



FAGE INTERNATIONAL S.A.

**ANNUAL REPORT
For the Year
Ended December 31, 2015**

March 24, 2016

This report (the “Annual Report”) includes the consolidated financial statements and other information of FAGE INTERNATIONAL S.A. and its subsidiaries (the “FAGE Group”) as of and for the year ended December 31, 2015.

This Annual Report is being provided to Holders of the Senior Notes pursuant to the requirements of the Indenture governing such Senior Notes.

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SECTION A

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 9½% 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 9½% 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 Annual 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 Annual 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 des Primeurs, L-2361 Strassen, 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 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 Annual 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.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Annual 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 Annual 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 Annual 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.

These and other factors are discussed in “Risk Factors” and elsewhere in this Annual Report.

Because the risk factors referred to in this Annual Report could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Annual 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 Annual 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 Annual 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 Annual Report that attempt to advise them of the factors affecting our business.

DEFINITIONS

The following terms used in this Annual 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 9½% 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 9½% 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 Annual 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 Annual Report.

Financial Information

Unless otherwise indicated, financial information in this Annual 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 years ended December 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 Annual Report, including the notes thereto (collectively, the “Consolidated Financial Statements”), together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations and “Selected Consolidated Financial Information”. Some financial information in this Annual Report has been rounded and, as a result, the numerical figures shown as totals in this Annual 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 Annual 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. \$1.0887 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 December 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 Annual 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 years ended December 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 Annual 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 Annual Report from industry publications and from surveys or studies conducted by third parties that we believe to be reliable, including research information produced by AC Nielsen Retail Measurement Services, a division of The Nielsen Company (“Nielsen”), for the U.S., 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 Annual Report. In addition, in many cases, statements in this Annual 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*.

SECTION B

RISK FACTORS

You should carefully consider the risks described below in addition to the other information set forth in this Annual Report.

Risks Relating to Our Business

We operate in a competitive industry, and competitive pressures could have a material adverse effect on our business.

We compete in highly competitive markets with companies of varying sizes. Numerous brands and products compete for shelf space and sales, with competition based primarily on brand recognition, price, product, quality, taste, variety and convenience. A number of these competitors, including multinational dairy companies, have broader product lines and substantially greater financial and other resources than we have. These competitors may succeed in developing new or enhanced products that are more attractive to consumers than our products. These competitors may also prove to be more successful in marketing and selling their products. From time to time, our competitors may be able to devote greater financial and other resources to advertising and other competitive activities and may, in addition, sell products below cost in an attempt to gain market share from us. There can be no assurance that we will be able to maintain our market shares and margins, including our leading positions in the U.S. and Greek dairy industries, or otherwise compete successfully with these other companies. These and other competitive pressures could cause our products to lose market share or result in significant price erosion, which could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that we will continue to compete successfully with such other companies.

Our business depends on our positive brand image and our reputation for high-quality products. If product recalls or other events threaten our brand image or the reputation of our products, our business and financial results could suffer.

We rely heavily on our positive brand image and our reputation as a quality producer of dairy products. Any event that could have an adverse impact on our brands or reputation, such as product contamination or protracted, actual or perceived, quality control difficulties, could have a material adverse effect on our business or results of operations. We use several ingredients in manufacturing our products, which increases the risk of contamination, either accidental or malicious. While we believe that these incidents, should they occur, would generally be localized, any contamination could be expensive to remedy, cause delays in manufacturing and adversely affect our reputation and brand image.

For the products that we produce or market, the risk of contamination is classified into four categories: microbiological, chemical, physical and allergic, and depends on the nature of the products in each individual case. This risk of contamination exists at each stage of the production cycle: at the time of purchase and delivery of raw materials; the production process; the packaging of products; the stocking and delivery of finished products to distributors and food retailers; and the storage and shelving of finished products at the points of final sale. For example, certain of our products must be maintained within certain temperature ranges to retain their flavor and nutritional value and to avoid contamination or deterioration. While we have implemented state-of-the art internal control systems in all of our manufacturing facilities at each stage of the production cycle, these systems, no matter how reliable and sophisticated or efficient they may be, can only provide reasonable assurance and not an absolute guarantee with respect to the achievement of our objectives due to the limits inherent in any control process. Therefore, we cannot assure you that there will never be an internal control failure or that a contamination or other similar adverse event could not occur that would have a material adverse effect on our reputation, sales or prospects.

In addition, historically our results have been adversely affected by events affecting certain of our agricultural raw materials. Such events could adversely affect the dairy industry in the future, reducing demand and requiring us to expend additional funds for advertising in order to restore public confidence in our products.

International expansion is a critical component of our business strategy. If our expansion is constrained by our manufacturing capacity or by other factors, or if economic conditions in our international markets deteriorate, our business and financial results may be materially and adversely affected.

We have been increasingly active in international markets, particularly in the United States, the United Kingdom, Italy and Germany, and we intend to continue pursuing an international growth strategy. Our expansion strategy has included: (i) the construction and expansion of a factory in Johnstown, New York to produce our yogurt product line in the United States, which started commercial production in April 2008; and (ii) the export of our yogurt products (mainly FAGE[®] Total[®]) from our facilities in the United States and Greece to an increasing number of countries worldwide. As a result of our international footprint, we are increasingly susceptible to economic, regulatory and competition risks in the international markets in which we operate or that we seek to penetrate in the future. Should the economic, competitive and regulatory market environment of our international markets deteriorate, our financial results may be materially adversely affected.

In particular, the success of our international expansion will depend on our ability to maintain sufficient manufacturing capacity in the United States and Greece to serve our international markets. Based on our experience with yogurt sales in the United States in the past 17 years, our management believes there is significant growth potential for our yogurt products in the U.S. market and that new manufacturing capacity is necessary in order to meet current and future demand. To meet increasing demand in the U.S. market, we have been continuously expanding production and warehouse capacity at our Johnstown, New York facility. We cannot assure you that we will be able to sufficiently expand our production capacity to keep pace with international demand for our products.

We are dependent on sales of a single product family comprised of a limited number of products.

Our product offering is limited to a single product family comprised of a limited number of products. Historically, we have derived a substantial portion of our revenue and profitability from sales of our yogurt products, and we expect to continue to derive a significant portion of our revenue from sales of such products for the foreseeable future. A decline in the price of these products, whether due to competition or otherwise, or our inability to increase sales of these products, would harm our business and operating results more seriously than it would if we derived significant revenue from a variety of product lines.

Our business may be materially and adversely affected by economic and political conditions in Greece.

Our operating results depend on the prevailing economic conditions in the markets in which we operate, such as levels of employment, interest rates, levels of inflation, rates of taxation and levels of GDP growth, and on conditions affecting the yogurt market specifically. Approximately 17.6% of our sales are generated by our operations in Greece and, as a result, our operating results are particularly dependent on prevailing economic conditions in that country.

In early 2010, Greece faced a public debt crisis that resulted in the combined intervention of the European Central Bank, the International Monetary Fund and the European Commission and necessitated bilateral loans from other Eurozone Member States and a strict economic and financial adjustment program closely scrutinized by the European Commission. The European Central Bank has also taken a series of measures in order to enhance liquidity in the Greek financial markets.

The abovementioned fiscal measures, together with other factors (including the sharp contraction of liquidity in the Greek financial system), have reduced disposable income and discretionary spending by our Greek customers and unemployment in Greece remains high, all of which have resulted in reduced demand for our products in the Greek market. Fuel price increases, along with local economic disruptions and general economic and political uncertainty, have also adversely affected consumer confidence, which may further dampen discretionary spending over time. Furthermore, economic conditions in Greece have led certain of our customers to be unable to pay for our products on a timely basis or at all. In an effort to reduce our credit exposure to delinquent clients, we have decided to reduce, and in some instances even stop, sales to less creditworthy clients, which has also negatively impacted sales. In 2015, we recorded a decrease in our sales in value of 27.3% and a decrease of 11.1% in sales in volume in the Greek market compared to 2014. The main reasons for the decrease in our sales in the Greek market were the sustained economic crisis in Greece which has worsened since the imposition of capital controls on June 26, 2015 and its impact on consumer demand.

Our operating results also may be negatively impacted if Greece were to exit the Eurozone. If Greece reverts to using its own national currency, that currency is expected to sharply decline in value against the euro and the U.S. dollar and, since a significant amount of our sales is generated in the Greek market, the amount of total sales in our reporting currency may decline. As a result, our ability to make payments due under the Senior Notes might be affected. An exit from the Eurozone by Greece may also further decrease our Greek customers' purchasing power and increase unemployment in Greece, thereby further reducing demand for our products in Greece.

As a result of the economic crisis and the measures aimed at addressing it, our sales volumes and pricing strategies in Greece may be adversely affected for an indeterminate period of time. While the ultimate outcome and impact of the current financial and credit crisis in Greece cannot be predicted, it may have a material adverse effect on our results of operations and financial condition.

Prices for our raw materials fluctuate significantly, and we may not be able to pass on cost increases to our customers.

The primary raw material that we use is cow's milk. Plastic and paper for packaging materials also are significant components of our cost of sales. The prices of many of our raw materials are affected by fluctuations in commodities markets, governmental agricultural policies, the operations of suppliers, political upheavals and acts of God, such as severe weather conditions. While we source raw material from a wide range of suppliers or believe we can source them from alternate suppliers, we cannot provide assurance that we would be able to obtain sufficient supplies from other sources or that, in the event of a supply disruption, a rise in commodities prices or other adverse event that affects our sources, our raw material costs would not materially increase. To the extent that we are able to obtain sufficient quantities of raw materials in the event of a supply disruption, our ability to pass through any increase in raw material costs to our customers would depend upon competitive conditions and pricing methods employed in the various markets in which we sell our products. If supplies of these materials become scarce or prices otherwise increase significantly and remain high for an extended period of time, there can be no assurance that we would be able to pass on any or all of the effects of such price increases to our customers.

The failure to enforce and maintain our trademarks and our other intellectual property could materially and adversely affect our business.

We have registered certain names used by our products as trademarks or service marks in the countries where we operate. The success of our business strategy depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products. There can be no assurance that all of the steps we have taken to protect our intellectual property will be adequate. If our efforts to protect our intellectual property are not adequate, or if any third party misappropriates or infringes on our intellectual property, either in print or on the Internet, the value of our brands may be harmed, which could have a material adverse effect on our business, including the failure of our brands and branded products to achieve and maintain market acceptance.

Evolving consumer tastes could decrease demand for our products.

Consumer tastes are susceptible to change. For instance, increased focus on nutrition or concerns about obesity and lactose intolerance may lead to lower consumer demand for certain of our dairy desserts. If we are unable to respond to changes in consumer preferences quickly and effectively, our sales or margins could be materially and adversely affected.

Consolidation in the supermarket sector has led to the concentration of our customer base, which could increase pressure on the prices of our products.

Our major customers are supermarkets. For the year ended December 31, 2015, no single customer accounted for more than 10% of our sales. There is an increasing trend towards consolidation in the supermarket sector. These consolidations have concentrated sales channels, increased the bargaining power of the major supermarkets and intensified price competition among these retailers. In addition, consolidation in the supermarket sector could cause us to lose customers. Increased pricing pressure from our large customers in the future or the loss of customers due to industry consolidation could have a material adverse effect on our results of operations.

Any disruption to our manufacturing and distribution operations could materially and adversely affect our financial condition or results.

We could experience disruption to our manufacturing and distribution capabilities for reasons beyond our control. These disruptions could include, among others, extreme weather, fire, theft, inadequate supplies of materials or services, or system failures or other events or developments beyond our control. Any significant disruptions could adversely affect our ability to produce and sell our products, which could cause our performance to suffer. We have arranged insurance policies to cover both the assets as well as losses due to business interruption emanating from external perils (basically due to physical phenomena and other sudden and unforeseen risks, as specifically identified in the respective insurance policies).

Strikes or other industrial actions could disrupt our operations or make it more costly to operate our facilities.

We are exposed to the risk of strikes and other industrial actions. We estimate that approximately 30.0% of our employees in Greece are members of a labor union, and we may experience lengthy consultations with the labor unions or even strikes, work stoppages or other industrial actions in the future. Strikes or other industrial actions could disrupt our operations and make it more costly to operate our facilities.

We will be exposed to foreign exchange risks that may materially and adversely affect our financial condition and results of operations.

Our products are currently sold in 40 countries. In addition, we expect to further increase our international exposure due to our increased investments in the United States, the United Kingdom and other countries in which we conduct business. We generate a significant percentage of our revenues in currencies other than the U.S. dollar, our reporting currency. As a result, our financial position and results of operations are subject to currency translation risks. Significant fluctuations in the exchange rates between foreign currencies and our reporting currency might affect our ability to make payments due under the Senior Notes.

As a food producer, we are subject to significant government regulation.

As a manufacturer of products intended for human consumption, we are subject to extensive governmental regulation. Our operations, production facilities and products are subject to European Union, U.S. and Greek laws and regulations concerning, among other things, health and safety matters, agricultural production, food manufacture, product labelling and advertising. In 2008, we received the approval and consent of the U.S. Food and Drug Administration to operate our yogurt production facility in the United States. Although we do not expect that compliance with existing laws and regulations will have a material adverse effect upon our operating results, we cannot predict the effect, if any, of laws and regulations that may be enacted in the future, or of changes and enforcement of existing laws and regulations that are subject to regulatory discretion.

We are also subject to regulation with respect to the composition, packaging, labeling, advertising and safety of our products, the health, safety and working conditions of our employees and our competitive and marketplace conduct. From time to time, additional legislative initiatives may be introduced which may affect our operations and the conduct of our business, and there can be no assurance that in the future the cost of complying with such initiatives or the effects of such initiatives will not have a material adverse effect on our business.

Environmental laws and regulations may subject us to significant costs and liabilities.

Our business operations and ownership and operation of real property are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which we operate, including European Union, Greek and U.S. federal and state laws and regulations. These laws and regulations impose increasingly stringent environmental protection standards on us and affect air emissions, wastewater discharges, the use and handling of hazardous materials, noise levels, waste disposal practice and environmental clean-up, among other things. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination at our or other sites or the imposition of new cleanup requirements could require us to incur future costs that would have a negative effect on our results of operations or cash flow. Environmental laws can impose cleanup liability on owners or occupiers of a contaminated property even if they did not cause the contamination, and our properties have not been investigated for the presence of soil or groundwater contamination. As a result, we may be exposed to substantial environmental costs and liabilities, including liabilities associated with our sold properties and past activities.

While we believe that we are in substantial compliance with environmental laws and regulations, we cannot predict future environmental liabilities or ensure that the amounts we may provide or budget for in the future will be adequate.

We are subject to regulation by competition authorities in the jurisdictions in which we operate, which could adversely affect our business and profitability.

Our business and operations are subject to regulation by European Union and national competition authorities in the United States, Luxembourg and Greece, among other jurisdictions. If such regulatory authorities were to determine that we engaged in unfair market practices, we could be subject to fines and or injunctive measures with respect to the scope of our operations in such jurisdictions or face negative publicity that could damage the value of our brand. We cannot assure you that we will not be subject to fines or other measures by such competition authorities in the future.

Our business is seasonal and depends on weather conditions.

Revenues from certain of our products and trading activities experience seasonal fluctuations, resulting in uneven cash flow throughout the year and uneven requirements for working capital. This seasonality also requires us to adjust production in anticipation of fluctuating demand. Certain of our products, such as dairy desserts, and trading activities also depend on weather conditions. There can be no assurance that we will continue to manage our seasonal businesses successfully, or that adverse weather conditions will not have a material adverse effect on our business.

The interests of our controlling shareholders may be inconsistent with the interests of the holders of the Senior Notes.

FAGE International is beneficially owned entirely by Messrs. Ioannis and Kyriakos Filippou. By virtue of this ownership, they have the ability to control our management, policies and financing decisions and to elect all the directors of FAGE International and its subsidiaries. In addition, we purchase goods and services from a number of companies controlled by the members of the Filippou family. In certain circumstances, the interests of our equity owners may not necessarily be aligned with the interests of the holders of the Senior Notes. See "Ownership of Share Capital" and "Related Party Transactions."

Product liability claims could have a material adverse effect on our business.

We face an inherent risk of exposure to product liability claims if any of the products we sell cause injury or illness. We have obtained liability insurance for product liability claims. However, we cannot assure you that this insurance will continue to be available at a reasonable cost, or that any insurance that we obtain will be adequate to cover product liability claims against us. We generally obtain contractual indemnification from parties supplying our products, but this form of indemnification is limited, as a practical matter, to the creditworthiness and financial resources of the indemnifying party. If we do not have adequate insurance or contractual indemnification available, losses associated with product liability claims could have a material adverse effect on our business, operating results and financial condition.

Risks Relating to Our Indebtedness and Our Structure

Our high leverage and debt service obligations could materially and adversely affect our business, financial condition or results of operations.

We are highly leveraged and have significant debt service obligations. As of December 31, 2015, our consolidated indebtedness was \$384.1 million. In addition, subject to the restrictions in the Indenture, we may incur additional indebtedness from time to time. We anticipate that our high leverage will continue for the foreseeable future.

Our high leverage could have important consequences to you, including:

- our substantial indebtedness could materially adversely affect us by making it more difficult for us to satisfy our obligations under the Senior Notes and our other payment obligations;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, research and development, advertising or general corporate purposes may be limited;
- a substantial portion of our cash flow from operations must be dedicated to the payment of interest on the Senior Notes and any other indebtedness, thereby reducing the funds available to us for other operations and the pursuit of other business opportunities that require cash;
- we may be hindered in our ability to adjust rapidly to changing market conditions and demand for new products;
- we may be more vulnerable in the event of a downturn in general economic conditions or in our business; and
- we may be placed at a disadvantage when compared to our competitors that have less debt.

Any inability to generate sufficient cash from operations to service our indebtedness or obtain additional financing, as needed, would have a material adverse effect on us.

Our ability to pay interest on the Senior Notes, to satisfy our other debt obligations and to fund planned capital expenditures will depend upon our future operating performance and our ability to generate cash, which will be affected by prevailing economic conditions and financial, business, competitive, regulatory, legislative and other factors, certain of which are beyond our control. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, obtain additional equity capital or restructure our debt. There can be no assurance that our cash flow and capital resources will be sufficient for payment of our indebtedness in the future. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations or reduce or delay capital expenditures to meet our debt service and other obligations, any of which could have a material adverse effect on us, and there can be no assurance as to the timing of such sales or the proceeds that we could realize therefrom. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

We are subject to significant restrictive debt covenants, which limit our operating flexibility.

The Indenture governing the Senior Notes contains, and our other debt instruments may contain, covenants that significantly restrict our ability to, among other things:

- incur additional indebtedness;
- pay dividends or make other distributions in respect of our capital stock;
- make certain other restricted payments and investments;
- repurchase or redeem capital stock;
- create liens;
- issue shares of subsidiaries;
- impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to us;
- repurchase shares;

- transfer or sell assets, including capital stock of subsidiaries;
- merge or consolidate with other entities;
- enter into transactions with affiliates; and
- engage in certain types of business.

These covenants could limit our ability to plan for or react to changing market conditions or meet capital or liquidity needs or otherwise restrict our activities or business plans or adversely affect our ability to finance our future operations and capital needs and our ability to pursue acquisitions, investments, corporate restructurings and other business activities that could be in our interest but restricted by these covenants.

The insolvency laws and regulations of the European Union, Luxembourg and Greece may not be as favorable to holders of the Senior Notes as U.S. insolvency laws and regulations or those of other jurisdictions with which you may be familiar.

FAGE International is incorporated in Luxembourg. FAGE Greece is incorporated in Greece and we conduct a significant portion of our business in Greece. Accordingly, insolvency proceedings with respect to FAGE International or FAGE Greece may proceed under, and be governed by, European Union, Luxembourg or Greek insolvency laws. The insolvency laws of the European Union, Luxembourg and Greece may not be as favorable to your interests as those of the United States or other jurisdictions with which you may be familiar. The following is a brief description of certain aspects of the insolvency laws in the European Union, Luxembourg and Greece. In the event that FAGE International or FAGE Greece or any subsidiary thereof experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

European Union insolvency law

FAGE International and FAGE Greece are organized under the laws of Member States of the European Union. Pursuant to Council Regulation 1346/2000 of 29 May 2000 on insolvency proceedings (the “EU Insolvency Regulation”), which applies within the European Union, other than Denmark, the courts of the Member State in which a company’s “center of main interests” (as that term is used in Article 3(1) of the EU Insolvency Regulation, hereafter, “COMI”) is situated have jurisdiction to open main insolvency proceedings. The determination of where a company has its COMI is a question of fact on which the courts of the different Member States may have differing and even conflicting views.

Although there is a presumption under Article 3(1) of the EU Insolvency Regulation that a company has its COMI in the Member State in which it has its registered office in the absence of proof to the contrary, Preamble 13 of the EU Insolvency Regulation states that the COMI of a “debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and is therefore ascertainable by third parties”. The courts have taken into consideration a number of factors in determining the COMI of a company, including where board meetings are held, the location where the company conducts the majority of its business or has its head office and the location where the majority of the company’s creditors are established. A company’s COMI may change from time to time but is determined for the purposes of deciding which courts have competent jurisdiction to open insolvency proceedings at the time of the filing of the insolvency petition.

The EU Insolvency Regulation applies to insolvency proceedings that are collective insolvency proceedings of the types referred to in Annex A to the EU Insolvency Regulation and to winding-up proceedings referred to in Annex B of the EU Insolvency Regulation.

If the COMI of a company is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open insolvency proceedings against that company only if such company has an “establishment” in the territory of such other Member State. An “establishment” is defined to mean a place of operations where the company carries on non-transitory economic activity with human means and goods. The effects of those insolvency proceedings opened in that other Member State are restricted to the assets of the company situated in such other Member State.

Where main proceedings have been opened in the Member State in which the company has its COMI, any proceedings opened subsequently in another Member State in which the company has an establishment (secondary proceedings) are limited to “winding-up proceedings” listed in Annex B of the EU Insolvency Regulation. Where main proceedings in the Member State in which the company has its COMI have not yet been opened, territorial insolvency proceedings can only be opened in another Member State where the company has an establishment where either (a) insolvency proceedings cannot be opened in the Member State in which the company’s COMI is situated under that Member State’s law or (b) the territorial insolvency proceedings are opened at the request of a creditor that is domiciled, habitually resident or has its registered office in the other Member State or whose claim arises from the operation of the establishment.

The courts of all Member States (other than Denmark) must recognize the judgment of the court opening main proceedings which will be given the same effect in the other Member States so long as no secondary proceedings have been opened there. The liquidator appointed by a court in a Member State which has jurisdiction to open main proceedings (because

the company's COMI is there) may exercise the powers conferred on him/her by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State) subject to certain limitations so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

Luxembourg insolvency law

FAGE International (the "Luxembourg Obligor") is incorporated under the laws of the Grand Duchy of Luxembourg and has its registered office in the Grand Duchy of Luxembourg.

Accordingly, Luxembourg courts should have, in principle, jurisdiction to open main insolvency proceedings with respect to the Luxembourg Obligor, as entities having their registered office and central administration (*administration centrale*) and COMI, as used in the EU Insolvency Regulation No. 1346/2000, as amended, in the Grand Duchy of Luxembourg, such proceedings would be governed by Luxembourg insolvency laws. According to the EU Insolvency Regulation, there is a rebuttable presumption that a company has its COMI in the jurisdiction in which it has the place of its registered office. As a result, there is a rebuttable presumption that the COMI of the Luxembourg Obligor is in the Grand Duchy of Luxembourg and consequently that any "main insolvency proceedings" (as defined in the EU Insolvency Regulation) would be opened by a Luxembourg court and be governed by Luxembourg law. However, the determination of where the Luxembourg Obligor has its COMI is a question of fact, which may change from time to time.

Luxembourg Insolvency Proceedings

Under Luxembourg insolvency laws, the following types of insolvency proceedings (the "Insolvency Proceedings") may be opened against the Luxembourg Obligors:

1. **bankruptcy proceedings (*faillite*):** the opening can be initiated by the Luxembourg Obligor filing for bankruptcy (*aveu de faillite*), by any of its creditors petitioning for bankruptcy (*assignation en faillite*) or in certain cases by Luxembourg courts *ex officio*. The managers/directors of the Luxembourg Obligor have the obligation to file for bankruptcy within one month of meeting the conditions of bankruptcy, which are
 - (i) if the Luxembourg Obligor is in a state of default of payment (*cessation de paiement*), in which the company cannot, or does not, fully pay its due, certain and liquid debts as they fall due (*dette certaine, liquide et exigible*); and
 - (ii) if the Luxembourg Obligor has lost its creditworthiness (*ébranlement de crédit*) and is unable to obtain credit from any source.

If a court finds that these conditions are satisfied, it may also open *ex officio* bankruptcy proceedings, absent a request made by the Luxembourg Obligor. The main effects of such proceedings are (i) the suspension of all measures of enforcement against the Luxembourg Obligor, except, subject to certain limited exceptions, for secured creditors, and (ii) the payment of the Luxembourg Obligor's creditors in accordance with their ranking upon the realization of the Luxembourg Obligor's assets.

