	(542,228)
Cash flows (used in) provided by financing activities	(936,817)	169,005
Cash and cash equivalents (used in) provided in the year	**(1,018,464)**	**962,685**

5. PRODUCTION AND SALES VOLUME (*)

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

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

6. RATIOS

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

7. OUTLOOK (*)

We have positive expectations about the recovery of the economy. We believe that such recovery will trigger higher levels of consumption and economic growth. Such important factors will be monitored throughout the year and undoubtedly the Company is prepared to eventually take advantage of an increased demand.

During the full year, we will execute several actions destined to restore the profitability. We will display a commercial strategy focused in the improvement of the market share position. Also, we are working on the whole portfolio of products, adding innovation, value and always our widely recognized quality.

Regarding human resources, we will carry on with our development program including training and performance evaluation. Such program will be complemented by a consistent wage policy considering the situation of the dairy sector and overall macroeconomics. The aforementioned program was put into effect during 2018 including the applicable staff of Mastellone Hermanos SA.

Finally, we will complete the execution of the investment plan, and put into operation the new industrial facilities and technological improvements. Undoubtedly, this will drive a higher productivity and efficiency of the Company.

(*) Information not reviewed by the Auditors.

General Rodriguez, Province of Buenos Aires, March 7, 2019

CARLOS AGOTE

Chairman

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2018
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Notes	2018	2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	575,862	1,398,344
Other financial assets	6	9,958	42,207
Trade accounts receivable	7	2,981,393	2,942,236
Tax credits	8	386,585	211,083
Other receivables	9 and 28	71,429	94,827
Inventories	10	3,814,308	3,908,753
Subtotal		7,839,535	8,597,450
Assets held for sale		-	21,265
Total Current Assets		**7,839,535**	**8,618,715**
NON-CURRENT ASSETS			
Other financial assets	6	54,248	-
Tax credits	8	53,983	42,330
Other receivables	9 and 28	17,674	27,317
Deferred tax assets	19	24,920	19,190
Property, plant and equipment, and others	11 and 28	13,193,255	10,556,868
Investment property		806	856
Goodwill		17,663	17,663
Intangible assets		5,077	7,348
Other assets	12	157,805	75,271
Total Non-Current Assets		**13,525,431**	**10,746,843**
TOTAL ASSETS		**21,364,966**	**19,365,558**
LIABILITIES			
CURRENT LIABILITIES			
Trade payable	13	3,528,881	3,214,620
Borrowings	14 and 28	-	13,685
Accrued salaries, wages and payroll taxes	15	884,149	966,668
Taxes payable	16	171,419	209,295
Advance from customers		16,230	372,028
Provisions	17	295	2,765
Other liabilities	18 and 28	28,135	21,666
Total Current Liabilities		**4,629,109**	**4,800,727**
NON-CURRENT LIABILITIES			
Trade payable		10,451	10,514
Borrowings	14	7,441,441	5,394,813
Taxes payable	16	-	4,230
Deferred tax liabilities	19	1,610,749	1,380,726
Provisions	17	20,268	20,966
Other liabilities	18 and 28	6,351	11,745
Total Non-Current Liabilities		**9,089,260**	**6,822,994**
TOTAL LIABILITIES		**13,718,369**	**11,623,721**
EQUITY			
Common stock and share premium		7,098,683	7,098,683
Reserves		3,059,885	1,266,338
Accumulated deficit – including net result for the year		(2,512,075)	(623,289)
Equity attributable to owners of the Company		**7,646,493**	**7,741,732**
Non-controlling interests		**104**	**105**
TOTAL EQUITY		**7,646,597**	**7,741,837**
TOTAL LIABILITIES AND EQUITY		**21,364,966**	**19,365,558**

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, 2018
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Notes	2018	2017
Revenue	20	34,233,323	36,154,393
Cost of sales (*)	21	(24,043,565)	(24,690,878)
Gross profit		**10,189,758**	**11,463,515**
Selling expenses (*)	22	(8,368,430)	(9,406,896)
General and administrative expenses (*)	22	(1,697,263)	(1,665,637)
Investment income	23	110,071	242,125
Finance cost	24	(869,013)	(714,367)
Foreign exchange losses			
- Generated by assets		429,972	(202,444)
- Generated by liabilities		(2,115,822)	320,338
Gain arising on net monetary position		360,136	287,454
Excess of restated value over the revalued amount of assets measured at fair value (Note 3.6)		(364,036)	(1,614,890)
Other gains and losses	25	(22,066)	4,584
Loss before taxes		**(2,346,693)**	**(1,286,218)**
Income tax and alternative minimum income tax	26	351,177	441,462
NET LOSS FOR THE YEAR		**(1,995,516)**	**(844,756)**
Net loss attributable to:			
Owners of the Company		(1,995,515)	(844,781)
Non-controlling interests		(1)	25
Net loss for the year		**(1,995,516)**	**(844,756)**

(*) See note 3.22 for a detail of exceptional expenses included in such items of the consolidated statement of profit or loss.

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

MASTELLONE HERMANOS SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Notes	2018	2017
Net loss for the year		**(1,995,516)**	**(844,756)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		76,679	(46,713)
Income tax	26	(7,740)	(2,196)
		68,939	(48,909)
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment		2,453,289	1,068,684
Income tax	26	(621,952)	64,176
		1,831,337	1,132,860
Other comprehensive income, net of income tax		**1,900,276**	**1,083,951**
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(95,240)**	**239,195**
Total comprehensive (loss) income attributable to:			
Owners of the Company		(95,239)	239,170
Non-controlling interests		(1)	25
		(95,240)	**239,195**

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, 2018
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Shareholders' contributions			Irrevocable contributions for future subscription of common stock	Reserves		Retained earnings (Accumulated losses)	Equity attributable to:		Total
	Common stock	Common stock adjustment	Share premium		Foreign currency translation reserve	Property, plant and equipment revaluation reserve (Note 3.6)		Owners of the parents	Non controlling interest	
Balance at December 31, 2016	**573,089**	**4,714,803**	**802,689**	**-**	**182,387**	**-**	**221,492**	**6,494,460**	**80**	**6,494,540**
Net loss for the year							(844,781)	(844,781)	25	(844,756)
Other comprehensive (loss) income for the year, net of income tax					(48,909)	1,132,860		1,083,951		1,083,951
Total comprehensive income (loss) for the year	-	-	-	-	(48,909)	1,132,860	(844,781)	239,170	25	239,195
Irrevocable contributions accepted by the Board of Directors on January 17, 2017				1,008,102				1,008,102		1,008,102
Resolution of General Ordinary and Extraordinary Shareholders' Meeting held on April 7, 2017: Capital stock increase	80,880	65,819	861,403	(1,008,102)						
Balance at December 31, 2017	**653,969**	**4,780,622**	**1,664,092**	**-**	**133,478**	**1,132,860**	**(623,289)**	**7,741,732**	**105**	**7,741,837**
Net loss for the year							(1,995,515)	(1,995,515)	(1)	(1,995,516)
Other comprehensive income for the year, net of income tax					68,939	1,831,337		1,900,276		1,900,276
Total comprehensive income for the year	-	-	-	-	68,939	1,831,337	(1,995,515)	(95,239)	(1)	(95,240)
Transfer to accumulated losses (1)						(106,729)	106,729			
Balance at December 31, 2018	**653,969**	**4,780,622**	**1,664,092**	**-**	**202,417**	**2,857,468**	**(2,512,075)**	**7,646,493**	**104**	**7,646,597**

(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, 2018
(in thousands of Argentine pesos - as restated to reflect the effects of inflation)

