



**FAGE INTERNATIONAL S.A.**

**QUARTERLY REPORT  
For the Three Months  
Ended March 31, 2015**

**May 15, 2015**

This report (the “Quarterly Report”) sets forth certain information regarding the financial condition and results of operations of FAGE International S.A. and its subsidiaries (the “FAGE Group”) for the fiscal quarter ended March 31, 2015. The Quarterly Report includes a review, in English, of the FAGE Group’s unaudited financial information and analysis for the first quarter as well as certain other information.

The following unaudited financial statements in the opinion of the management reflect all necessary adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the FAGE Group’s financial position, results of operations and cash flows for the periods presented.

For a description of accounting policies see Notes to the Consolidated Financial Statements in the FAGE Group’s 2014 Annual Report.

**Summary Analysis of Senior Notes Issued by FAGE INTERNATIONAL S.A. and FAGE USA DAIRY INDUSTRY, INC.**

On January 29, 2010, FAGE International S.A. (“Old FAGE Parent”) and FAGE USA Dairy Industry, Inc. (“FAGE USA”) issued \$150,000,000 principal amount of their 9% Senior Notes due 2020 (the “Original Senior Notes”) under an indenture, dated as of January 29, 2010, as amended and supplemented (the “Indenture”), by and among Old FAGE Parent and FAGE USA, as co-issuers, FAGE Luxembourg S.A. (formerly known as FAGE Luxembourg S.à r.l.), a wholly owned subsidiary of FAGE International (“FAGE Luxembourg”), and FAGE Dairy Industry S.A. (“FAGE Greece”), a wholly owned subsidiary of FAGE International, as guarantors, The Bank of New York Mellon, acting through its London Branch, as trustee, The Bank of New York Mellon, as U.S. registrar and paying agent, and the Bank of New York Mellon (Luxembourg) S.A., as Luxembourg registrar.

On December 17, 2012, Old FAGE Parent and FAGE USA completed the placement of an additional \$250,000,000 aggregate principal amount of their 9% Senior Notes due 2020 (the “Additional Senior Notes” and, together with the Original Senior Notes, the “Senior Notes”). The Additional Senior Notes comprise a single series with the Original Senior Notes for all purposes under the Indenture, which was further amended and supplemented to (i) add certain covenant provisions relating to the making of investments, asset disposals and other distributions to, engaging in affiliate transactions for the benefit of and providing credit support to FAGE Greece, (ii) add certain provisions to exclude FAGE Greece from triggering certain Events of Default (as defined therein), (iii) add customary terms relating to the prompt public disclosure of certain material events and (iv) make certain other amendments.

On September 30, 2014, Old FAGE Parent merged with and into FAGE Luxembourg. Simultaneously with the merger, FAGE Luxembourg (the surviving company in the merger) changed its name to FAGE International S.A. (“FAGE International”). In connection with the merger, FAGE International has expressly assumed all of the obligations of Old FAGE Parent and is now one of the primary obligors on the Senior Notes. References to FAGE International in this Quarterly Report shall mean FAGE International S.A., as the former parent company prior to the internal merger, and FAGE International S.A. (formerly known as FAGE Luxembourg S.A.), as the new parent company following the internal merger.

The Senior Notes have not been, nor will they be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Senior Notes were offered and sold only to “Qualified Institutional Buyers” (as defined in Rule 144A under the Securities Act) and pursuant to offers and sales occurring outside the United States within the meaning of Regulation S under the Securities Act. The Indenture is not required to be, nor will it be, qualified under the U.S. Trust Indenture Act of 1939, as amended.

A copy of the Indenture is available from FAGE International upon request. This Quarterly Report is being provided to Holders of the Senior Notes pursuant to Section 4.02 of the Indenture.

FAGE International is a corporation which is organized under the laws of the Grand Duchy of Luxembourg and was incorporated on September 25, 2012. Its registered office is located at 5 rue du Kiem, L-1857 Luxembourg, Grand Duchy of Luxembourg. FAGE International has a share capital of \$1,000,000 and is registered with the Luxembourg Register of Commerce and Companies under number B 171651. FAGE International’s website is [www.fage.eu](http://www.fage.eu). The reference to this website is an inactive textual reference only and none of the information contained on this website is incorporated into this Quarterly Report. References to the FAGE Group include, unless the context requires otherwise, FAGE International S.A. and its consolidated subsidiaries (FAGE Dairy Industry S.A., FAGE U.K. Limited, FAGE USA Holdings, Inc., FAGE USA, Corp., FAGE USA Dairy Industry, Inc., FAGE Italia S.r.l., FAGE Deutschland GmbH, FAGE Commercial S.A. (Xylouris), Zagas S.A., Agroktima Agios Ioannis S.A. and Iliator S.A.). The FAGE Group operates principally in the United States, the Hellenic Republic, also known as Greece, and, through its subsidiaries, elsewhere in Europe.

FAGE USA is a corporation which is organized under the laws of the State of New York and was incorporated on February 17, 2005. Its principal place of business is 1 Opportunity Drive, Johnstown Industrial Park, Johnstown, New York 12095, U.S.A. FAGE USA’s U.S. Employer Identification Number is 83-0419718. FAGE USA is wholly owned by FAGE USA Holdings, Inc., a New York corporation, which in turn is wholly owned by FAGE International.

FAGE Greece is a *société anonyme* which is organized under the laws of the Hellenic Republic and was incorporated on December 30, 1977. Its principal place of business is located at 35 Hermou Street, 144 52 Metamorfossi, Athens, Greece. FAGE Greece's Greek tax identification number is 094061540.

Following the issuance of the Additional Senior Notes, FAGE International redeemed, on January 16, 2013, all of the €101.5 million aggregate principal amount of its outstanding 7½% Senior Notes due 2015.

## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements. The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in the forward-looking statements made in this Quarterly Report. Any statements that are not statements of historical fact, including statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance, are forward-looking in nature. These forward-looking statements include statements regarding: our financial position; our expectations concerning future operations, strategy, margins, profitability, liquidity and capital resources; other plans and objectives for future operations; and all other statements that are not historical facts. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "believe," "is anticipated," "estimated," "intends," "expects," "plans," "seek," "projection," "future," "objective," "probable," "target," "goal," "potential," "outlook" and similar expressions. These statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that these statements are based on reasonable assumptions, they are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. It is also possible that any or all of the events described in forward-looking statements may not occur.

Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Quarterly Report. Among the key factors that may have a direct bearing on our results of operations are:

- risks associated with our high leverage and debt service obligations;
- the impact of restrictive debt covenants on our operating flexibility;
- uncertainties associated with general economic and political conditions in Greece, across Europe and in the United States;
- factors affecting our ability to compete in a competitive market;
- consumer demand for our products and loyalty to our brands;
- prices of raw materials that we use in our products;
- currency exchange rates and their effects on our financial condition, business and results of operations;
- the impact of present or future government regulations affecting our operations in the countries where we operate;
- uncertainties associated with our ability to implement our business strategy, including our expansion in the United States; and
- any event that could have a material adverse effect on our brands or reputation, such as product contamination or protracted quality control difficulties.

Because the risk factors referred to in this Quarterly Report could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Quarterly Report by us or on our behalf, you should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to

reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for us to predict which factors they will be. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements.

In addition, this Quarterly Report contains certain information concerning the Greek, EU and U.S. markets for dairy products that is forward-looking in nature and is based on a variety of assumptions regarding the ways and trends in which these markets will develop in the future. In certain cases, these assumptions have been derived from independent market research referred to in this Quarterly Report. Some market information is also based on our good faith estimates or derived from our review of internal surveys and statistics and our own knowledge of market conditions. If any of the assumptions regarding the dairy markets in which we operate are incorrect, actual market results could be different from those predicted. Although we do not know what impact any such differences may have on our business, our future results of operations and financial condition could be materially and adversely affected. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Investors are urged to review carefully and consider the various disclosures made in this Quarterly Report that attempt to advise them of the factors affecting our business.

## DEFINITIONS

The following terms used in this Quarterly Report have the meanings assigned to them below:

“2015 Senior Notes” .....	The 7½% Senior Notes due 2015 issued by FAGE International (as successor to FAGE Greece).
“Additional Senior Notes” ...	The \$250,000,000 principal amount of 9⅞% Senior Notes due 2020 issued by FAGE International and FAGE USA on December 17, 2012 pursuant to the Indenture.
“Euro”, “euro”, “EUR” or “€” .....	Euro, the currency of the European Union member states participating in the European Monetary Union.
“FAGE International” .....	FAGE International S.A., one of the Issuers of the Senior Notes.
“FAGE Greece” .....	FAGE Dairy Industry S.A., the Guarantor of the Senior Notes.
the “FAGE Group”, the “Group”, “we”, “us” and “our” .....	FAGE International S.A., one of the issuers of the Senior Notes and its consolidated subsidiaries (including any of their predecessors) described collectively as a corporate group except where the context requires otherwise.
“FAGE USA” .....	FAGE USA Dairy Industry, Inc., one of the issuers of the Senior Notes.
“Guarantor” .....	FAGE Greece.
“IFRS” .....	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.
“Indenture” .....	The indenture governing the Senior Notes.
“Original Senior Notes” .....	The \$150,000,000 principal amount of 9⅞% Senior Notes due 2020 issued by FAGE International (as successor to FAGE Greece) and FAGE USA on January 29, 2010 pursuant to the Indenture.
“pounds”, “GBP” or “£” .....	Pounds sterling, the currency of the United Kingdom.
“Senior Notes” .....	The Original Senior Notes and the Additional Senior Notes.
“U.S. dollar”, “USD”, “\$” or “U.S.\$” .....	United States dollar, the currency of the United States of America.
“U.S. GAAP” .....	Accounting principles generally accepted in the United States of America.