2. **controlled management proceedings (*gestion contrôlée*):** the opening of which may only be requested by the Luxembourg Obligor and not by its creditors. More than 50% of the creditors (in number) representing more than 50% in value of the debtor's debts must approve the plan. If the plan is then approved by the court, the latter will appoint one or more commissioners who will prepare a report on the financial situation of the distressed company and control its management.
3. **composition with creditors proceedings (*concordat préventif de faillite*):** the obtaining of which is requested by the Luxembourg Obligor only after having received prior consent from a majority of ordinary creditors (in number) holding at least 75% of the claims against the Luxembourg Obligor. The application for composition with creditors can be filed with the district court sitting in commercial matters, if the company is unable to meet its engagements or is suffering from lack of creditworthiness, if it is acting in good faith and if there is a realistic possibility of achieving the reorganization in order to improve the business and reduce liabilities. The court must approve the voluntary arrangement made between the debtor and the creditors. The obtaining of such composition proceedings will trigger a provisional stay on enforcement of claims by creditors.

In addition to these proceedings, the ability of the holders of Senior Notes to receive payment on the Senior Notes may be affected by a decision of a Court to grant a stay on payments (*sursis de paiement*) or to put the relevant guarantor into judicial liquidation (*liquidation judiciaire*).

1. **judicial liquidation (*liquidation judiciaire*):** such proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that are in serious breach or violation of the provisions of either the commercial code, of the laws governing commercial companies dated August 10, 1915, as amended (the "1915 Law"), or provisions of the Law of September 2, 2011 on establishment. The management of such liquidation proceedings will generally follow similar rules as those applicable to bankruptcy proceedings.

2. **suspension of payments (*sursis de paiement*):** any trader (*commerçant*) or commercial company regulated by the 1915 Law may apply for suspension of payments if the company cannot pay its debts on a temporary basis. Different suspension of payments proceedings exist regarding insurance companies or specific financial companies.

Ranking

The Luxembourg Obligor's liabilities in respect of the Senior Notes will, in the event of a liquidation of the Luxembourg Obligor following bankruptcy or judicial liquidation proceedings, rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation e.g. bankruptcy trustee's fees, procedural costs) and the Luxembourg Obligor's debts that are entitled to priority under Luxembourg law. Preferential debts under Luxembourg law include, among others:

- certain amounts owed to the Luxembourg Revenue;
- value-added tax and other taxes and duties owed to the Luxembourg Customs and Excise;
- social security contributions; and
- remuneration owed to employees.

For the avoidance of doubt, the above list is not exhaustive.

During insolvency proceedings, all enforcement measures by unsecured creditors are suspended.

Carrying on business during insolvency in Luxembourg

Luxembourg insolvency laws may also affect transactions entered into or payments made by the Luxembourg Obligor after the cessation of payments, but before the declaratory judgment of bankruptcy, the so-called "hardening period" (*période suspecte*). The hardening period can be a maximum of six months, as from the date on which the district court sitting in commercial matters formally adjudicates a person or company bankrupt, and, as for specific payments and transactions, during an additional period of ten days before the commencement of such period preceding the judgment declaring bankruptcy. However, in certain specific situations, the court may set the start of the suspect period at an earlier date, if the bankruptcy judgment was preceded by a rescue/ reorganizing proceeding (e.g., a suspension of payments or controlled management proceedings) under Luxembourg law.

The following payments or transactions may be set aside:

- pursuant to article 445 of the Luxembourg Commercial Code, specified transactions (such as, in particular, the granting of a security interest for antecedent debts; the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets or entering into transactions generally without consideration or with substantially inadequate consideration) entered into during the suspect period (or the ten days preceding it) will be set aside or declared null and void, if so requested by the insolvency receiver. Article 445 does not apply to financial collateral arrangements and set-off arrangements subject to the Luxembourg law of August 5, 2005 on financial collateral arrangements (the "Luxembourg Collateral Law"), such as Luxembourg law pledges over shares or receivables.
- pursuant to article 446 of the Luxembourg Commercial Code, payments made for matured debts for consideration, as well as other transactions concluded during the hardening period (*période suspecte*), are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt's cessation of payments. Article 446 does not apply to financial collateral arrangements and set-off arrangements subject to the Collateral Law, such as Luxembourg law pledges over shares or receivables.
- regardless of the hardening period (*période suspecte*), article 448 of the Luxembourg Commercial Code and article 1167 of the Luxembourg Civil Code (*action paulienne*) give any creditor the right to challenge any fraudulent payments or transactions made prior to the bankruptcy in breach of the creditors' rights.

In principle, a bankruptcy order rendered by a Luxembourg court does not result in automatic termination of contracts except for *intuitu personae* contracts, that is, contracts for which the identity of the company or its solvency were crucial. Article L. 125-1 of the Labor Law Code provides for the termination with immediate effect of employment contracts in the event that the employer is declared bankrupt. Other contracts of the company, subsist after the bankruptcy order. However, the insolvency receiver may choose to terminate certain contracts so as to avoid worsening the financial situation of the company. As of the date of adjudication of bankruptcy, no interest on any unsecured claim will accrue vis-à-vis the bankruptcy estate. Insolvency proceedings may therefore have a material adverse effect on a Luxembourg company's business and assets and the Luxembourg company's respective obligations under the Senior Notes.

The bankruptcy receiver decides whether or not to continue performance under ongoing contracts (*i.e.*, contracts existing before the bankruptcy order). The bankruptcy receiver may elect to continue the business of the debtor, provided the bankruptcy receiver obtains the authorization of the court and such continuation does not cause any prejudice to the creditors. However, two exceptions apply:

- the parties to an agreement may contractually agree that the occurrence of a bankruptcy constitutes an early termination or acceleration event. However, such clauses may not always be effective and enforceable against the bankruptcy trustee taking into account the interest of the distressed company and the legally binding provisions of bankruptcy laws in Luxembourg; and
- *intuitu personae* contracts (*i.e.*, contracts whereby the identity of the other party constitutes an essential element upon the signing of the contract) are automatically terminated as of the bankruptcy judgment since the debtor is no longer responsible for the management of the company. Parties can agree to continue to perform under such contracts.

The bankruptcy receiver may elect not to perform the obligations of the bankrupt party that are still to be performed after the bankruptcy under any agreement validly entered into by the bankrupt party prior to the bankruptcy. The counterparty to that agreement may make a claim for damages in the bankruptcy and such claim will rank *pari passu* with claims of all other unsecured creditors and/or seek a court order to have the relevant contract dissolved. The counterparty may not require specific performance of the contract.

Registration with the Administration de l'Enregistrement et des Domaines

The registration of the Senior Notes, the guarantees and the transaction documents (and any document in connection therewith) with the *Administration de l'Enregistrement et des Domaines* in Luxembourg may be required in the case of legal proceedings before Luxembourg courts or in the case that the Senior Notes, the guarantees and the transaction documents (and any document in connection therewith) must be produced before an official Luxembourg authority (*autorité constituée*). In such case, either a nominal registration duty or an ad valorem duty (or, for instance, 0.24% of the amount of the payment obligation mentioned in the document so registered) will be payable depending on the nature of the document to be registered.

The Luxembourg courts or the official Luxembourg authority may require that the Senior Notes, the guarantees and the transaction documents (and any document in connection therewith) and any judgment obtained in a foreign court be translated into French or German.

Greek insolvency law

If FAGE Greece is declared bankrupt in Greece, Greek law (*i.e.* the Greek Bankruptcy Code, Law 3588/2007, as currently in force) will apply. Under Greek law, upon a declaration of bankruptcy, all the assets of the bankrupt party are placed under the control of a receiver appointed by the bankruptcy court to be held for the benefit of all creditors. After a court declaration of bankruptcy, the bankrupt party may, following an application to, and approval by, the bankruptcy court, continue to manage its assets with the cooperation of a receiver. In addition, certain transactions occurring prior to the declaration of bankruptcy will or may be subject to revocation, usually following a court judgment after an examination on the merits of the particular transactions, if they are executed by the bankrupt party during the so-called "suspect period" and are damaging to creditors. Such period is the time between the day of cessation of payments, which is determined by the bankruptcy court and may predate the declaration of bankruptcy by up to two years, and the date of the declaration of bankruptcy.

The following transactions of the bankrupt party are mandatorily subject to revocation under article 42 of Greek Bankruptcy Code:

- donations (with certain exemptions) and any gratuitous legal acts, as well as agreements of the bankrupt party, where the consideration it receives is disproportionately small compared to its performance;
- payments of debts that are not due;
- payments of debts due other than in cash or through the agreed-upon performance;
- *in rem* security rights, including pre-notice of mortgages or any other securities and guaranties for a previous indebtedness, that the bankrupt party had no obligation to secure or for security of new obligations of the bankrupt party, in replacement of those that already exist.

The bankruptcy court will revoke the transactions in the above categories and third parties shall, in principle, be obligated to transfer back the acquired asset of the bankrupt party.

Certain other transactions entered into up to five years prior to the entry into bankruptcy will also be revoked by the bankruptcy court if it is concluded by the court that they were entered into with a malicious intent to prevent creditors from satisfying their bona fide claims.

Moreover, the bankruptcy court may revoke any payments or transactions (including the issuance of notes or guarantees or the granting of mortgages or other security documents) during the suspect period if the person who transacted with the bankrupt party knew that the latter was in a state of cessation of payments and if such payments or transactions were detrimental to the creditors of the bankrupt party.

Under Greek law, the following claims will rank senior in priority to the Senior Notes, and the claims of the holders of the Senior Notes, being unsecured, will rank *pari passu* with those of all other unsecured creditors:

- legal expenses, the receiver's remuneration and claims against the bankrupt party arising post-bankruptcy;
- claims under credit facilities granted to the bankrupt party on the basis of the procedure of rehabilitation or a reorganization plan approved by the bankruptcy court;
- all secured claims, in accordance with the date of the perfection of the respective security interest on the asset liquidated;
- attorneys' and employees' claims. Employees' claims include salaries for up to two years prior to the declaration of bankruptcy and severance payments without any time restriction;
- claims of farmers or farmers' unions from sales of agricultural products up to two years prior to the declaration of bankruptcy;
- taxes due to the Greek State for the fiscal year in which the bankruptcy was declared and the previous fiscal year; and
- social security claims for up to two years prior to the declaration of bankruptcy, without any penalties.

Following the effective date of the new Greek Bankruptcy Code in September 2008, all other special insolvency proceedings previously applicable to large over indebted enterprises (such as those under art. 44-46B of Law 1892/1990) have been repealed.

Our failure to comply with the covenants contained in the Indenture governing the Senior Notes, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our operating results and our financial condition.

The Indenture governing the Senior Notes requires us to comply with various covenants. If there were an event of default under any of these covenants that was not cured or waived, the holders of the Senior Notes representing 25 percent of the principal amount of Senior Notes outstanding could cause all amounts under the Senior Notes to be due and payable immediately (and not on the scheduled maturity of the Senior Notes). If the Senior Notes were accelerated upon an event of default, our assets and cash flow may not be sufficient to repay our then-outstanding obligations under the Senior Notes in full or in part.

Enforcing your rights as a holder of the Senior Notes across multiple jurisdictions may be difficult.

The Senior Notes are co-issued jointly and severally by FAGE International and FAGE USA and guaranteed by FAGE Greece. FAGE International is incorporated under the laws of Luxembourg, FAGE USA is incorporated under the laws of the State of New York, and FAGE Greece is incorporated under the laws of Greece. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions and in the jurisdiction of organization of any Material Subsidiary (as defined herein) of FAGE International that provides a guarantee of the Senior Notes in the future. Your rights under the Senior Notes (and any guarantee of the Senior Notes) therefore will be subject to the laws of several jurisdictions, and you may not be able to effectively enforce your rights in multiple bankruptcy, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights.

In addition, the bankruptcy, insolvency, administrative and other laws of any future guarantors' jurisdictions of incorporation may be materially different from, or in conflict with, one another in certain areas, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Senior Notes and any future guarantee of the Senior Notes.

Risks Relating to the Senior Notes

The Senior Notes are structurally subordinated to the liabilities of the subsidiaries of FAGE International (other than FAGE USA and FAGE Greece).

The Senior Notes are issued jointly and severally by FAGE International and FAGE USA, FAGE International's wholly owned indirect subsidiary. With the exception of FAGE Greece, which is a guarantor of the Senior Notes, none of FAGE International's other subsidiaries is an issuer or guarantor of the Senior Notes. Accordingly, holders of indebtedness of, and trade creditors of, those non-guarantor (and non-issuer) subsidiaries of FAGE International will be entitled to payments of their claims from the assets of such subsidiaries before these assets are made available for distribution to either of the Issuers.

The subsidiaries of FAGE International (other than FAGE USA and FAGE Greece) that did not guarantee the Senior Notes generated 17.4% of our total sales for the year ended December 31, 2015 and represented 8.6% of our total assets as of December 31, 2015. As of December 31, 2015, the subsidiaries of FAGE International (other than FAGE USA and FAGE Greece) had approximately \$7.8 million of liabilities, including trade payables but excluding inter-company obligations, all of which ranked structurally senior to the Senior Notes.

FAGE International, a co-issuer of the Senior Notes, is a holding company, and therefore its ability to repay its indebtedness, including the Senior Notes, is dependent on the cash flow generated by its subsidiaries and its subsidiaries' ability to make distributions to FAGE International.

FAGE International is a holding company with no significant operations or material assets other than the capital stock of its subsidiaries. As a result, its ability to repay its indebtedness, including the Senior Notes, is dependent on the generation of cash flow by its subsidiaries and its subsidiaries' ability to make such cash available to FAGE International, by dividend, debt repayment or otherwise. The requirement of the subsidiaries to make these payments may be rendered unenforceable and will be subject to, among other things, applicable state laws.

We may not be able to finance a change of control offer required by the Indenture.

The Indenture contains provisions relating to certain events constituting a "Change of Control" of FAGE International. Upon the occurrence of such a Change of Control, we will be required to offer to repurchase all outstanding Senior Notes at a price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest to the date of repurchase. If a Change of Control were to occur, we may not have sufficient funds available, or may not be able to obtain the funds needed, to pay the purchase price for all of the Senior Notes tendered by holders deciding to accept the repurchase offer. The restrictions in the instruments governing our other existing and future indebtedness may also prohibit us from being provided with the funds necessary to purchase any Senior Notes prior to their stated maturity, including upon a Change of Control.

A Change of Control may result in a mandatory prepayment event or cause the acceleration of other indebtedness. In any case, third-party financing may be required in order to provide the funds necessary for us to make the change of control offer. We may not be able to obtain such additional financing.

The Senior Notes may not be actively traded and, as a result, your ability to transfer the Senior Notes will be limited.

We cannot assure you as to the liquidity of any market for the Senior Notes, the ability of holders of the Senior Notes to sell them or the price at which holders of the Senior Notes may be able to sell them. The liquidity of any market for the Senior Notes will depend on the number of holders of the Senior Notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, results of operations and prospects, as well as recommendations of securities analysts.

The liquidity of, and trading market for, the Senior Notes may also be hurt by declines in the market for high-yield securities generally. Such a decline may affect any liquidity and trading of the Senior Notes independent of our financial performance and prospects.

Transfers of the Senior Notes are restricted, which may adversely affect the value of the Senior Notes.

You may not offer the Senior Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws, or pursuant to an effective registration statement. The Senior Notes and the Indenture contain provisions that restrict the Senior Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions, under the Securities Act. Furthermore, we have not registered the Senior Notes under any other country's securities laws. It is your obligation to ensure that your offers and sales of the Senior Notes within the United States and other countries comply with applicable securities laws.

You may have difficulty enforcing your rights against us and our directors and officers.

FAGE International is organized in Luxembourg and FAGE Greece is organized in the Hellenic Republic. Certain of our executive officers and directors 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 the FAGE Group, including an order to foreclose upon such assets. Although we will agree under the terms of the Indenture 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.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table presents selected consolidated financial information of the FAGE Group for the dates and periods indicated and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the audited Consolidated Financial Statements as of and for the years ended December 31, 2014 and 2015, included elsewhere herein. The Consolidated Financial Statements have been prepared in accordance with IFRS. The information presented below for the year ended December 31, 2013 has been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS, not included herein. See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Year ended December 31,		
	2013	2014	2015
(\$ thousands)			
Statement of Income Data:			
Sales.....	574,784	667,917	648,228
Cost of sales.....	(356,929)	(400,798)	(336,043)
Gross profit.....	217,855	267,119	312,185
Selling, general and administrative expenses	(183,820)	(195,957)	(183,686)
Other income.....	584	1,336	503
Other expenses.....	(1,782)	(1,626)	(8,016)
Profit from operations.....	32,837	70,872	120,986
Financial income/(expenses), net...	(42,953)	(39,010)	(43,581)
Impairment loss.....	-	(7)	(9,262)
Impairment on available for sale financial assets.....	-	-	(73)
Foreign exchange gains/(losses), net.....	(349)	738	1,793
Gain/(loss) from sale of investment in an associate accounted for under the equity method.....	1,151	-	-
Profit/(loss) before income taxes	(9,314)	32,593	69,863
Income tax benefit/(expense).....	(6,334)	(32,496)	(55,120)
Net profit/(loss).....	(15,648)	97	14,743

	Year ended December 31,		
	2013	2014	2015
(\$ thousands)			
Balance Sheet Data:			
Cash and cash equivalents.....	93,022	56,086	78,247
Restricted cash.....	-	-	1,200
Trade and other receivables.....	100,812	85,528	76,168
Inventories.....	43,578	43,349	36,167
Net property, plant and equipment.....	355,991	425,647	403,634
Total assets.....	719,579	704,098	684,613
Short-term borrowings.....	-	7,285	-
Trade accounts payable and due to related companies.....	52,162	62,404	38,601
Total debt.....	378,342	388,332	384,067
Net debt ⁽¹⁾	285,320	332,246	304,620
Total equity.....	200,276	169,612	153,559

	Year ended December 31,		
	2013	2014	2015
(\$ thousands)			
Other Financial Data:			
Cash flow from operating activities.....	48,613	121,185	128,738
Cash flow used in investing activities.....	(48,353)	(120,362)	(38,871)
Cash flow from/(used in) financing activities.....	(39,082)	(32,678)	(56,839)
EBITDA ⁽²⁾	59,700	97,590	144,652
Capital expenditures.....	(47,814)	(119,996)	(38,840)
Selected Ratios:			
Ratio of net debt to EBITDA ⁽¹⁾⁽²⁾	4.8x	3.4x	2.1x
Ratio of EBITDA to financial income/(expenses), net ⁽²⁾	1.4x	2.5x	3.3x

- (1) Net debt represents short-term borrowings plus long-term interest-bearing loans and borrowings less cash and cash equivalents and restricted cash.
- (2) EBITDA is defined as net profit/(loss) plus income tax benefit/(expense), financial income/(expenses), net and depreciation and amortization. The reconciliation of net profit/(loss) to EBITDA is as follows:

	Year ended December 31,		
	2013	2014	2015
	(\$ thousands)		
Net profit/(loss).....	(15,648)	97	14,743
Income tax (benefit)/expense.....	6,334	32,496	55,120
Financial (income)/expenses, net.....	42,953	39,010	43,581
Depreciation and amortization.....	26,061	25,987	31,208
EBITDA	<u>59,700</u>	<u>97,590</u>	<u>144,652</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 table below sets forth the period-end and average exchange rates (representing, for any day, the rates published by the European Central Bank in its foreign exchange rates report) for U.S. dollars, expressed in dollars per €1.00, for the years indicated.

Year ended December 31,	Year End	Average
2013.....	1.3791	1.3308
2014.....	1.2141	1.3211
2015.....	1.0887	1.1046

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, and the other financial information included elsewhere herein.

Overview

We are a leading international dairy company with a focus on yogurt. We have a significant and growing presence in the U.S. yogurt market, growing international sales outside of the United States, and the leading market position in the Greek yogurt market. We have grown from our origins in Greece in 1926 to become an international company with sales in 40 countries. We manufacture, distribute and sell a wide range of dairy products, including yogurt and dairy desserts, milk creams and modern packaged cheese. For the year ended December 31, 2015, approximately 63.4% of our sales and 73.5% of our EBITDA were generated in the United States and 36.6% of our sales and 26.5% of our EBITDA were generated in Europe, primarily in Greece, the United Kingdom and Italy.

We market our yogurt worldwide under the *FAGE® Total®* brand. We believe that this highly recognized brand conveys an image of superior taste and quality and enables us to enter new markets, expand our business in existing markets and bring new products to market. In the United States, our yogurt is the fourth largest yogurt brand overall in terms of sales and our plain yogurt is the leading plain yogurt in the U.S. market. In Greece, we complement our leading market share in yogurt with a broad range of other dairy product lines.

The products that we manufacture are produced in our state-of-the-art, highly automated facilities. Our U.S. facility, located in Johnstown, New York, which started commercial production in April 2008 and is the largest of our facilities in terms of production capacity, manufactures yogurt products for the U.S. market and the rest of the Americas. We have three facilities in Greece: one for yogurt products, a second for cheese products and a third for milk products. The facility for yogurt products serves all of our markets outside of the Americas. The milk facility is considered to be a discontinued operation in accordance with the Group's decision in December 2015 to withdraw from the milk business because this operation was highly unprofitable. We have our own distribution units in the United Kingdom, Italy and Germany and a comprehensive distribution network in Greece.

We distribute our products to approximately 280 supermarket chains, with approximately 75,000 retail outlets in 40 countries, primarily in the United States and throughout Europe. We also sell our products to bakeries, confectionaries, dairy stores and other smaller, sometimes seasonal, convenience stores. Our total number of full-time employees as of December 31, 2015 was approximately 1,081.

The FAGE Group has been continuously owned since it was founded in 1926 by the family of Mr. Athanassios Filippou and substantially all of our assets and operations are held by it directly or indirectly.

Key Line Items of Our Consolidated Statements of Income

Sales. Our sales comprise revenues generated primarily from sales of the dairy products that we manufacture or distribute to our customers and are shown net of intra-group or inter-company transactions. The amount of these revenues is driven primarily by the volume of products sold and the prices at which they are sold. Accordingly, growth of sales is primarily driven by increasing selling volumes, which can offset lower average prices per unit sold, and product innovation and the creation of new products that attract higher prices.

Our sales are primarily in the United States and the European Union. Outside of Greece, we sell primarily yogurt. Over the last three years, from 2013 to 2015, the contribution of sales in value in markets outside of Greece to our total sales in value increased from 71.5% for the year ended December 31, 2013 to 76.5% for the year ended December 31, 2014 and to 82.4% for the year ended December 31, 2015.

Sales of our products in the Greek market accounted for approximately 28.7% and 24.7% of our sales volume and 23.5% and 17.6% of our sales revenues for the years ended December 31, 2014 and 2015, respectively.

We believe that our sales are positively affected by volume growth driven by the strength of our brand and the quality, diversity and innovation of our product line and our general policy of annual price increases consistent with annual inflation rates. Our sales are also affected by our decisions to enter or exit certain product categories as well as competitive market pressures that impact the prices for our products.

Gross profit. Gross profit represents our sales less cost of sales. Our cost of sales consists primarily of the cost of raw materials (mainly milk, fruit, honey and cultures), packaging, labor expenses, energy costs, depreciation and other manufacturing costs. Factors that have affected our cost of sales include fluctuations in prices for milk and other raw materials and our ability to re-engineer our processes and make our operations more efficient.

Over the past five years we have focused on improving our operating efficiency through technological and other capital improvements to our production facilities. After we moved the production of all of the yogurt that we sell in the United States to our manufacturing facility in Johnstown, New York in 2008, we re-engineered operations in our Greek facilities and achieved significant savings in operating costs. We have consolidated and optimized our raw milk supply chain, rationalized our product mix by discontinuing slow-selling items and introduced other modifications to improve production processes and methods. These initiatives have lowered unit production costs, thereby contributing to our improvement in gross profit.

We have introduced a number of new high-margin products, such as *FAGE® Fruyo®*, a strained yogurt with fruit pieces blended in that is available in several fruit flavors in non-fat, low-fat and full-fat varieties. We plan to make additional investments with the aim of further enhancing new product capabilities in our production facilities. We have significantly improved our overall gross profit by focusing on our higher-margin products with broader appeal in a wider range of markets and exiting less profitable product lines.

We view our gross profit as the primary driver of the success of our business. Continued growth of our gross profit will depend on increasing our sales and successfully expanding our international presence while managing our operating efficiency and costs. We anticipate that future volume growth will come mainly from increased sales in our international markets and from our premium-priced products.

Selling, general and administrative expenses. Selling, general and administrative expenses (“SG&A”) consist primarily of shipping and handling costs, advertising costs, payroll, third-party fees and depreciation. Overall, we believe that SG&A as a percentage of sales is largely linear and we anticipate that it will continue to evolve in line with sales in the future.

Financial income/expenses. Financial income consists primarily of interest income on cash at banks and on time deposits. Financial expenses consist primarily of interest costs on the Senior Notes and other short and long-term indebtedness, net of interest costs capitalized to property, plant and equipment.