	Note	2018	2017
Cash flows from operating activities			
Net loss for the year		(1,995,516)	(844,756)
Adjustments to reconcile net loss for the year to net cash provided by operating activities:			
Income tax and alternative minimum income tax accrued		(351,177)	(441,462)
Finance cost		869,013	714,367
Foreign exchange losses		1,824,744	(410,326)
Gain arising on net monetary position		(360,136)	(287,454)
Excess of restated value over the revalued amount of assets measured at fair value		364,036	1,614,890
Depreciation of property, plant and equipment, and others		998,977	1,228,906
Additions to provision		104,217	75,105
Write-off of inventories		94,457	305,358
Depreciation of investment property		49	558
Amortization of intangible assets		2,271	2,271
Depreciation of other assets		4,228	5,544
Loss (gain) on sale of property, plant and equipment and other assets		6,167	(11,037)
		1,561,330	1,951,964
Changes in working capital	27	9,342	(503,237)
Subtotal		1,570,672	1,448,727
Payments of income tax and alternative minimum income tax		(62,487)	(112,819)
Net cash generated by operating activities		**1,508,185**	**1,335,908**
Cash flows used in investing activities			
Payments for property, plant and equipment, and others		(1,619,515)	(626,577)
Proceeds from sale other financial assets		10,483	33,316
Proceeds from sale of subsidiary company		10,369	15,358
Proceeds from disposal of property, plant and equipment and other assets		8,831	56,787
Payments for acquisition of subsidiary			(21,112)
Net cash used in investing activities		**(1,589,832)**	**(542,228)**
Cash flows (used in) generated by financing activities			
Irrevocable contributions for future subscription of common stock			1,008,102
Proceeds from borrowings			37,278
Repayment of borrowings		(10,105)	(152,073)
Payment of interests		(926,712)	(724,302)
Net cash (used in) generated by financing activities		**(936,817)**	**169,005**
(Decrease) increase in cash and cash equivalents		**(1,018,464)**	**962,685**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**258,871**	**65,565**
Effect of net monetary position on cash and cash equivalents		**(62,889)**	**(24,257)**
Cash and cash equivalents at beginning of year		**1,398,344**	**394,351**
Cash and cash equivalents at end of year		**575,862**	**1,398,344**

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 2.6.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements for the fiscal year ended December 31, 2018 have been prepared and presented in accordance with International Financial Reporting Standards ('IFRS') adopted by the Argentine Federation of Professional Councils in Economic Sciences ("F.A.C.P.C.E.") as professional accounting standards, as they were approved by the International Accounting Standards Board ("IASB"), adopted by the Professional Council on Economic Sciences of Buenos Aires Province ("CPCEPBA") and incorporated by the Comisión Nacional de Valores ("CNV"), Argentine Securities Comission.

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

For comparative purposes, these consolidated financial statements include figures and other information corresponding to the fiscal year ended December 31, 2017, which are an integral part of the aforementioned consolidated financial statements and are presented with the purpose of being interpreted exclusively in relationship with the figures and other information of the current fiscal year. These figures have been restated in order to reflect the effect of inflation as of the current fiscal year end, as indicated in the following section, in order to allow their comparability and without such restatement modifying the decisions taken based on the financial information corresponding to the previous fiscal year.

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

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

2.2 Financial information adjusted for inflation

Over the past years, inflation levels in Argentina have been high, having accumulating an inflation rate over the past three years that has exceeded 100%, without expectations of a significant decrease in the short term. Likewise, the presence of qualitative indicators of high inflation, as provided for in the International Accounting Standard N° 29 (IAS 29), showed coincidental evidence. Therefore, on September 29, 2018, the FACPCE issued Resolution JG N° 539/18, adopted by the CPCEPBA by the Resolution of the Board of Directors N° 2,883, indicating, among other matters, that Argentina should be considered an inflationary economy in the terms of the professional accounting standards from July 1, 2018, in line with the vision of international organizations.

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

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

In accordance with IAS 29, figures of the financial statements which are not expressed in current purchasing power currency of the reporting period must be restated by applying a general price index. To such extent, and as established by Resolution JG N° 539 of the FACPCE, coefficients calculated based on indexes published by such Federation, have been applied. Indexes were obtained based on the combination of National Consumer Price Indexes (IPC) published by the INDEC beginning January 1, 2017 and, backwards, indexes of Wholesale Price Indexes (IPIM) elaborated by the abovementioned institute or, in its absence, indexes of consumer prices published by the Direction of General Statistics and Censuses of the Autonomous City of Buenos Aires. The variation of the index used for restatement of these consolidated financial statements has been 47.65% in the fiscal year ended on December 31, 2018 and 24.80% in the previous year.

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

2.3 Applicable accounting policies

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

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

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

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

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

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

The principal accounting policies are described in Note 3.

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

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

- IFRS 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.

  In particular, IFRS 9 (2014) replaced the "incurred loss" model of IAS 39 by an "expected credit loss" model. According to IFRS 9, credit losses are recognized earlier than under IAS 39. The Company's financial assets subject to the new expected credit loss model under IFRS 9 include: cash and cash equivalents, restricted cash, short term investments and trade and other receivables. Pursuant to IFRS 9, impairment loss estimates are measured based on:

  - Expected credit losses for the next 12 months

  - Expected credit losses during lifetime of assets if at the date of publication of the financial statements the credit risk inherent in a financial instrument increases significantly with respect to its initial recognition.

  The Board of Directors of the Company carried out an analysis of the financial assets that represent its credit exposure. As from January 1, 2018, as permitted by IFRS 9, the Company has applied the simplified model for the recognition of credit impairment.

  Based on the new method for estimating the expected credit losses, the Board of Directors of the Company has determined that the adoption of IFRS 9 has not had a significant effect on the date of the initial adoption.

- IFRS 15 replaced 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.

  The application of the new standard did not affect significantly the amounts set out in relation to assets and liabilities of the Company.

- 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 have been adopted in current fiscal year, using the prospective application option from the first period in which the interpretation is applied.

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

- 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 application of the above-mentioned improvements did not affect the financial statements of the Company.

2.5 Standards and interpretations not yet adopted

The Company did not adopt the following standards, revision of standards and interpretations as per the application of the mentioned pronouncements are not required for the fiscal year ended December 31, 2018:

Standard	Name
IFRS 16	Leases[1]
IFRS 17	Insurance contracts[2]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 9	Financial instruments[1]
Amendments to IAS 28	Investments in Associates and Joint Ventures[1]
Amendments to IFRSs (annual cycle 2015-2017)	Various IFRSs[1]
Amendments to IFRS	Business combinations[3]
Amendments to IAS 1 and 8	Presentation of financial statements *and* Accounting policies, changes in accounting estimates and error[3]

[1] Effective for fiscal years beginning on or after January 1st, 2019.
[2] Effective for fiscal years beginning on or after January 1st, 2021.
[3] Effective for fiscal years beginning on or after January 1st, 2020.

- 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. Company has chosen the retrospective application with impact on retained earnings (accumulated losses) at the beginning of the year of application.

The Company’s Board of Directors made an analysis of the impact of the implementation of IFRS 16 and estimates to recognize in its consolidated financial statements an asset for right of use and a financial liability of 163 million pesos effective 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 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 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.

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

  The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. The Company's Board of Directors 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, 2020.

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

  The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Company's Board of Directors 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, 2020.

2.6 Basis of consolidation

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

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

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

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

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

- rights arising from other contractual arrangements; and

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

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

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

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

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

The main consolidation adjustments are the followings:

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

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

			% of direct and indirect participation in capital stock and votes	
Company	**Main activity**	**Country**	**2018**	**2017**
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, 2018 and 2017 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, 2018 and 2017, were consolidated based on financial statements restated to reflect the effects of inflation of the subsidiaries companies for the years ended at such dates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Functional and presentation currency

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

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

3.2 Foreign currency

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

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

3.3 Financial instruments

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

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

3.4 Financial assets

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

<u>Classification of financial assets</u>

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

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

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

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

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

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

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

Despite the foregoing, the Company may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial asset is any asset that is: cash, deposits in financial institutions, equity instruments of other entities, contractual rights, or a contract that will or may be liquidated with the delivery of own equity instruments.