## **PRESENTATION OF FINANCIAL AND OTHER DATA**

### **Internal Restructuring**

On October 1, 2012, the FAGE Group completed an internal restructuring designed to enhance the efficiency of its corporate structure and to better reflect the increasingly international nature of our business. As a result of the restructuring, FAGE International S.A. (“Old FAGE Parent”), which was incorporated on September 25, 2012 in Luxembourg and was beneficially owned and controlled by Messrs. Ioannis and Kyriakos Filippou, became the parent company for all of our subsidiaries. Our operations in Greece are conducted through our Greek subsidiary, FAGE Greece (our former parent company). Until September 30, 2014, our operations outside of Greece were conducted through our Luxembourg subsidiary, FAGE Luxembourg.

In connection with the restructuring, Old FAGE Parent became one of the two primary obligors (together with FAGE USA) of the Senior Notes. FAGE Greece, our principal Greek subsidiary, and FAGE Luxembourg entered into guarantees by which they fully and unconditionally guaranteed the obligations under the Senior Notes.

On September 30, 2014, Old FAGE Parent merged with and into FAGE Luxembourg. Simultaneously with the merger, FAGE Luxembourg (the surviving company in the merger) changed its name to FAGE International S.A. (“FAGE International”). In connection with the merger, FAGE International has expressly assumed all of the obligations of Old FAGE Parent and is now one of the primary obligors on the Senior Notes.

### **FAGE USA**

FAGE USA, one of the issuers of the Senior Notes, is an indirect, wholly owned subsidiary of FAGE International, the other issuer. FAGE USA is a corporation incorporated in the State of New York that engages in the production and distribution of dairy products. This Quarterly Report does not include separate financial statements for FAGE USA. The financial information of FAGE USA is fully consolidated into our consolidated financial statements, which are included elsewhere in this Quarterly Report.

### **Financial Information**

Unless otherwise indicated, financial information in this Quarterly Report has been presented on a consolidated basis. For periods prior to the restructuring, the consolidated financial statements of the FAGE Group reflect the consolidation of FAGE Dairy Industry S.A. (our former parent company) and its subsidiaries. Beginning with the restructuring on October 1, 2012, the consolidated financial statements of the FAGE Group reflect the consolidation of FAGE International S.A. (both before and after the September 30, 2014 internal merger) and its subsidiaries. The effects of the restructuring on our consolidated financial statements were mainly related to (i) additional operating expenses for FAGE International, (ii) the tax liability for FAGE International and FAGE Luxembourg, (iii) the effect on our consolidated equity of share capital paid in the FAGE Group and certain reclassifications within equity to reflect the new legal structure and (iv) the recognition of a deferred tax asset relating to an increase in the tax basis of our intellectual property that was recognized in connection with the restructuring.

The consolidated financial information for the FAGE Group has been presented as of and for the three months ended March 31, 2015 and 2014, and presents the consolidated net assets, financial position and results of operations of the FAGE Group during the periods presented. The consolidated financial statements of the FAGE Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed by the European Union. You should read the consolidated financial statements of the FAGE Group included at the end of this Quarterly Report, including the notes thereto (collectively, the “Consolidated Financial Statements”), together with “Management's Discussion and Analysis of Financial Condition and Results of Operations”. Some financial information in this Quarterly Report has been rounded and, as a result, the numerical figures shown as totals in this Quarterly Report may vary slightly from the exact arithmetic aggregation of the figures that precede them.

The FAGE Group adopted the U.S. dollar as its reporting currency effective October 1, 2012 and FAGE International S.A. adopted the U.S. dollar as its reporting and functional currency effective October 1, 2012. Solely for your convenience, this Quarterly Report contains translations of certain euro amounts into U.S. dollars at specified rates. These U.S. dollar amounts do not represent actual U.S. dollar amounts, nor could such euro amounts necessarily have been converted into U.S. dollars at the rates indicated. Unless otherwise indicated, euro amounts

have been translated into U.S. dollars at the rate of U.S. \$1.0759 per euro, which was the equivalent rate of the euro as reported by the European Central Bank in its foreign exchange rates report as at March 31, 2015.

If you are in the United States or otherwise familiar with U.S. GAAP but not familiar with IFRS, you should consult your own professional advisors for an understanding of the differences between IFRS and U.S. GAAP and how those differences could affect the financial information contained in this Quarterly Report.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in the financial statements.

The Consolidated Financial Statements have been prepared as of and for the three months ended March 31, 2015 and 2014, and are presented in U.S. dollars rounded to the nearest thousand. The Consolidated Financial Statements have been prepared under the historical cost convention except for available-for-sale financial assets, derivative financial instruments and land, which are measured at fair value.

The accounting policies set out in the notes to the Consolidated Financial Statements have been consistently applied to all periods presented except for changes arising through amendments or revisions to IFRS and the issuance of new accounting pronouncements. The amendments and revisions to IFRS as well as the new accounting pronouncements did not have a material effect on the Consolidated Financial Statements.

### **Industry Data**

This Quarterly Report contains information concerning the U.S. market for yogurt, the Greek dairy market and the dairy markets of certain other countries in which we conduct business. We operate in an industry in which it is difficult to obtain precise industry and market information. We have obtained the market and competitive position data in this Quarterly Report from industry publications and from surveys or studies conducted by third parties that we believe to be reliable, including research information produced by Euromonitor International for the U.S. market, AC Nielsen Retail Measurement Services, a division of The Nielsen Company (“Nielsen”), for the Greek and U.K. markets and Information Resources International (“IRI”) for the Italian market. We cannot assure you of the accuracy and completeness of such information, and we have not independently verified the market and competitive position data contained in this Quarterly Report. In addition, in many cases, statements in this Quarterly Report regarding the dairy industry and our competitive position in the dairy industry are based on our experience and our own investigation of market conditions. There can be no assurance that any of these assumptions are accurate or correctly reflect our competitive position in the industry, and none of these internal surveys or information have been verified by independent sources, which may have estimates or opinions regarding industry-related information which differ from ours.

### **ENFORCEABILITY OF CIVIL LIABILITIES**

FAGE International is organized under the laws of Luxembourg and FAGE Greece is organized under the laws of Greece. Certain of the executive officers and directors of the Issuers and the Guarantor and certain experts named herein presently reside outside of the United States, principally in Greece. In addition, a significant portion of our assets are located in Greece. As a result, it will be necessary for investors to comply with Luxembourg or Greek law in order to obtain an enforceable judgment against any such foreign resident persons or assets of such entities, including an order to foreclose upon such assets. Although we have agreed under the terms of the Indenture pursuant to which the Senior Notes were issued to accept service of process in the United States by an agent designated for such purpose, it may not be possible for investors to (i) effect service of process within the United States upon our officers, directors and certain experts named herein and (ii) realize in the United States upon judgments against such persons obtained in such courts predicated upon civil liabilities of such persons, including any judgments predicated upon U.S. federal securities laws, to the extent such judgments exceed such person’s U.S. assets.

We have been advised by Loyens & Loeff, our Luxembourg counsel, that although there is no treaty between Luxembourg and the United States regarding the reciprocal enforcement of judgments, a valid, final and conclusive judgment against FAGE International obtained from a state or federal court of the United States, which judgment remains in full force and effect, may be enforced through a court of competent jurisdiction in Luxembourg, subject to compliance with the following enforcement procedures of Article 678 *et seq.* of the Luxembourg New Code of Civil Procedure:

- the foreign court must properly have had jurisdiction to hear and determine the matter, both according to its own laws and to the Luxembourg international private law conflict of jurisdiction rules;
- the foreign court must have applied the law which is designated by the Luxembourg conflict of laws rules or, at least, the order must not contravene the principles underlying those rules (although some first instance decisions rendered in Luxembourg—which have not been confirmed by the Luxembourg Court of Appeal—no longer apply this condition);
- the decision of the foreign court must be enforceable in the jurisdiction in which it was rendered;
- the foreign court has acted in accordance with its own procedural laws;
- the judgment was obtained in compliance with the rights of the defendant (*i.e.*, following proceedings where the defendant had the opportunity to appear, was granted the necessary time to prepare its case and, if it appeared, could present a defense);
- the decision of the foreign court must not have been obtained by fraud; and
- the decisions and the considerations of the foreign court must not be contrary to Luxembourg international public policy rules or have been given in proceedings of a tax, penal or criminal nature (which would include awards of damages made under civil liabilities provisions of the U.S. federal securities laws, or other laws, to the extent that the same would be classified by Luxembourg courts as being of a penal or punitive nature (for example, fines or punitive damages)) or rendered subsequent to an evasion of Luxembourg law (*fraude à la loi*). Ordinarily an award of monetary damages would not be considered as a penalty, but if the monetary damages include punitive damages such punitive damages may be considered as a penalty.

If an original action is brought in Luxembourg, without prejudice to specific conflict of law rules, Luxembourg courts may refuse to apply the designated law (i) if the choice of such foreign law was not made bona fide or (ii) if the foreign law was not pleaded and proved or (iii) if pleaded and proved, such foreign law was contrary to mandatory Luxembourg laws or incompatible with Luxembourg public policy rules. In an action brought in Luxembourg on the basis of U.S. federal or state securities laws, Luxembourg courts may not have the requisite power to grant the remedies sought.