Impairment on assets. Our impairment on assets in recent years has been due primarily to the impairment of the value of available-for-sale financial assets, which include shares of related companies. In December 2015, the Group decided to withdraw from the milk business due to the fact that this operation was highly unprofitable and an impairment loss has been recorded concerning the assets related to the milk business.

Factors and Trends Affecting Our Results of Operations

Increasing Sales in the United States. Our annual sales volume in the United States has quintupled since 2009. Based on our experience with yogurt sales in the United States in the past 17 years, management believes there is significant growth potential for our yogurt products in the U.S. market and new manufacturing capacity is necessary in order to meet current and future demand. As of December 31, 2015, we have invested approximately \$378.3 million for the construction and expansion of a state-of-the-art, highly automated production facility in Johnstown, New York to produce and distribute *FAGE® Total* yogurt products. The plant started commercial production in April 2008. Our capital expenditures have been higher than their historical levels in recent years, due in large part to the expansion of our U.S. plant. Since the plant has become operational, our U.S. production of yogurt has positively affected our gross margins and profitability since our production costs have been substantially reduced by lower U.S. milk prices and the efficiency of our new production facility. Furthermore, transatlantic transportation costs and duties for goods sold in the United States have been eliminated. Our expanded U.S. facility currently has capacity to produce 120,000 tons of yogurt annually. An expansion of the plant began early in 2013 and is expected to be completed by the end of 2016. The expansion utilizes existing milk receiving, pasteurizing, processing and cold storage warehouse operations and adds incubation, separator, processing, filling, packaging and cooling tunnel operations. Following this expansion, our U.S. production capacity ultimately will reach a total of approximately 160,000 tons of yogurt annually. The estimated capital investment for the project will be approximately \$140.0 million and is primarily being financed with proceeds from the issuance of the Additional Senior Notes. We intend to continue to make the investments necessary for us to capitalize on growing U.S. demand for our products.

Increasing Sales to Export Markets. Our yogurt sales volume outside of the United States and Greece also has increased. We serve these markets both through local distributors and through exports from Greece. We have our own distribution units in the United Kingdom, Italy and Germany. Our Greek facilities currently export more than half of the yogurt and dairy desserts that they produce and we expect exports to continue to grow.

Economic Conditions in Greece. The deterioration of economic conditions in the past several years has led to worsening of expectations both in the business and consumer environments. The general decline in demand for consumer goods in Greece, including food products, has negatively affected our sales and those of other Greek dairy market participants.

Changes to Product Portfolio. In recent years, we have improved our profitability by eliminating lower-margin products from our portfolio and focusing on more profitable products with a broader appeal in a wider range of markets. We launched our *FAGE® Fruyo®* yogurt brand, a strained yogurt with fruit pieces blended in that is available in several fruit flavors in non-fat, low-fat and full-fat varieties, to respond to consumer demand for thicker and tastier fruit yogurt. We plan to continue to evaluate our product line with a view towards focusing on higher-margin products.

Prices for Raw Materials and Other Manufacturing Costs. The price of cow's milk and many of our other raw materials have fluctuated significantly in recent years due to the high volatility of the prices of commodities and energy internationally. For example the prices of milk collected in the U.S. market and used for the U.S. yogurt facility decreased by 33.3% comparing the years ended December 31, 2015 and 2014, and the prices of milk used for the Greek facilities decreased by 17.7% comparing the years ended December 31, 2015 and 2014. We have also sought to manage our payroll costs and maintain production in areas with lower labor costs. In the future, we will seek to continue to purchase raw materials at cost-effective prices in order to remain profitable.

Fluctuations in Currency Exchange Rates. Our sales as reported in our consolidated financial statements are affected by the fluctuation of currency exchange rates due to the substantial amount of revenues that we generate in currencies other than our reporting currency. Currency rate fluctuations may affect our reported sales adversely (if our reporting currency appreciates with respect to the currency in which our revenues are generated) or positively (if our reporting currency depreciates with respect to the currency in which our revenues are generated). Through September 30, 2012, our reporting currency was the euro. We adopted the U.S. dollar as our reporting currency as of October 1, 2012.

Recent Developments

In December 2015, the Group, in the context of its efforts to improve its profitability, decided to withdraw from the milk business since this operation was highly unprofitable. The Group commenced negotiations with various companies to sell all of the property, plant and equipment related to the Amyntaio milk facility. In order to assess the fairness of proposals to purchase these assets, the Group requested from an external valuation company a study of the fair value of the assets related to the milk business. In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", property, plant and equipment and goodwill related to the milk business, which have been classified as of December 31, 2015 as held for sale, are carried at the lower of their carrying amount and fair value less costs to sell. Accordingly, an impairment loss of \$9.3 million has been recorded in the consolidated statement of profit or loss for the year ended December 31, 2015 (see Note 3 to the Consolidated Financial Statements).

In February 2016, the Group's subsidiary FAGE USA Holdings, Inc. entered into an agreement (the "IRS Agreement") with the Internal Revenue Service (the "IRS") to resolve certain disputes related to the consolidated U.S. Federal income tax returns of FAGE USA Holdings, Inc. and its subsidiaries, FAGE USA and FAGE USA, Corp. (collectively, the "FAGE US Group") for years 2009 to 2014. The IRS Agreement lowers the FAGE US Group's deductions for royalties payable by FAGE USA to FAGE Greece (for periods from January 1, 2009 to September 25, 2012) and to FAGE International (for periods from September 26, 2012 to December 31, 2014) by \$15.5 million and \$15.1 million, respectively. Accounts receivable owed to FAGE USA by FAGE Greece and FAGE International of \$15.5 million and \$15.1 million, respectively, were established in 2016 pursuant to the IRS Agreement. Such accounts receivable, plus the accrued interest, were paid in full in March 2016.

Pursuant to the IRS Agreement, the FAGE US Group agreed to pay additional U.S. Federal income tax in the amount of \$10.4 million, plus interest, for tax years 2009 to 2014. At December 31, 2015, this amount is included in current taxes payable. As a further consequence of the IRS Agreement, the tax basis of the Group's intellectual property was re-assessed from \$630.5 million to \$490.4 million as compared to its carrying value of \$1.1 million and the respective deferred tax asset of \$80.5 million was reduced to \$62.6 million. The 2015 net deferred tax asset decreased from \$71.5 million to \$52.4 million, a difference of \$19.1 million, out of which \$15.9 million relates to the period 2012 to 2014 and \$3.2 million relates to amortization for 2015.

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:

	Year ended December 31,					
	2015			2014		
	Continuing Operations	Discontinued Operations	Total results	Continuing Operations	Discontinued Operations	Total results
Sales	100%	100%	100%	100%	100%	100%
Cost of sales	(50.8)	(81.8)	(51.8)	(59.0)	(79.9)	(60.0)
Gross profit	49.2	18.2	48.2	41.0	20.1	40.0
Selling, general and administrative expenses	(28.4)	(26.3)	(28.3)	(29.6)	(23.6)	(29.3)
Other income	0.1	0.2	0.1	0.2	-	0.2
Other expenses	(1.2)	(3.0)	(1.3)	(0.3)	-	(0.3)
Profit/(loss) from operations	19.7	(10.9)	18.7	11.3	(3.5)	10.6
Financial income/(expenses), net	(6.9)	(0.3)	(6.7)	(6.1)	-	(5.8)
Impairment loss	-	(42.4)	(1.4)	-	-	-
Impairment loss on available for sale financial assets	-	-	-	-	-	-
Foreign exchange gains/(losses), net	0.2	-	0.2	0.1	-	0.1
Profit/(loss) before income taxes	13.0	(53.6)	10.8	5.3	(3.5)	4.9
Income tax(expense)/benefit	(9.4)	16.4	(8.5)	(5.2)	1.7	(4.9)
Net profit/(loss)	3.6%	(37.2)%	2.3%	0.1%	(1.8)%	0.0%

Sales. Our sales in value for the year ended December 31, 2015 amounted to \$648.2 million, a decrease of \$19.7 million, or 2.9%, compared to sales of \$667.9 million for the year ended December 31, 2014.

This decrease is mainly due to the negative impact of 6.2% on sales in value due to the weakening of the euro and the British pound against the U.S. dollar (the respective exchange rates for 2015 and 2014 were €1=\$1.1046 and €1=\$1.3211 and £1=\$1.5253 and £1=\$1.6450, respectively).

This decrease was partially offset by:

- first, the increase in sales in volume by 3.2% comparing 2015 and 2014; and
- second, higher prices during 2015 due to the fact that the price increases in 2014 were not mainly effected until April 2014.

Our sales outside of Greece accounted for 82.4% of our total sales in value the year ended December 31, 2015, as compared to 76.5% for the year ended December 31, 2014.

Our sales in volume for the year ended December 31, 2015 increased by 3.2% as compared to the year ended December 31, 2014. This resulted from increases in sales in volume in the United States, the United Kingdom and Italy by 2.8%, 32.0% and 40.1%, respectively, which were offset by a decrease of 11.1% 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 which has worsened since the imposition of capital controls on June 26, 2015 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, which liquidity problems have increased due to the capital controls.

The expansion of our existing product range, the change of our overall product mix towards new higher-value products, increasing household penetration and broader distribution are the main reasons for the sustained growth of our sales in value in the United States and other markets outside of Greece, which was 4.6% on average for the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Gross profit. Gross profit for the year ended December 31, 2015 was \$312.2 million, an increase of \$45.1 million, or 16.9%, from \$267.1 million for the year ended December 31, 2014. Gross profit as a percentage of sales for the year ended December 31, 2015 was 48.2%, compared to 40.0% for the year ended December 31, 2014. The main reason for this increase was the decrease in the prices of milk used in the U.S. facility and the Greek facilities by 33.3% and 17.7%, respectively, comparing 2015 and 2014.

Selling, general and administrative expenses. Selling, general and administrative expenses (“SG&A”) for the year ended December 31, 2015 were \$183.7 million, a decrease of \$12.3 million, or 6.3%, from \$196.0 million in 2014. As a percentage of sales, selling, general and administrative expenses were 28.3% for the year ended December 31, 2015 and 29.3% for the year ended December 31, 2014.

Other income/(expenses), net. Net other expenses for the year ended December 31, 2015 amounted to \$7.5 million mainly due to write-offs of obsolete equipment. Net other expenses for the year ended December 31, 2014 amounted to \$0.3 million.

Profit from operations. Profit from operations for the year ended December 31, 2015 was \$121.0 million, an increase of \$50.1 million, or 70.7%, as compared to profit from operations of \$70.9 million for the year ended December 31, 2014. As a percentage of sales, profit from operations was 18.7% for the year ended December 31, 2015 as compared to 10.6% for the year ended December 31, 2014. This is mainly due to the increase in gross profit and the decrease in selling, general and administrative expenses as a percentage of sales.

Financial income/(expenses), net. Net financial expenses increased by \$4.6 million from \$39.0 million for the year ended December 31, 2014 to \$43.6 million for the year ended December 31, 2015. This increase was mainly due to the fact that for the year ended December 31, 2015, there was no capitalization of interest expenses as compared to the capitalization of \$3.9 million of interest expenses for the year ended December 31, 2014. Financial income/(expenses), net as a percentage of sales was 6.7% for the year ended December 31, 2015 and 5.8% for the year ended December 31, 2014.

Impairment loss on available for sale financial assets. Impairment loss on available for sale financial assets for the year ended December 31, 2015 was \$0.1 million. There was no impairment loss for the year ended December 31, 2014.

Impairment loss. Impairment loss for the year ended December 31, 2015 amounted to \$9.3 million. This is due to the impairment of the assets held for sale related to the milk business (see Note 3 to the Consolidated Financial Statements).

Foreign exchange losses/(gains), net. Net foreign exchange gains for the year ended December 31, 2015 were \$1.8 million compared to net foreign exchange gains for the year ended December 31, 2014 of \$0.7 million.

Profit/(loss) before income taxes. Profit before income taxes for the year ended December 31, 2015 was \$69.9 million, compared to a profit before income taxes of \$32.6 million for the year ended December 31, 2014. The main reasons for this improvement were the increase in gross profit and the decrease in selling, general and administrative expenses.

Income tax expense. Income tax expense for the year ended December 31, 2015 was \$55.1 million compared to \$32.5 million for the year ended December 31, 2014. This increase is mainly due to the write-off of a deferred tax asset of \$15.9 million during 2015 and income tax of \$10.4 million relating to the IRS Agreement for the years 2009 to 2014 (see Note 8 to the Consolidated Financial Statements).

Net profit/(loss). Net profit for the year ended December 31, 2015 was \$14.7 million, as compared to net profit of \$0.1 million for 2014. This improvement is mainly due to the increase in gross profit.

Year ended December 31, 2015 and 2014 Continuing operations as compared to discontinued operations

Continuing operations. The Group's sales from continuing operations (milk business excluded) for 2015 amounted to \$626.4 million, a decrease of 1.5% or \$9.8 million compared to sales of \$636.2 million for 2014. This decrease is mainly due to the negative impact of 5.7% on sales in value due to the weakening of the euro and British pound against the US dollar (the respective exchange rates for 2015 and 2014 were €1=\$1.1046 and €1=\$1.3211 and £1=\$1.5253 and £1=\$1.6450, respectively). This decrease was partially offset by the increase in sales in volume by 6.2% comparing 2015 and 2014. The gross profit of the continuing operations in 2015 amounted to \$308.2 million as compared to \$260.7 million in 2014. Gross profit as a percentage of sales was 49.2% in 2015 and 41.0% in 2014, mainly due to the lower milk prices both in the U.S. facility and the Greek facilities by 33.3% and 17.7%, respectively, comparing 2015 and 2014.

The profit before income taxes in 2015 amounted to \$81.6 million compared to \$33.7 million in 2014. The main reason for this was the improvement in gross profit.

Discontinued Operations. The Group's sales from discontinued operations (milk business) for 2015 amounted to \$21.8 million compared to \$31.7 million in 2014, a decrease of \$9.9 million or 31.2%. Out of this decrease, 4.3 million was due to the negative impact on sales in value due to the weakening of the euro against the US dollar (the exchange rates for 2015 and 2014 were €1=\$1.1046 and €1=\$1.3211, respectively) and the remaining balance was due to the decrease in sales in volume comparing 2015 and 2014.

The gross profit of the discontinued operations for 2015 amounted to \$4.0 million as compared to \$6.4 million in 2014. As a percentage of sales the gross profit of the discontinued operations was 18.2% in 2015 compared to 20.1% in 2014.

The loss before income taxes for the discontinued operations in 2015 amounted to \$11.7 million compared to \$1.1 million in 2014, due mainly to first, the impairment of the assets held for sale relating to the milk business and second, the write-off of the goodwill of Voras S.A. (Amyntaio milk business).

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 December 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 December 31, 2015, the unused portion amounted to \$41.5 million (see Note 24). 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 December 31, 2015 amounted to \$78.2 million compared to \$56.1 million as of December 31, 2014. In addition, restricted cash as of December 31, 2015 amounted to \$1.2 million.

We believe that this amount (\$78.2 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.

	Year ended	
	December 31,	
	2015	2014
(\$ thousands)		
Cash flow from/(used in) operating activities.....	128,738	121,185
Cash flow from/(used in) investing activities	(38,871)	(120,362)
Cash flow from/(used in) financing activities.....	(56,839)	(32,678)
Effect of exchange rates changes on cash.....	(10,867)	(5,081)
Cash and cash equivalents at beginning of year	56,086	93,022
Cash and cash equivalents at year-end.....	78,247	56,086

Cash flow from/(used in) operating activities. Net cash from operating activities for the year ended December 31, 2015 was \$128.7 million, compared to net cash from operating activities of \$121.2 million for the year ended December 31, 2014. The improvement in net cash from operating activities for 2015 was positively affected by the operating profit before working capital changes, which amounted to \$163.6 million compared to \$99.7 million for the year ended December 31, 2014. The main reason for this improvement was the increase in net profit before income taxes, from net profit before income taxes of \$32.6 million in 2014 to net profit before income taxes of \$69.9 million in 2015.

This improvement was partially offset by the decrease in working capital changes, which decreased from \$25.5 million in 2014 to \$(14.4) million in 2015. The main reasons for this decrease in working capital changes in 2015 as compared to 2014 were first, the decrease in trade accounts payable from \$10.7 million in 2014 to \$(16.9) million in 2015 and second, the increase in amounts due from related companies by \$9.8 million. The decrease in working capital changes was partially offset by the decrease in inventories by \$5.8 million comparing December 31, 2015 and 2014, and the decrease in trade and other receivables from \$13.7 million in 2014 to \$5.6 million in 2015.

Cash flow from/(used in) investing activities. Net cash used in investing activities amounted to \$38.9 million and \$120.4 million for the years ended December 31, 2015 and 2014, respectively. Of that, an amount of \$5.5 million related to capital expenditures (primarily maintenance) for the facilities in Greece and \$33.3 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 2015 was \$56.8 million. This resulted from \$40.2 million of interest paid, repayments of \$6.6 million of short and long-term borrowings and \$10.0 million of dividends paid to the shareholders. Net cash used in financing activities for 2014 was \$32.7 million, which reflects interest paid of \$40.0 million offset by net proceeds of \$7.3 million from short and long-term borrowings.

Principal Risks and Uncertainties for the Remainder of 2016

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.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk, primarily from foreign currency and interest rate fluctuations. We generally do not hedge our exposure to foreign currency and interest rate risks. We do not hold any derivatives for trading or speculative purposes. Changes in the fair value of derivatives are recorded in current earnings along with the change in the fair value of the underlying hedged item.

We enter into transactions denominated in foreign currencies related to the sales and purchases of goods. Therefore, we were not exposed to market risk related to possible foreign currency fluctuations, which is mitigated to a certain extent by the set-off of credit and debit balances in the same currencies. We are subject to currency exchange risks due to our international exposure relating to our sales in the Eurozone and U.K. markets. For the year ended December 31, 2015, 36.6% of our sales were denominated in currencies other than the U.S. dollar, while 36.1% of our costs were denominated in currencies other than the U.S. dollar.

As of December 31, 2015 and 2014, the Group was not exposed to interest rate fluctuations because all of its loans and borrowings bore fixed interest rates.

We are also exposed to fluctuations in the cost of raw materials. The primary raw material that we use is cow's milk. Plastic and paper for packaging materials also are significant components of our cost of sales. The prices of many of our raw materials are affected by governmental agricultural policies, the operations of suppliers, political upheavals and acts of God such as severe weather conditions. To the extent that we are able to obtain sufficient quantities of raw materials in the event of a supply disruption, our ability to pass through any increase in raw material costs to our customers depends upon competitive conditions and pricing methods employed in the various markets in which we sell our products.

Contractual Obligations

The following table sets forth the FAGE Group's contractual obligations as of December 31, 2015.

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>
	(\$ thousands)			
Interest-bearing loans and borrowings	400,000	-	400,000	-
Interest accruing on Senior Notes due 2020	161,292	39,500	121,792	-
Operating lease obligations	3,812	969	2,590	253
Investment in U.S. ⁽¹⁾	16,464	16,464	-	-
Other long-term liabilities	43	43	-	-
	<u>581,611</u>	<u>56,976</u>	<u>524,382</u>	<u>253</u>

(1) Represents agreements with various suppliers for the acquisition of equipment and for additional warehouse space.

Critical Accounting Policies

The discussion and analysis of financial condition and results of operations are based upon the Consolidated Financial Statements, which have been prepared in accordance with IFRS as endorsed by the European Union. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, doubtful accounts and long-lived assets. Management bases its estimates on historical experience and on various other assumptions and factors (including expectations of future events) that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the value of such assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that, of our significant accounting policies, the following may involve a higher degree of judgment and complexity:

Accounts receivable credit and collection. We have established criteria for granting credit to customers, which are generally based upon the size of the customer's operations and consideration of relevant financial data. Business generally is conducted with such customers under normal terms with collection expected within sixty days after shipment. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate allowance for doubtful accounts. The balance of such allowance for doubtful accounts is appropriately adjusted by recording a charge to the consolidated statement of income for the reporting period. Any amount written off with respect to customer account balances is charged against the existing allowance for doubtful accounts. It is our policy not to write off an account until all possible legal action has been exhausted.

Property, plant and equipment. Plant and equipment are stated at cost, net of subsidies provided by the Greek State, less accumulated depreciation and less any accumulated impairment losses. Borrowing costs incurred during the period of construction that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset using the related borrowing rate. Repairs and maintenance costs are expensed as incurred. Significant improvements are capitalized to the cost of the related asset if such improvements increase the life of the asset, increase its production capacity or improve its efficiency. The cost and related accumulated depreciation of assets retired or sold are removed from the accounts at the time of sale or retirement, and any gain or loss is included in the consolidated statements of income. For statutory reporting purposes, we were obliged to revalue our property, plant and equipment at various dates following the provisions of the respective mandatory tax laws. These revaluations have been reversed in the Consolidated Financial Statements, after giving effect to the related deferred income taxes. The reversal of the net revaluation gains is reflected in the component of equity “net revaluation surplus.”

Land, following initial recognition at cost, is measured at fair value less impairment losses recognized after the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the assets revaluation reserve included in the “net revaluation reserve” in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation rates and useful lives. Our assets are depreciated over their estimated remaining useful lives. These useful lives are periodically reassessed to determine whether the original period continues to be appropriate. The actual lives of these assets can vary depending on a variety of factors such as technological innovation and maintenance programs.

Goodwill. Goodwill on acquisitions is initially measured at cost, being the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is reflected separately in the balance sheet. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The annual impairment test requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill is recognized where the fair value of our interest in the net assets of the acquired entity exceeds the cost of acquisition and is recognized in income immediately.

Impairment of assets. With the exception of goodwill and other intangible assets with indefinite useful life, which are tested for impairment on an annual basis, the carrying values of other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Whenever the carrying value of an asset exceeds its recoverable amount, an impairment loss is recognized in the consolidated statement of income. The recoverable amount is measured as the higher of net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, after deducting any direct incremental selling costs, while value in use is the present value of estimated future cash flows expected to arise from continuing use of the asset and from its disposal at the end of its useful life. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Impairment losses which were accounted for in prior years are reserved only when there is sufficient evidence that the assumptions used in determining the recoverable amount have changed. In these circumstances, the related reversal is recognized in income.

Income taxes. Current and deferred income taxes are computed based on the separate financial statements of each of the entities included in the Consolidated Financial Statements, in accordance with the tax rules in force in Luxembourg or other tax jurisdictions in which entities operate. Income tax expense consists of income taxes for the current year based on each entity’s profits as adjusted in its tax returns and deferred income taxes, using substantively enacted tax rates as well as provision for additional income taxes which may arise from future tax audits. The final clearance of income taxes may be different from the relevant amounts which are included in the Consolidated Financial Statements. Deferred income taxes are provided using the liability method for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For transactions recognized directly in equity, any related tax effects are also recognized directly in equity. Deferred tax is calculated using substantively enacted tax rates at the balance sheet date.

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

U.S. corporations generally are subject to U.S. federal corporate income tax at a 35% rate. Reduced rates of tax apply to income amounts below specified thresholds, but the benefit of these reduced rates is recaptured at higher levels of income. In addition, corporations doing business in New York State are generally subject to a 6.5% corporate income tax. Based on a law enacted by the State of New York during the year ended December 31, 2014 for tax years beginning on or after January 1, 2014, the income rate for “Qualified New York Manufacturers” is 0% on the entire net income base. Management has concluded that the company meets the definition of a “Qualified New York Manufacturer” and accordingly will have to file with a 0% entire net income tax rate, while it will pay a capital base tax. The capital base tax is currently being phased out for tax years beginning on or after January 1, 2015 through 2020.

Derecognition of financial assets. When we have transferred our rights to receive cash flows from an asset or have entered into a pass-through arrangement, management exercises judgment to determine whether we have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and we recognize a new asset to the extent of our continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that we could be required to repay. Furthermore management engages in making estimates of the value of the guarantee to determine the amount of the continuing involvement.

Significant judgment. The preparation of financial statements in accordance with IFRS requires the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies which have been adopted. One significant judgment is the selection of presentation and functional currency.

OUR INDUSTRY

The worldwide market for Greek and Greek-style dairy products and, in particular, Greek yogurt has grown rapidly in recent years, largely driven by a growing demand for low-fat and high-protein food products that are perceived to be better for consumers.

We believe that dairy companies active in the non-fat and low-fat categories are well positioned to take advantage of trends in overall dietary habits, such as the gradual change in the perception of yogurt from a condiment to a side dish or stand-alone snack as well as the growing consumer preference for certain yogurt types with a high degree of nutritional and positive health characteristics. We believe that retail sales of Greek and Greek-style yogurt are well-positioned to continue to outperform the overall yogurt market and will likely continue to benefit from an ability to command premium prices.

The U.S. Yogurt Market

As reported by Nielsen, the growth of the U.S. yogurt market was considerably slower in 2015 than in previous years. Yogurt retail sales in the United States have risen from an estimated \$6.73 billion in 2014 to \$6.86 billion in 2015 at an annual growth rate of 2.0%. In volume terms, yogurt retail sales in the United States have risen from an estimated 1,378,000 metric tons in 2014 to 1,386,000 metric tons in 2015 at an annual growth rate of 0.6%.