3.4.1 Cash and cash equivalents

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

3.4.2 Financial assets at fair value through profit or loss

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

3.4.3 Account receivables and other receivables

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

3.4.4 Effective interest method

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

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

3.4.5 Impairment of financial assets

On each statement of financial position date the Company evaluates whether there is objective evidence that a financial asset or group of financial assets may have suffered impairment losses. A financial asset or a group of financial assets is impaired, and an impairment loss is incurred if, and only if, there is objective evidence of such impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss causing event"), and that loss causing event (or events) has an impact on the estimated cash flows of the financial asset or group of financial assets, which impact may be reliably estimated.

The criteria used by the Company to determine whether there is objective evidence of an impairment loss include:

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

(i) Adverse changes in the payment terms of Company’s borrowers; and
(ii) Local or national financial conditions bearing a relationship with the non-payment of portfolio assets.

The amount of an impairment loss is measured as the difference between the carrying amount of an asset and the current value of estimated future cash flows. The carrying amount of the asset is reduced and the impairment loss amount is recognized in the statement of profit or loss and other comprehensive income.

If in a subsequent fiscal year, the impairment loss amount decreases and this decrease may be objectively attributed to an event occurred after the recognition of such impairment (such as an improvement in the debtor’s credit quality), a reversion of the previously recognized impairment will be recognized in the statement of profit or loss and other comprehensive income.

3.4.6 Derecognition of financial assets

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

3.5 Inventories

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

Based on the Board of Director´s analysis at December 31, 2018 and 2017, slow-moving or obsolete inventories were charged to the statement of profit or loss in the year such evaluation was performed, which evaluated the conservation status, the future use and the net realizable value of those inventories.

3.6 Property, plant and equipment, and others

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

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

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

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

On March 9, 2018, the Company´s Board of Directors approved the revaluation of property, plant and equipment made as of December 31, 2017. The revaluation performed as of December 31, 2018 was approved by the Company´s Board of Directors held on March 7, 2019.

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

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

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

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

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

- 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 restated to reflect the effect of inflation and it is stated in the consolidated statement of profit or loss and other comprehensive income.

3.7 Investment property

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

3.8 Intangible assets

Intangible assets include brands and patents.

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

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

3.9 Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

At December 31, 2018 and 2017 no impairment losses were recorded.

3.10 Goodwill

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

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

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

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

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

3.11 Other assets

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

3.12 Liabilities

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

3.13 Financial liabilities

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

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

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

3.14 Provisions

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

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

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

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

3.15 Government grants

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

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

3.16 Equity accounts

Capital stock and adjustment of capital stock

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

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

The General Ordinary and Extraordinary Shareholders' Meeting held on April 7, 2017 decided the capital stock increase in $ 80,879,568 (nominal amount), 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 (nominal value). The capital stock increase was registered with the "Dirección Provincial de Personas Jurídicas de la Provincia de Buenos Aires" on February 28, 2019.

As of December 31, 2018 and 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

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

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 (nominal amount).

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 44,385 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.

According to the guidelines of IAS 29, the revaluation reserve recorded as of December 31, 2016 was fully transferred to accumulated losses, while the amounts recognized during fiscal years ended on December 31, 2018 and 2017 were disclosed net of the effects of inflation.

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.

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

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

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

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

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

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

3.18 Revenue recognition

The Company recognizes revenue from the following sources:

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

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

a) Product sales

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

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

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

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

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

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

b) Rendering of services

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

c) Interest income

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

3.19 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, 2018 and 2017, the Company capitalized in "Work in progress" of Property, plant and equipment, and others borrowing costs for 15,286 and 7,042 respectively.

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

3.20 Leasing

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

The Company as lessee

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

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

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

3.21 Income tax and alternative minimum income tax

3.21.1. – Income taxes – current and deferred

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

3.21.1.1 – Current tax

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

3.21.1.2 – Deferred tax

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

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

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

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

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

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

3.21.1.3. – Current and deferred tax for the year

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

3.21.1.4. – 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 the financial statements for the fiscal year ended on December 31, 2017, 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. Therefore, from above mentioned date, deferred asset and liability of the Company and its subsidiaries domiciled in Argentina, is 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 26).

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%.

3.21.2. – Alternative minimum income tax

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

3.22 Exceptional retirement and severance expenses

The Company considers exceptional items of results to gain or losses that are at the same time: i) of very significant amount, and ii) according to its nature and magnitude, the Board of Directors does not estimate that they are recurrent. During the fiscal years ended on December 31, 2018 and 2017, exceptional expenses for retirement of senior management were incurred, as well as severance expenses for efficiency of operations, for a total amount of 620,938 and 458,365, respectively.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

These estimates relate basically to the following:

- Impairment of property, plant and equipment, and others

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

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

- Provision for allowances and contingencies

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

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

- Deferred income tax and alternative minimum income tax

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

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

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

5. CASH AND CASH EQUIVALENTS

	2018	2017
Cash and bank accounts	345,227	353,624
Investment funds	116,941	995,681
Short-term investments	113,694	49,039
Total	**575,862**	**1,398,344**

6. OTHER FINANCIAL ASSETS

	2018	2017
• Current		
Corporate bonds		6,346
Short-term investments – other	9,958	35,861
Total	**9,958**	**42,207**
• Non-current		
Long-term investments	54,248	
Total	**54,248**	**-**

7. TRADE ACCOUNTS RECEIVABLE

	2018	2017
Third parties (domestic)	2,092,382	2,388,350
Foreign receivables	144,292	25,869
Related parties (Note 29)	774,261	541,189
Notes receivables	1,195	1,252
Tax incentives on exports	55,084	34,558
Subtotal	**3,067,214**	**2,991,218**
Allowance for doubtful accounts	(39,209)	(32,782)
Allowance for trade discounts and volume rebates	(46,612)	(16,200)
Total	**2,981,393**	**2,942,236**

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

	2018	2017
Balance at the beginning of the year	32,782	47,566
Additions (1)	20,805	13,627
Transfers	(6,237)	(15,209)
Write-offs	(4)	(5,763)
Charged to result arising on net monetary position	(8,570)	(6,538)
Re-measurement of foreign subsidiaries allowances	433	(901)
Balance at the end of the year	**39,209**	**32,782**

(1) Charged to selling expenses – Note 22.

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

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

	2018	**2017**
Balance at the beginning of the year	16,200	25,522
Additions (1)	76,618	46,874
Write-offs	(41,773)	(55,765)
Charged to result arising on net monetary position	(4,719)	(26)
Re-measurement of foreign subsidiaries allowances	286	(405)
Balance at the end of the year	**46,612**	**16,200**

(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, 2018 and 2017, 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:

	2018	**2017**
Overdue (1)	385,633	259,630
To be due:		
Between 0 and 3 months	2,636,121	2,698,977
Between 3 and 6 months	17,204	11,329
Between 6 and 9 months	14,063	12,277
Between 9 and 12 months	14,193	9,005
Subtotal	**3,067,214**	**2,991,218**
Allowance for doubtful accounts	(39,209)	(32,782)
Allowance for trade discounts and volume rebates	(46,612)	(16,200)
Total	**2,981,393**	**2,942,236**

(1)Including receivables for 62,549 in 2018 and 10,591 in 2017 from public tenders.