We have been advised by G.S. Kostakopoulos & Associates, Greek counsel to the FAGE Group, that, although there is no treaty between Greece and the United States regarding the reciprocal enforcement of judgments, a valid, final and conclusive judgment for a definite amount (both in respect of principal and interest) against FAGE Greece and/or its officers and directors from a state or federal court of the United States, which judgment remains in full force and effect, may be enforced without a further review on the merits through a court of competent jurisdiction in Greece, subject to compliance with the following enforcement procedures of Articles 323 and 905 of the Greek Code of Civil Procedure:

- the judgment is also enforceable under the laws of the jurisdiction concerned;
- the judgment is not contrary to mandatory provisions of Greek law, the principles of *bonos mores* or public order and international public policy and the U.S. court has not applied laws held by Greek courts to be of a tax, penal, criminal or punitive nature. On this last point there is no precedent under Greek law; however, there is precedent with lower courts that have refused to declare enforceable in Greece U.S. judgments awarding punitive damages, in circumstances other than under U.S. securities laws, and have reduced the amount of damages enforceable in Greece to a figure deemed in the opinion of the Greek court to be compensatory;
- the judgment was issued by a competent court of the jurisdiction concerned, both according to Greek and U.S. law, and was confirmed by a competent Greek court, pursuant to the general principles of the Greek Code of Civil Procedure;
- it was established that the unsuccessful litigant in the proceedings leading to the judgment had not been deprived of its rights to participate in such proceedings other than by the application of the procedural rules of the jurisdiction concerned that apply to nationals and non-nationals of that jurisdiction; and



- the judgment is not contrary to a previous judgment issued by a competent Greek court involving the same dispute and constituting *res judicata*.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations for the FAGE Group

The following table sets forth, for the periods indicated, certain items in the FAGE Group's consolidated statements of income expressed as percentages of sales:

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Sales .....	100.0%	100.0%
Cost of sales .....	(51.9)	(62.2)
Gross profit .....	48.1	37.8
Selling, general and administrative expenses .....	(30.8)	(28.2)
Other income .....	-	-
Other expenses .....	(0.1)	(0.6)
Profit from operations .....	17.2	9.0
Financial income/(expenses), net .....	(7.1)	(6.0)
Impairment loss .....	-	-
Foreign exchange (losses)/gains, net .....	0.5	-
Profit before income taxes .....	10.6	3.0
Income tax expense .....	(4.1)	(1.2)
Net profit .....	<u>6.5%</u>	<u>1.8%</u>

#### *Three months ended March 31, 2015 compared to three months ended March 31, 2014*

*Sales.* Our sales in value for the three months ended March 31, 2015 amounted to \$155.2 million, a decrease of \$6.0 million, or 3.7%, compared to sales in value of \$161.2 million for the three months ended March 31, 2014.

This decrease is mainly due to the negative impact of 7.7% on sales in value from the weakening of the euro and the British pound against the U.S. dollar (the respective exchange rates for the first quarters of 2015 and 2014 were €1=\$1.1101 and €1=\$1.3706 and £1=\$1.5095 and £1=\$1.6607, respectively).

This decrease was partially offset by:

- first, the increase in volume by 1.2% comparing the first quarters of 2015 and 2014; and
- second, the fact that the price increases in 2014 were mainly effected in April 2014.

Our sales outside of Greece accounted for 83.3% of our total sales in value the three months ended March 31, 2015, as compared to 77.1% for the three months ended March 31, 2014.

Our sales in volume for the three months ended March 31, 2015 increased by 1.2% as compared to the three months ended March 31, 2014. This resulted from increases in sales in volume in Italy and the United Kingdom by 33.5% and 35.6%, respectively, which were offset by a decrease of 9.7% in sales in volume in Greece. The main reasons for the decrease in our sales in the Greek market were the sustained economic crisis in Greece and its impact on consumer demand, as well as our reduction of sales to less creditworthy clients in an attempt to reduce our credit exposure. The latter has had a negative impact on sales volume, but it also has diminished our risk of bad debt losses in light of the significant liquidity problems experienced by Greek retailers. The sales in volume in the United States in the first quarter of 2015 remained at the same level as in the respective period of 2014.

*Gross profit.* Gross profit for the three months ended March 31, 2015 was \$74.6 million, an increase of \$13.7 million, or 22.5%, from \$60.9 million for the three months ended March 31, 2014. Gross profit as a percentage of sales for the three months ended March 31, 2015 was 48.1%, compared to 37.8% for the three months ended March 31, 2014. The main reasons for this increase were:

- first, the positive impact of 7.2% on the cost of goods sold from the weakening of the euro and the British pound; and

- second, the decrease in the prices of milk used both in the U.S. facility and the Greek facilities by 34.4% and 20.5%, respectively, comparing the three months ended March 31, 2015 and 2014.

*Selling, general and administrative expenses.* Selling, general and administrative expenses (“SG&A”) for the three months ended March 31, 2015 were \$47.8 million, an increase of \$2.3 million, or 5.1%, from \$45.5 million for the three months ended March 31, 2014. As a percentage of sales, selling, general and administrative expenses were 30.8% for the three months ended March 31, 2015 and 28.2% for the three months ended March 31, 2014. This increase was mainly due to the increase in advertising costs as a percentage of sales.

*Other income/(expenses), net.* Net other expenses for the three months ended March 31, 2015 amounted to \$(0.1) million. Net other expenses for the three months ended March 31, 2014 amounted to \$(0.9) million.

*Profit from operations.* Profit from operations for the three months ended March 31, 2015 was \$26.7 million, an increase of \$12.3 million, or 85.4%, as compared to profit from operations of \$14.4 million for the three months ended March 31, 2014. As a percentage of sales, profit from operations was 17.2% for the three months ended March 31, 2015 as compared to 9.0% for the three months ended March 31, 2014. This is mainly due to the increase in gross profit as a percentage of sales, which was partially offset by the increase in selling, general and administrative expenses.

*Financial income/(expenses), net.* Net financial expenses increased by \$1.3 million from \$9.7 million for the three months ended March 31, 2014 to \$11.0 million for the three months ended March 31, 2015. This increase was mainly due to the fact that for the three months ended March 31, 2015 there was no capitalization of interest expenses as compared to the capitalization of \$0.8 million of interest expenses for the three months ended March 31, 2014.

Financial income/(expenses), net as a percentage of sales was 7.1% for the three months ended March 31, 2015 and 6.0% for the three months ended March 31, 2014.

*Impairment loss.* Impairment loss for the three months ended March 31, 2015 was \$0.1 million. This loss related to the impairment recognized on available for sale financial assets. There was no impairment loss for the three months ended March 31, 2014.

*Foreign exchange (losses)/gains, net.* Net foreign exchange gains for the three months ended March 31, 2015 were \$0.7 million compared to net foreign exchange gains for the three months ended March 31, 2014 of \$0.1 million.

*Profit before income taxes.* Profit before income taxes for the three months ended March 31, 2015 was \$16.4 million, compared to a profit before income taxes of \$4.8 million for the three months ended March 31, 2014. The main reason for this improvement was the increase in profit from operations.

*Income tax expense.* Income tax expense for the three months ended March 31, 2015 was \$6.3 million compared to \$1.9 million for the three months ended March 31, 2014. This is mainly due to the increase in profit before income taxes.

*Net profit.* Net profit for the three months ended March 31, 2015 was \$10.2 million, as compared to net profit of \$2.9 million for the comparable period of 2014.

## Liquidity and Capital Resources

Our principal sources of liquidity are existing cash balances, cash flow from operations and available amounts under our various lines of credit maintained with several banks. Our principal liquidity needs are debt service (primarily interest on the Senior Notes), shareholder payments, capital expenditures and working capital. We believe that our available capital resources will be sufficient to fund our liquidity needs.

*Sources of capital.* We fund our operating costs through cash from operations and short-term borrowings under various lines of credit. The available credit lines for the FAGE Group as of March 31, 2015 amounted to \$41.5 million, of which \$35.0 million is provided by Citibank, N.A. in the United States and secured by accounts receivable and certain inventory of FAGE USA Dairy Industry, Inc. and \$6.5 million is provided by a revolving credit line with Alpha Bank in Greece. Out of the available credit lines as of March 31, 2015, the unused portion amounted to \$35.0 million (see Note 23). The available credit lines for the Group as of December 31, 2014 amounted to \$42.3 million.

Cash at banks and cash equivalents as of March 31, 2015 amounted to \$51.8 million compared to \$56.1 million on December 31, 2014 (See Note 16).

We believe that this amount of our cash at banks and cash equivalents (\$51.8 million), together with the lines of credit, is sufficient to finance both the operations and the investment program of the FAGE Group.