The U.S. yogurt market's volume can be analyzed in two relatively distinct categories: flavored and fruit, representing approximately 88.6% of the category, and plain, accounting for the remaining 11.4%. Between these categories, the faster growing is the plain yogurt category, for which retail sales in the United States have risen from an estimated \$725 million in 2014 to \$778 million in 2015 at an annual growth rate of 7.4%. Growth in the plain yogurt category is driven by Greek strained yogurt. We are reported by Nielsen to be the leading plain yogurt brand in the United States, accounting for approximately 30.1% of the plain yogurt market.

Our principal competitors in the U.S. yogurt market are General Mills, with its Yoplait products, Groupe Danone, with its Dannon, Stonyfield and Oikos products, and Chobani, LLC. Together, General Mills and Groupe Danone account for a joint market share across all product categories that exceeds 50.0% in terms of sales value. Private-label products account for approximately 9.8% of the market in terms of sales value. We are reported by Nielsen to be the fourth largest market participant in terms of sales value, accounting for approximately a 5.6% share of the yogurt market. Our volume share of the U.S. yogurt market is 3.6%. However, due to certain limitations in the availability of data from certain food retailers, our management, based on actual sales volumes, believes that our market share is significantly understated.

The U.K. Yogurt Market

The total U.K. yogurt market was valued at £1.2 billion for the fifty-two weeks ended December 31, 2015. Yogurt household penetration in the United Kingdom is high and increasing, while the market is categorized according to consumers' needs and the latest healthy diet trends. FAGE yogurt participates in the Greek and Greek-style yogurt category of the U.K. yogurt market. The following table presents the size and growth rates of the U.K. yogurt market by volume and value for the years ended December 31, 2013, 2014 and 2015.

	Volume			Value		
	2013	2014	2015	2013	2014	2015
	(metric tons)			(£ thousands)		
Total Yogurt Market	469,224	443,709	443,459	1,266,345	1,233,488	1,226,256
% annual change		(5.4%)	(0.06%)		(2.6)%	(0.6)%
Category in which we compete:						
Greek and Greek-Style Yogurt	70,132	81,213	90,772	220,629	268,008	298,184
% annual change		15.8%	11.8%		21.5%	11.3%

Source: Nielsen Scanning data, December 31, 2015.

We have a 4.4% share of the total U.K. yogurt market in value and FAGE® is the second largest brand in terms of sales in the Greek and Greek-style category of the U.K. yogurt market, with a 18.2% share of market value. Private label products account for 21.2% of the segment while other major brands in the category are Müller, Nestle, Yeo Valley, Yoplait, Danio and Oikos. The following table presents the main participants in the U.K. Greek and Greek-style yogurt category, together with their market positions for the year ended December 31, 2015.

	Greek and Greek-Style Yogurt	
	Value Share	Volume Share
FAGE	18.2%	11.9%
Private Label	21.2%	29.9%
Yeo Valley Organic	7.4%	6.8%
Müller	27.9%	27.7%
Yoplait	6.0%	6.0%
Nestle	4.6%	4.1%
Danone Danio	2.8%	1.9%
Dannon Oikos	6.5%	6.3%

Source: Nielsen Scanning data, December 31, 2015.

The Italian Yogurt Market

The total Italian yogurt market was valued at €1.4 billion for the year ended December 31, 2015 and experienced growth of 2.7% in volume and 2.6% in value as compared to the year ended December 31, 2014. This was the first year of market growth after three consecutive years of sales decline. This growth was partially driven by FAGE, which has a 7.0% share of the total Italian yogurt market in value.

We compete in the plain white yogurt market with our *FAGE[®] Total[®]* brand, which accounts for 14% of the total market and consists of two distinct product categories: full-fat, representing approximately 52% of the plain white yogurt market; and low-fat, accounting for the remaining 48%. With our *FAGE[®] Fruyo[®]* brand we compete in the fruit yogurt market, which is also divided in full-fat (66%) and low-fat (34%). Fruyo 0%, the low-fat range, was launched in 2012 and is currently the brand leader in the segment. Fruyo Classic, the full-fat range, was launched in March 2015.

The following table presents the size and growth rates of the Italian yogurt and dairy desserts markets by volume and value for the three years ended December 31, 2015.

	Volume			Value		
	2013	2014	2015	2013	2014	2015
	(metric tons)			(€ thousands)		
Total Yogurt Market	347,626	340,821	349,878	1,380,243	1,366,766	1,402,510
% annual change.....		(2.0)%	2.7%		(1.0)%	2.6%
Categories in which we compete:						
Full-Fat White Yogurt Market	29,246	29,958	31,489	92,111	97,199	102,925
% annual change.....		2.4%	5.1%		5.5%	5.9%
Low-Fat White Yogurt Market	23,626	24,039	25,089	82,176	87,052	94,271
% annual change.....		1.7%	4.4%		5.9%	8.3%
Full-Fat Fruit Yogurt Market	120,319	117,720	115,208	405,084	400,129	389,238
% annual change.....		(2.2)%	(2.1)%		(1.2)%	(2.7)%
Low-Fat Fruit Yogurt Market	41,937	46,295	48,512	145,406	176,637	196,474
% annual change.....		10.4%	4.8%		21.5%	11.2%
Dairy Desserts Market	26,794	25,860	26,229	145,525	143,234	146,059
% annual change.....		(3.5)%	1.4%		(1.6)%	2.0%

Source: IRI Scanning data, 2013-2015.

Main competitors in the Italian plain white yogurt market are local producer Vipiteno, private-label products, and Müller. In the fruit yogurt market the main competitors are local producers Yomo and Vipiteno, and private-label products, Müller and Danone, which has the leadership in the functional yogurt market. In the Italian dairy desserts business, Müller is our primary competitor. The following table presents the main participants in the Italian market, together with their market positions in value terms by product category for the year ended December 31, 2015.

	Low-Fat White Market	Full-Fat White Market	Low-Fat Fruit Market	Full-Fat Fruit Market
FAGE	#1	#4	#2	#9
	31.4%	11.3%	19.7%	1.6%
Danone	#7	#11	#1	#11
	2.5%	1.7%	22.5%	1.2%
Müller	#4	#1	#5	#2
	10.8%	18.3%	6.1%	17.0%
Latteria Vipiteno	#3	#3	#6	#3
	15.2%	16.5%	5.9%	15.3%
Yomo + Granarolo	#5	#6	#4	#1
	4.9%	5.1%	8.4%	25.0%
Parmalat	#17	-	#8	#5
	0.5%	-	3.4%	7.5%
Scaldasole	#6	#14	#7	#34
	2.5%	1.0%	5.5%	0.1%
Private Labels	#2	#2	#3	#4
	16.0%	17.1%	16.7%	12.3%

Source: IRI Scanning data, year 2015.

The Greek Yogurt Market

In Greece, the dairy market consists of five principal product categories: yogurt, dairy desserts, UHT and evaporated milk and milk creams, refrigerated milk (fresh and ESL milk) and cheese. Within these product categories, we focus primarily on the yogurt market, which was valued at approximately €286 million for the twelve months ended November 30, 2015. We hold the leading market position in the yogurt market in Greece. From 2009 to 2014, sales volume in the Greek dairy market declined, while competitive conditions and the deteriorating macroeconomic environment reduced the ability of operators to generate value growth comparable to historical levels.

The following table presents the size and growth rates of the Greek yogurt market (traditional yogurt, i.e. yogurt with a layer of fat on top, not included) by volume and value in the twelve months ended November 30, 2015, 2014 and 2013.

	Volume			Value		
	Twelve months ended November 30,			Twelve months ended November 30,		
	2013	2014	2015	2013	2014	2015
	(metric tons)			(€ thousands)		
Yogurt	66,025	65,659	66,489	294,032	294,272	286,448
% annual change.....		(0.6)%	1.3%		0.1%	(2.7)%

Source: Nielsen MarketTrack, December 2014-November 2015. Nielsen survey figures are derived by extrapolation from a sample of an estimated 85% of the Greek market for yogurt.

Yogurt has traditionally been a staple of the Greek diet. Despite adverse economic conditions, Greece continues to have a high per capita rate of yogurt consumption (9.8 kg/year). In contrast to other countries where yogurt is typically only a dessert or breakfast product, in Greece it is mainly consumed as a stand-alone snack or as part of a meal.

The Greek yogurt market is very competitive. Our principal competitor in Greece is Vivartia S.A. (formerly Delta). We also compete with Kri-Kri, private labels, Olympos, Mevgal S.A, Dodoni, Friesland/Campina, Danone and Kolios.

The following table presents the main participants in the Greek yogurt market (traditional not included) together with their market positions for the twelve months ended November 30, 2015 by volume and value.

	Yogurt (Volume) *	Yogurt (Value) *
FAGE	#1 22.6%	#1 26.1%
Vivartia	#2 14.4%	#2 19.2%
Kri-Kri	#3 11.5%	#3 9.6%
Private Labels	#4 11.0%	#5 6.8%
Olympos	#5 8.9%	#4 6.4%
Mevgal	#6 6.8%	#6 6.3%
Dodoni	#7 6.8%	#7 5.4%
Friesland/Campina	#8 4.3%	#9 3.8%
Danone	#9 3.8%	#8 5.1%
Kolios	#10 2.0%	#10 1.4%
	92.1%	93.2%

Source: Nielsen MarketTrack, annualized figures for all bi-monthly periods within the twelve months ended November 30, 2015.

*The figures refer to branded yogurt (drinking and sealed yogurt included, traditional yogurt not included)

BUSINESS

Overview

We are a leading international dairy company with a focus on yogurt. We have a significant and growing presence in the U.S. yogurt market, growing international sales outside of the United States, and the leading market position in the Greek yogurt market. We have grown from our origins in Greece in 1926 to become an international company with sales in 40 countries. We manufacture, distribute and sell a wide range of dairy products, including yogurt and dairy desserts, milk and milk creams, and modern packaged cheese. For the year ended December 31, 2015, approximately 63.4% of our sales and 73.5% of our EBITDA were generated in the United States and 36.6% of our sales and 26.5% of our EBITDA were generated in Europe.

We market our yogurt worldwide under the *FAGE® Total®* brand. We believe that this highly recognized brand conveys an image of superior taste and quality and enables us to enter new markets, expand our business in existing markets and bring new products to market. In the United States, our yogurt is the fourth largest yogurt brand overall in terms of sales and our plain yogurt is the leading plain yogurt in the U.S. market. In Greece, we complement our leading market share in yogurt with a broad range of other dairy product lines.

The products that we manufacture are produced in our state-of-the-art, highly automated facilities. Our U.S. facility, located in Johnstown, New York, which started commercial production in April 2008 and is the largest of our facilities in terms of production capacity, manufactures yogurt products for the U.S. market and the rest of the Americas. We have three facilities in Greece: one for yogurt products, a second for cheese products and a third for milk products. The facility for yogurt products serves all of our markets outside of the Americas. The milk facility is considered to be a discontinued operation in accordance with the Group's decision in December 2015 to withdraw from the milk business because this operation was highly unprofitable. We have our own distribution units in the United Kingdom, Italy and Germany and a comprehensive distribution network in Greece.

We distribute our products to approximately 280 supermarket chains, with approximately 75,000 retail outlets in 40 countries, primarily in the United States and throughout Europe. We also sell our products to bakeries, confectionaries, dairy stores and other smaller, sometimes seasonal, convenience stores. Our total number of full-time employees as of December 31, 2015 was approximately 1,081.

For the year ended December 31, 2015, we had sales of \$648.2 million and EBITDA of \$144.7 million. Sales and EBITDA for the year ended December 31, 2014 amounted to \$667.9 million and \$97.6 million, respectively.

Competitive Strengths

We believe that our position as one of the leading dairy companies in the markets in which we compete can be attributed to, and will continue to be supported by, a number of competitive strengths, which include the following:

Strong Trademark and Brand Image. We believe the *FAGE® Total®* trademark conveys an image of superior taste and quality that has allowed us to reinforce and expand our leading positions in the yogurt market in the United States, Greece and other international markets. We believe that we pioneered the Greek yogurt market and our brand has been instrumental in changing consumer preferences and driving the rapid growth of this market internationally. We have been recognized in a 2009 survey by BrandSpark International for the quality of our products as part of a consumer survey involving over 50,000 U.S. and 25,000 Canadian shoppers. *FAGE® Total 0%* yogurt received the fifth highest score for products sold in the United States (and the highest score for a food product) in a survey by a leading marketing and brand research company. This survey of consumers for over 180 brands, ranging from food to health and beauty to household care products, measured a brand's power to generate referrals to friends and family. In a large corporate image survey conducted in Greece by Centrum in May 2010, we were ranked the most respected company by consumers among all companies in all sectors of the Greek market.

Distinctive Products of Superior Quality. We believe that our products are recognized by consumers for their superior quality and taste. This reputation for product quality has been built during our 90-year history through advanced technical expertise and significant investment in sophisticated production facilities. We offer some of the most distinctively Greek yogurt products. In the yogurt market, we believe that our strained yogurt, produced using our own proprietary recipe and process, has a fuller, richer taste and a thicker texture than that of other yogurts sold in the United States and Europe. We believe that our superior product quality and distinctive product offering provide growth opportunities in international markets, where our strained yogurt offers a superior culinary experience, and underpin our leading position in Greece as Greek consumers typically prefer authentic Greek dairy products.

Leading Market Positions in the United States and Greece and Rapidly Growing International Presence. In the United States, a market with significant opportunity given its large size, relatively low capital consumption and high growth potential, our yogurt is the fourth largest yogurt brand overall in terms of sales. We believe that the popularity of our plain yogurt product lines will enable us to continue to increase our sales in the United States in light of the fact that plain yogurt is a relatively small but growing segment of the overall U.S. yogurt market. In Greece, according to recent market share data provided by Nielsen and management estimates, we have the leading market position in yogurt. Our sales also are growing rapidly in key European

countries such as the United Kingdom and Italy.

State-of-the-Art Production Facilities and Processes. Between January 1, 2011 and December 31, 2015, we invested approximately \$250.8 million in building our state-of-the-art, highly automated production facility in the United States, which started commercial production in April 2008. We also have invested approximately \$30.2 million in upgrading and modernizing our facilities in Greece. Our expanded U.S. facility currently has capacity to produce 120,000 tons of yogurt annually. The expansion began early in 2013 and is expected to be completed by the end of 2016. Following this expansion, our U.S. production capacity ultimately will reach a total of approximately 160,000 tons of yogurt annually, which will enable us to meet the growing demand for our products and further optimize our production costs. Our Greek facilities currently export more than half of the yogurt and dairy desserts that they produce. Our capital expenditure and investment program as well as our active management of our entire manufacturing footprint have allowed us to benefit from higher productivity, lower production costs and improved operating efficiencies, as increased automation and greater capacity utilization have lowered our per unit production costs. We have been recognized for the strength of our manufacturing practices by Silliker, Inc., an international network of food safety testing and consulting laboratories. We believe that our production processes afford us a competitive advantage as they enable us to produce distinctive products of the highest quality. We protect our manufacturing knowhow vigorously and invest extensively in our people to ensure that they follow the highest standards of production.

Strength of Management. We are owned and strategically led by the Filippou family, which has been active in the dairy industry for the past 90 years. The Filippou family has successfully introduced several innovative trends in the dairy industry, particularly over the last 30 years. For example, the Filippou family developed the packaged yogurt, one of the most profitable product groups in the Greek dairy market. Our present management team has made strategic decisions to support and strengthen our competitive position and profitability, and has demonstrated leadership in expanding the FAGE Group from its origins in Greece to international markets, particularly the United States, the United Kingdom, Italy and Germany. Our strong corporate culture and loyal shareholders, management and employees have enabled us to successfully weather significant macroeconomic challenges and to continue to expand our business over our nearly nine-decade history.

Business Strategy

Our general strategy is to reinforce and expand our leading market positions through continued investment, innovation and promotion, further develop our international operations and penetrate new and expand existing international markets.

Grow Our Business and Expand Our Production Capacity in the United States. Since we introduced our *FAGE*[®] *Total*[®] product line in the United States in 1998, consumers have responded very favorably to this authentic Greek yogurt and sales have grown considerably. Our sales volume in the United States has grown from 8,900 tons in 2007 to 87,923 tons in 2015. Based on our experience with yogurt sales in the United States in the past 17 years, management believes there is significant growth potential for our yogurt products in the U.S. market. Our cumulative investment in our state-of-the-art, highly automated production facility in the United States, which started commercial production in April 2008, amounted to \$378.3 million as of December 31, 2015. We believe that our U.S. plant's production capability and standards are among the highest in the dairy industry both from a technological as well as an efficiency point of view. Our U.S. facility currently has the capacity to produce approximately 120,000 tons of yogurt annually. To meet increasing U.S. demand, we are further expanding production capacity at our Johnstown, New York facility. The expansion will utilize existing milk receiving, pasteurizing, processing and cold storage warehouse operations and add incubation, separator, processing, filling, packaging and cooling tunnel operations. The expansion began early in 2013 and is expected to be completed by the end of 2016. Following this expansion, our U.S. production capacity ultimately will reach a total of approximately 160,000 tons of yogurt annually. The estimated capital investment for the project will be approximately \$140.0 million and is primarily being financed with proceeds from the issuance of the Additional Senior Notes. We intend to continue to make the investments necessary for us to capitalize on growing U.S. demand for our products.

Grow in International Markets. We plan to continue to grow in attractive international markets. We own our distribution units in the United Kingdom, Germany and Italy and we plan to continue making investments to streamline the production and distribution of our products internationally. We intend to continue to actively pursue opportunities to introduce our products to new geographical areas.

Develop, Launch and Promote New and Innovative Product Lines. Our product development effort will be focused on further extending our product offerings in the yogurt market by introducing new, higher-margin yogurt products and launching new fruit yogurt products. For example, we launched our *FAGE*[®] *Fruyo*[®] yogurt brand, a strained yogurt with fruit pieces blended in that is available in several fruit flavors in non-fat, low-fat and full-fat varieties, to respond to consumer demand for thicker and tastier fruit yogurt.

Further Improve Efficiency and Profitability. Our management is committed to improving the efficiency of our production and distribution processes in order to enhance our profitability. Through our U.S. facility, we have significantly enhanced the profitability of our U.S. operations. We have achieved significant savings by re-engineering our Greek production facilities and by consolidating our raw milk supply chain and rationalizing our product mix. We have also enhanced efficiency by negotiating more favorable terms with our suppliers, reducing other costs of sales and eliminating lower-margin products from our product portfolio. As part of this effort, we have ceased the production and distribution of certain of our smaller product lines in favor of higher-margin products with broader appeal in a wider range of markets. We plan to further develop and

promote higher-margin products.

Pursue Profitable and Cash-Generative Opportunities in Greece. In Greece, we will seek to maintain our leadership position in yogurt by continuing our intensive promotional plans, communicating the value of our brands and the superior attributes of our products to enhance brand image and strengthening our relationship with consumers through advertising, event sponsorships and other activities. We intend to capitalize on lower labor costs, excess capacity and the highly trained personnel at our production facilities in Greece to meet anticipated increases in demand in other European countries and to continue to expand exports of our products from Greece to existing and new international markets.

Company History

We are owned and strategically led by the Filippou family, which has been involved with the Greek dairy industry for the past 90 years. Today, third-generation members of the Filippou family run and manage our operations and lead our expansion in international markets. The FAGE Group is the successor to a business founded in 1926 by the establishment of the first dairy shop in Athens by the family of Mr. Athanassios Filippou, the grandfather of today's Chief Executive Officer and Chairman. In 1954, Mr. Ioannis Filippou, son of Mr. Athanassios Filippou, entered the family business and helped to create the first wholesale distribution network for yogurt. By 1964, the first yogurt and pastry production facility in Galatsi, Athens was founded by the two sons of Mr. Athanassios Filippou, Messrs. Ioannis and Kyriakos Filippou. In 1975, the yogurt plant was relocated from Galatsi to the property that we own at Metamorfossi in Attica, where our largest production facility in Greece remains to this day.

During the period from our inception until the mid-1970s, we were involved primarily in the small-scale production and distribution of traditional Greek yogurt. Until that time, retail outlets typically sold yogurt as a commodity product in bulk quantities, and the consumer often was unaware of the manufacturer. In 1975, we were the first company to introduce branded yogurt products into the Greek market. These products, which carried the *FAGE*[®] trademark, were sold in smaller, sealed tubs and presented in attractively designed packaging. Over the last three decades, branded yogurt products have steadily replaced the traditional bulk varieties, transforming the Greek yogurt industry into a predominantly branded market.

Our commercial success in selling yogurt and the positive image of the *FAGE*[®] trademark have enabled us to diversify into other product areas of the dairy industry. In 1991, we entered the cheese market with what is now the leading packaged cheese brand *Trikalino*[®], which is produced in our cheese plant in Trikala. In November 1995, we launched our yogurt for children, under the brand name *Junior*[®], which is the leader in the children's yogurt category of the market. We attribute our profitable growth in part to our success in entering new businesses and our ability to adapt to changing market conditions by targeting higher-margin businesses and exiting less-profitable product lines. We believe that success in our markets depends on consistently engaging consumers with new products and improvements to existing products, and we have continuously launched new products to meet changing consumer tastes. In 2011, we launched our *FAGE Fruyo*[®] yogurt brand, a strained yogurt with fruit pieces blended in that is available in several fruit flavors in non-fat, low-fat and full-fat varieties, to respond to consumer demand for thicker and tastier fruit yogurt.

From our roots as a local Athens dairy producer, we have expanded throughout Greece as well as internationally. We began exporting yogurt to the United Kingdom and Italy in 1983 and to the United States in 1998. We enjoy a growing market presence in the United States and key European countries such as the United Kingdom, Italy, Germany and Cyprus.

In June 2000, FAGE USA Holdings, Inc. (formerly FAGE USA, Corp.) was incorporated as a wholly owned subsidiary of FAGE Greece, which was then the parent company of the FAGE Group, to import, distribute and promote *FAGE Total*[®] in the U.S. market. After only four years of sales in the United States and with sales of 2,146 tons of imported yogurt in 2004, we saw significant growth potential for our yogurt products in the U.S. market. In late 2004, we decided to invest in new manufacturing capacity in the United States in order to meet current and future demand and increase the profitability of our U.S. sales through the elimination of transportation costs and import duties. In February 2005, we established FAGE USA Dairy Industry, Inc., a wholly owned subsidiary of FAGE USA Holdings, Inc., to build and operate a state-of-the-art yogurt manufacturing facility in Johnstown, New York. Our initial plan was to invest \$33.0 million, to build a facility with an annual capacity of 6,000 tons. While we were designing and constructing the new facility, U.S. sales growth and customer feedback were so strong that our management team instructed our engineers to increase the facility's capacity, first to 12,000 tons and then gradually to its current capacity of over 85,000 tons. The facility started commercial production in April 2008. Since June 2008, all of the yogurt that we sell in the United States has been produced at our manufacturing facility in Johnstown, New York.

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.

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").

Products

Our principal product is Greek yogurt. We believe that Greek yogurt has a fuller, richer taste and a thicker texture than that of other yogurt sold in the United States and other parts of Europe. These distinctive characteristics have developed through the use of different ingredients and production processes. Our yogurts are made according to our family recipe using our proprietary production methods. To make our strained yogurt, we pasteurize the milk and add our own yogurt culture for a slow fermentation process. The yogurt culture is produced at our plant and helps to create the distinctive *FAGE[®] Total[®]* yogurt flavor. The yogurt then undergoes our proprietary straining process, which removes the watery whey and gives our yogurt its thick, creamy texture. Approximately four pounds of milk are needed to make one pound of *FAGE[®] Total[®]* strained yogurt.

Our yogurt products include: strained and set yogurts made from milk, cream and yogurt culture; low-fat and fat-free yogurt made using skimmed milk; yogurts with honey, strawberries and other fruits; and yogurts flavored or mixed with fruit juice, fruit pieces, fruit preserves, cereals and other ingredients. We were the first company in Greece to offer products in the enriched food and children's yogurt sectors.

Our four major yogurt brands are *Total[®]*, *Ageladitsa[®]*, *Fruyo[®]* and *Junior[®]*. The *Total[®]* line is a strained yogurt made from cow's milk or skimmed cow's milk and is produced in several variations including *Total[®]* plain and *Total[®] Split Cup[®]* with sweet fruit preserves and honey, all in variants of 5%, 2% and 0% fat. *Ageladitsa[®]* is a set yogurt made from cow's milk and is produced in three variants: *Ageladitsa[®]* (classic, 4% fat), *Ageladitsa[®] 2%* (low-fat) and *Ageladitsa[®] 0%* (fat-free). *Fruyo[®]* is a strained yogurt with fruit pieces blended in that is available in several fruit flavors in non-fat, low-fat and full-fat varieties, responding to consumer desires for a tastier and thicker fruit yogurt. *Junior[®]* is the leading brand in yogurt products specifically designed for children.