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

	2018	**2017**
Between 0 and 6 months	252,388	122,695
More than 6 months	94,036	104,153
Total	**346,424**	**226,848**

Age of impaired trade receivables is as follows:

	2018	**2017**
Between 3 and 12 months	31,279	24,902
More than 12 months	7,930	7,880
Total	**39,209**	**32,782**

8. TAX CREDITS

	2018	2017
• Current		
Net value added tax	252,704	94,375
Turnover tax credit	52,437	72,839
Income tax credit	73,623	40,902
Other tax credits	7,821	2,967
Total	**386,585**	**211,083**
• Non-current		
Net value added tax	33,682	10,449
Turnover tax credit	12,791	25,021
Other tax credits	7,510	6,860
Total	**53,983**	**42,330**

9. OTHER RECEIVABLES

	2018	2017
• Current		
Prepaid expenses	37,076	24,796
Receivable from sale of subsidiary company		20,148
Advances to services suppliers	13,031	9,771
Receivable from sale of property, plant and equipment		14,974
Insurance receivable	1,571	933
Guarantee deposits (Note 28b)	130	
Loans to personnel	14,042	16,443
Other (Note 28b)	7,149	11,734
Subtotal	**72,999**	**98,799**
Allowance for doubtful accounts	(1,570)	(3,972)
Total	**71,429**	**94,827**

	2018	2017
• Non-current		
Régime for the professionalization of transport (1)	13,381	19,756
Receivable from sale of subsidiary company		295
Receivables from customers in receivership and in bankruptcy	41,906	47,210
Guarantee deposits (Note 28b)	128	117
Other	4,664	7,453
Subtotal	**60,079**	**74,831**
Allowance for doubtful accounts	(42,405)	(47,514)
Total	**17,674**	**27,317**

(1) In litigation

The movement of allowance for doubtful accounts is as follows:

	2018	2017
• Current		
Balance at the beginning of the year	3,972	3,015
Additions (1)	190	4,743
Write-offs	(1,580)	(2,978)
Charged to result arising on net monetary position	(1,012)	(1,091)
Transfers		283
Balance at the end of the year	**1,570**	**3,972**
• Non-current		
Balance at the beginning of the year	47,514	36,502
(Reversal) additions, net (1)	(9)	1,234
Transfers	6,237	14,926
Write-offs	(10,991)	
Charged to result arising on net monetary position	(4,964)	(3,741)
Re-measurement of foreign subsidiaries allowances	4,618	(1,407)
Balance at the end of the year	**42,405**	**47,514**

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

10. INVENTORIES

	2018	2017
Resale goods	90,987	130,384
Finished goods	1,344,719	1,859,105
Work in progress	820,931	714,757
Raw materials, packaging and other materials	1,270,111	1,013,066
Goods in transit	247,998	165,090
Subtotal	**3,774,746**	**3,882,402**
Advances to suppliers	39,562	26,351
Total	**3,814,308**	**3,908,753**

11. PROPERTY, PLANT AND EQUIPMENT, AND OTHERS

	2018																
	Cost or revalued cost								Depreciation								Net value
	Value at the beginning of the year	Foreign currency exchange differences	Acquisitions	Transfers	Transfers to other assets	Retirement and disposal	Revaluation variance (Note 3.6) (1)	Value at the end of the year	Accumulated depreciation at the beginning of the year	Foreign currency exchange differences	Transfers to other assets	Retirement and disposal	Depreciation: Rate %	Depreciation: Of the year	Eliminated on revaluation (Note 3.6) (1)	Accumulated depreciation at the end of the year	
Land and buildings (2)	4,775,458	11,924	10,262	111,169	(52,947)	3,073	(156,604)	4,696,189	206,280	7,947	11,057	40	2, 2.5, 2.86, 3.3, 4 & 5	125,743	109,024	241,963	4,454,226
Machinery and equipment (2)	4,723,876	9,517	72,411	272,531		9,058	1,453,823	6,523,100	1,103,477	5,753		1,984	5 & 10	459,799	434,077	1,132,968	5,390,132
Facilities and laboratory equipment (2)	2,589,560	3,519	21,723	237,905	(3,969)	1,828	94,581	2,941,491	927,082	2,409	(397)	1,345	5, 10 & 25	198,029	154,352	971,426	1,970,065
Furniture	430,527		9,471	2,472		7,826		434,644	403,928			7,793	10, 20, 25 & 33	14,815		410,950	23,694
Vehicles (3)	1,140,310	548	26,932	1,979		23,865		1,145,904	1,021,272	673		20,681	10 & 20	25,380		1,026,644	119,260
Work in progress	249,212		1,151,535	(599,646)		1,191		799,910									799,910
Advances to suppliers	44,830	444	126,333	(26,410)				145,197									145,197
Subtotal	**13,953,773**	**25,952**	**1,418,667**	**-**	**(56,916)**	**46,841**	**1,391,800**	**16,686,435**	**3,662,039**	**16,782**	**10,660**	**31,843**		**823,766**	**697,453**	**3,783,951**	**12,902,484**
Other:																	
Trays	754,871		200,848					955,719	489,737				33	175,211		664,948	290,771
Carrying amount as of December 31, 2018	**14,708,644**	**25,952**	**1,619,515**	**-**	**(56,916)**	**46,841**	**1,391,800**	**17,642,154**	**4,151,776**	**16,782**	**10,660**	**31,843**		**998,977**	**697,453**	**4,448,899**	**13,193,255**

(1) Charged to other comprehensive income for 2,453,289 (profit) and to profit or loss for 364.036 (loss) in the heading "Excess of restated value over the revalued amount of assets measured at fair value".

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

Land and buildings	3,703,826
Machinery and equipment	1,939,601
Facilities and laboratory equipments	1,364,681

(3) Includes vehicles operated by freighters of Con-Ser S.A. and Logística La Serenísima S.A. with a net value of 93,404 as of December 31, 2018.

	2017																
	Cost or revalued cost								Depreciation								Net value
													Depreciation				
	Value at the beginning of the year	Foreign currency exchange differences	Acqui-sitions	Transfers	Transfers to other assets	Retire-ment and disposal	Revalua-tion variance (Note 3.6) (1)	Value at the end of the year	Accumu-lated depreciation at the beginning of the year	Foreign currency exchange differences	Transfers to other assets	Retire-ment and disposal	Rate %	Del ejercicio	Eliminated on revaluation (Note 3.6) (1)	Accumulated depreciation at the end of the year	
Land and buildings (2)	5,558,588	(5,694)	918	333,307	(92,838)	25,800	(993,023)	4,775,458	210,300	(3,470)	(13,415)		2, 2,5, 2,86, 3,3, 4 & 5	173,833	160,968	206,280	4,569,178
Machinery and equipment (2)	4,249,683	(2,630)	68,543	559,270		9,515	(141,475)	4,723,876	1,091,619	(2,101)		23,655	5 & 10	467,160	429,546	1,103,477	3,620,399
Facilities and laboratory equipment (2)	2,634,087	(1,507)	5,616	280,295	(6,189)	12,887	(309,855)	2,589,560	897,769	(1,044)	(567)	10,765	5, 10 & 25	350,322	307,633	928,082	1,661,478
Furniture	416,350		12,138	2,687		648		430,527	388,971			649	10, 20, 25 & 33	14,606		402,928	27,599
Vehicles (3)	1,165,365	(642)	14,561	14,632		53,606		1,140,310	1,012,731	(450)		39,295	10 & 20	48,286		1,021,272	119,038
Work in progress	1,107,897		233,692	(1,092,377)				249,212									249,212
Advances to suppliers	35,674		106,970	(97,814)				44,830									44,830
Subtotal	**15,167,644**	**(10,473)**	**442,438**	**-**	**(99,027)**	**102,456**	**(1,444,353)**	**13,953,773**	**3,601,390**	**(7,065)**	**(13,982)**	**74,364**		**1,054,207**	**898,147**	**3,662,039**	**10,291,734**
Other:																	
Trays	1,007,821		195,234			448,184		754,871	763,221			448,183	33	174,699		489,737	265,134
Carrying amount as of December 31, 2017	**16,175,465**	**(10,473)**	**637,672**	**-**	**(99,027)**	**550,640**	**(1,444,353)**	**14,708,644**	**4,364,611**	**(7,065)**	**(13,982)**	**522,547**		**1,228,906**	**898,147**	**4,151,776**	**10,556,868**

(1) Charged to other comprehensive income for 1,068,684 (profit) and to profit or loss for 1,614,890 (loss) in the heading "Excess of restated value of the revalued amount of assets measured at fair value".