### *Cash flow data.*

	Three months ended	
	March 31,	
	2015	2014
(\$ thousands)		
Cash flow from/(used in) operating activities .....	34,693	14,151
Cash flow from/(used in) investing activities.....	(9,870)	(29,351)
Cash flow from/(used in) financing activities .....	(20,080)	(19,067)
Effect of exchange rates changes on cash .....	(8,980)	(26)
Cash and cash equivalents at beginning of period .....	56,086	93,022
Cash and cash equivalents at period-end.....	<u>51,849</u>	<u>58,729</u>

*Cash flow from/(used in) operating activities.* Net cash from operating activities for the three months ended March 31, 2015 was \$34.7 million, compared to net cash from operating activities of \$14.2 million for the three months ended March 31, 2014. The improvement in net cash from operating activities for the three months ended March 31, 2015 was positively affected by:

- first, the operating profit before working capital changes, which amounted to \$35.2 million compared to \$21.5 million for the three months ended March 31, 2014. The main reason for this improvement was the increase in net profit before income taxes, from profit before income taxes of \$4.8 million in the first quarter of 2014 to profit before income taxes of \$16.4 million in the first quarter of 2015; and
- second, the improvement in working capital changes, which increased from \$(6.6) million for the three months ended March 31, 2014 to \$(0.5) million for the three months ended March 31, 2015.

*Cash flow from/(used in) investing activities.* Net cash used in investing activities amounted to \$9.9 million and \$29.4 million for the three months ended March 31, 2015 and 2014, respectively. Out of the capital expenditures of \$9.7 million in the first three months of 2015, an amount of \$2.2 million related to capital expenditures (primarily maintenance) for the facilities in Greece and \$7.5 million related to capital expenditures for the expansion of the U.S. facility.

*Cash flow from/(used in) financing activities.* Net cash used in financing activities for the three months ended March 31, 2015 was \$20.1 million. This resulted from \$20.1 million of interest paid. Net cash used in financing activities for the three months ended March 31, 2014 was \$19.1 million, which reflects interest paid.

## Other Financial Data

EBITDA (net profit/(loss) plus income tax (expense)/benefit, financial income/(expenses), net and depreciation and amortization) for the three months ended March 31, 2015 amounted to \$34.8 million, as compared to \$21.0 million for the three months ended March 31, 2014. The reconciliation of net profit to EBITDA is as follows:

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	(\$ thousands)	
Net profit .....	10,153	2,889
Income tax expense .....	6,260	1,885
Financial (income)/expenses, net	10,946	9,723
Depreciation and amortization	7,422	6,528
EBITDA .....	<u>34,781</u>	<u>21,025</u>

EBITDA serves as an additional indicator of our operating performance and not as a replacement for measures such as cash flows from operating activities and operating income. We believe that EBITDA is useful to investors as a measure of operating performance because it eliminates variances caused by the amounts and types of capital employed and amortization policies and helps investors evaluate the performance of our underlying business. In addition, we believe that EBITDA is a measure commonly used by analysts and investors in our industry. Accordingly, we have disclosed this information to permit a more complete analysis of our operating performance. Other companies may calculate EBITDA in a different way. EBITDA is not a measurement of financial performance under IFRS and should not be considered an alternative to cash flow provided by or used in operating activities or as a measure of liquidity or an alternative to net profit/(loss) as an indicator of our operating performance or any other measure of performance derived in accordance with IFRS.

The net debt (short-term borrowings plus long-term interest-bearing loans and borrowings less cash and cash equivalents) of the Group as of March 31, 2015 amounted to \$336.4 million, as compared to \$332.2 million as of December 31, 2014.

#### **Principal Risks and Uncertainties for the Remaining Nine Months of 2015**

Risk assessment and evaluation is an integral part of the management process throughout the FAGE Group. Risks are identified and evaluated and appropriate risk management strategies are implemented at each level. The key business risks are identified by the senior management team. The Board of Directors in conjunction with senior management identifies major business risks faced by the Group and determines the appropriate course of action to manage these risks.

The principal risks and uncertainties faced by the FAGE Group are summarized below:

- first, we are exposed to aggressive competition in the domestic Greek market;
- second, we are exposed to currency exchange rate fluctuations, particularly in relation to the Euro(€) and the U.K. sterling (£);
- third, price fluctuations in raw materials could adversely affect the Group's manufacturing costs; and
- fourth, the current economic crisis could continue to adversely affect consumer spending for the Group's products, particularly in Greece, Italy, the United Kingdom and the United States.

The Board of Directors regularly monitors all of the above risks and appropriate actions are taken to mitigate those risks or address the potential adverse consequences.

## Related party transactions

The FAGE Group purchases goods and services from and makes sales of goods to certain related companies in the ordinary course of business. Such related companies consist of affiliates or companies which are controlled by members of the Filippou family.

Account balances with related companies are as follows:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Due from:		
- Ioannis Nikolou ULP	723	648
- Evga S.A.	2,488	2,783
- Iofil S.A.	321	-
- G.S. Kostakopoulos & Associates	2	-
	<u>3,534</u>	<u>3,431</u>
Due to:		
- Iofil S.A.	-	1,396
- Mornos S.A.	2,150	2,936
- Vis S.A.	529	766
- Agan S.A.	548	727
- Alpha Phi S.à r.l.	351	345
- Theta Phi S.à r.l.	351	345
	<u>3,929</u>	<u>6,515</u>

Transactions with related companies for the three months ended March 31, 2015 and 2014, are analyzed as follows:

	<u>Purchases from</u> <u>related parties</u>		<u>Sales to</u> <u>related parties</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Inventories, materials and supplies	8,937	8,908	493	652
Advertising and media	813	1,169	-	-
Other services	1,881	2,159	-	-
	<u>11,631</u>	<u>12,236</u>	<u>493</u>	<u>652</u>

**FAGE INTERNATIONAL S.A.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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FAGE INTERNATIONAL S.A.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE THREE MONTHS ENDED MARCH 31, 2015

(All amounts in thousands of U.S. dollars, except share and per share data)

(UNAUDITED)

	Notes	Three months ended March 31,	
		2015	2014
Sales		155,152	161,231
Cost of sales		(80,522)	(100,326)
<b>Gross profit</b>		<b>74,630</b>	<b>60,905</b>
Selling, general and administrative expenses	5	(47,821)	(45,529)
Other income		42	23
Other expenses		(152)	(955)
<b>PROFIT FROM OPERATIONS</b>		<b>26,699</b>	<b>14,444</b>
Financial expenses	6	(10,955)	(9,820)
Financial income	6	9	97
Impairment loss	9	(74)	-
Foreign exchange gains/(losses), net		734	53
<b>PROFIT BEFORE INCOME TAXES</b>		<b>16,413</b>	<b>4,774</b>
Income tax expense	7	(6,260)	(1,885)
<b>NET PROFIT</b>		<b>10,153</b>	<b>2,889</b>
Attributable to:			
Equity holders of the parent		10,153	2,889
		<b>10,153</b>	<b>2,889</b>
<b>Earnings per share</b>			
Basic and diluted		10.15	2.89
<b>Weighted average number of shares, basic and diluted</b>		<b>1,000,000</b>	<b>1,000,000</b>

The accompanying notes are an integral part of these financial statements.



**FAGE INTERNATIONAL S.A.**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS  
FOR THE THREE MONTHS ENDED MARCH 31, 2015  
(All amounts in thousands of U.S. dollars)**

(UNAUDITED)

		<b>Three months ended March 31,</b>	
	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Net profit for the period</b>		<b>10,153</b>	<b>2,889</b>
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange losses on translation of foreign operations		(21,304)	(31)
Net unrealized losses on available for sale financial assets		(47)	(107)
Deferred income taxes on unrealized losses on available for sale financial assets		12	28
	9	(35)	(79)
<b>Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b>		<b>(21,339)</b>	<b>(110)</b>
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Net actuarial gains/(losses)		34	(15)
Deferred income taxes on net actuarial gains/(losses)		(9)	4
		25	(11)
<b>Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>25</b>	<b>(11)</b>
<b>Other comprehensive income/(loss) for the period, net of deferred income taxes</b>		<b>(21,314)</b>	<b>(121)</b>
<b>Total comprehensive income/(loss) for the period, net of deferred income taxes</b>		<b>(11,161)</b>	<b>2,768</b>
Attributable to:			
Equity holders of the parent		<b>(11,161)</b>	<b>2,768</b>
		<b>(11,161)</b>	<b>2,768</b>

The accompanying notes are an integral part of these financial statements.

**FAGE INTERNATIONAL S.A.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT MARCH 31, 2015**

(All amounts in thousands of U.S. dollars)

(UNAUDITED)

	Notes	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment		413,916	425,647
Intangible assets		3,382	3,527
Goodwill	8	5,379	5,966
Available for sale financial assets	9	95	107
Other non-current assets	10	811	917
Deferred income taxes		73,745	74,792
<b>Total non-current assets</b>		<b><u>497,328</u></b>	<b><u>510,956</u></b>
<b>Current Assets:</b>			
Inventories	11	41,332	43,349
Trade and other receivables	12	83,316	85,528
Due from related companies	13	3,534	3,431
Prepaid income taxes		66	4,233
Available for sale financial assets	9	343	515
Cash and cash equivalents	14	51,849	56,086
<b>Total current assets</b>		<b><u>180,440</u></b>	<b><u>193,142</u></b>
<b>TOTAL ASSETS</b>		<b><u>677,768</u></b>	<b><u>704,098</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent Company</b>			
Share capital		1,000	1,000
Share premium		50,778	50,778
Other reserves		459	459
Land revaluation surplus		37,912	37,912
Reversal of fixed assets statutory revaluation surplus		(44,410)	(44,410)
Retained earnings		100,655	90,502
Legal, tax free and special reserves		46,334	46,334
Other components of equity		(34,277)	(12,963)
<b>Total Equity</b>		<b><u>158,451</u></b>	<b><u>169,612</u></b>
<b>Non-Current Liabilities</b>			
Interest-bearing loans and borrowings	15	381,802	381,047
Provision for staff retirement indemnities		3,963	4,508
Deferred income taxes		46,205	46,433
<b>Total non-current liabilities</b>		<b><u>431,970</u></b>	<b><u>431,988</u></b>
<b>Current Liabilities:</b>			
Trade accounts payable	16	43,098	55,889
Due to related companies	13	3,929	6,515
Short-term borrowings	17	6,455	7,285
Income taxes payable		528	544
Accrued and other current liabilities	18	33,337	32,265
<b>Total current liabilities</b>		<b><u>87,347</u></b>	<b><u>102,498</u></b>
<b>Total liabilities</b>		<b><u>519,317</u></b>	<b><u>534,486</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>677,768</u></b>	<b><u>704,098</u></b>

The accompanying notes are an integral part of these financial statements.