In 2015, we launched a new international TV campaign for *FAGE[®] Total[®]* with the slogan "*nothing more. never less.*" This campaign was aired simultaneously in the USA, the UK, Italy and Greece and was designed to celebrate the simplicity, versatility and premium quality of our product.

Sales and Marketing

We seek to increase sales to our customer base, which primarily consists of food retailers, by promoting consumer loyalty to products carrying the *FAGE[®]* brand and our other brand lines. We believe that consumer loyalty and product preference are the main drivers of our sales, and that retailers stock our goods in response to consumer demand for such products. We support our brands and products by engaging in integrated marketing and communication programs designed to further strengthen the position and value of our brands.

The largest part of our advertising expenditure is for TV advertising and we also invest in print, cinema and radio advertising. Beginning in 2011, we have actively engaged in Internet social media, with a focus on Facebook and Instagram, and also in digital advertising. As of 2015, we operate a Global Facebook Page (<https://www.facebook.com/fage>) with more than 1.8 million fans. In 2013, we launched a new website with six country versions and one for all other export countries, so that consumers around the world have access to updated information about our products as well as ideas for cooking and healthy living.

Trade marketing activities, undertaken in cooperation with supermarkets and other retailers, typically target higher-volume sales and consist of competitions, gifts or price reductions. Consumer promotional activities include our major brands and newly introduced products. Other promotional activities include prominent in-store displays, marketing activities with key accounts and direct mail. We strive to enhance our long-term relationships with our food retailers by offering greater product variety, better service and more value than our competitors offer. In addition, we employ key account managers to drive our sales and sales account representatives responsible for ensuring the broad distribution and sale of our products through retail outlets.

To promote international sales of our yogurt products, we rely on 44 independent sales representatives and distributors in 40 countries. *FAGE* yogurt is marketed as authentic Greek recipe strained yogurt, made with *FAGE*'s proprietary method using only milk and *FAGE*-made yogurt cultures, that is of superior taste and quality.

Customers

We distribute our products to approximately 280 supermarket chains, with approximately 75,000 retail outlets in 40 countries, primarily in the United States and throughout Europe. We also sell our products to bakeries, confectionaries, dairy stores and other smaller, sometimes seasonal, convenience stores. No one customer accounted for more than 10% of our sales in 2015. We believe that the wide availability of our products enhances our strong brand image, which further assists in maintaining consumer demand for *FAGE[®]* products.

Distribution

We distribute our products to the U.S. market from our U.S. production facility directly to regional and national

grocery store chains and warehouse chains and indirectly, through national and regional grocery distributors, to independent and local stores. Deliveries are arranged with common carriers.

We distribute our products to the Greek market through an extensive and well-organized distribution network using our own vehicles as well as vehicles owned by our distributors and third-party transport service providers.

We distribute our products to other international markets through our own distribution units in the United Kingdom, Italy and Germany and through 44 sales representatives and distributors in 40 countries. Products sold to our customers outside of the Americas are shipped from Greece and delivered to approximately 20,000 retail outlets in the countries of destination.

Suppliers and Raw Materials

The principal raw materials used in our fresh dairy products are fresh cow's milk, semi-processed cow milk cheese mass (baski), low-fat condensed milk, milk cream, and the fruit and other ingredients that are included in certain of our yogurt products. Raw materials are purchased from multiple suppliers in the United States, Greece and other parts of the European Union, and we are not dependent on any single supplier. We also purchase non-food materials, such as plastic and other packaging, from multiple suppliers.

We select our suppliers based on an assessment of their quality, punctuality in delivery, stability and ongoing cooperation. While we do not have any long-term written supply contracts, we have not experienced any significant problems in supplying our operations. Management believes that our sources of raw materials are adequate for our anticipated needs.

Governmental Regulation

FAGE USA and our operations in the United States are subject to regulation by the U.S. Food and Drug Administration, the U.S. Department of Agriculture and the U.S. Federal Trade Commission under applicable laws relating to the use, manufacture, packaging, registration, licensing, labeling, distribution, storage, marketing, development, processing, advertising, transportation or sale of its food products (including the U.S. Federal Food, Drug and Cosmetic Act, as amended, the Agricultural Marketing Act of 1946, as amended, the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, the Food Allergen Labeling and Consumer Protection Act of 2004, the U.S. Federal Trade Commission Act, the Organic Food Productions Act of 1990, the Sanitary Food Transportation Act, the Nutrition Labeling and Education Act of 1990, the Fair Packaging and Labeling Act, the FDA Food Safety Modernization Act and, in each case, the rules, regulations and guidelines promulgated thereunder), as well as laws and regulations administered and enforced by the New York State Department of Agriculture and Markets.

Luxembourg and Greece are members of the European Union, and as a result we are subject to certain regulations adopted by the European Union.

Economic and Monetary Union. Pursuant to the Treaty for the European Union, Member States must formulate their economic policies in light of general guidelines issued by the European Council (the "Council"). The Council reviews the economic policies of the Member States and may issue recommendations.

Health and Safety Regulations. Pursuant to European Union directives, the Greek government has implemented regulations respecting the production, packaging, labeling, storage and transportation of milk and dairy products. In accordance with such regulations, among other required steps, we have implemented the HACCP Standard, a systematic approach to the recognition and control of potential hazards in the production process.

Environmental Matters

Our business operations and ownership and operation of real property are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which we operate, including Greek, European Union, and U.S. federal and state laws and regulations. These laws and regulations impose increasingly stringent environmental protection standards on us and affect air emissions, wastewater discharges, the use and handling of hazardous materials, noise levels, waste disposal practice and environmental clean-up, among other things. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination at our or other sites or the imposition of new cleanup requirements could require us to incur future costs that would have a negative effect on our results of operations or cash flow. Environmental laws can impose cleanup liability on owners or occupiers of a contaminated property even if they did not cause the contamination and our properties have not been investigated for the presence of soil or groundwater contamination.

We believe that we are in substantial compliance with environmental laws and regulations and that currently we have no liabilities under environmental requirements that we would expect to have a material adverse effect on our business, results of operations or financial condition.

Employees

Our total number of full-time employees as of December 31, 2015 was approximately 1,081. We promote the recruitment, development and retention of well qualified managers and employees. U.S., Greek, U.K., German, Luxembourg and Italian legislation provides for mandatory minimum wage levels for our employees. Pursuant to our agreement with the union representing our Greek employees, we typically pay our employees more than the legislation requires and provide certain additional employee benefits. We believe that our relationship with our employees is good and we have not experienced any work stoppages due to labor unrest in the last five years. The following table sets forth a breakdown of employees by main category of activity:

	Number of Employees
Production process	679
General and administrative.....	131
Selling and distribution	271
	<u>1,081</u>

Research and Development

We place significant emphasis on our research and development activities. Our Quality Assurance and Research and Development (“QARD”) division is staffed by 44 employees who work in six laboratories in four different locations, with our main QARD facility located at our Athens plant. Most of our QARD employees have many years of experience in the dairy sector and some have advanced degrees. The QARD director reports directly to our Chief Executive Officer.

Our QARD activities include development of new products as well as regular review of product quality, safety parameters and legal compliance for existing products. Over the last five years, we have developed approximately 98 new product variants of yogurt, cheese, milk, milk creams and dairy desserts. Based on our experience, we expect to be able to develop approximately 20 new products per year. We continuously research new ingredients and alternative sources of supplies to improve the quality of our products and manage our costs. Our QARD division also develops and implements food safety programs for our production lines in accordance with ISO 20000 safety standards, and it was instrumental in the extension of our production technology for strained yogurt to our U.S. production facility.

Trademarks

All of our products are marketed under registered trademarks. We consider our *FAGE*[®] trademark, as well as our other major product brands, to be important competitive advantages and material to our business. We actively take steps to protect our intellectual property rights when and where we deem appropriate. Trademarks are registered in the United States, the E.U., Greece and certain other countries.

Properties

The following table sets forth our principal owned properties:

Location	Approximate Building Area (in square meters)
Metamorfossi, Athens (Yogurt Facility).....	52,729
Johnstown Industrial Park, Johnstown, New York, U.S.A. (Yogurt Facility)	40,035
Amyntaio (Milk Facility)	15,732 (*)
Trikala (Cheese Facility)	4,095
Thessaloniki (Distribution Facility).....	3,352

(*) In December 2015, the Group determined to withdraw from the milk business. Accordingly, the business is classified as a discontinued operation and the related property, plant and equipment are classified as held for sale.

Our main Greek facility in Metamorfossi, Athens, houses our principal yogurt production facilities. As of December 31, 2015, we also leased 13 properties, of which five are in Greece, three are in the United States, two are in the United Kingdom, one is in Italy, one is in Luxembourg and one is in Germany. These leased properties consist primarily of warehouses and office space. Most of the commercial leases will expire between 2016 and 2021, subject to Greek statutory provisions that enable commercial and industrial tenants to extend the contractual term of a lease for a period of 6 to 12 years in total.

Legal Proceedings

- (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)** We are involved in various other legal proceedings incidental to the conduct of our business. Management does not believe that the outcome of any of these other legal proceedings will have a material adverse effect on our financial condition or results of operations. We maintain product liability insurance that we believe is adequate at the present time in light of our prior experience.

MANAGEMENT

The following table identifies each of the directors and executive officers of FAGE International. Directors are elected for a term of six years or until their successors are elected and qualified. The address of each director and executive officer of FAGE International is 5 rue des Primeurs, L-2361 Strassen, Luxembourg.

Name	Age	Position
Athanassios-Kyros Filippou.....	47	Chairman of the Board
Athanassios Filippou.....	50	Vice Chairman and Chief Executive Officer and a Director
Christos Koloventzos.....	61	Chief Financial Officer and Director
Robert Shea.....	54	Director
Ioannis Ravanis.....	48	Director
Jeffrey Scipione	45	Director
Samuel Haas	44	Financial Controller and Director

Mr. Athanassios-Kyros Filippou has been the Chairman of the Board of Directors of FAGE International since its inception in September 2012. He is the Chairman of the Board of Directors of FAGE USA and since December 20, 2012, the Vice Chairman and Chief Executive Officer of FAGE Greece. He currently holds the positions of Chairman of the Board of Directors and Chief Executive Officer of Evga, of Mornos and of Agan. He is the son of Mr. Kyriakos Filippou. See “Ownership of Share Capital” and “Related Party Transactions.”

Mr. Athanassios Filippou has been Vice Chairman and Chief Executive Officer of FAGE International since its inception in September 2012. He is the Vice Chairman and Chief Executive Officer of FAGE USA. He is the son of Mr. Ioannis Filippou. See “Ownership of Share Capital” and “Related Party Transactions.”

Mr. Christos Koloventzos has been Chief Financial Officer and a Director of FAGE International since its inception in September 2012. He is also the Chief Financial and Administrative Officer and a Director of FAGE Greece. Previously he was the Group Financial and Administrative Director of Bingo S.A., a wafer and chocolate manufacturer, from 1990 to 1995, and Financial Controller of Phosphoric Fertilizer Industry (PFI) from 1984 to 1990.

Mr. Robert Shea has been a Director of FAGE International since its inception in September 2012. He is also a Director, the Secretary and Chief Financial Officer of FAGE USA. Previously, he held the position of Financial Controller of FAGE USA since May 2008. He was an Associate V.P. of Sanofi-Aventis Pharmaceuticals, Inc. and held various other positions within Sanofi and its predecessor companies since 1992.

Mr. Ioannis Ravanis has been a Director of FAGE International since its inception in September 2012. He is also the Executive Vice President, Manufacturing and Operations of FAGE USA. He has been with the FAGE Group for his entire career, holding various positions of increasing responsibility. He moved to the United States in 2006 to oversee construction of our U.S. manufacturing facility.

Mr. Jeffrey Scipione has been a Director of FAGE International since June 2014. He also has been the Vice President of Sales of FAGE USA since June 2014. Previously, he held the position of Business Manager of FAGE USA since August 2011. Prior to joining FAGE USA, he was the Business Development Manager of Spotless Punch. Mr. Scipione has over 15 years of U.S. sales and business development experience.

Mr. Samuel Haas has been the Financial Controller and a Director of FAGE International since September 2015. Previously, he was the Director at CLS Holdings Plc in Luxembourg, a real estate company, from 2013 to 2015 and Managing Director at Cobo S.A. in Luxembourg, an e-commerce company specializing in e-books, from 2006 to 2013.

The following table identifies each of the directors and executive officers of FAGE USA. Directors hold office until the next annual meeting of stockholders of FAGE USA and until their successors are elected and qualified. Officers hold office until their successors are elected and qualified. The address of each director and executive officer of FAGE USA is 1 Opportunity Drive, Johnstown Industrial Park, Johnstown, New York 12095, U.S.A.

Name	Age	Position
Athanassios-Kyros Filippou	47	Chairman
Athanassios Filippou	50	Vice Chairman and Chief Executive Officer and a Director
Ioannis Ravanis	48	Executive Vice President, Manufacturing and Operations and a Director
Spyros Gianpapas	62	Executive Vice President, Quality Assurance, R&D, and Production and a Director
Robert Shea	54	Secretary, Chief Financial Officer and a Director
Jeffrey Scipione.....	45	Vice President of Sales and a Director

Mr. Spyros Gianpapas has been the Executive Vice President, Quality Assurance, R&D, and Production and a director of FAGE USA since 2014. He was the Chief Quality Assurance, R&D and Regional Plants Officer and Director of FAGE Greece from 2006 to 2013. Previously he was the Quality Control, Research, and Development Manager and held various managerial positions at FAGE Greece from 1984 to 2006.

The following table identifies each of the directors and executive officers of FAGE Greece. Directors are elected for a term of three years or until their successors are elected and qualified. Officers hold office until their successors are elected and qualified. The address of each director and executive officer of FAGE Greece is 35 Hermou Street, 144 52, Metamorfossi, Athens, Greece.

Name	Age	Position
Kyriakos Filippou	77	Lifelong Honorary Chairman of the Board (non-executive Director)
Ioannis Filippou	80	Lifelong Honorary Chairman of the Board (non-executive Director)
Dimitrios Filippou	47	Chairman of the Board
Athanasios-Kyros Filippou.....	47	Chief Executive Officer and Director
Dimitra Filippou	74	Director (non-executive Director)
Christos Koloventzos.....	61	Chief Financial and Administrative Officer and Director
Christos Krommydas	58	Chief Athens Plant Officer and Director
Alexis Alexopoulos	54	Chief Commercial Officer and Director
Ioanna Skreki.....	61	Office Manager and Director
Emmanuel Papaefthimiou	65	Director

The following is biographical information for each of the directors and executive officers of FAGE Greece who are not directors or executive officers of FAGE International or FAGE USA.

Mr. Kyriakos Filippou is Lifelong Honorary Chairman of the Board of FAGE Greece. He had been FAGE Greece’s Chief Executive Officer or its Chairman in alternate years from 1989 to 2005. He is the brother of Mr. Ioannis Filippou. See “Ownership of Share Capital” and “Related Party Transactions.”

Mr. Ioannis Filippou is Lifelong Honorary Chairman of the Board of FAGE Greece. He had been FAGE Greece’s Chairman or its Chief Executive Officer in alternate years from 1989 to 2005. He is the brother of Mr. Kyriakos Filippou. See “Ownership of Share Capital” and “Related Party Transactions.”

Mr. Dimitrios Filippou has been the Chairman of the Board of Directors of FAGE Greece since December 20, 2012. He currently holds the positions of Chairman of the Board of Directors and Chief Executive Officer of HQF and Chairman of the Board and Chief Executive Officer of Vis. He is the son of Mr. Ioannis Filippou. See “Ownership of Share Capital” and “Related Party Transactions.”

Mrs. Dimitra Filippou is a Director of FAGE Greece, a position she has held since 2002. She has held the position of Vice Chairman of the Board of Directors of Agan S.A., a service company owned by Palace, by Mr. Kyriakos Filippou and by Mr. Athanasios-Kyros Filippou, since 2003. Mrs. Dimitra Filippou is the wife of Mr. Kyriakos Filippou. See “Ownership of Share Capital” and “Related Party Transactions.”

Mr. Christos Krommydas has been the Chief Athens Plant Officer and a Director of FAGE Greece since 2006. He previously held various managerial positions in FAGE Greece’s Production Department since 1986.

Mr. Alexis Alexopoulos has been a Director of FAGE Greece since July 2007 and the Chief Commercial Officer since July 2010. He previously held the position of Marketing and Communication Director since 2002.

Mrs. Ioanna Skreki is a Director of FAGE Greece since January 2012, and Office Manager since 1979.

Mr. Emmanuel Papaefthimiou is a Director of FAGE Greece, a position he has held since 1995. He was the Exports/Imports Logistics Manager of FAGE Greece from 1984 to 2005.

Compensation of Directors and Executive Officers

We paid an aggregate of \$12.5 million and \$12.0 million for the years ended December 31, 2015 and 2014, respectively, to our executive officers and directors. We have no share option or other share-based compensation. Of these amounts, \$9.2 million and \$8.8 million have been paid to the shareholders and family members in the years ended December 31, 2015 and 2014, respectively.

OWNERSHIP OF SHARE CAPITAL

FAGE International

FAGE International is beneficially owned and controlled by Messrs. Ioannis and Kyriakos Filippou, the sons of our late founder, Mr. Athanassios Filippou.

FAGE USA

FAGE USA is wholly owned by FAGE USA Holdings, Inc., which in turn is wholly owned by FAGE International.

RELATED PARTY TRANSACTIONS

Transactions with Family-Owned Companies

The beneficial owners of FAGE International, Messrs. Ioannis and Kyriakos Filippou, and members of their respective families (including Messrs. Athanassios Filippou, Athanassios-Kyros Filippou and Dimitrios Filippou) own interests, directly and indirectly, in several companies. We purchase goods and services from certain of such companies in the ordinary course of our business. We believe that in each case the terms of such transactions are comparable to those that would be attainable by us in the ordinary course of business from unaffiliated third parties under similar circumstances. The following briefly describes the material transactions between such companies.

Mornos S.A.: We purchase plastic yogurt tubs, aluminum yogurt tub tops and other packaging products from Mornos. Members of Mr. Kyriakos Filippou's family and companies that they control own 100% of Mornos. Mr. Athanassios-Kyros Filippou is the Chairman of the Board and Chief Executive Officer of Mornos. Our purchases from Mornos totaled \$13.3 million and \$16.5 million for the years ended December 31, 2015 and 2014, respectively.

Vis S.A. ("Vis"): We purchase packaging materials from Vis, a public company that is listed on the Athens Stock Exchange. Mr. Ioannis Filippou and Hellenic Quality Foods S.A. ("HQF") collectively own 74.98% of Vis and we own 7.1% of Vis. Mr. Dimitrios Filippou is the Chairman of the Board and Chief Executive Officer of Vis. Our purchases from Vis totaled \$3.3 million and \$3.7 million for the years ended December 31, 2015 and 2014, respectively.

European Milk and Flour Industry S.A. ("Evga"): We were the exclusive distributor in Greece of fresh fruit juices produced by Evga. Evga is 100% owned by members of Mr. Kyriakos Filippou's family and companies controlled by him. Mr. Athanassios-Kyros Filippou is the Chairman of the Board and Chief Executive Officer of Evga. Evga produces fresh and UHT fruit juices and ice cream. We purchased Evga's fresh fruit juices, which bear the EVGA trademark, at a negotiated discounted price and sold them to retailers at a mark-up. Evga retained responsibility for all marketing, advertising and promotion costs. Our purchases from Evga totaled \$0.0 million and \$0.1 million for the years ended December 31, 2015 and 2014, respectively. From time to time, we sell to Evga various raw materials for its products. Our sales to Evga totaled \$0.1 million and \$0.2 million for the years ended December 31, 2015 and 2014, respectively.

Iofil S.A. ("Iofil"): Until its merger with and into HQF in December 2015, Iofil was 100% owned by Mr. Ioannis Filippou, members of his family and a company that he beneficially owns. Mr. Ioannis Filippou was Chairman of the Board of Directors and Mr. Dimitrios Filippou was the Chief Executive Officer of Iofil. Iofil was an industrial, commercial, advertising and services company and was also the controlling shareholder of Vis. We purchased packaging materials and molds from Iofil. Our purchases of packaging materials and molds from Iofil totaled \$13.4 million and \$16.8 million for the years ended December 31, 2015 and 2014, respectively. Iofil also provided advertising services to us in the amount of \$2.6 million and \$6.9 million for the years ended December 31, 2015 and 2014, respectively.

Hellenic Quality Foods S.A.: HQF is a company 100% owned by members of Mr. Ioannis Filippou's family and a company that he beneficially owns. Mr. Dimitrios Filippou is the Chairman of the Board and Managing Director of HQF. HQF operates in the food industry and is also the controlling shareholder of Vis. HQF is the surviving company of its merger with Iofil in December 2015. The Group purchases packaging materials from HQF. The Group's purchases of packaging materials from HQF totaled \$0.3 million for the year ended December 31, 2015.

Agan S.A. ("Agan"): Agan is a service company owned by Palace, Mr. Kyriakos Filippou and Mr. Athanassios-Kyros Filippou. Mr. Athanassios-Kyros Filippou is the Chairman of the Board of Directors and Chief Executive Officer of Agan. We purchase packaging materials from Agan. Our purchases of packaging materials from Agan totaled \$7.3 million and \$5.5 million for the years ended December 31, 2015 and 2014, respectively.

Ioannis Nikolou ULP: Mr. Ioannis Nikolou is the brother-in-law of Mr. Ioannis Filippou and is one of our sales representatives. As such, he buys products from us at a discounted price and resells them at a marked-up price, with the difference being retained as his commission. We determine the discounts offered to and mark-ups charged by our sales representatives in a uniform manner. Purchases from us by Ioannis Nikolou totaled \$1.0 million and \$1.9 million for the years ended December 31, 2015 and 2014, respectively. Ioannis Nikolou derives a standard commission on resale of such purchased

products.

G.S. Kostakopoulos & Associates: We engage the law firm G.S. Kostakopoulos & Associates for various legal services. Mr. Georgios Kostakopoulos, the managing partner of the firm, is the brother-in-law of Messrs. Ioannis and Kyriakos Filippou. Our payments to G.S. Kostakopoulos & Associates were approximately \$0.3 million and \$0.4 million for the years ended December 31, 2015 and 2014, respectively.

Alpha Phi S.à r.l.: Alpha Phi is a company owned by the Filippou family. It provides consulting services to the FAGE Group. Services provided to us by Alpha Phi for the years ended December 31, 2015 and 2014, amounted to \$3.6 million and \$4.1 million, respectively.

Theta Phi S.à r.l.: Theta Phi is a company owned by the Filippou family. It provides consulting services to the FAGE Group. Services provided to us by Theta Phi for the years ended December 31, 2015 and 2014, amounted to \$3.6 million and \$4.1 million, respectively.

Compensation to Family Members

In addition to the relationships described above, certain members of the Filippou family also are directors of the FAGE Group or provide various services to us. The aggregate compensation paid by the Group in this respect to members of the Filippou family for the years ended December 31, 2015 and 2014, were \$9.2 million and \$8.8 million, respectively.

RISK MANAGEMENT OBJECTIVES AND POLICIES:

Our principal financial liabilities are comprised of short-term borrowings, interest-bearing loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise funds for our operations and investments. We also have trade and other receivables and cash and cash equivalents that are derived directly from our operations. We also hold certain available for sale investments.

We are exposed to a) Market Risk (comprised mainly of interest rate risk, foreign exchange risk and fair value risk), b) Credit Risk and c) Liquidity Risk, which are further discussed below:

a) Market Risk

- (i) **Interest rate risk:** As of December 31, 2014, the Group had short-term borrowings amounting to \$7.3 million at variable rates with a weighted average interest rate of 7.77%. As of December 31, 2015, the Group was not exposed to interest rate fluctuations because all of its loans and borrowings bore fixed interest rates. The Group does not use derivative financial instruments to hedge the interest rate risk on its debt obligations.
- (ii) **Foreign Currency Risk:** We enter into transactions denominated in foreign currencies related to the sales and purchases of goods. Therefore, we are exposed to market risk related to possible foreign currency fluctuations, which is mitigated to a certain extent by the set-off of credit and debit balances in the same currencies. Due to the fact that we have increased our international exposure due to sales to the Euro zone and the UK market, our financial position and results of operations are increasingly subject to currency translation risks. As of December 31, 2015 and 2014, approximately 36.6% and 39.7%, respectively, of our sales were denominated in currencies other than the presentation currency of the Group, which starting October 1, 2012, is the U.S. dollar, and 36.1% and 34.9%, respectively, of costs were denominated in foreign currencies. The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and British pound exchange rate, with all other variables held constant, of our profit before tax and our equity.