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

Land and buildings	3,697,088
Machinery and equipment	1,909,781
Facilities and laboratory equipments	1,333,696

(3) Includes vehicles operated by freighters of Con-Ser S.A. and Logística La Serenísima S.A. with a net value of 91,627 as of December 31, 2017.

12. OTHER ASSETS

	2018	2017
Assets retired from productive service	150,019	63,780
Participation in other entities	7,786	11,491
Total	**157,805**	**75,271**

13. TRADE PAYABLE - CURRENT

	2018	2017
Trade payables	2,198,768	1,965,159
Related parties (Note 29)	565,924	746,437
Note payables	486,783	462,569
Foreign suppliers	277,406	40,455
Total	**3,528,881**	**3,214,620**

The aging of trade payable is as follows:

	2018	2017
Overdue:	15,530	61,362
To be due:		
Between 0 and 3 months	3,483,489	3,136,485
Between 3 and 6 months	5,271	13,214
Between 6 and 9 months		2,293
Between 9 and 12 months	24,591	1,266
Total	**3,528,881**	**3,214,620**

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

14. BORROWINGS

	2018	2017
Short-term debt		
Principal:		
Financial debt:		
Unsecured debt		2,792
Secured debt (Note 28a)		10,893
Total - Financial debt	**-**	**13,685**
Long-term debt		
Principal:		
Senior Notes Series F - due 2021 (net of issue costs and adjustment to amortized cost for 87,001 as of 12/31/2018 and 103,630 as of 12/31/2017)	7,441,441	5,394,813
Total - Senior Notes	**7,441,441**	**5,394,813**

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° 19.362.

15. ACCRUED SALARIES, WAGES AND PAYROLL TAXES

	2018	2017
Payroll and bonus to management	619,845	648,743
Social security taxes	264,304	317,925
Total	**884,149**	**966,668**

16. TAXES PAYABLE AND ACCRUAL FOR TAX RELIEF

	2018	2017
• Current		
Tax withholdings	144,187	124,276
Taxes, rates and contributions (net from advances)	24,222	67,855
Payment plan – Law N° 26,476 and others	3,010	12,689
Accrual for tax relief	-	4,475
Total	**171,419**	**209,295**
• Non-current		
Payment plan – Law N° 26,476 and others		4,230
Total	-	**4,230**

17. PROVISIONS

	2018	2017
• Current		
Accrued litigation expenses	168	1,887
Other	127	878
Total	**295**	**2,765**
• Non-current		
Accrued litigation expenses	18,880	19,409
Other	1,388	1,557
Total	**20,268**	**20,966**

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

• Current		
Balance at the beginning of the year	2,765	1,280
Payments made	(4,185)	(7,598)
Charged to result arising on net monetary position	(525)	494
Transfer from non-current allowance	2,240	8,589
Balance at the end of the year	**295**	**2,765**
• Non-current		
Balance at the beginning of the year	20,966	33,108
Increases (1)	6,613	8,627
Payments made	(810)	(6,206)
Re-measurement of foreign subsidiaries allowances	1,018	(513)
Charged to result arising on net monetary position	(5,279)	(5,461)
Transfer to current allowance	(2,240)	(8,589)
Balance at the end of the year	**20,268**	**20,966**

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

18. OTHER LIABILITIES

	2018	2017
• Current		
Debt for acquisition of subsidiary company (Note 28a)	9,425	
Other	18,710	21,666
Total	**28,135**	**21,666**
• Non – current		
Deferred revenue	6,351	4,862
Debt for acquisition of subsidiary company (Note 28a)		6,883
Total	**6,351**	**11,745**

19. DEFERRED TAX

Deferred tax assets:

	2018	2017
Temporary differences:		
Provisions and other non-deductible accrued expenses	24,695	19,190
Property, plant and equipment, and others	225	
Total	**24,920**	**19,190**

<u>Deferred tax liabilities</u>:

	2018	2017
Temporary differences:		
Provisions and other non-deductible accrued expenses	63,666	48,815
Cash and cash equivalents	(608)	(13,164)
Other receivables		(228)
Inventories	68,029	92,417
Intangible assets	133	254
Other assets	(36,109)	(14,299)
Property, plant and equipment, and others	(2,758,892)	(2,275,771)
Investment property	(5,276)	(3,929)
Trade payables	(106)	(1,810)
Borrowings	(26,082)	(28,868)
Advance from customers		3,304
Tax loss carry-forwards	847,126	482,395
Alternative minimum income tax	237,370	330,158
Total	**(1,610,749)**	**(1,380,726)**

The unused tax loss carry-forwards filed with tax authorities by Mastellone Hermanos S.A. and its subsidiaries recognized as of December 31, 2018 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	403,962	30% / 25%	119,479	2019
2015	800,722	25%	200,181	2020
2016	337,845	25%	84,822	2021
2017	18,061	25%	4,515	2022
2018	1,752,515	25%	438,129	2023
			847,126	

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

	Balance at the beginning of the year	Reduction of tax loss carry-forwards	Foreign currency exchange differences	Charge to profit (loss) for the year (Note 26)	Charge to Other comprehensive income (loss) (Note 26)	Balance at the end of the year
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(2,174,089)		2,936	122,780	(621,952)	(2,670,325)
Tax loss carry-forwards	482,395	(1,765)		374,236	(7,740)	847,126
Total 2018	**(1,691,694)**	**(1,765)**	**2,936**	**497,016**	**(629,692)**	**(1,823,199)**
Temporary differences between book carrying amounts and tax basis of assets and liabilities	(3,389,083)			1,150,818	64,176	(2,174,089)
Tax loss carry-forwards	1,096,233	(71,946)		(539,696)	(2,196)	482,395
Total 2017	**(2,292,850)**	**(71,946)**	**-**	**611,122**	**61,980**	**(1,691,694)**

In addition to the accumulated losses recorded as of December 31, 2018, there are 68,288, 11,264 and 567,296 of tax loss carry-forwards (tax base) corresponding to the controlling company, which year of expiration is 2019, 2020 and 2023, respectively, and 210,933 of tax loss carry-forwards (tax base) of subsidiaries which dates of expiration are between 2019 and 2024 and as of December 31, 2017, there are 23,166, and 604,399 of tax loss carry-forwards (tax base) corresponding to the controlling company, which year of expiration is 2019 and 2020, respectively, and 273,300 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.

20. REVENUE

	2018	2017
Product sales	39,339,188	40,540,940
Services provided	766,063	930,471
Turnover tax	(823,953)	(899,295)
Sales discounts and volume rebates	(4,379,105)	(3,809,636)
Sales returns	(668,870)	(608,087)
Total	**34,233,323**	**36,154,393**

Sales commitments

- The Company has agreed to meet export commitments of powdered milk and whey for a total of approximately 5,356 tons with an estimated contract value US$ 10,200 thousand.

- Additionally, the Company has entered into agreements with national public agencies for the sale of approximately 2,286 tons of powdered milk with an estimated contract value of 302,500.