**FAGE INTERNATIONAL S.A.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2015**  
(All amounts in thousands of U.S. dollars)

(UNAUDITED)

	Share capital	Share premium	Land revaluation surplus	Reversal of Fixed Assets Statutory Revaluation Surplus	Legal, tax free and special reserves	Other reserves	Retained earnings/ (losses)	Unrealized gains/(losses) on available for sale financial assets	Actuarial gains/ (losses)	Foreign exchange gains/ (losses)	Total equity
<b>Balance December 31, 2014</b>	<u>1,000</u>	<u>50,778</u>	<u>37,912</u>	<u>(44,410)</u>	<u>46,334</u>	<u>459</u>	<u>90,502</u>	<u>35</u>	<u>(606)</u>	<u>(12,392)</u>	<u>169,612</u>
Profit for the period	-	-	-	-	-	-	10,153	-	-	-	10,153
Other comprehensive income/(loss)	-	-	-	-	-	-	-	(35)	25	(21,304)	(21,314)
<b>Total comprehensive income/(loss)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>(21,304)</u>	<u>(11,161)</u>
<b>Balance, March 31, 2015</b>	<u>1,000</u>	<u>50,778</u>	<u>37,912</u>	<u>(44,410)</u>	<u>46,334</u>	<u>459</u>	<u>100,655</u>	<u>-</u>	<u>(581)</u>	<u>(33,696)</u>	<u>158,451</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014**  
(All amounts in thousands of U.S. dollars)

(UNAUDITED)

	Share capital	Share premium	Land revaluation surplus	Reversal of Fixed Assets Statutory Revaluation Surplus	Legal, tax free and special reserves	Other reserves	Retained earnings/ (losses)	Unrealized gains/(losses) on available for sale financial assets	Actuarial gains/ (losses)	Foreign exchange gains/ (losses)	Total	Non-controlling interests	Total equity
<b>Balance December 31, 2013</b>	<u>50</u>	<u>51,728</u>	<u>42,948</u>	<u>(44,410)</u>	<u>46,334</u>	<u>459</u>	<u>90,404</u>	<u>119</u>	<u>(724)</u>	<u>13,367</u>	<u>200,275</u>	<u>1</u>	<u>200,276</u>
Profit for the period	-	-	-	-	-	-	2,889	-	-	-	2,889	-	2,889
Other comprehensive income/(loss)	-	-	-	-	-	-	-	(79)	(11)	(31)	(121)	-	(121)
<b>Total comprehensive income/(loss)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,889</u>	<u>(79)</u>	<u>(11)</u>	<u>(31)</u>	<u>2,768</u>	<u>-</u>	<u>2,768</u>
<b>Balance, March 31, 2014</b>	<u>50</u>	<u>51,728</u>	<u>42,948</u>	<u>(44,410)</u>	<u>46,334</u>	<u>459</u>	<u>93,293</u>	<u>40</u>	<u>(735)</u>	<u>13,336</u>	<u>203,043</u>	<u>1</u>	<u>203,044</u>

The accompanying notes are an integral part of these financial statements.

**FAGE INTERNATIONAL S.A.**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2015  
(All amounts in thousands of U.S. dollars)  
(UNAUDITED)**

	Notes	March 31,	
		2015	2014
<b>Operating activities</b>			
Profit before income taxes		16,413	4,774
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	4	7,422	6,528
Provision for staff retirement indemnities		4	16
Provision for doubtful accounts receivable	12	336	410
Financial income	6	(9)	(97)
Financial expenses	6	10,948	9,820
(Gain)/loss on disposal of property, plant and equipment		(24)	2
Interest on financial leasing		7	-
Loss from valuation of non-current assets on fair value		45	-
Impairment loss on available for sale financial assets		74	-
<b>Operating profit before working capital changes</b>		<b>35,216</b>	<b>21,453</b>
<b>(Increase)/Decrease in:</b>			
Inventories	11	2,017	(3,170)
Trade and other receivables	12	1,876	(13,646)
Due from related companies	13	(103)	(402)
<b>Increase/(Decrease) in:</b>			
Trade accounts payable	16	(12,791)	5,386
Due to related companies	13	(2,586)	(2,819)
Accrued and other current liabilities	18	11,046	8,028
<b>Working capital changes</b>		<b>(541)</b>	<b>(6,623)</b>
Income taxes paid		(40)	(590)
Payment of staff indemnities		(4)	(5)
(Increase)/decrease in other non-current assets	10	62	(84)
<b>Net Cash from Operating Activities</b>		<b>34,693</b>	<b>14,151</b>
<b>Investing Activities:</b>			
Capital expenditure for property, plant and equipment		(9,739)	(29,396)
Additions to intangible assets		(164)	(52)
Proceeds from disposal of property, plant and equipment		24	-
Interest and other related income received	6	9	97
<b>Net Cash used in Investing Activities</b>		<b>(9,870)</b>	<b>(29,351)</b>
<b>Financing Activities:</b>			
Interest paid		(20,080)	(19,067)
<b>Net Cash used in Financing Activities</b>		<b>(20,080)</b>	<b>(19,067)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4,743</b>	<b>(34,267)</b>
<b>Effect of exchange rates changes on cash</b>		<b>(8,980)</b>	<b>(26)</b>
<b>Cash and cash equivalents at beginning of period</b>	14	<b>56,086</b>	<b>93,022</b>
<b>Cash and cash equivalents at March 31</b>	14	<b>51,849</b>	<b>58,729</b>

The accompanying notes are an integral part of these financial statements.

**FAGE INTERNATIONAL S.A. AND SUBSIDIARIES**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2015**

(Amounts in all tables and notes are presented in thousands of U.S. dollars unless otherwise stated)

**1. CORPORATE INFORMATION:**

FAGE International S.A. (“FAGE International”) is a corporation organized under the laws of the Grand Duchy of Luxembourg on September 25, 2012. Its registered office is located at 5 rue du Kiem, L-1857 Luxembourg, Grand Duchy of Luxembourg. FAGE International has a share capital of \$1,000 and is registered with the Luxembourg Register of Commerce and Companies under number B 171645.

References to the Group include, unless the context requires otherwise, FAGE International and its consolidated subsidiaries (FAGE USA Holdings, Inc., FAGE USA, Corp., FAGE USA Dairy Industry, Inc., FAGE U.K. Limited, FAGE Italia S.r.l, FAGE Deutschland GmbH, FAGE Dairy Industry S.A., FAGE Commercial S.A. (Xylouris), Zagas S.A., Agroktima Agios Ioannis S.A. and Iliator S.A.). FAGE International operates principally in the United States, the Hellenic Republic, also known as Greece and, through its subsidiaries, elsewhere in Europe.

On October 1, 2012, the Group completed an internal restructuring designed to enhance the efficiency of its corporate structure and to better reflect the increasingly international nature of its business.

As a result of the restructuring, FAGE International S.A. (“Old FAGE Parent”) became the parent company for all of the Group’s subsidiaries. Management has concluded that, as the beneficial owners of the Group remained the same, the Group with Old FAGE Parent as the parent was a continuation of the Group which had FAGE Dairy Industry S.A. as its parent. Since October 1, 2012, the Group’s operations in Greece are conducted through the Greek subsidiary, FAGE Dairy Industry S.A. (the former parent company). Until September 30, 2014, the Group’s operations outside of Greece were conducted through a Luxembourg subsidiary, FAGE Luxembourg S.A. (f/k/a FAGE Luxembourg S.à r.l.) (“FAGE Luxembourg”).

On September 30, 2014, Old FAGE Parent merged with and into FAGE Luxembourg. Simultaneously with the merger, FAGE Luxembourg (the surviving company in the merger) changed its name to FAGE International S.A.

The Group's total number of employees as of March 31, 2015 and 2014, was approximately 1,023 and 986, respectively.

**2. BASIS OF PRESENTATION:**

(a) **Basis of Preparation of Financial Statements:** The accompanying interim condensed consolidated financial statements have been prepared under the historical cost convention, except for the valuation of available for sale financial assets and derivative financial instruments and land, which have been measured at fair value, and they comply with International Financial Reporting Standards (IFRS). The carrying values of recognized assets and liabilities that are hedged items in fair value hedges that would otherwise be carried at cost are adjusted to record changes in the fair values attributable to the risks that are being hedged. These Interim Condensed Consolidated Financial Statements have been prepared by management in accordance with IAS 34 (Interim Financial Reporting). The Interim Condensed Consolidated Financial Statements do not include all the information and disclosure required in the Annual Consolidated Financial Statements and should be read in conjunction with the Group’s Annual Consolidated Financial Statements as of December 31, 2013. The interim condensed consolidated financial statements are presented in thousands of U.S. dollars, except when otherwise indicated.