		Increase/ decrease in foreign currency rate	Effect on profit before tax	Effect on equity
2015	Euro	+5%	9	1,751
		-5%	(9)	(1,751)
	GB pound	+5%	(26)	4
		-5%	26	(4)
2014	Euro	+5%	(239)	890
		-5%	239	(890)
	GB pound	+5%	(24)	1
		-5%	24	(1)

(iii) **Fair Value Risk:** The carrying amounts reflected in the accompanying consolidated statement of financial position for cash and cash equivalents, trade and other receivables, trade and other payables and accrued and other current liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of available for sale financial assets in the accompanying consolidated statement of financial position reflect their fair value. The fair value of variable rate loans and borrowings and other long-term liabilities approximate their carrying amounts. The fair value of our Senior Notes at December 31, 2015 and 2014, amounted to \$415.5 million and \$411.1 million, respectively.

b) **Credit Risk:** Our maximum exposure to credit risk, due to the failure of counterparties to perform their obligations as at December 31, 2015 and 2014, in relation to each class of recognized financial assets, is the carrying amount of those assets as indicated in the accompanying consolidated statement of financial position. Concentrations of credit risks are limited with respect to receivables due to the large number of customers comprising our customer base. We generally do not require collateral or other security to support customer receivables. There was no customer which accounted for more than 10% of our revenue or receivables in 2015.

c) **Liquidity Risk:** We manage liquidity risk by monitoring forecasted cash flows and ensuring that adequate banking facilities and reserve borrowing facilities are maintained. We have sufficient undrawn borrowing facilities that can be utilised to fund any potential shortfall in cash resources.

Prudent liquidity risk management implies the availability of funding through adequate amounts of committed credit facilities, cash and marketable securities and the ability to close out those positions as and when required by the business or project.

The table below summarizes the maturity profile of financial liabilities at December 31, 2015 and 2014, respectively, based on contractual undiscounted payments.

Year ended December 31, 2015	1 to 12 months	2 to 5 years	Over 5 years	Total
		(\$ in thousands)		
Interest bearing loans and borrowings	-	400,000	-	400,000
Interest accruing on Senior Notes due 2020	39,500	121,792	-	161,292
Trade, other payables and accruing interest	55,092	-	-	55,092
	94,592	521,792	-	616,384

Year ended December 31, 2014	1 to 12 months	2 to 5 years	Over 5 years	Total
		(\$ in thousands)		
Interest bearing loans and borrowings	-	-	400,000	400,000
Interest accruing on Senior Notes due 2020	39,500	158,000	3,292	200,792
Short-term borrowings	7,850	-	-	7,850
Trade, other payables and accruing interest	78,900	-	-	78,900
	126,250	158,000	403,292	687,542

Capital Management: We manage our capital structure and make adjustments to it, in light of changes in economic conditions. We monitor capital using a gearing ratio, which is net debt divided by total equity plus net debt. We include within net debt interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. We fund our operating costs through cash from operations and short-term borrowings under various lines of credit maintained with several banks. As of December 31, 2015 and 2014, the available credit lines amounted to \$41.5 million and \$42.3 million, respectively.

	December 31,	
	2015	2014
	(\$ in thousands)	
Interest bearing loans and borrowings	384,067	381,047
Short-term borrowings	-	7,285
Trade and other payables	38,601	62,404
Less cash and cash equivalents	(78,247)	(56,086)
Less restricted cash	(1,200)	-
Net debt	343,221	394,650
Total equity	153,559	169,612

Equity and net debt	496,780	564,262
Gearing ratio	69.1%	69.9%

Financial Instruments: Set out below is a comparison by category of carrying amounts and fair values of all of the financial instruments that are carried in the consolidated financial statements:

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	(\$ in thousands)			
<i>Financial assets</i>				
Cash and cash equivalents	78,247	56,086	78,247	56,086
Restricted cash	1,200	-	1,200	-
Available-for-sale investments	581	622	581	622
Trade receivables	58,155	62,816	58,155	62,816
<i>Financial liabilities</i>				
Short-term borrowings	-	7,285	-	7,285
Interest-bearing loans and borrowings:				
Fixed rate borrowings	384,067	381,047	415,500	411,100

Fair value hierarchy

We use the following hierarchy for determining and disclosing the fair value of financial instruments by valuing technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	<u>Fair value</u>		<u>Fair value hierarchy</u>
	<u>2015</u>	<u>2014</u>	
	(\$ in thousands)		
<i>Financial assets</i>			
Available-for-sale investments	315	326	Level 1
Available-for-sale investments	266	296	Level 2
<i>Financial liabilities</i>			
Fixed rate borrowings	415,500	411,100	Level 1

SECTION C

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report

To the Shareholders of
FAGE International S.A.
5, rue des Primeurs
L-2361 Strassen

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of FAGE International S.A., which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of comprehensive income/loss, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended 31 December 2015, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

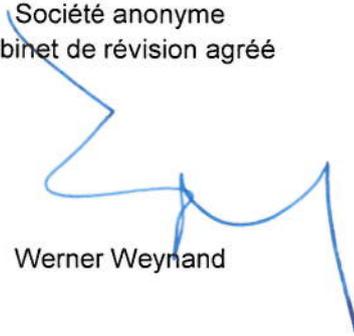
Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of FAGE International S.A. as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated Report of the Board of Directors, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Ernst & Young
Société anonyme
Cabinet de révision agréé



Werner Weynand

Luxembourg, 24 March 2016

SECTION D

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FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

	Notes	December 31,					
		2015			2014		
		Continuing Operations	Discontinued Operations	Total results	Continuing Operations	Discontinued Operations	Total results
Sales		626,408	21,820	648,228	636,174	31,743	667,917
Cost of sales		(318,205)	(17,838)	(336,043)	(375,442)	(25,356)	(400,798)
Gross profit		308,203	3,982	312,185	260,732	6,387	267,119
Selling, general and administrative expenses	(6)	(177,943)	(5,743)	(183,686)	(188,453)	(7,504)	(195,957)
Other income		451	52	503	1,336	-	1,336
Other expenses	(9)	(7,341)	(675)	(8,016)	(1,626)	-	(1,626)
PROFIT/(LOSS) FROM OPERATIONS		123,370	(2,384)	120,986	71,989	(1,117)	70,872
Financial expenses	(7)	(43,547)	(61)	(43,608)	(39,128)	(40)	(39,168)
Financial income	(7)	16	11	27	126	32	158
Impairment loss	(3)	-	(9,262)	(9,262)	(7)	-	(7)
Impairment loss on available for sale financial assets	(12)	(73)	-	(73)	-	-	-
Foreign exchange gains/(losses), net		1,793	-	1,793	738	-	738
PROFIT/(LOSS) FROM OPERATIONS		81,559	(11,696)	69,863	33,718	(1,125)	32,593
Income tax (expense)/benefit	(8)	(58,705)	3,585	(55,120)	(33,038)	542	(32,496)
NET PROFIT/(LOSS)		22,854	(8,111)	14,743	680	(583)	97
Attributable to:							
Equity holders of the parent		22,854	(8,111)	14,743	681	(583)	98
Non-controlling interests		-	-	-	(1)	-	(1)
		22,854	(8,111)	14,743	680	(583)	97
Earnings/(loss) per share							
Basic and diluted		22.85	(8.11)	14.74	0.68	(0.58)	0.10
Weighted average number of shares, basic and diluted		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000

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

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/ LOSS
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in thousands of U.S. dollars)

	Notes	Year ended December 31,	
		2015	2014
Net profit for the year		14,743	97
<u>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</u>			
Exchange gains/(losses) on translation of foreign operations	2.3(c)	(20,421)	(25,759)
Net unrealized gains on available for sale financial assets	12	98	(114)
Deferred income taxes on unrealized gains on available for sale financial assets	8	(28)	30
		<u>70</u>	<u>(84)</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(20,351)	(25,843)
<u>Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:</u>			
Net actuarial losses	22	533	160
Deferred income taxes on net actuarial losses	8	(134)	(42)
		<u>399</u>	<u>118</u>
Devaluation of land at fair value	9	-	(6,806)
Income tax	8	-	1,770
		<u>-</u>	<u>(5,036)</u>
Effect of change of income tax rate on deferred income tax on land revaluation surplus	8	(844)	-
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(445)	(4,918)
Other comprehensive loss for the year, net of deferred income taxes		(20,796)	(30,761)
Total comprehensive loss for the year, net of deferred income taxes		(6,053)	(30,664)
Attributable to:		(6,053)	(30,663)
Non-controlling interests		-	(1)
Equity holders of the parent		<u>(6,053)</u>	<u>(30,664)</u>

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

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

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

		December 31,	
	Notes	2015	2014
ASSETS			
Non-Current Assets			
Property, plant and equipment	9	403,634	425,647
Intangible assets	10	2,771	3,527
Goodwill	11	3,120	5,966
Available for sale financial assets	12	96	107
Other non-current assets	13	745	917
Deferred income taxes	8	55,761	74,792
Total non-current assets		466,127	510,956
Current Assets:			
Inventories	14	36,167	43,349
Trade and other receivables	15	76,168	85,528
Due from related companies	16	13,275	3,431
Prepaid income taxes	8	5,318	4,233
Available for sale financial assets	12	485	515
Cash and cash equivalents	17	78,247	56,086
Restricted cash	17	1,200	-
Total current assets		210,860	193,142
Assets held for distribution	3	7,626	-
TOTAL ASSETS		684,613	704,098
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent Company			
Share capital	18	1,000	1,000
Share premium	18	50,778	50,778
Other reserves		459	459
Land revaluation surplus	9	37,068	37,912
Reversal of fixed assets statutory revaluation surplus	18	(44,410)	(44,410)
Legal, tax free and special reserves	19	37,545	46,334
Retained earnings		104,034	90,502
Other components of equity		(32,915)	(12,963)
Total Equity		153,559	169,612
Non-Current Liabilities			
Interest-bearing loans and borrowings	21	384,067	381,047
Provision for staff retirement indemnities	22	3,348	4,508
Deferred income taxes	8	50,354	46,433
Other non-current liabilities		43	-
Total non-current liabilities		437,812	431,988
Current Liabilities:			
Trade accounts payable	23	37,692	55,889
Due to related companies	16	909	6,515
Short-term borrowings	24	-	7,285
Income taxes payable		11,957	544
Accrued and other current liabilities	25	37,307	32,265
Total current liabilities		87,865	102,498
Total liabilities		525,677	534,486
Liabilities directly associated with the assets held for distribution	3	5,377	-
TOTAL EQUITY AND LIABILITIES		684,613	704,098

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

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

	Share capital	Share premium	Land revaluation surplus	Reversal of fixed assets statutory revaluation surplus	Legal, tax free and special reserves	Other reserves	Retained earnings	Unrealized gains/(losses) on available for sale financial assets	Actuarial gains/(losses)	Foreign exchange gains/(losses)	Total	Non-controlling interests	Total equity
Balance December 31, 2013	50	51,728	42,948	(44,410)	46,334	459	90,404	119	(724)	13,367	200,275	1	200,276
Profit for the year	-	-	-	-	-	-	98	-	-	-	98	(1)	97
Other comprehensive income	-	-	(5,036)	-	-	-	-	(84)	118	(25,759)	(30,761)	-	(30,761)
Total comprehensive income	-	-	(5,036)	-	-	-	98	(84)	118	(25,759)	(30,663)	(1)	(30,664)
Share capital increase	950	(950)	-	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2014	1,000	50,778	37,912	(44,410)	46,334	459	90,502	35	(606)	(12,392)	169,612	-	169,612
Profit for the year	-	-	-	-	-	-	14,743	-	-	-	14,743	-	14,743
Other comprehensive income	-	-	(844)	-	-	-	-	70	399	(20,421)	(20,796)	-	(20,796)
Total comprehensive income	-	-	(844)	-	-	-	14,743	70	399	(20,421)	(6,053)	-	(6,053)
Dividends	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)	-	(10,000)
Distribution of special reserves	-	-	-	-	(8,886)	-	8,886	-	-	-	-	-	-
Increase of legal reserves	-	-	-	-	97	-	(97)	-	-	-	-	-	-
Balance, December 31, 2015	1,000	50,778	37,068	(44,410)	37,545	459	104,034	105	(207)	(32,813)	153,559	-	153,559

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

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in thousands of U.S. dollars)

	Notes	December 31,	
		2015	2014
Profit before income taxes from continuing operations		81,559	33,718
Loss before income taxes from discontinued operations		(11,696)	(1,125)
		<u>69,863</u>	<u>32,593</u>
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	5	31,208	25,987
Provision for staff retirement indemnities	22	263	399
Provision for doubtful accounts receivable	15	1,934	1,569
Financial income	7	(27)	(69)
Financial expenses	7	43,583	39,144
Interest on financial leasing	7	25	24
Provision for slow-moving inventories	14	-	186
Gain from valuation of non-current assets on fair value	7	13	(89)
(Gain)/loss on disposal of property, plant and equipment		7,443	(77)
Impairment loss on available for sale financial assets		73	-
Impairment loss	3	9,262	-
Operating profit before working capital changes		<u>163,640</u>	<u>99,667</u>
(Increase)/Decrease in:			
Restricted cash	17	(1,200)	-
Inventories	14	5,782	43
Trade and other receivables	15	5,565	13,715
Due from related companies	16	(9,844)	631
Increase/(Decrease) in:			
Trade accounts payable	23	(16,862)	10,741
Due to related companies	16	(5,606)	(499)
Accrued and other current liabilities	25	7,779	918
Working capital changes		<u>(14,386)</u>	<u>25,549</u>
Income taxes paid	8	(20,536)	(3,985)
Payment of staff indemnities	22	(139)	(176)
(Increase)/decrease in other non-current assets	13	159	130
Net Cash from Operating Activities		<u>128,738</u>	<u>121,185</u>
Investing Activities:			
Capital expenditure for property, plant and equipment	9	(38,840)	(119,996)
Additions to intangible assets	10	(233)	(568)
Proceeds from disposal of property, plant and equipment		175	133
Interest and other related income received	7	27	69
Net Cash used in Investing Activities		<u>(38,871)</u>	<u>(120,362)</u>
Financing Activities:			
Proceeds from short and long-term borrowings		-	7,285
Repayments of short and long-term borrowings		(6,628)	-
Interest paid	7	(40,211)	(39,963)
Dividends paid to equity holders of the parent		(10,000)	-
Net Cash used in Financing Activities		<u>(56,839)</u>	<u>(32,678)</u>
Net increase/(decrease) in cash and cash equivalents		33,028	(31,855)
Effect of exchange rates changes on cash		(10,867)	(5,081)
Cash and cash equivalents at beginning of year	17	56,086	93,022
Cash and cash equivalents at end of year	17	<u>78,247</u>	<u>56,086</u>

Included in the above cash flow statements are the following cash flows from discontinued operations:

	December 31,	
	2015	2014
Net Cash from Operating Activities	3,178	3,775
Net Cash used in Investing Activities	(84)	(22)
Net Cash used in Financing Activities	(72)	(70)
	<u>3,022</u>	<u>3,683</u>

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

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 des Primeurs, L-2361 Strassen, 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., Agroklima Agios Ioannis S.A. and Iliator S.A.). During 2014, Agroklima Agios Ioannis S.A. and Iliator S.A. were liquidated and, in 2015, Zagas S.A. and FAGE Commercial S.A. (Xylouris) were liquidated. 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 December 31, 2015 and 2014, was approximately 1,081 and 1,009, respectively.

2. BASIS OF PRESENTATION:

- 2.1 Basis of Preparation of Financial Statements:** The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) (hereafter, “IFRS”).

These financial statements have been prepared under the historical cost convention except for the measurement of available for sale financial assets, derivative financial instruments and land which have been measured at fair value.

The preparation of financial statements, in accordance with IFRS, requires the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies which have been adopted. 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 Note 2.5.

- 2.2 Basis of consolidation:** The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2015.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest (“NCI”) even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary,
- Derecognizes the carrying amount of any non-controlling interest,
- Derecognizes the cumulative translation differences, recorded in equity,
- Recognizes the fair value of the consideration received,
- Recognizes the fair value of any investment retained,
- Recognizes any surplus or deficit in profit or loss and,
- Reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.3 Summary of Significant Accounting Policies

- (a) **Business combinations and goodwill:** Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at the acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the fair value at the acquisition date of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

- (b) **Investments in Associates:** The Group's investments in other entities in which FAGE exercises significant influence and are neither a subsidiary nor a joint venture are accounted for using the equity method. Under this method the investment in associates is initially recognized at cost and subsequently increased or decreased to recognize the investor's share of the profit or loss of the associate, changes in the investor's share of net assets of the associate since the acquisition. The consolidated statement of income reflects the Group's share of the results of operations of the associate. When a change has been directly recognized in the equity of the associate, the Group recognizes its share of such change, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value.
- (c) **Functional and Presentation Currency:** Following the restructuring of the Group, the Group changed its presentation currency from Euro to the U.S. dollar and, accordingly, the consolidated financial statements are presented in US dollars which is also the parent company's functional currency. The 2012 consolidated financial statements were the first financial statements that were presented in U.S. dollars and all comparative information were restated in accordance with the requirements of IAS 21 and IAS 8 (additional information is presented in Note 2.4).

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The financial statements of FAGE Dairy Industry S.A., FAGE Italia S.r.l. and FAGE Deutschland GmbH are presented in euros. Until the date of liquidation, the financial statements of FAGE Commercial S.A. (Xylouris), Zagas S.A., Agroktima Agios Ioannis S.A. and Iliator S.A were presented in euros. The separate financial statements of FAGE U.K. Limited are presented in British Pounds and the separate financial statements of FAGE USA Holdings, Inc. FAGE USA, Corp., FAGE USA Dairy Industry, Inc. are presented in U.S. dollars. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. At the reporting dates, monetary assets and liabilities, which are denominated in foreign currencies, are adjusted to reflect the functional currency rate of exchange ruling at that date. Gains or losses resulting from foreign currency remeasurement are reflected in the accompanying consolidated statement of profit or loss. Gains or losses from transactions are also reflected in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2.3 *Summary of Significant Accounting Policies (continued)*

(c) *Functional and Presentation Currency (continued)*

As at the reporting date, all balance sheet accounts of those foreign subsidiaries are translated into U.S. dollars using the exchange rate in effect at the reporting date. Revenues and expenses are translated at the weighted average rate of exchange rate prevailing during the year. The exchange differences arising on translation for consolidation are recognized as a component of other comprehensive income/(loss), which amounted to \$(20,421) and \$(25,759) for the years ended December 31, 2015 and 2014, respectively. On disposal of a foreign subsidiary (entity) the component of other comprehensive income/(loss) relating to that particular foreign operation is recognized in the consolidated statement of profit or loss.

Translation gains/ (losses) are reported in other reserves, a component of equity, which balance amounted to \$(32,813) and \$(12,392) at December 31, 2015 and 2014, respectively. On disposal of a foreign subsidiary (entity) the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of profit or loss.

- (d) **Advertising Costs:** All advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the consolidated statement of profit or loss. Advertising costs for the years ended December 31, 2015 and 2014, were \$61,894 and \$62,802, respectively.
- (e) **Intangible Assets:** Intangible assets consist of product development costs, the customer network and employment contract acquired through a business combination and software. Purchased intangible assets are capitalized at cost while those acquired through business combinations are capitalized at fair value at the date of acquisition. Following initial recognition, those intangibles are carried at cost less accumulated amortization and any accumulated impairment losses.

Amortization of intangible assets is computed based on the straight-line method at rates, which approximate average useful lives. The rates used are as follows:

<u>Classification</u>	<u>Annual Rates</u>
Customer network	6.7%
Employment contract	25%
Product development costs	20%
Software costs	20%

- (f) **Research and Product Development Costs:** Research costs are expensed as incurred. Development expenditure is mainly incurred for developing products. Costs incurred for the development of an individual project are recognized as an intangible asset only when the requirements of IAS 38 Intangible Assets are met. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:
- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
 - its intention to complete and the Group's ability to use or sell the asset;
 - how the asset will generate future economic benefits;
 - the availability of resources to complete the asset; and
 - the ability to measure reliably the expenditure during development.

Following initial recognition, those development costs are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit and recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

- (g) **Revenue Recognition:** The Group recognizes revenues, net of trade discounts and sales incentives, when the significant risks and rewards of ownership of the goods have passed to customers and can be reliably measured. Shipping and handling costs are classified as part of selling, general and administrative expenses. Such costs for the years ended December 31, 2015 and 2014, amounted to \$48,949 and \$55,136, respectively. Furthermore, trade support actions that are generally invoiced to the Group by customers are accounted for as a reduction of sales rather than selling expenses.

Interest income is recognized as interest accrues using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income is recognized when the right to receive payment is established with the approval for distribution by the General Assembly of shareholders.

- (h) **Property, Plant and Equipment:** Property, plant and equipment (excluding land) are stated at cost, net of subsidies provided by the Greek State and New York State, less accumulated depreciation and less any accumulated impairment losses. Borrowing costs incurred during the period of construction that is directly attributable to the acquisition,

2.3 Summary of Significant Accounting Policies (continued)

(h) Property, Plant and Equipment (continued)

construction or production of a qualifying asset are capitalized as part of the cost of the asset using the related borrowing rate. Repairs and maintenance costs are expensed as incurred. Significant improvements are capitalized to the cost of the related asset if such improvements increase the life of the asset, increase its production capacity or improve its efficiency. The cost and related accumulated depreciation of assets retired or sold are removed from the accounts at the time of sale or retirement, and any gain or loss is included in the consolidated statements of profit or loss. For statutory reporting purposes, certain companies of the Group were obliged to revalue their property, plant and equipment at various dates following the provisions of the respective mandatory tax laws. These revaluations have been reversed in the consolidated financial statements, after giving effect to the related deferred income taxes. The reversal of the net revaluation gains is reflected in the component of equity "Reversal of fixed assets statutory revaluation surplus".

Since December 31, 2011, land following initial recognition at cost, is measured at fair value less impairment losses recognized after the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus net of tax is recorded in other comprehensive income/(loss) and credited to the assets revaluation reserve included in "Land revaluation surplus" in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of profit or loss, in which case the increase is recognized in the consolidated statement of profit or loss. A revaluation deficit is recognized in the consolidated statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

- (i) **Depreciation:** Depreciation is computed based on the straight-line method at rates, which approximate average useful lives. Land is not depreciated.

The rates used are as follows:

<u>Classification</u>	<u>Annual Rates</u>
Buildings	3%
Machinery and equipment	7%
Transportation equipment	12% - 15%
Furniture and fixtures	15%

- (j) **Impairment of Non-financial assets:** With the exception of goodwill which is tested for impairment on an annual basis, the carrying values of other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Whenever the carrying value of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized in the consolidated statement of profit or loss. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

- (k) **Financial Instruments – initial recognition and subsequent measurement:**

i) Financial Assets

Initial recognition and measurement of financial assets

Financial assets which fall in the scope of IAS 39 are classified based on their nature and their characteristics in the following four categories:

- financial assets at fair value through profit and loss,
- loans and receivables,
- held-to-maturity investments, and

2.3 **Summary of Significant Accounting Policies (continued)**
Initial recognition and measurement of financial assets (continued)

- available-for-sale financial assets

All financial assets are recognized initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit and loss. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification as described below:

(i) **Financial assets at fair value through profit and loss:** Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Such assets are carried in the consolidated statement of financial position at fair value. Gains or losses on investments held for trading are recognized in income.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

(ii) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are carried at amortized cost using the effective interest method, less impairment. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(iii) **Held-to-maturity investments:** Primary financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are carried at amortized cost using the effective interest method. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

(iv) **Available-for-sale financial assets:** Available-for-sale financial investments include equity investments and debt securities which are not classified in any of the three above mentioned categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of other comprehensive income/(loss). On disposal, impairment or derecognition of the investment, the cumulative gain or loss is transferred to the consolidated statement of profit or loss. Interest earned while holding available-for-sale financial investments is reported as interest income using the effective interest rate ("EIR") method.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and Management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

2.3 Summary of Significant Accounting Policies (continued)
Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchase option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets’ original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss.

2.3 Summary of Significant Accounting Policies (continued)

(ii) Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of profit or loss is removed from other comprehensive income/(loss) and recognized in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income/(loss).

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

(iii) Financial Liabilities

Initial recognition and subsequent measurement of financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

(ii) Loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate (EIR) method amortization process.

2.3 Summary of Significant Accounting Policies (continued)

(ii) Loans and borrowings

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the consolidated statement of profit or loss.

(iii) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

ii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

iii) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis; or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

(l) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by IAS 39 but are entered into in accordance with the Group's expected purchase requirements are recognized in the consolidated statement of profit or loss in cost of sales.

Any gains or losses arising from changes in the fair value of derivatives are recorded directly in the consolidated statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income/(loss).

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk),
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment,
- Hedges of a net investment in a foreign operation.

2.3 Summary of Significant Accounting Policies (continued)**(l) Derivative financial instruments and hedge accounting**

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

- (m) Inventories:** Inventories are stated at the lower of cost or net realizable value. Cost of finished and semi-finished products includes all costs incurred in bringing inventories to their current location and state of manufacture and comprises raw materials, labor, an applicable amount of production overhead (based on normal operating capacity, but excludes borrowing costs) and packaging. The cost of raw materials and finished goods is determined based on the weighted average method. Net realizable value for finished goods is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The net realizable value for raw materials is the estimated replacement cost in the ordinary course of business.
- (n) Accounts Receivable Credit and Collection:** The Group has established criteria for granting credit to customers, which are generally based upon the size of the customer's operations and consideration of relevant financial data. Business is generally conducted with such customers under normal terms with collection expected within sixty days after shipment. At each financial position date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate allowance for doubtful accounts. The balance of such allowance for doubtful accounts is appropriately adjusted by recording a charge to the consolidated statement of profit or loss of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. It is the Group's policy not to write-off an account until all possible legal action has been exhausted.
- (o) Cash and Cash Equivalents:** The Group considers time deposits and other highly liquid investments with original maturity of three months or less, to be cash equivalents.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash at hand and in banks and of cash and cash equivalents as defined above.