21. COST OF SALES

	2018	2017
Cost of goods sold:		
Inventories at the begging of the year	3,882,402	3,839,044
Purchases	16,254,265	16,152,680
Write-off of inventories	94,457	305,358
Production expenses (Note 22)	7,514,500	8,334,105
Re-measurement of foreign subsidiaries inventories	79,939	(26,926)
Benefits from industrial promotion (1)	(474,485)	(566,373)
Inventories at the end of the year	(3,774,746)	(3,882,402)
Subtotal - cost of goods sold	**23,576,332**	**24,155,486**
Cost of services rendered:		
Purchases	46,820	69,316
Production expenses (Note 22)	420,413	466,076
Subtotal - cost of services rendered	**467,233**	**535,392**
Total cost of sales	**24,043,565**	**24,690,878**

(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. Such injunction was appealed by the AFIP and rejected by the Federal Court of Appeals of Mendoza in November 2017.

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

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

On March 31, 2015, the Federal Court of San Luis granted the injunction requested by MSL in relation to the recognition of benefits under the promotion regime for 15 years and ordered the AFIP to credit the promotional benefits for the 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. The AFIP filed an extraordinary remedy which was admitted by the Federal Court of Appeals of Mendoza on March 27, 2018. It is configured the federal issue that enables the Supreme Court of Justice instance.

<u>Purchase commitments:</u>

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

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

	2018				
	Production expenses	Cost of services	Selling expenses	General and administrative expenses	Total
Remuneration to members of the Board of Directors and members of the statutory Audit Committee (*)				265,240	265,240
Fees and compensation for services	756,761	1,004	1,827,617	208,781	2,794,163
Payroll, bonus and social security charges (*)	3,284,869	204,212	1,259,763	880,915	5,629,759
Depreciation of property, plant and equipment, and others	891,081	31,424	57,603	18,869	998,977
Amortization of intangible assets	2,271				2,271
Provision for bad debts			20,986		20,986
Freights(*)	1,209,743		4,372,398	25	5,582,166
Maintenance and repair	180,276	21,596	28,682	923	231,477
Office and communication	2,219	584	3,589	5,650	12,042
Fuel, gas and energy	725,222	102,090	77,612	157	905,081
Vehicles expenses	41,188		36,788	6,939	84,915
Publicity and advertising			520,263		520,263
Taxes, rates and contributions	205,865	3,950	8,276	235,540	453,631
Insurance	136,032	2,690	46,285	12,270	197,277
Travelling	9,276		5,466	3,666	18,408
Export and import	73		70,633	504	71,210
Miscellaneous	69,624	52,863	32,469	57,784	212,740
Total	**7,514,500**	**420,413**	**8,368,430**	**1,697,263**	**18,000,606**

(*) Including exceptional expenses of senior management retirement as well as severance, incurred in order to increase operational efficiency for 620,938.

	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				88,113	88,113
Fees and compensation for services	812,071	2,610	2,104,810	202,856	3,122,347
Payroll, bonus and social security charges(*)	3,926,887	241,810	1,489,536	963,845	6,622,078
Depreciation of property, plant and equipment, and others	1,079,837	39,907	83,581	25,581	1,228,906
Amortization of intangible assets	2,271				2,271
Provision for bad debts			19,604		19,604
Freights	1,276,073		4,667,067		5,943,140
Maintenance and repair	173,794	10,394	31,704	706	216,598
Office and communication	2,386	695	2,492	7,015	12,588
Fuel, gas and energy	534,238	109,119	60,186	173	703,716
Vehicles expenses	48,962		42,343	6,439	97,744
Publicity and advertising			753,658		753,658
Taxes, rates and contributions	230,205	2,996	7,533	312,142	552,876
Insurance	174,920	1,416	58,977	14,466	249,779
Travelling	7,242		6,740	1,243	15,225
Export and import			32,359	1,079	33,438
Miscellaneous	65,219	57,129	46,306	41,979	210,633
Total	**8,334,105**	**466,076**	**9,406,896**	**1,665,637**	**19,872,714**

(*) Including exceptional expenses of senior management retirement as well as severance, incurred in order to increase operational efficiency for 458,365.

23. INVESTMENT INCOME

	2018	2017
Interest and profits	98,741	229,796
Rental income	11,197	12,213
Other	133	116
Total	**110,071**	**242,125**

24. FINANCE COST

	2018	2017
Senior Notes	852,227	692,626
Other loans interest	6,860	14,189
Other interests	9,926	7,552
Total	**869,013**	**714,367**

25. OTHER GAINS AND LOSSES

	2018	2017
(Loss) gain on sale of property, plant and equipment and other assets	(6,167)	11,037
Charges to freighters	6,505	4,648
Provision for litigation and other expenses	(6,613)	(8,627)
Donations	(3,161)	(2,067)
Recovery of claims	1,367	1,227
Depreciation of investment property	(49)	(558)
Depreciation of other assets	(4,228)	(5,544)
Impairment of tax credits	2,513	4,846
Tax moratorium	(10,649)	(1,044)
Miscellaneous	(1,584)	666
Total – net (loss) gain	**(22,066)**	**4,584**

26. INCOME TAX AND ALTERNATIVE MINIMUM INCOME TAX

	2018	2017
Included in net loss for the year:		
Current income tax	(73,467)	(156,208)
Tax loss carry-forwards for the year	514,938	
Tax loss carry-forwards not recognized		(116,172)
Rate change impact on tax loss carry-forwards		(205,714)
Net change in temporary differences	(568,750)	385,519
Rate change impact on temporary differences		103,712
Effect of inflation in temporary valuation differences	691,530	661,587
Effect of inflation in tax loss carry forwards	(140,702)	(217,810)
Alternative minimum income tax	(72,372)	(13,452)
Total – gain	**351,177**	**441,462**
Included in other comprehensive result:		
Current income tax	(7,740)	(2,196)
Net change in temporary differences	(621,952)	(588,351)
Rate change impact on temporary differences		652,527
Total – (loss) gain	**(629,692)**	**61,980**

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

	2018	2017
Loss before income tax and alternative minimum income tax	(2,346,693)	(1,286,218)
Statutory income tax rate	30%	35%
Income tax at statutory income tax rate	704,008	450,176
Permanent differences		
Benefits from industrial promotion	142,346	198,231
Unrecognized tax loss carry-forwards	(108,479)	(143,147)
Rate change impact	(86,919)	(102,002)
Effects of restatement for inflation	(222,880)	54,999
Others	(4,527)	(3,343)
Alternative minimum income tax	(72,372)	(13,452)
Total –gain	**351,177**	**441,462**

27. ADDITIONAL CASH FLOW INFORMATION

Changes in working capital

	2018	2017
Trade accounts receivable	(1,185,608)	(829,929)
Other receivables	(31,760)	(219,763)
Tax credits	(328,156)	(117,855)
Inventories	41,664	(317,637)
Trade payables	1,547,248	583,216
Accrued salaries, wages and payroll taxes	243,239	61,105
Taxes payable	36,374	(20,279)
Advances from customers	(325,884)	364,835
Provisions	(9,009)	(18,891)
Other liabilities	21,234	11,961
Total	**9,342**	**(503,237)**

28. 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 9,425 as of December 31, 2018 (17,618 as of December 31, 2017). Detail of pledged assets is as follows:

	2018	2017
Property, plant and equipment, and others	-	30,445
Mastellone San Luis S.A. shares arising from the merger with Compañía Puntana de Carnes Elaboradas S.A.	14,566	14,778

b) Additionally, as of December 31, 2018 there were other receivables – guarantee deposits (current and non-current) for an amount of 258 (117 as of December 31, 2017) in guarantee of financial and commercial transactions and restricted assets disclosed in caption "other receivables – other" (current) for 29 as of December 31, 2018 (340 as of December 31, 2017).

c) The subsidiary company Con-Ser S.A. held certain properties encumbered with privilege of first grade for a net value of 1,535 as of December 31, 2018 (7,647 as of December 31, 2017) 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$ 1,395 thousand.