(b) **Significant Accounting Policies:** The interim condensed consolidated financial statements have been prepared using accounting policies consistent with those adopted for the preparation of the Group’s Annual Consolidated Financial Statements as of December 31, 2013 and which are comprehensively presented in the notes of the annual financial statements, except for the adoption of the following new and amended IFRS and IFRIC interpretations which became effective for the accounting periods beginning January 1, 2014 and which did not have any impact on the financial position or performance of the Group:

(c) **Use of Estimates:** The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may ultimately differ from those estimates.

**Standards issued but not yet effective or early adopted**

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

**FAGE INTERNATIONAL S.A. AND SUBSIDIARIES**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2015**

(Amounts in all tables and notes are presented in thousands of U.S. dollars unless otherwise stated)

- **IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**  
The amendment is effective for annual periods beginning on or after January 1, 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendment has not yet been endorsed by the EU. The Group does not expect that the amendment will have an impact on its financial position or results of operations.
- **IAS 19 Employee Benefits (Amended): Employee Contributions**  
The amendment is effective for annual periods beginning on or after February 1, 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not expect that the amendment will have an impact on its financial position or results of operations.
- **IFRS 9 Financial Instruments: Classification and Measurement**  
The standard is applied for annual periods beginning on or after January 1, 2018, with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard has not yet been endorsed by the EU. The Group does not expect that the amendment will have an impact on its financial position or results of operations.
- **IFRS 11 Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**  
The amendment is effective for annual periods beginning on or after January 1, 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The amendment has not yet been endorsed by the EU. The Group does not expect that the amendment will have an impact on its financial position or results of operations.
- **IFRS 14 Regulatory Deferral Accounts**  
The standard is effective for annual periods beginning on or after January 1, 2016. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive rate-regulated activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. This standard has not yet been endorsed by the EU. The Group does not expect that the standard will have an impact on its financial position or results of operations.
- **IFRS 15 Revenue from Contracts with Customers**  
The standard is effective for annual periods beginning on or after January 1, 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The standard has not been yet endorsed by the EU. The Group does not expect that the amendment will have an impact on its financial position or results of operations.
- **IAS 27 Separate Financial Statements (Amended)**  
The amendment is effective from January 1, 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing

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compliance costs without reducing the information available to investors. This amendment has not yet been endorsed by the EU. The Group does not expect that the amendment will have an impact on its financial position or results of operations.

- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective for annual periods commencing on or after January 1, 2016. The amendments have not yet been endorsed by the EU. The Group does not expect that the amendments will have an impact on its financial position or results of operations.

- The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after February 1, 2015. The Group does not expect that the amendments will have an impact on its financial position or results of operations.

- **IFRS 2 Share-based Payment:** This improvement amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition” (which were previously part of the definition of “vesting condition”).
- **IFRS 3 Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- **IFRS 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- **IFRS 13 Fair Value Measurement:** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- **IAS 16 Property, Plant and Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- **IAS 24 Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- **IAS 38 Intangible Assets:** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- The **IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle**, which is a collection of amendments to IFRSs. The amendments were endorsed on December 17, 2014 and are effective for annual periods beginning on or after January 1, 2015. The Group does not expect that the amendments will have an impact on its financial position or results of operations.

- **IFRS 3 Business Combinations:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13 Fair Value Measurement:** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- **IAS 40 Investment Properties:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

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- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments were endorsed on December 18, 2014 and are effective for annual periods beginning on or after January 1, 2016. These annual improvements have not yet been endorsed by the EU. The Group does not expect that the amendments will have an impact on its financial position or results of operations.
  - **IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - **IFRS 7 Financial Instruments: Disclosures:** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
  - **IAS 19 Employee Benefits:** The amendment clarifies that market depth of high-quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high-quality corporate bonds in that currency, government bond rates must be used.
  - **IAS 34 Interim Financial Reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The IASB specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.
- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after January 1, 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to *IAS 28 Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments have not yet been endorsed by the EU. The Group does not expect that the amendments will have an impact on its financial position or results of operations.
- **IAS 1: Disclosure Initiative (Amendment)**

The amendments to *IAS 1 Presentation of Financial Statements* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. These amendments have not yet been endorsed by the EU. The Group does not expect that the amendment will have an impact on its financial position or results of operations.

### **3. PAYROLL COST:**

Payroll cost in the accompanying interim condensed consolidated financial statements is analyzed as follows:



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	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Wages and salaries	10,306	10,954
Social security costs	1,525	1,992
Provision for staff retirement indemnities	4	16
Other staff costs	1,452	1,410
<b>Total payroll</b>	<b>13,287</b>	<b>14,372</b>
Less: amounts charged to cost of production	(7,121)	(7,877)
amounts capitalized to tangible and intangible assets	(377)	(171)
<b>Payroll expensed (Note 5)</b>	<b>5,789</b>	<b>6,324</b>

Amounts paid to directors and executive officers included in payroll are described in Note 5.

**4. DEPRECIATION AND AMORTIZATION:**

Depreciation and amortization in the accompanying interim condensed consolidated financial statements is analyzed as follows:

	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Depreciation of property, plant and equipment	7,275	6,369
Amortization of intangible assets	150	159
<b>Total depreciation and amortization</b>	<b>7,425</b>	<b>6,528</b>
Less: amounts charged to cost of production	(5,892)	(4,975)
<b>Depreciation and amortization expensed (Note 5)</b>	<b>1,533</b>	<b>1,553</b>

**5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:**

Selling, general and administrative expenses in the accompanying consolidated financial statements are analyzed as follows:

	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Shipping and handling costs	12,599	13,262
Advertising costs	18,562	14,021
Third party fees	6,662	6,703
Payroll (Note 3)	5,789	6,324
Depreciation and amortization (Note 4)	1,533	1,553
Repairs and maintenance	294	485
Travelling and entertainment	308	364
Allowance for doubtful accounts	336	410
Other	1,738	2,407
<b>Total</b>	<b>47,821</b>	<b>45,529</b>

Compensation paid to directors and executive officers for the three months ended March 31, 2015 and 2014, included in payroll and third party fees, amounted to \$2,419 and \$2,698, respectively. Of these amounts, \$1,870 and \$2,090 have been paid to members of the Filippou family in the three months ended March 31, 2015 and 2014, respectively.

**6. FINANCIAL INCOME/(EXPENSE):**

Financial income/(expense) in the accompanying consolidated financial statements is analyzed as follows

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	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Financial expenses on loans and borrowings	(10,631)	(10,513)
Interest on short-term borrowings	(248)	(121)
Other	(76)	(33)
	<u>(10,955)</u>	<u>(10,667)</u>
Less: amounts capitalized in property, plant and equipment	-	847
<b>Total financial expenses</b>	<b>(10,955)</b>	<b>(9,820)</b>
Interest earned on cash at banks and on time deposits	6	19
Other financial income	3	78
<b>Total financial income</b>	<b>9</b>	<b>97</b>
<b>Total financial income/(expense), net</b>	<b>(10,946)</b>	<b>(9,723)</b>

**7. INCOME TAXES:**

In accordance with Luxembourg tax regulations, the corporate tax rate applied by companies for fiscal years 2015 and 2014 was 29.2%.

Income tax expense reflected in the accompanying consolidated statements of profit or loss is analyzed as follows:

	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Income taxes:		
Current income tax expense	4,191	1,716
Deferred income tax expense	2,069	169
<b>Total income tax reported in the statements of income</b>	<b>6,260</b>	<b>1,885</b>

**8. CONSOLIDATED SUBSIDIARIES AND GOODWILL**

**CONSOLIDATED SUBSIDIARIES**

On October 1, 2012, the Group completed an internal restructuring designed to enhance the efficiency of the Group's corporate structure and to better reflect the increasingly international nature of the Group's business.

As part of the restructuring, in September 2012, FAGE Dairy Industry S.A. formed a new Luxembourg subsidiary, FAGE Luxembourg. The latter entity became the holder of all non-Greek subsidiaries and intellectual property of the FAGE Group, after they were transferred by FAGE Dairy Industry S.A. to this entity upon its incorporation through a contribution in kind on September 25, 2012.

In September 2012, Old FAGE Parent became the owner of all of the shares of FAGE Dairy Industry S.A.

On October 1, 2012, FAGE Dairy Industry S.A. transferred all of the shares of FAGE Luxembourg to Old FAGE Parent, while the latter through a substitution agreement assumed the obligations of FAGE Dairy Industry S.A. with respect to the Senior Notes due 2015 and 2020 with an exchange of promissory notes issued by FAGE Dairy Industry S.A. of an equal nominal amount.

As a result of the restructuring, Old FAGE Parent, a Luxembourg corporation which was incorporated on September 25, 2012 and was beneficially owned and controlled by Messrs. Ioannis and Kyriakos Filippou, became the parent company for all of the Group's subsidiaries. Management concluded that, as the beneficial owners of the Group remained the same, the Group of Old FAGE Parent was a continuation of the FAGE Dairy Industry S.A. Group. Since October 1, 2012, the Group's operations in Greece are conducted through the Greek subsidiary, FAGE Dairy Industry S.A. (the former parent company). Until September 30, 2014, the Group's operations outside of Greece were conducted through a Luxembourg subsidiary, FAGE Luxembourg.

In connection with the restructuring, on October 1, 2012, Old FAGE Parent became the primary obligor of the 2015 Senior Notes and one of the two primary obligors (together with FAGE USA Dairy Industry, Inc.) of the 2020 Senior Notes. FAGE Dairy Industry S.A., the principal Greek subsidiary and FAGE Luxembourg, the principal subsidiary for the non-Greek operations, entered into new guarantees by which they have fully and unconditionally guaranteed the obligations under the Senior Notes.

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On September 30, 2014, Old FAGE Parent merged with and into FAGE Luxembourg. Simultaneously with the merger, FAGE Luxembourg (the surviving company in the merger) changed its name to FAGE International S.A. ("FAGE International"). In connection with the merger, FAGE International has expressly assumed all of the obligations of Old FAGE Parent and is now one of the primary obligors on the Senior Notes.

The consolidated financial statements as at March 31, 2015 and December 31, 2014, include the financial statements of FAGE International S.A. and its subsidiaries listed below:

	<b>Equity interest</b>		<b>Country of incorporation</b>	
	<b>March 31, 2015</b>	<b>December 31, 2014</b>		
FAGE USA Holdings, Inc. (subgroup analyzed below)	100.0%	100.0%	USA	Holding company of FAGE USA Dairy Industry, Inc., and FAGE USA, Corp.
FAGE Dairy Industry S.A. (subgroup analyzed below)	100.0%	100.0%	Greece	Greek operating subsidiary with its primary activity being the operation of the Group's Greek production facilities and distribution of its products mainly in Europe.
FAGE Italia S.r.l.	100.0%	100.0%	Italy	Distribution network covering Italy
FAGE U.K. Limited	100.0%	100.0%	United Kingdom	Distribution network covering the United Kingdom
FAGE Deutschland GmbH	100.0%	100.0%	Germany	Distribution network covering Germany

**FAGE USA Holdings, Inc. subgroup has the following subsidiaries:**

	<b>Equity interest</b>		<b>Country of incorporation</b>	
	<b>March 31, 2015</b>	<b>December 31, 2014</b>		
FAGE USA Dairy Industry, Inc.	100.0%	100.0%	USA	U.S. operating subsidiary with its primary activity being the operation of the Group's U.S. yogurt production facility and the distribution of its products in the U.S.
FAGE USA, Corp.	100.0%	100.0%	USA	U.S. operating subsidiary with its primary activity being the provision of sales and marketing services to FAGE USA Dairy Industry, Inc.

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**FAGE Dairy Industry S.A. subgroup has the following subsidiaries:**

	<u>Equity interest</u>		<u>Country of incorporation</u>	
	<u>March 31, 2015</u>	<u>December 31, 2014</u>		
FAGE Commercial S.A. (Xylouris) <sup>(1)</sup>	-	100.0%	Greece	Commercial
Zagas S.A.	100.0%	100.0%	Greece	Cheese producer— non-operating

<sup>(1)</sup> FAGE Commercial S.A. (Xylouris) was liquidated in January 2015.

**GOODWILL**

The carrying value of goodwill reflected in the accompanying consolidated statements of financial position is analyzed as follows:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Foods Hellas S.A. (FAGE Dairy Industry S.A.)	1,394	1,573
Voras S.A. (FAGE Dairy Industry S.A.)	2,283	2,576
FAGE Italia S.r.l.	306	345
FAGE U.K. Limited	1,396	1,472
Total	<u>5,379</u>	<u>5,966</u>

**9. AVAILABLE FOR SALE FINANCIAL ASSETS:**

Available for sale financial assets are analyzed as follows:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
<b>Shares—listed and unlisted:</b>		
Vis S.A. (listed)	175	326
Elbisco Holdings S.A. ( <b>delisted in 2012</b> )	168	189
<b>Total Available for Sale Financial Assets in Current Assets</b>	<u>343</u>	<u>515</u>
<b>Shares—unlisted:</b>		
Packing Hellas Development S.A.	95	107
<b>Total Available for Sale Financial Assets in Non-Current Assets</b>	<u>95</u>	<u>107</u>

Available for sale financial assets consist of investments in ordinary and preferred shares and, therefore, have no fixed maturity date or coupon rate.

In 2012, Elbisco Holdings S.A. shares were delisted from the Athens Stock Exchange.

The above-mentioned investments have been classified as available for sale and are carried at their fair value with the difference in the fair values reflected in other comprehensive income/(loss) unless a significant or prolonged decline exists, in which case it is included in the consolidated statement of profit or loss.

For the three months ended March 31, 2014, losses of \$79 net of deferred income taxes were recognized and reported in equity. For the three months ended March 31, 2015, losses of \$35 net of deferred income taxes were recognized and reported in equity while losses of \$74 were recognized and reported in the statement of income, as it was determined that the related investments had been impaired.

**10. OTHER NON-CURRENT ASSETS:**

Other non-current assets are analyzed as follows:

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	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Utility deposits	323	364
Other	488	553
	<u>811</u>	<u>917</u>

**11. INVENTORIES:**

Inventories are analyzed as follows:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Merchandise	2,846	2,911
Finished and semi-finished products	15,622	15,502
Raw materials and supplies	22,923	25,122
Less provision for slow-moving inventory	(59)	(186)
	<u>41,332</u>	<u>43,349</u>

**12. TRADE AND OTHER RECEIVABLES:**

Trade and other receivables are analyzed as follows:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<b>Trade:</b>		
—In U.S. dollars	32,444	26,902
—In foreign currencies	37,643	38,523
	<u>70,087</u>	<u>65,425</u>
—Less: allowance for doubtful accounts	(2,579)	(2,609)
	<u>67,508</u>	<u>62,816</u>
<b>Other:</b>		
—Value added tax	6,968	11,977
—Prepaid taxes, other than income taxes	-	4
—Prepaid expenses	3,540	4,219
—Advances to suppliers	7,219	8,330
—Various debtors	4,222	5,615
	<u>21,849</u>	<u>30,145</u>
—Less: allowance for doubtful accounts	(6,041)	(7,433)
	<u>15,808</u>	<u>22,712</u>
	<u>83,316</u>	<u>85,528</u>

The consolidated income statements for the three months ended March 31, 2015 and 2014, reflect a charge of \$336 and \$410, respectively, for additional allowance for doubtful accounts.

There was no write-off of accounts receivable during the three months ended March 31, 2015 and 2014.

It is the Group's policy to attach liens against the property of most of its delinquent customers. Due to the prolonged and complex legal procedures in Greece, it is not unusual for the collection process to take three to five years before a case is finalized.

**13. RELATED PARTIES:**

The Group purchases goods and services from and makes sales of goods to certain related companies in the ordinary course of business. Such related companies consist of affiliates or companies which have common ownership and/or management with the Group.

Account balances with related companies are as follows:

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	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Due from:		
- Ioannis Nikolou ULP	723	648
- Evga S.A.	2,488	2,783
- Iofil S.A.	321	-
- G. S. Kostakopoulos & Associates	2	-
	<u>3,534</u>	<u>3,431</u>
Due to:		
- Iofil S.A.	-	1,396
- Mornos S.A.	2,150	2,936
- Vis S.A.	529	766
- Agan S.A.	548	727
- Alpha Phi S.à r.l.	351	345
- Theta Phi S.à r.l.	351	345
	<u>3,929</u>	<u>6,515</u>

Transactions with related companies for the three months ended March 31, 2015 and 2014, are analyzed as follows:

	<u>Purchases from</u> <u>related parties</u>		<u>Sales to</u> <u>related parties</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Inventories, materials and supplies	8,937	8,908	493	652
Advertising and media	813	1,169	-	-
Other services	1,881	2,159	-	-
	<u>11,631</u>	<u>12,236</u>	<u>493</u>	<u>652</u>

Purchases of inventories, materials and supplies from related parties represent approximately 12% and 9% of the Group's total purchases for the three months ended March 31, 2015 and 2014, respectively.

Advertising, media buying and other services from related parties represent approximately 13% and 21% of the Group's total respective costs for the three months ended March 31, 2015 and 2014, respectively.

**14. CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents are analyzed as follows:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Cash in hand	104	66
Cash at banks	51,745	56,020
	<u>51,849</u>	<u>56,086</u>

Cash at banks earns interest at floating rates based on monthly bank deposit rates. Interest earned on cash at banks and time deposits is accounted for on an accrual basis and amounted to \$6 and \$19 for the three months ended March 31, 2015 and 2014, respectively, and is included in financial income in the accompanying consolidated statements of profit or loss (Note 6).

Cash and cash equivalents for the Group at March 31, 2015 consists of \$12,089 denominated in foreign currencies and \$39,760 in U.S. dollars (\$28,969 and \$27,117, respectively, at December 31, 2014).

**15. INTEREST BEARING LOANS AND BORROWINGS:**

Interest bearing loans and borrowings are analyzed as follows:

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	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Senior Notes due 2020	400,000	400,000
Total long-term debt	400,000	400,000
Less: Unamortized issuance costs	(18,198)	(18,953)
	<u><b>381,802</b></u>	<u><b>381,047</b></u>

**Senior Notes due 2020:**

In January 2010, the Group completed the issuance of debt securities (2020 Senior Notes) at an aggregate face amount of \$150 million with maturity date on February 1, 2020. The net proceeds of the 2020 Senior Notes, after issuance costs, of approximately \$132.9 million were used to (i) redeem \$26.4 million of the 2015 Senior Notes and \$60.7 million of other long-term debt and (ii) the balance for capital expenditures and other general corporate purposes.