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

29. RELATED PARTIES OUTSTANDING BALANCES

Company	Trade account receivables (current)		Trade payable (current)		Advances from customers (current)	
	2018	2017	2018	2017	2018	2017
Afianzar S.G.R.		3				
Arcorpar S.A.	11,584	10,490	1,294	1,460		
Arcor Alimentos Bolivia S.A.	4,716		1,015			
Arcor S.A.I.C.	5,189		3,210	3,298		
Bagley S.A.		477				
Cartocor S.A.			13,999	9,876		
Frigorífico Nueva Generación S.A.	15	61				
Logística La Serenísima S.A.	752,705	529,959	546,012	731,438	9,737	7,471
Los Toldos S.A.	52	199	394	365		
TOTAL	**774,261**	**541,189**	**565,924**	**746,437**	**9,737**	**7,471**

30. RELATED PARTIES OPERATIONS

Transactions with related parties for the fiscal years ended December 31, 2018 and 2017 were as follows:

	2018	**2017**
Revenues		
Afianzar S.G.R.		19
Arcorpar S.A.	81,020	75,199
Arcor Alimentos Bolivia S.A.	21,580	
Arcor S.A.I.C.	107,172	56,189
Bagley Argentina S.A.	7,032	5,802
Fideicomiso Formu	4,743	5,190
Frigorífico Nueva Generación S.A.		15
Logística La Serenísima S.A.	142,476	139,992
Los Toldos S.A.	17	264
Purchase of goods and services		
Arcor S.A.I.C.	24,206	24,082
Cartocor S.A.	94,956	71,202
Logística La Serenísima S.A.	2,375,752	2,688,434
Los Toldos S.A.	4,647	8,617
Investment income		
Logística La Serenísima S.A.	32,433	12,836
Other gain and losses		
Logística La Serenisima S.A.	5,215	3,167
Purchases Property, plant and equipment, and others		
Logística La Serenisima S.A.	-	3,120

During the fiscal years ended December 31, 2018 and 2017, the Company paid a total of 482,982 and 299,660, respectively, in concept of remuneration and fees to members of the Board of Directors and executive officers. Abovementioned amounts include exceptional expenses for senior management retirement for 311,392 and 72,786 in 2018 and 2017, respectively. The Company does not provide its Directors or executive officers with any type of pension, retirement or similar benefits.

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

The outstanding receivable and payable amounts are unsecured and will be settled in cash. No guarantees have been given or received, except for the guarantees described in Note 28. It has not been recognized any expense in the current year or in prior years regarding bad or doubtful accounts related to amounts owed by related parties.

31. FINANCIAL INSTRUMENTS

31.1 – Capital management

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

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

Capital structure and debt ratio

	2018	2017
Debt (1)	7,441,441	5,408,498
Cash and cash equivalents	575,862	1,398,344
Net debt	6,865,579	4,010,154
Equity	7,646,493	7,741,732
Indebtness ratio	0.90	0.52

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

31.2 – Financial instruments categories

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

	2018	2017
Financial assets		
At fair value with changes to profit and loss		
Investment funds	116,941	995,681
Amortized cost:		
Cash and banks and short-term investments	458,921	402,663
Other financial assets	64,206	42,207
Trade accounts receivable	2,981,393	2,942,236
Tax credits	440,568	253,413
Other receivables	89,103	122,144
	4,151,132	**4,758,344**
Financial liabilities		
Amortized cost:		
Trade payables	3,539,332	3,225,134
Borrowings	7,441,441	5,408,498
Other liabilities	1,106,284	1,585,632
	12,087,057	**10,219,264**

31.3 – Risk management

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

31.4 – Management of foreign exchange risk

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

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

	2018	2017
Assets		
United States Dollar	101,549	769,186
Euro	257	269
Guarani	31,735	17,592
Brazilian Reais	661,378	552,045
Liabilities		
United States Dollar	7,558,077	5,549,217
Euro	248,060	415
Guarani	3,411	3,750
Brazilian Reais	98,100	288,198
Net currency exposure	(7,112,729)	(4,502,488)

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)	
	2018	2017
Impact in profit or loss and equity for each 1% increase in the exchange rate of foreign currency in thousands of Argentine pesos	(71,127)	(45,025)

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 2018 and 2017:

	2018	2017
Exports and foreign sales (consolidated amounts)	4,751,581	2,770,736

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

31.5 – Management of the interest rates risk

The long-term debt of the Company is composed by Senior Notes Series F due 2021, which accrues interest at a nominal annual fixed rate of 12.625%. As of December 31, 2018, the Company does not have financial debt with variable interest rate.

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) 2018	2017
Non-interest bear	(797,544)	(1,161,058)
Fixed-rate financial instruments	(7,255,322)	(5,333,140)
Variable-rate financial instruments	116,941	1,044,560
	(7,935,925)	**(5,449,638)**

31.6 – Management of the credit risks

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

- sales in the domestic markets of Argentina and Brazil are highly diversified to a large number of customers in different locations. At the same time, due to the nature of the products, sales operations are conducted on an ongoing basis, making it easier to track the status of the client. For larger customers, there is individual monitoring. In the fiscal years 2018 and 2017, no single customer sales represented more than 10% of total revenues of each year. Receivables from customers in receivership and in bankruptcy have been reclassified to other receivables and adequately provisioned.

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

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

31.7 – Management of liquidity risk

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

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

	2018	2017
Less than three months	4,285,197	4,144,713
Between three months and a year	338,167	653,249
Between one and five year	7,546,506	5,521,657
More than five years	4,188	3,275
	12,174,058	**10,322,894**

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

	2018	2017
Less than three months	3,778,258	4,257,097
Between three months and a year	247,170	431,564
Between one and five years	125,550	66,966
More than five years	154	2,717
	4,151,132	**4,758,344**

31.8 – Fair value measurements

31.8.1 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
	2018	2017		
Financial assets:				
Cash and cash equivalent:				
Investment funds	116,941	995,681	Level 1	Quoted bid prices in an active market.

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

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

	2018		2017	
	Book value	Fair value	Book value	Fair value
		(1)		(1)
Senior Notes due 2021	7,441,441	7,622,547	5,394,813	6,086,765

(1) Fair value hierarchy: Level 2.

32. SEGMENT INFORMATION

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

The accounting criteria used for the preparation of management financial information which has been used by the Board of Directors of the Company during 2018 and 2017 were based on the application of the accounting rules described in Notes 2 and 3., with the exception of IAS 29 referred to in Note 2.1, ie, with historical currency financial information.