In December 2012, the Group completed the issuance of additional debt securities (2020 Senior Notes) at an aggregate face amount of \$250 million with maturity date on February 1, 2020. The net proceeds of these 2020 Senior Notes (after issuance premium and issuance costs) of approximately \$239.5 million were used to (i) redeem \$138.9 million of the 2015 Senior Notes and the coupon accrued to that date, (ii) repay \$22.6 million of short-term borrowings and (iii) the balance for capital expenditures and other general corporate purposes.

The 2020 Senior Notes bear nominal interest at a rate of 9.875% per annum (effective rate 10.75% per annum), payable semi-annually on each February 1 and August 1 commencing on August 1, 2010. The 2020 Senior Notes are redeemable in whole or in part, at the option of the Group, at any time on or after February 1, 2015.

The indebtedness evidenced by the 2020 Senior Notes constitutes a general unsecured senior obligation of FAGE International S.A. and ranks *pari passu* in right of payment with all other senior indebtedness and will rank senior in right of payment to all subordinated indebtedness of FAGE International S.A.

The 2020 Senior Notes Indenture contains certain covenants that, among other things, limit the type and amount of additional indebtedness that may be incurred by FAGE International S.A. and its subsidiaries and imposes certain limitations on investments, loans and advances, sales or transfers of assets, liens, dividends and other payments, the ability of FAGE International S.A. and its subsidiaries to enter into sale-leaseback transactions, certain transactions with affiliates and certain mergers. The Group was in compliance with the terms of the Indenture as of December 31, 2014 and March 31, 2015.

Finance expenses on the Group's interest-bearing loans and borrowings for the three months ended March 31, 2015 and 2014, amounted to \$10,631 and \$10,513, respectively, and are included in financial expenses in the accompanying consolidated statements of profit or loss (Note 6).

The annual principal payments required to be made on all loans subsequent to March 31, 2015 and 2014, are as follows:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
1-5 years	400,000	-
Over 5 years	-	400,000
	<u><b>400,000</b></u>	<u><b>400,000</b></u>

**16. TRADE ACCOUNTS PAYABLE:**

Trade accounts payable are analyzed as follows:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Suppliers in U.S. dollars	25,509	33,269
Suppliers in other currencies	17,589	22,620
	<u><b>43,098</b></u>	<u><b>55,889</b></u>

**17. SHORT-TERM BORROWINGS:**

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Short-term borrowings are draw-downs under various lines of credit maintained by the Group with several banks. The use of these facilities is presented below:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Credit lines available	41,455	42,285
Unused credit lines	(35,000)	(35,000)
<b>Short-term borrowings</b>	<b><u>6,455</u></b>	<b><u>7,285</u></b>

**18. ACCRUED AND OTHER CURRENT LIABILITIES:**

The amount reflected in the accompanying consolidated statements of financial position is analyzed as follows:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<b>Taxes withheld:</b>		
Payroll	434	766
Third parties	11	16
Milk producers	16	11
Other	464	519
	<u>925</u>	<u>1,312</u>
 Advances from customers	 <b>468</b>	 <b>1,397</b>
 Accrued interest	 6,522	 16,496
Social security funds payable	885	1,525
Accrued and other liabilities	24,537	11,535
	<u>31,944</u>	<u>29,556</u>
<b>Total</b>	<b><u>33,337</u></b>	<b><u>32,265</u></b>

**19. SEGMENT INFORMATION:**

The Group produces dairy products and operates primarily in the United States, Greece and other European countries. Due to the nature of the products and the manner in which they are marketed to customers, the business is operated and managed as one business segment distinguished between the European operations and the U.S. operations. Accordingly, no operating results by individual or group of products are produced and neither are the Group's assets and liabilities analyzed by various product groups. Intra-segment balances and transactions have been eliminated on consolidation.

Segment information for the three months ended March 31, 2015 and 2014, is analyzed as follows:

	<u>Three months ended March 31, 2015</u>			
	<u>European operations</u>	<u>U.S. operations</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Revenues</b>				
Net sales to external customers	54,488	100,664	-	155,152
Inter-segment sales	28,789	-	(28,789)	-
Segment revenues	<u>83,277</u>	<u>100,664</u>	<u>(28,789)</u>	<u>155,152</u>
 <b>Results</b>				
Profit/(loss) before income taxes	4,932	11,481	-	16,413
Segment result net profit/(loss)	<u>2,719</u>	<u>7,434</u>	<u>-</u>	<u>10,153</u>
 <b>Other segment information:</b>				
Capital expenditures:				
Tangible and intangible fixed assets	2,400	7,503	-	9,903
Depreciation and amortization	<u>2,670</u>	<u>4,752</u>	<u>-</u>	<u>7,422</u>
 Financial expenses	 5,528	 5,505	 (78)	 10,955
Income tax expense	<u>2,214</u>	<u>4,046</u>	<u>-</u>	<u>6,260</u>



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	<b>Three months ended March 31, 2014</b>			
	<b>European operations</b>	<b>U.S. operations</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenues</b>				
Net sales to external customers	61,419	99,812	-	161,231
Inter-segment sales	28,636	-	(28,636)	-
Segment revenues	<u>90,055</u>	<u>99,812</u>	<u>(28,636)</u>	<u>161,231</u>
<b>Results</b>				
Profit/(loss) before income taxes	1,135	3,639	-	4,774
Segment result net profit/(loss)	<u>(81)</u>	<u>2,970</u>	<u>-</u>	<u>2,889</u>
<b>Other segment information:</b>				
Capital expenditures:				
Tangible and intangible fixed assets	605	28,843	-	29,448
Depreciation and amortization	<u>3,406</u>	<u>3,122</u>	<u>-</u>	<u>6,528</u>
Financial expenses	5,238	4,582	-	9,820
Income tax expense	<u>1,216</u>	<u>669</u>	<u>-</u>	<u>1,885</u>

The following table presents segment assets and liabilities of the Group as at March 31, 2015 and December 31, 2014.

<b>March 31, 2015</b>	<b>European operations</b>	<b>U.S. operations</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Segment assets</b>	<u>365,070</u>	<u>394,508</u>	<u>(81,810)</u>	<u>677,768</u>
<b>Segment liabilities</b>	<u>296,098</u>	<u>305,029</u>	<u>(81,810)</u>	<u>519,317</u>
<b>December 31, 2014</b>	<b>European operations</b>	<b>U.S. operations</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Segment assets</b>	<u>381,682</u>	<u>379,749</u>	<u>(57,333)</u>	<u>704,098</u>
<b>Segment liabilities</b>	<u>297,252</u>	<u>294,567</u>	<u>(57,333)</u>	<u>534,486</u>

**20. CONTINGENCIES AND COMMITMENTS:**

**(a) Litigation and claims:**

- (i) From time to time, lawsuits have been filed against FAGE Dairy Industry S.A. by milk producers claiming damages and loss of income due to alleged violations of the rules of Greek anti-trust law relating to the Company's case with the Hellenic Competition Commission, which was irrevocably closed in 2013. There are currently two of these lawsuits pending against FAGE Dairy Industry S.A. before Greek Courts of First Instance, which the Company believes are entirely without merit. The claims of the foregoing plaintiffs so far have been rejected.
- (ii) The Group is involved in various other legal proceedings incidental to the conduct of its business. Management does not believe that the outcome of any of these other legal proceedings will have a material adverse effect on the Group's financial condition or results of operations. The Group maintains product liability insurance that it believes is adequate at the present time in light of the Group's prior experience.

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**(b) Commitments:**

**(i) Operating Lease Commitments:**

As of March 31, 2015 and 2014, the Group has entered into a number of operating lease agreements relating to the rental of buildings and transportation equipment, most of which expire on various dates through 2020.

Rental expense included in the accompanying consolidated statements of income for the three months ended March 31, 2015 and 2014, amounted to \$711 and \$902, respectively.

Future undiscounted minimum rentals payable under non-cancelable operating leases as at March 31, 2015 and December 2014, are as follows:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Within one year	910	1,110
1-5 years	2,722	2,935
Over 5 years	574	696
Total	<u>4,206</u>	<u>4,741</u>

**(ii) Finance Lease Commitments:**

As of March 31, 2015, the Group has entered into finance leases covering packaging machinery at its facility in Amyntaio, Greece. Future undiscounted minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	<u>March 31,</u> <u>2015</u>		<u>December 31,</u> <u>2014</u>	
	<u>Minimum</u> <u>payments</u>	<u>Present value</u> <u>of payments</u>	<u>Minimum</u> <u>payments</u>	<u>Present value</u> <u>of payments</u>
Within one year	109	86	123	95
1-5 years	401	382	473	456
Total minimum lease payments	510	468	596	551
Less amounts representing finance charges	(42)	-	(45)	-
Present value of minimum lease payments	<u>468</u>	<u>468</u>	<u>551</u>	<u>551</u>

**(iii) Letters of Guarantee:**

At March 31, 2015 and December 31, 2014, the Group had outstanding bank letters of guarantee in favor of various parties amounting to \$714 and \$781, respectively. Such guarantees have been provided for the good execution of agreements and for participation in the related biddings.

**(iv) Investment in USA:**

To meet increasing demand in the U.S. market, the Group is engaged in expanding its production and warehouse capacity. The Group has signed agreements with various suppliers and contractors related to this expansion. Future minimum amounts payable under these agreements as at March 31, 2015 amounted to \$11,336, all of which is due within one year. Of the total future amounts payable, \$10,896 is denominated in Euro.