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

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

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

Information	2018		
	Dairy	Other	Total
Revenue from external customers	27,235,242	944,691	28,179,933
Intersegment revenue	1,941	72,216	74,157
Cost of sales	17,939,676	838,380	18,778,056
Selling and administrative expenses	8,107,800	185,209	8,293,009
Investment income, finance cost and exchange differences (loss) gain	(3,583,632)	7,016	(3,576,616)
Other gains and losses	(7,922)	4,742	(3,180)
Income tax and alternative minimun income tax (loss) gain	475,533	(1,706)	473,827
Net (loss) income	(2,004,509)	7,426	(1,997,083)
Assets allocated to the business line	19,865,464	207,261	20,072,725
Liabilities allocated to the business line	13,386,892	168,778	13,555,670
Additions to property, plant & equipment and others	1,399,009	4,031	1,403,040
Depreciation of property, plant & equipment and others	604,849	1,977	606,826
Amortization of intangible assets	429		429
Depreciation of investment property	4		4
Depreciation of other assets	2,431		2,431
Income from domestic market	23,210,681	944,691	24,155,372

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
Cost of sales	13,959,516	659,528	14,619,044
Selling and administrative expenses	6,581,021	184,092	6,765,113
Investment income, finance cost and exchange differences (loss) gain	(733,177)	3,755	(729,422)
Other gains and losses	3,937	16,336	20,273
Income tax and alternative minimun income tax (loss) gain	(84,712)	(3,152)	(87.864)
Net (loss) income	(16,950)	(3,730)	(20,680)
Assets allocated to the business line	12,314,098	161,058	12,475,156
Liabilities allocated to the business line	7,589,098	136,975	7,726,073
Additions to property, plant & equipment and others	392,664	604	393,268
Depreciation of property, plant & 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
Income from domestic market	19,733,818	728,938	20,462,756

Reconciliation between segment-reported information and consolidated financial information is as follows:

Information	2018 – Dairy segment		
	Segment reported information	Adjustments	Total consolidated financial information A
Revenue from external customers	27,235,242	5,844,522	33,079,764
Intersegment revenue	1,941	2,329	4,270
Cost of sales	17,939,676	4,995,661	22,935,337
Selling and administrative expenses	8,107,800	1,730,800	9,838,600
Investment income, finance cost and exchange differences (loss) gain	(3,583,632)	1,140,058	(2,443,574)
Other gains and losses	(7,922)	26,419	18,497
Income tax and alternative minimun income tax (loss) gain	475,533	(119,010)	356,523
Net (loss) income	(2,004,509)	8,996	(1,995,513)
Assets allocated to the business line	19,865,464	1,134,946	21,000,410
Liabilities allocated to the business line	13,386,892	127,985	13,514,877
Additions to property, plant & equipment and others	1,399,009	215,850	1,614,859
Depreciation of property, plant & equipment and others	604,849	386,420	991,269
Amortization of intangible assets	429	1,842	2,271
Depreciation of investment property	4	45	49
Depreciation of other assets	2,431	1,797	4,228
Income from domestic market	23,210,681	5,117,502	28,328,183

Information	2018 – Other segment Segment reported information	Adjustments (1)	Consolidated financial information B	Total consolidated financial information A + B
Revenue from external customers	944,691	208,868	1,153,559	34,233,323
Intersegment revenue	72,216	17,713	89,929	94,199
Cost of sales	838,380	269,848	1,108,228	24,043,565
Selling and administrative expenses	185,209	41,884	227,093	10.065.693
Investment income, finance cost and exchange differences (loss) gain	7,016	(8,234)	(1,218)	(2,444,792)
Other gains and losses	4,742	(1,173)	3,569	22,066
Income tax and alternative minimun income tax (loss) gain	(1,706)	(3.640)	(5,346)	351,177
Net (loss) income	7,426	(7,429)	(3)	(1,995,516)
Assets allocated to the business line	207,261	157,295	364,556	21,364,966
Liabilities allocated to the business line	168,778	34,714	203,492	13,718,369
Additions to property, plant & equipment and others	4,031	625	4,656	1,619,515
Depreciation of property, plant & equipment and others	1,977	5,731	7,708	998,977
Amortization of intangible assets				2,271
Depreciation of investment property				49
Depreciation of other assets				4,228
Income from domestic market	944,691	208,868	1,153,559	29,481,742

Information	2017 – Dairy segment Segment reported information	Adjustments (1)	Total consolidated financial information A
Revenue from external customers	21,431,524	13,546,289	34,977,813
Intersegment revenue	2,875	1,791	4,666
Cost of sales	13,959,516	9,648,571	23,608,087
Selling and administrative expenses	6,581,021	4,167,124	10,748,145
Investment income, finance cost and exchange differences (loss) gain	(733,177)	378,067	(355,110)
Other gains and losses	3,937	(24,670)	(20,733)
Income tax and alternative minimun income tax (loss) gain	(84,712)	518,833	434,121
Net (loss) income	(16,950)	(809,544)	(826,494)
Assets allocated to the business line	12,314,098	6,671,329	18,985,427
Liabilities allocated to the business line	7,589,098	3,800,531	11,389,629
Additions to property, plant & equipment and others	392,664	241,149	633,813
Depreciation of property, plant & equipment and others	565,457	632,107	1,197,564
Amortization of intangible assets	429	1,842	2,271
Depreciation of investment property	104	454	558
Depreciation of other assets	478	5,066	5,544
Income from domestic market	19,733,818	12,473,259	32,207,077

Información	2017 – Others segment			Total consolidated financial information A + B
	Segment reported information	Adjustments (1)	Consolidated financial information B	
Revenue from external customers	728,938	447,642	1,176,580	36,154,393
Intersegment revenue	86,090	69,674	155,764	160,430
Cost of sales	659,528	423,263	1,082,791	24,690,878
Selling and administrative expenses	184,092	140,296	324,388	11,072,533
Investment income, finance cost and exchange differences (loss) gain	3,755	(2,993)	762	(354,348)
Other gains and losses	16,336	8,981	25,317	4,584
Income tax and alternative minimun income tax (loss) gain	(3,152)	10,493	7,341	441,462
Net (loss) income	(3,730)	(14,532)	(18,262)	(844,756)
Assets allocated to the business line	161,058	219,073	380,131	19,365,558
Liabilities allocated to the business line	136,975	97,117	234,092	11,623,721
Additions to property, plant & equipment and others	604	3,255	3,859	637,672
Depreciation of property, plant & equipment and others	7,128	24,214	31,342	1,228,906
Amortization of intangible assets				2,271
Depreciation of investment property				558
Depreciation of other assets				5,544
Income from domestic market	728,938	447,642	1,176,580	33,383,657

(1) It corresponds to the effect of the restatement of the financial information to reflect the effects of inflation by application of the methodology established by IAS 29. In addition, the information corresponding to the fiscal year ended on December 31, 2017, includes the restatement of the figures in order to reflect the effects of inflation as of December 2018 currency.

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

Year	Revenue			
	Domestic market	Exports		Total
		Brazil and Paraguay	Other countries	
2018	24,155,372	2,671,001	1,353,560	28,179,933
2017	20,462,756	1,527,837	169,869	22,160,462

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

In compliance with General Resolution N° 629 issued by the CNV, we hereby report that the Company's corporate books (namely, the Book of Minutes of Shareholders' Meetings, the Book of Minutes of Board of Directors' Meetings, the Share Deposit Book, the Book of Attendance to Shareholders' Meetings and the 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.

34. APPROVAL OF THESE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorized to be issued on March 7, 2019.

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 2.6 to the consolidated financial statements), which comprise the consolidated statement of financial position as of December 31, 2018 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 34.

Amounts and other disclosures for the fiscal year ended December 31, 2017, as restated to reflect the effects of inflation at the reporting date currency of December 2018 as explained in Note 2.1 to the accompanying consolidated financial statements, are included as an integral part of the above mentioned financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current year.

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

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

3. Auditors' responsibility

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

An audit involves performing procedures, substantially on a test basis, to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to errors or to irregularities. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's Board of Directors and Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

4. Opinion

In our opinion, the consolidated financial statements as of December 31, 2018, 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, 2018, 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.

5. Emphasis paragraph

Without modifying our opinion, we emphasize what is mentioned in Note 2.1 to the consolidated financial statements, which indicates that the amounts disclosed in such consolidated financial statements, as well as the comparative financial information corresponding to the previous fiscal year, have been retroactively restated in currency of December 2018 to reflect the effects of inflation.

English translation of the financial statements

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

General Rodriguez, Province of Buenos Aires, March 7, 2019.

Deloitte & Co. S.A.

ALBERTO LÓPEZ CARNABUCCI
Partner

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