- (p) Non-current assets held for sale and discontinued operations:** Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. In the consolidated statement of profit or loss of the reporting period and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit/(loss) after taxes, even when the Group retains a non controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of profit or loss.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated/amortized.

- (q) Borrowing Costs:** Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.
- (r) Reserve for Staff Retirement Indemnities:** Staff retirement obligations are calculated at the present value of the future retirement benefits deemed to have accrued at the reporting date, based on the employees earning retirement benefit rights steadily throughout the working period. The reserve for retirement obligations is calculated on the basis of financial and actuarial assumptions detailed in Note 22 and are determined using the projected unit credit actuarial valuation method. Net pension costs for the period are included in payroll in the consolidated statement of profit or loss.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds or government bonds which have terms to maturity approximating the terms of the related pension obligation. Past service costs are recognized in profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognizes restructuring-related costs.

2.3 Summary of Significant Accounting Policies (continued)

(r) Reserve for Staff Retirement Indemnities

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements under other operating expenses/income; and,
- net interest expense or income under finance expenses.

Re-measurements, comprising of the actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income/(loss) in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

- (s) **Income Taxes (Current and Deferred):** Current and deferred income taxes are computed based on the tax rates and tax laws that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Income tax expense consists of income taxes for the current year based on each entity's profits as adjusted in its tax returns, additional income taxes resulting from the audits of the tax authorities and deferred income taxes.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income taxes are provided using the liability method for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future and there will be available taxable profit which will be used against temporary differences.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial position date.

For transactions recognized directly in equity, any related tax effects are also recognized directly in equity and not in the consolidated statement of profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.3 Summary of Significant Accounting Policies (continued)

(t) **Leases:**

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease, at the fair value of the leased item, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated statement of profit or loss. Capitalized leased assets are depreciated over the estimated useful life of the asset or, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the Group does not retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

- (u) **Provisions and Contingencies:** Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the present value of the expenditure expected to be required to settle the obligation.

When the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability.

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

- (v) **Operating Segment Reporting:** The Group produces dairy products. It operates primarily in Greece and the United States of America and has also certain foreign activities in other European Union 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. subsidiaries' operations. Intra-segment balances and transactions have been eliminated on consolidation.

- (w) **Government grants:** Under various incentive laws, the Greek State as well as the New York State provide subsidies for property, plant and equipment. Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. The Group accrues for such subsidies when it meets the related contractual obligations and reflects such subsidies as a reduction of the related asset cost [See Note 2.3(h)].

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the consolidated statement of profit or loss over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as additional government grant.

- (x) **Share Capital:** Share capital represents the par value of the Parent company's shares in issue. Any excess of the fair value of the consideration received over the par value of the shares issued is recognized as "share premium" in shareholders' equity. Incremental external costs directly attributable to the issue of new shares are shown as a deduction in equity, net of tax, from the proceeds.

- (y) **Earnings/(Loss) per Share:** Basic earnings/(loss) per share is computed by dividing net income/(loss) attributable to the shareholders of the parent by the weighted average number of ordinary shares outstanding during each year.

Diluted earnings/(loss) per share amounts is calculated by dividing the net income/(loss) attributable to the shareholders of the parent by the weighted average number of ordinary shares outstanding each year as adjusted for the effects of dilutive instruments.

During 2014, the Company's number of shares increased from 50,002 to 1,000,000 as further detailed in Note 18. The computation of the basic and diluted earnings per share was retroactively adjusted.

- (z) **Dividend Distribution:** Dividend distribution to the shareholders of FAGE International is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.4 *Changes in Accounting Policies and Disclosures*

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new or amended standards and interpretations effective as of January 1, 2015. These changes are as follows:

A) The Group has adopted the following new or amended IFRS as of January 1, 2015:

• The **IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2015. The amendment did not have an impact on the Group's 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 definitions of both a business combination, as defined in IFRS 3 Business Combinations, and an investment property, as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

B) On October 1, 2012, the Group adopted the U.S. dollar as its presentation currency, which is also the functional currency of the new parent of the Group:

Presentation currency:

Management decided that, effective October 1, 2012, the Group's presentation currency shall be the U.S. dollar, the denomination currency of the Group's majority operations as well as its loans. The related information was restated in U.S. dollars in accordance with the requirements of IAS 21 and IAS 8. The retranslation from euros to U.S. dollars was performed using the procedures outlined below:

- assets and liabilities were translated into U.S. dollars at closing rates of exchange on the relevant reporting dates;
- income and expenses were translated into U.S. dollars at average rates of exchange as they are a suitable proxy for the prevailing rates at the date of transactions;
- differences resulting from the retranslation on the opening balance of net assets and the results for the period were recorded in Other Comprehensive Income/(Loss) (which did not impact the total value of equity, but resulted in reclassifications between previously reported translation differences and retained earnings;) and,
- share capital, share premium and other reserves were translated at historical rates prevailing at the dates of the transactions or translated with the rate of January 1, 2011, if the rates of the transactions were earlier than this date.

The exchange rates used were as follows:

December 31, 2014: €1: \$1.2141, GBP1: \$1.5587

December 31, 2015: €1: \$1.0887, GBP1: \$1.4833

Year 2014 average: €1.3211, GBP1: \$1.6450

Year 2015 average: €1.1046 GBP1: \$1.5253

Functional currency:

As noted earlier, as a result of the reorganization, FAGE International S.A. has succeeded FAGE Dairy Industry S.A. as parent of the Group. As a significant majority of the new parent's revenues and costs are earned and incurred in U.S. dollars and having considered the aggregate effect of all relevant factors, management concluded that the functional currency of the new parent, since its incorporation, shall be the U.S. dollar.

2.5 *Significant Accounting Judgments, Estimates and Assumptions*

The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) **Allowance for doubtful accounts receivable:** The Group's management periodically reassess the adequacy of the allowance for doubtful accounts receivable in conjunction with its credit policy and taking into consideration reports from its legal counsel on recent developments of the cases they are handling.

(b) **Provision for income taxes:** According to IAS 12, income tax provisions are based on estimations as to the taxes that shall be paid to the tax authorities and includes the current income tax for each fiscal year, the provision for additional taxes which may arise from future tax audits and the recognition of future tax benefits. The final clearance of income taxes may be different from the relevant amounts which are included in these consolidated financial statements.

2.5 Significant Accounting Judgments, Estimates and Assumptions (continued)

- (c) **Depreciation rates and useful lives:** The Group's assets are depreciated over their estimated remaining useful lives. These useful lives are periodically reassessed to determine whether the original period continues to be appropriate. The actual lives of these assets can vary depending on a variety of factors such as technological innovation and maintenance programs.
- (d) **Goodwill and impairment test:** The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.
- (e) **Impairment of property, plant and equipment:** Property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.
- (f) **Deferred tax assets:** Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.
- (g) **Measurement of land at fair value:** The Group's policy is to measure land at revalued amounts (estimated fair values), as these are determined by independent appraisal firms, less any impairment losses recognized after the date of revaluation. Valuations are performed frequently enough to ensure that the fair value of the revalued asset does not differ materially from its carrying amount.
- (h) **Provisions:** The Group records provisions for risks and contingencies that may arise from legal cases which may result in outflow of economic benefits for their settlement. The provisions are recorded based on the amount of the legal case and the possibilities related to the final outcome of the case.
- (i) **Discontinued Operations**
In December 2015, the Group, in the context of its efforts to improve its profitability, decided to withdraw from the milk business and the related assets are classified as Non-Current Assets Held for Sale and Discontinued Operations as of December 31, 2015. Management considered that this business met the criteria to be classified as held for sale at that date for the following reasons:
- The assets of this business were available for immediate sale and can be sold to a potential buyer in their current condition.
 - Management has a plan to sell the assets of this business and had entered into preliminary negotiations with potential buyers.
 - Management expects negotiations for the sale of the assets of milk business to be finalized and the sale to be completed during 2016.
- For more details on the discontinued operation refer to Note 3.

2.6 Standards issued but not yet effective or early adopted

• 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. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. 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 Group does not expect that the amendment will have an impact on its consolidated financial position or results of operations.

• IAS 19 Defined Benefit Plans (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 consolidated financial position or results of operations.

• IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The final version of IFRS 9 Financial Instruments 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.

2.6 Standards issued but not yet effective or early adopted (continued)**• IFRS 9 Financial Instruments: Classification and Measurement**

The amendment has not yet been endorsed by the EU. The Group does not expect that the amendment will have an impact on its consolidated 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 Group does not expect that the amendment will have an impact on its consolidated 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, 2018. 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 consolidated financial position or results of operations.

• IAS 27 Separate Financial Statements (amended)

The amendment is effective for annual periods beginning on or after 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 compliance costs without reducing the information available to investors. The Group does not expect that the amendment will have an impact on its consolidated financial position or results of operations.

• Amendment in 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. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group does not expect that the amendment will have an impact on its consolidated financial position or results of operations.

• 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 amendment will have an impact on its consolidated 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 such information 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 (OCI) arising from equity accounted investments. The Group does not expect that the amendment will have an impact on its consolidated 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 consolidated financial position or results of operations.

2.6 Standards issued but not yet effective or early adopted (continued)

- **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 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2016. The Group does not expect that the amendments will have an impact on its consolidated 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 Board 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 16: Leases**
The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not yet been endorsed by the EU. The Group does not expect that the amendment will have an impact on its consolidated financial position or results of operations.
 - **IAS 12 Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealized Losses**
The amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. For example, the amendments clarify the accounting for deferred tax assets when an entity is not allowed to deduct unrealized losses for tax purposes or when it has the ability and intention to hold the debt instruments until the unrealized loss reverses. The Group does not expect that the amendment will have an impact on its consolidated financial position or results of operations.

2.6 Standards issued but not yet effective or early adopted (continued)**• IAS 7 Statement of Cash Flows (Amendments): Disclosure Initiative**

The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments have not yet been endorsed by the EU. The Group does not expect that the amendments will have an impact on its consolidated financial position or results of operations.

2.7 Approval of Financial Statements:

FAGE International's Board of Directors approved the consolidated financial statements for the year ended December 31, 2015, on March 24, 2016. The above mentioned consolidated financial statements are subject to the final approval by the Annual General Assembly of Shareholders.

3. ASSETS AND LIABILITIES ASSOCIATED WITH THE ASSETS HELD FOR DISTRIBUTION:

In December 2015, the Company, in the context of its efforts to improve its profitability, decided to withdraw from the milk business since this operation was highly unprofitable. The Group commenced negotiations with various companies to sell all of the property, plant and equipment related to the Amyntaio milk facility.

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", property, plant and equipment and goodwill related to the milk business, which have been classified as of December 31, 2015, as held for sale, are carried at the lower of their carrying value (\$9,878) and their fair value less costs to sell (\$4,359). Accordingly, an impairment loss of \$5,600 has been recorded in the accompanying consolidated statement of profit or loss. Furthermore, the carrying value of goodwill for the Amyntaio facility and inventories of \$2,701 have been impaired by \$2,344 and \$1,318, respectively, and such impairment losses have been recorded in the accompanying consolidated statement of profit or loss for the year ended December 31, 2015.

The major classes of assets and liabilities concerning the Amyntaio facility classified as held for sale as at December 31, 2015 and the total impairment loss of \$9,262 are presented within discontinued operations in the consolidated balance sheet and profit or loss statement and are analyzed as follows:

	Balance as of December 31, 2015	Foreign currency remeasurement included in consolidated statements of comprehensive income	Profit or (loss) 2015
Assets			
-Property, plant and equipment (Note 9)	4,359	81	(5,600)
-Goodwill (Note 11)	-	-	(2,344)
-Inventories (Note 14)	1,400	17	(1,318)
-Trade and other receivables (Note 15)	1,861	-	-
-Cash and cash equivalents (Note 17)	6	-	-
Assets held for distribution	7,626	98	(9,262)
Liabilities			
Provision for staff retirement indemnities (Note 22)	292		
Deferred taxes (Note 8)	1,013		
Trade accounts payable (Note 23)	1,335		
Accrued and other current liabilities (Note 25)	2,737		
Liabilities directly associated with assets held for distribution	5,377		
Net assets directly associated with disposal group	2,249		

4. PAYROLL COST:

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

	Year ended	
	December 31,	
	2015	2014
Wages and salaries	44,263	45,551
Social security costs	6,880	8,111
Provision for staff retirement indemnities (Note 22)	263	399
Other staff costs	6,238	5,699
Total payroll	57,644	59,760
Less: amounts charged to cost of production	(30,095)	(30,998)
amounts capitalized to tangible and intangible assets	(382)	(1,867)
Payroll expensed (Note 6)	27,167	26,895

Amounts paid to directors and executive officers included in payroll are described in Note 6.

5. DEPRECIATION AND AMORTIZATION:

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

	Year ended	
	December 31,	
	2015	2014
Depreciation on property, plant and equipment (Note 9)	30,411	25,385
Amortization of intangible assets (Note 10)	797	602
Total depreciation and amortization	31,208	25,987
Less: amounts charged to cost of production	(24,930)	(19,806)
Depreciation and amortization expensed (Note 6)	6,278	6,181

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

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

	Year ended	
	December 31,	
	2015	2014
Shipping and handling costs [Note 2.3(g)]	48,949	55,136
Advertising costs [Note 2.3(d)]	61,894	62,802
Third party fees	28,696	32,071
Payroll (Note 4)	27,167	26,895
Depreciation and amortization (Note 5)	6,278	6,181
Repairs and maintenance	1,250	1,568
Travelling and entertainment	1,241	1,313
Allowance for doubtful accounts (Note 15)	1,934	1,569
Other	6,277	8,422
Total	183,686	195,957

Compensation paid to directors and executive officers for the years ended December 31, 2015 and 2014, included in payroll and third party fees, amounted to \$12,495 and \$11,973, respectively. Of these amounts, \$9,161 and \$8,833 have been paid to the shareholders and family members in the years ended December 31, 2015 and 2014, respectively.

7. FINANCIAL INCOME AND EXPENSES:

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

	Year ended	
	December 31,	
	2015	2014
Financial expenses on loans and borrowings (Note 21)	(42,520)	(42,220)
Interest on short-term borrowings (Note 24)	(604)	(330)
Finance leasing interest expense	(25)	(24)
Interest expense on non-current assets	(13)	-
Amortization of fees (Note 24)	(357)	(354)
Other	(89)	(114)
	<u>(43,608)</u>	<u>(43,042)</u>
Less: amounts capitalized in property, plant and equipment	-	3,874
Total financial expenses	(43,608)	(39,168)
Interest earned on cash at banks and on time deposits (Note 17)	24	48
Interest income on non-current assets	-	89
Other	3	21
	<u>27</u>	<u>158</u>
Total financial income	27	158
Total financial income/(expenses), net	(43,581)	(39,010)

8. INCOME TAXES:

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

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

	December 31,	
	2015	2014
Income taxes:		
Current income tax expense	30,864	52
Deferred income tax expense	24,256	32,444
Total income tax reported in the consolidated statements of profit or loss	55,120	32,496

As part of the restructuring which took place in September 2012, the Group increased the tax basis of its intellectual property. The tax basis of its intellectual property was assessed at \$630,500 as compared to its carrying value of \$1,061. Management, considering the tax deductibility profile of the related asset, as well its recoverability and recognized a deferred tax asset of \$80,530 using the substantively enacted tax rate of 29.2% (applicable for years 2013 and onwards). The deferred tax asset was computed over an amount of \$187,374 and a tax rate of 29.2% and over 20.0% of the remaining amount of \$442,065 at a tax rate of 5.84%.

In February 2016, the Group's subsidiary FAGE USA Holdings, Inc. entered into an agreement (the "IRS Agreement") with the Internal Revenue Service (the "IRS") to resolve certain disputes related to the consolidated U.S. Federal income tax returns of FAGE USA Holdings, Inc. and its subsidiaries, FAGE USA and FAGE USA, Corp. (collectively, the "FAGE US Group"). The IRS Agreement lowers the FAGE US Group's deductions for royalties payable by FAGE USA to FAGE Greece (for periods from January 1, 2009 to September 25, 2012) and to FAGE International (for periods from September 26, 2012 to December 31, 2014) by \$15,506 and \$15,136, respectively. Accounts receivable owed to FAGE USA by FAGE Greece and FAGE International of \$15,506 and \$15,136, respectively, were established in 2016 pursuant to the IRS Agreement. Such accounts receivable, plus the accrued interest, were paid in full in March 2016.

Pursuant to the IRS Agreement, the FAGE US Group agreed to pay additional tax in the amount of approximately \$10,400, plus interest, for tax years 2009 to 2014. At December 31, 2015, this amount is included in current taxes payable. As a further consequence of IRS Agreement, the tax basis of the Group's intellectual property was re-assessed from \$630,500 to \$490,389 as compared to its carrying value of \$1,061 and the respective deferred tax asset of \$80,530 was reduced to \$62,583. The 2015 net deferred tax asset decreased from \$71,470 to \$52,413, a difference of \$19,057, out of which \$15,928 relates to the period 2012 to 2014 and \$3,129 relates to amortization for 2015.

The current and deferred income tax expense for the year ended December 31, 2015 is analyzed as follows:

Income taxes as of December 31, 2015

-Income tax 2009-2014 FAGE USA	\$10,443
-Income tax 2015 FAGE USA	\$20,397
-Income tax 2015 FAGE International S.A.	\$24
Total income taxes 2015	\$30,864

8. INCOME TAXES (Continued)**Deferred income tax expense as of December 31, 2015**

-Deferred income tax expense 2009-2014 FAGE International S.A.	\$15,928	Due to IRS Agreement
-Deferred income tax expense 2015 FAGE International S.A.	\$3,129	Annual Amortization of IP
-Deferred income tax expense FAGE USA	\$3,713	Due to the combined effect
-Deferred income tax expense FAGE Greece	\$1,643	
-Various	\$(157)	
	<u>\$24,256</u>	

Of the total amount of current and deferred income tax expense of \$55,120 reported in the 2015 consolidated statement of profit or loss, \$26,371 relates to the years 2009 to 2014 as a result of the IRS Agreement.

The reconciliations of the provision for income tax expense to the amount determined by the application of the Luxembourg statutory tax rate to pretax income are summarized as follows:

	December 31,	
	2015	2014
Profit/(loss) before income taxes	69,863	32,593
Income tax charge/(benefit) calculated at the nominal applicable tax rate of 29.2% for 2015 and 2014	20,400	9,517
Write-off of deferred tax previously recognized	15,928	19,847
Additional tax assessments	11,361	-
Tax effect of USA tax credits	(166)	(95)
Impact of non-recoverable withholding income tax	21	117
Reversal of deferred taxes previously recognized on doubtful debtors	-	555
Income tax effect from utilization of deferred tax asset on losses and deferred tax asset on incentives not previously recognized	(3,554)	-
Utilization of tax losses for which no deferred tax asset was recognized	-	(146)
Tax effect of different tax rates of subsidiaries	4,127	273
Effect of non-recognition of deferred tax asset on tax losses	2,213	391
Tax effects of non-taxable income and expenses not deductible for tax purposes	4,790	2,037
Provision for income taxes reported in the consolidated statement of income	55,120	32,496
Effective income tax rate	78.9%	99.7%

Tax laws and related regulations in certain of the tax jurisdictions in which the Group operates are subject to interpretations by the tax authorities. Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until such time, as the tax authorities examine the returns and the records of the taxpayer and a final assessment is issued. Tax losses, to the extent accepted by the tax authorities, can be used to offset profits.

At December 31, 2015, the Group has accumulated tax carry forward losses of \$22,591 which, if not utilized to offset future taxable income, can be carried forward indefinitely. The management has recognized a deferred tax asset of \$3,348 on tax carry forward losses of \$11,377 as it believes that these will be utilized prior to their expiration. No deferred tax asset has been recognized on the tax carry forward losses of \$11,214 as management has assessed that they did not meet the recognition criteria.

With respect to the Group's subsidiaries, their books and records have not been audited by the tax authorities for the following periods:

<u>Company's Name</u>	<u>Unaudited Periods</u>
FAGE International S.A. (formerly FAGE Luxembourg S.à r.l.)	2012-2015
FAGE USA Holdings, Inc.	2012-2015*
FAGE USA, Corp.	2012-2015*
FAGE USA Dairy Industry, Inc.	2012-2015*
FAGE U.K. Limited	2006-2015
FAGE Italia S.r.l.	2003-2015
FAGE Deutschland GmbH	2012-2015
FAGE Dairy Industry S.A.	2008-2015
FAGE Commercial S.A.	2010-2015
Agroktima Agios Ioannis S.A.	2010-2014
Zagas S.A.	2007-2015
Iliator S.A.	2010-2014

8. INCOME TAXES (Continued)

* FAGE USA Holdings, Inc., FAGE USA, Corp. and FAGE USA Dairy Industry, Inc. are no longer subject to federal examination for years before 2015 and no longer subject to state and local examination for years before 2012.

The Group believes that any resulting balance due in connection with the audit, if any, will be minimal and, accordingly, no provision has been included in the consolidated financial statements.

The Group, based upon previous years' tax examinations and interpretations of the relevant tax laws in the countries where it operates enacted or substantively enacted as of December 31, 2015, believes to have recognized adequate provisions for probable tax cash outflows.

The deferred income taxes relate to the temporary differences between the book values and the tax bases of assets and liabilities and are calculated using the applicable statutory income tax rates. Based on a law enacted by the State of New York during the year ended December 31, 2014, for tax years beginning on or after January 1, 2014, the income rate for "Qualified New York Manufacturers" is 0% on the entire net income base. Management has concluded that the company meets the definition of a "Qualified New York Manufacturer" and accordingly will have to file with a 0% entire net income tax rate, while it will pay a capital base tax. The capital base tax is currently being phased out for tax years beginning on or after January 1, 2015 through 2020. Given that the Company is entitled to a 0% tax rate, the previously established deferred tax assets are not recoverable. As a result, the previously recognized deferred tax assets relating to the tax credits available in New York have been expensed. The effect of this write-off amounted to \$32.1 million (presented as a deferred tax asset) while the related deferred tax liability written off amounted to \$12.3 million (this amount was previously accounted as a deferred tax liability) i.e. a net deferred tax asset write-off of \$19.8 million.

	December 31,	
	2015	2014
Opening balance net deferred tax asset /(liability)	28,359	57,694
Charge/(credit) to the consolidated statement of profit or loss	(24,256)	(32,444)
Translation difference	1,297	1,351
Directly charged against other comprehensive income	(1,006)	1,758
Ending balance net deferred tax asset	4,394	28,359

Deferred income tax assets and liabilities recognized in the accompanying consolidated statement of financial position and consolidated statement of profit or loss are analyzed as follows:

	Consolidated Balance Sheets	
	December 31,	
	2015	2014
Deferred income tax liabilities		
- Property, plant and equipment	47,900	47,884
- Land revaluation to fair value	8,104	8,267
- Investments	409	1,079
- Deferred costs	598	855
- Foreign currency translation	6	16
Gross deferred income tax liabilities	57,017	58,101
Deferred income tax assets		
- Intangible asset	(52,413)	(71,500)
- Staff retirement indemnities	(1,056)	(1,172)
- Tax loss carry forwards	(3,348)	(6,142)
- Investments	-	(2,242)
- Investment tax credits	(2,149)	(3,885)
- Accounts receivable	(1,993)	(1,453)
- Other	(452)	(66)
Gross deferred income tax assets	(61,411)	(86,460)
Less: deferred income tax assets separately classified	55,761	74,792
	(5,650)	(11,668)
Total	51,367	46,433
Less: deferred tax liability directly associated with assets held for distribution (see Note 3)	(1,013)	-
Net deferred tax liabilities	50,354	46,433

8. INCOME TAXES (Continued)

	Consolidated Statements of	
	Profit or Loss	
	Year ended December 31,	
	2015	2014
Deferred income tax liabilities		
- Property, plant and equipment	1,282	2,995
- Investments	(680)	-
- Foreign currency translation	(11)	21
- Deferred costs	(220)	(23)
Deferred income tax assets		
- Intangible asset	19,078	4,027
- Staff retirement indemnities	(138)	(58)
- Tax loss carry forwards	2,531	974
- Investments	2,153	899
- Investment tax credits	1,388	22,631
- Accounts receivable	(700)	984
- Other	(427)	(6)
Deferred income tax charge/(benefit) in consolidated statement of profit or loss	24,256	32,444
Movement of deferred tax balances charged directly to equity	2015	2014
- Unrealized gains on available for sale financial assets	28	(30)
- Devaluation of land at fair value	-	(1,770)
- Impact of change of tax rates on deferred tax on land revaluation	844	-
- Net actuarial gains/(losses)	134	42
- Net movement due to translation differences	(1,297)	(1,351)

As at December 31, 2015, the prepaid income taxes for the Group amounted to \$5,318 (\$4,233 as at December 31, 2014).

9. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment (excluding land since December 31, 2008) are stated at original cost, net of related Greek State subsidies of \$9,238 concerning FAGE Dairy Industry S.A. at December 31, 2015 and 2014, for both of the years, plus interest costs capitalized during periods of construction for qualifying assets based upon the weighted average borrowing rate of 11.64% for 2014. There were no capitalized interest costs for 2015. Based on the Group's accounting policy land is measured at fair value.

Property, plant and equipment are analyzed as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Furniture and fixtures</u>	<u>Construction in progress (CIP)</u>	<u>Total</u>
COST							
At January 1, 2014	61,794	126,410	333,572	5,203	39,127	37,963	604,069
Devaluation at fair value	(6,806)	-	-	-	-	-	(6,806)
Additions	-	10,871	9,206	734	975	98,210	119,996
Transfers from CIP	-	75,814	44,495	-	776	(121,085)	-
Foreign currency remeasurement	(6,716)	(6,078)	(24,521)	(488)	(4,121)	-	(41,924)
Disposals	-	(151)	(112)	(348)	(237)	-	(848)
At December 31, 2014	48,272	206,866	362,640	5,101	36,520	15,088	674,487
Additions	290	978	3,971	400	1,140	32,061	38,840
Transfers from CIP	-	3,750	31,331	-	697	(35,778)	-
Transfer to assets held for distribution	(205)	(6,758)	(40,293)	(141)	(1,623)	-	(49,020)
Foreign currency remeasurement	(4,925)	(4,640)	(18,982)	(379)	(3,191)	(56)	(32,173)
Disposals	(102)	(147)	(18,711)	(502)	(2,819)	-	(22,281)
At December 31, 2015	43,330	200,049	319,956	4,479	30,724	11,315	609,853
ACCUMULATED DEPRECIATION							
At January 1, 2014	-	(37,142)	(173,220)	(4,418)	(33,298)	-	(248,078)
Depreciation expense	-	(4,185)	(18,929)	(288)	(1,983)	-	(25,385)
Foreign currency remeasurement	-	3,144	16,519	453	3,730	-	23,846
Disposals	-	151	88	303	235	-	777
At December 31, 2014	-	(38,032)	(175,542)	(3,950)	(31,316)	-	(248,840)
Depreciation expense	-	(6,918)	(21,174)	(334)	(1,985)	-	(30,411)
Transfer to assets held for distribution	-	3,554	34,013	141	1,434	-	39,142
Foreign currency remeasurement	-	2,527	13,480	350	2,915	-	19,272
Disposals	-	100	11,233	486	2,799	-	14,618
At December 31, 2015	-	(38,769)	(137,990)	(3,307)	(26,153)	-	(206,219)
NET BOOK VALUE							
At December 31, 2014	48,272	168,834	187,098	1,151	5,204	15,088	425,647
At December 31, 2015	43,330	161,280	181,966	1,172	4,571	11,315	403,634

Cumulative capital expenditure relating to the investment in the United States as of December 31, 2015 and 2014, amounted to \$378,324 and \$350,856, respectively, which related to the construction costs for the Group's plant.

Since December 31, 2008, the Group measures land using the revaluation model. In 2008, the Group engaged an accredited independent appraiser, to determine the fair value of its land. The valuation is performed following a level 3 valuation technique. The fair value of land is determined with the market approach, by reference to market based evidence. This means that valuation is performed by the appraiser and the main inputs are based on market observable prices and transactions for similar assets in the area, adjusted for any difference in the location or condition of the specific property.

The date of the first revaluation was December 31, 2008. This resulted in a revaluation surplus amounting to \$57,529, which was recognised then in the consolidated statement of comprehensive income/(loss) as well as in equity component "land revaluation surplus", net of deferred taxes of \$9,527 (at historic foreign exchange rates).

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group engaged an accredited independent appraiser to determine the fair value of its land as at December 31, 2011. The measurement resulted in a devaluation of \$2,857 recognized in the consolidated statement of comprehensive income/ (loss) and in the equity component “land revaluation surplus”, net of deferred taxes, of \$714. No update of the valuation was performed for fiscal years 2012 and 2013 as the Group determined that no significant fluctuation in value has occurred since its previous valuation. The change in the tax rates in 2013 affected the deferred taxes previously recognized and, as a result, the revaluation surplus was reduced by \$2,197. In 2014, the Group engaged an accredited independent appraiser to determine the fair value of its land as at December 31, 2014. The measurement resulted in a devaluation of \$5,036 recognized in the consolidated statement of comprehensive income/(loss) and in the equity component “land revaluation surplus”, net of deferred taxes of \$1,770. If the land was measured using the cost model, its carrying amount as of December 31, 2014, would be approximately \$5.4 million. During 2015, land revaluation surplus was reduced by an amount of \$844 due to the change of the statutory tax rate concerning the Greek subsidiary.

In accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, property, plant and equipment related to the milk business, was classified as of December 31, 2015 as held for sale and carried at the lower of their carrying amount and their fair value less costs to sell. Accordingly, an impairment loss of \$5,600 has been recorded in the accompanying consolidated statement of profit or loss for the year ended December 31, 2015.

Moreover, during 2015 the Group wrote-off obsolete equipment amounting to \$7,663, which has been recorded in other expenses in the accompanying consolidated statement of profit or loss for the year ended December 31, 2015.

10. INTANGIBLE ASSETS:

Intangible assets in the accompanying consolidated financial statements are analyzed as follows:

	<u>Customer network</u>	<u>Development costs</u>	<u>EDP license fees/expenses</u>	<u>Total</u>
Balance, January 1, 2014	1,390	2,366	46	3,802
Additions	-	568	-	568
Foreign currency remeasurement	(80)	(155)	(6)	(241)
Amortization (Note 5)	(208)	(361)	(33)	(602)
Balance, December 31, 2014	1,102	2,418	7	3,527
Additions	-	114	119	233
Foreign currency remeasurement	(53)	(139)	-	(192)
Amortization (Note 5)	(198)	(591)	(8)	(797)
Balance, December 31, 2015	851	1,802	118	2,771

11. 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. On September 25, 2012, the latter entity became the holder of all non-Greek subsidiaries and the 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.

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.

11. CONSOLIDATED SUBSIDIARIES AND GOODWILL (continued)

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 December 31, 2015, include the financial statements of FAGE International S.A. and its subsidiaries listed below:

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

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

	<u>Equity interest</u> <u>December 31,</u> <u>2015</u>	<u>Country of</u> <u>incorporation</u>	
FAGE USA Dairy Industry, Inc.	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%	USA	U.S. operating subsidiary with its primary activity being the provision of sales and marketing services to FAGE USA Dairy Industry, Inc.

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

	<u>Equity interest</u> <u>December 31,</u> <u>2015</u>	<u>Country of</u> <u>incorporation</u>	
FAGE Commercial S.A. (Xylouris)	-	Greece	Commercial-Liquidated in 2015
Zagas S.A.	-	Greece	Cheese producer-Liquidated in 2015
Agroktima Agios Ioannis S.A.	-	Greece	Liquidated in 2014
Iliator S.A.	-	Greece	Liquidated in 2014

11. CONSOLIDATED SUBSIDIARIES AND GOODWILL (continued)

FAGE USA Holdings, Inc.: FAGE USA Holdings, Inc. is the holding company of FAGE USA, Corp. and FAGE USA Dairy Industry, Inc.

FAGE USA Dairy Industry, Inc.: FAGE USA Dairy Industry, Inc. is a wholly owned subsidiary of FAGE USA Holdings, Inc. and is a company which imports, manufactures and distributes the Group's products in the U.S. market.

FAGE USA, Corp.: FAGE USA, Corp. is a wholly owned subsidiary of FAGE USA Holdings, Inc. and is a company providing sales and marketing services.

FAGE U.K. Limited: On April 13, 2005, FAGE acquired 100% of the share capital of its distributor in the United Kingdom, Gordon Conrad Limited (subsequently renamed to FAGE U.K. Limited), for a consideration of \$6,997.

FAGE Italia S.r.l.: FAGE Italia S.r.l. is a 100% owned Italian distribution company. FAGE acquired its interest in FAGE Italia S.r.l. in three tranches (88.87% in 1993, 11.12% in 2004 and 0.01% in 2006) for a total consideration of \$858.

FAGE Deutschland GmbH: FAGE Deutschland GmbH is a 100% owned German distribution company.

FAGE Dairy Industry S.A.: FAGE Dairy Industry S.A. is the Group's Greek operating subsidiary with its primary activity being the operation of the Group's Greek production facilities and distribution of its products in Greece.

FAGE Commercial S.A. (Xylouris): FAGE acquired 100% of Xylouris S.A. (Xylouris) in seven tranches (35% in 1995, 12% in 1996, 4% in 1997, 17% in 2002, 3.75% in 2003, 28.24% in 2004 and 0.01% in 2006) for a total consideration of \$2,681. Xylouris was a cheese producer in Crete. During December 2008 it was renamed FAGE Commercial S.A. and it operated as a commercial company until it was liquidated in 2015.

Zagas S.A.: Zagas S.A. (Zagas) was a cheese producer in Agrinio. FAGE acquired its participating interest of 100% of Zagas in two tranches (99.99% in 2001 and 0.01% in 2006), for a total consideration of \$4,072. Zagas was liquidated in 2015.

Agroktima Agios Ioannis S.A.: FAGE acquired 100% of Agroktima Agios Ioannis S.A. (Agroktima) in three tranches (33.24% in 1998, 66.75% in 2000 and 0.01% in 2006) for a total consideration of \$2,089. Agroktima was an agricultural and farm development company which ceased operations in 2007. During 2014, Agroktima was liquidated.

Iliator S.A.: The Group had a participation interest of 97% in Iliator S.A., a construction company which ceased operations. During 2014, Iliator S.A. was liquidated.

GOODWILL

As of December 2015, the Group decided to withdraw from the milk business and sell all of the property, plant and equipment related to the Amyntaio milk facility. In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the carrying value of goodwill for Voras S.A. (Amyntaio facility) amounting to \$2,344 has been tested for impairment and its carrying value was impaired. An impairment loss was recorded in the consolidated statement of profit or loss for the year ended December 31, 2015 within discontinued operations (Note 3).

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

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Foods Hellas S.A. (FAGE Dairy Industry S.A.)	1,411	1,573
Voras S.A. (FAGE Dairy Industry S.A.)	-	2,576
FAGE Italia S.r.l.	309	345
FAGE U.K. Limited	1,400	1,472
Total	<u>3,120</u>	<u>5,966</u>

The movement in goodwill is analyzed as follows:

	<u>THE GROUP</u>
Balance at January 1, 2014	6,667
Less: Foreign currency remeasurement	(701)
Balance at December 31, 2014	5,966
Less: Impairment loss (see Note 3)	(2,344)
Less: Foreign currency remeasurement	(502)
Balance at December 31, 2015	<u>3,120</u>

11. CONSOLIDATED SUBSIDIARIES AND GOODWILL (continued)

Goodwill is tested annually for impairment on December of each year or more frequently when circumstances indicate that the carrying value maybe impaired. The Group has identified two cash generating units, the European and the U.S.

The annual impairment test for goodwill was based on the value in use approach which was used to determine the recoverable amount of the cash generating units of the Group to which goodwill is allocated. Cash flow projections are based on financial forecasts approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections was 10.2% and cash flows beyond the five-year period were extrapolated using a 2.0% growth rate which is the expected average growth rate for the specific industry.

Key assumptions used in the value in use calculation with respect to the above impairment tests are as follows:

Budgeted gross margin: The basis used to determine the value assigned to the budgeted gross margins is the average actual gross margins achieved by each cash-generating unit in the preceding five-year period.

Capital needs: All the necessary estimated acquisitions of fixed assets as well as working capital needs and maintenance needs were taken into account, based on the latest five years' actual needs, in order for the cash-generating units to maintain their production capacity and market share.

Discount rates: Discount rates represent the current market assessment of the risks specific to each cash generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service.

Management did not identify any impairment at the Group level as a result of this test.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating units of the Group, management believes that a reasonable change in any of the above key assumptions would not cause the current value of these cash generating units to materially exceed their recoverable amounts.

12. AVAILABLE FOR SALE FINANCIAL ASSETS:

Available for sale financial assets are analyzed as follows:

	December 31,	
	2015	2014
Shares—listed and unlisted:		
Vis S.A. (listed)	315	326
Elbisco Holdings S.A. (unlisted)	170	189
Total Available for Sale Financial Assets in Current Assets	485	515
Shares—unlisted:		
Packing Hellas Development S.A.	96	107
Total Available for Sale Financial Assets in Non-Current Assets	96	107

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

The above-mentioned investments have been classified as available for sale and the listed 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 recycled through the consolidated statement of profit or loss.

For the year ended December 31, 2014, the results of available for sale financial assets of \$(84), (net of deferred income taxes of \$30), were recognized and reported in other comprehensive income/(loss). For the year ended December 31, 2015, gains of \$70 (net of deferred income taxes of \$28) were recognized and reported in other comprehensive income/(loss) while losses of \$73 were recognized and reported in the consolidated statement of profit or loss, as it was determined that the related investments had been impaired.

13. OTHER NON-CURRENT ASSETS:

Other non-current assets are analyzed as follows:

	December 31,	
	2015	2014
Utility deposits	420	364
Other	325	553
	745	917

14. INVENTORIES:

Inventories are analyzed as follows:

	December 31,	
	2015	2014
Merchandise	3,079	2,911
Finished and semi-finished products	15,304	15,502
Raw materials and supplies	19,184	25,122
Less provision for slow-moving	-	(186)
	<u>37,567</u>	<u>43,349</u>
Less assets classified as held for distribution (see Note 3)	(1,400)	-
	<u>36,167</u>	<u>43,349</u>

15. TRADE AND OTHER RECEIVABLES:

Trade and other receivables are analyzed as follows:

	December 31,	
	2015	2014
Trade:		
—In U.S. dollars	29,048	26,902
—In foreign currencies	32,963	38,523
	<u>62,011</u>	<u>65,425</u>
—Less: allowance for doubtful accounts	(3,856)	(2,609)
	<u>58,155</u>	<u>62,816</u>
Other:		
—Value added tax	8,764	11,977
—Prepaid taxes, other than income taxes	-	4
—Prepaid expenses	1,597	4,219
—Advances to suppliers	9,465	8,330
—Various debtors	6,369	5,615
	<u>26,195</u>	<u>30,145</u>
—Less: allowance for doubtful accounts	(6,321)	(7,433)
	<u>19,874</u>	<u>22,712</u>
	<u>78,029</u>	<u>85,528</u>
—Less: assets classified as held for distribution (see Note 3)	(1,861)	-
	<u>76,168</u>	<u>85,528</u>

The movement of the allowance for doubtful accounts during the years ended December 31, 2015 and 2014, was as follows:

	Trade	Other	Total
Balance at January 1, 2014	3,521	9,760	13,281
Provision (Note 6)	1,531	38	1,569
Utilization	(2,032)	(1,328)	(3,360)
Foreign currency remeasurement	(411)	(1,037)	(1,448)
Balance at December 31, 2014	<u>2,609</u>	<u>7,433</u>	<u>10,042</u>
Provision (Note 6)	1,605	329	1,934
Utilization	(59)	(682)	(741)
Foreign currency remeasurement	(299)	(759)	(1,058)
Balance at December 31, 2015	<u>3,856</u>	<u>6,321</u>	<u>10,177</u>

The ageing analysis of trade accounts receivable is as follows:

	<u>Total</u>	<u>Neither past due nor impaired</u>	<u>Past due but not impaired</u>	
		<u>Current</u>	<u>Over 60 days</u>	<u>Over 180 days</u>
2015	58,155	45,600	12,555	-
2014	62,816	42,404	19,933	479

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 finalised.

16. 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:

	December 31,	
	2015	2014
Due from:		
- Ioannis Nikolou ULP	466	648
- Evga S.A.	10	2,783
- Agan S.A.	3,912	-
- Hellenic Quality Foods S.A.	6,521	-
- Mornos S.A.	2,366	-
	13,275	3,431
Due to:		
- Iofil S.A.	-	1,396
- Mornos S.A.	186	2,936
- Vis S.A.	18	766
- G. S. Kostakopoulos & Associates	3	-
- Agan S.A.	-	727
- Alpha Phi S.à r.l.	351	345
- Theta Phi S.à r.l.	351	345
	909	6,515

Transactions with related companies for the years ended December 31, 2015 and 2014, are analyzed as follows:

	Purchases from related parties		Sales to related parties	
	2015	2014	2015	2014
Inventories, materials and supplies	37,499	42,689	1,087	2,178
Advertising and media	2,624	6,859	-	-
Other services	7,523	8,637	-	-
	47,646	58,185	1,087	2,178

Purchases of inventories, materials and supplies from related parties represent approximately 12.9% and 11.5% of the Group's total purchases for the years ended December 31, 2015 and 2014, respectively.

Advertising, media buying and other services from related parties represent approximately 14.6% and 21.7% of the Group's total respective costs for the years ended December 31, 2015 and 2014, respectively.

Mornos S.A.: The Group purchases plastic yogurt tubs, aluminum yogurt tub tops and other packaging products from Mornos S.A. ("Mornos"). Members of Mr. Kyriakos Filippou's family and companies that they control own 100% of Mornos. Mr. Athanassios-Kyros Filippou is the Chairman of the Board and Chief Executive Officer of Mornos. The Group's purchases from Mornos totaled \$13,252 and \$16,498 for the years ended December 31, 2015 and 2014, respectively.

Vis S.A.: The Group purchases packaging materials from Vis S.A. ("Vis"), a public company that is listed on the Athens Exchange. Mr. Ioannis Filippou and Hellenic Quality Foods S.A. ("HQF") collectively own 74.98% of Vis and the Group 7.1% of Vis. Mr. Dimitrios Filippou is the Chairman of the Board and Chief Executive Officer of Vis. Purchases from Vis totaled \$3,253 and \$3,714 for the years ended December 31, 2015 and 2014, respectively.

European Milk and Flour Industry S.A.: The Group was the exclusive distributor in Greece of fresh fruit juices produced by European Milk and Flour Industry S.A. ("Evga"). Evga is 100% owned by members of Mr. Kyriakos Filippou's family and companies controlled by him. Mr. Athanassios-Kyros Filippou is the Chairman of the Board and Chief Executive Officer of Evga. Evga produces fresh and UHT fruit juices and ice cream. The Group purchased Evga's fresh fruit juices, which bear the EVGA trademark, at a negotiated discounted price and sold them to retailers at a mark-up. Evga retained responsibility for all marketing, advertising and promotion costs. The Group's purchases from Evga totaled \$0 and \$97 for the years ended December 31, 2015 and 2014, respectively. From time to time, the Group sells to Evga various raw materials for its products. Sales to Evga totaled \$67 and \$203 for the years ended December 31, 2015 and 2014, respectively.

Iofil S.A.: Until its merger with and into HQF in December 2015, Iofil S.A. ("Iofil") was 100% owned by members of Mr. Ioannis Filippou's family and a company that he beneficially owns. Mr. Ioannis Filippou was Chairman of the Board of Directors and Mr. Dimitrios Filippou was the Chief Executive Officer of Iofil. Iofil was an industrial, commercial, advertising and services company and was also the controlling shareholder of Vis.

16. RELATED PARTIES (continued)

The Group purchased packaging materials and molds from Iofil. The Group's purchases of packaging materials and molds from Iofil totaled \$13,415 and \$16,836 for the years ended December 31, 2015 and 2014, respectively. Iofil also provided advertising services to the Group in the amount of \$2,623 and \$6,859 for the years ended December 31, 2015 and 2014, respectively.

Hellenic Quality Foods S.A.: HQF is a company 100% owned by members of Mr. Ioannis Filippou's family and a company that he beneficially owns. Mr. Dimitrios Filippou is the Chairman of the Board and Chief Executive Officer of HQF. HQF operates in the food industry and is also the controlling shareholder of Vis. HQF was the surviving company of its merger with Iofil in December 2015. The Group purchases packaging materials from HQF. The Group's purchases of packaging materials from HQF totaled \$285 for the year ended December 31, 2015.

Agan S.A.: Agan S.A. ("Agan") is a service company owned by Mr. Kyriakos Filippou, Mr. Athanassios-Kyros Filippou and Palace S.A., a company that is 100% owned by the family of Mr. Kyriakos Filippou. Mr. Athanassios-Kyros Filippou is the Chairman of the Board of Directors and Chief Executive Officer of Agan. The Group's purchases of packaging materials from Agan totaled \$7,294 and \$5,544 for the years ended December 31, 2015 and 2014, respectively.

Ioannis Nikolou ULP: Mr. Ioannis Nikolou is the brother-in-law of Mr. Ioannis Filippou and is one of the Company's sales representatives. As such, he buys products from the Group at a discounted price and resells them at a marked-up price, with the difference being retained as his commission. The Group determines the discounts offered to and mark-ups charged by its sales representatives in a uniform manner. Purchases from the Group by Ioannis Nikolou totaled \$1,000 and \$1,961 for the years ended December 31, 2015 and 2014, respectively. Ioannis Nikolou derives a standard commission on resale of such purchased products.

G.S. Kostakopoulos & Associates: The Group engages the law firm G.S. Kostakopoulos & Associates for various legal services. Mr. Georgios Kostakopoulos, the managing partner of the firm, is the brother-in-law of Messrs. Ioannis and Kyriakos Filippou. The Group's payments to G.S. Kostakopoulos & Associates were approximately \$323 and \$357 for the years ended December 31, 2015 and 2014, respectively.

Alpha Phi S.à r.l.: Alpha Phi S.à r.l. ("Alpha Phi") is a company owned by the Filippou family. It provides consulting services to the Group. Services provided to the Group by Alpha Phi for the years ended December 31, 2015 and 2014, amounted to \$3,600 and \$4,140, respectively.

Theta Phi S.à r.l.: Theta Phi S.à r.l. ("Theta Phi") is a company owned by the Filippou family. It provides consulting services to the Group. Services provided to the Group by Theta Phi for the years ended December 31, 2015 and 2014, amounted to \$3,600 and \$4,140, respectively.

Total Compensation to Key Management Personnel: Compensation and related costs to directors and executive officers are analyzed as follows:

	December 31,	
	2015	2014
Compensation paid to shareholders and family members as directors and executive officers	9,160	8,833
Compensation to other directors and executive officers	2,947	2,776
	<u>12,107</u>	<u>11,609</u>
Payments to state pension plans	388	364
	<u>12,495</u>	<u>11,973</u>

Certain additional related party disclosures are provided in Note 27 to the consolidated financial statements.

17. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are analyzed as follows:

	December 31,	
	2015	2014
Cash in hand	79	66
Cash at banks	78,174	56,020
	<u>78,253</u>	<u>56,086</u>
Less assets classified as held for distribution (see Note 3)	(6)	-
	<u>78,247</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 \$24 and \$48 for the years ended December 31, 2015 and 2014, respectively for the Group and is included in financial income in the accompanying consolidated statements of profit or loss (Note 7).

17. CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents for the Group at December 31, 2015 consisted of \$32,919 denominated in foreign currencies and \$46,528 in U.S. dollars (\$28,969 and \$27,117, respectively, at December 31, 2014).

Restricted cash for the Group at December 31, 2015 consisted of \$1,200 relating to a line of credit. There was no restricted cash at December 31, 2014.

18. SHARE CAPITAL, SHARE PREMIUM AND NET REVALUATION SURPLUS:

FAGE International S.A., which was incorporated on September 25, 2012, in Luxembourg and is beneficially owned and controlled by Messrs. Ioannis and Kyriakos Filippou, is the parent company of all subsidiaries.

Share capital and share premium are analyzed as follows:

	December 31,	
	2015	2014
Share capital	1,000	1,000
Share premium	50,778	50,778
	51,778	51,778

The reversal of fixed assets statutory revaluation surplus of \$44,410 as at December 31, 2015 and 2014, represents gains resulting from the statutory tax law revaluation of fixed assets in Greece which have been capitalized according to the provisions of the relevant laws. These revaluations have been reversed in the accompanying consolidated financial statements with the reversal of the net revaluation gains being reflected as a separate component of equity.

During 2015, land revaluation surplus was reduced by \$844 due to the change of the statutory tax rate concerning the Greek subsidiary.

19. LEGAL, TAX FREE AND SPECIAL RESERVES:

Legal, tax free and special reserves for the Group relate to reserves of FAGE Dairy Industry S.A. (the parent of the Group prior to 2012 restructuring, see Note 10) and are analyzed as follows:

	December 31,	
	2015	2014
Legal reserve	3,757	3,660
Tax free reserves		
- Greek Law 1892/1990 (Art. 12)	32,758	32,758
Special reserves		
- Greek Law 1892/1990 (Art. 23a)	-	8,886
- Greek Law 3296/2004	1,030	1,030
	1,030	9,916
	37,545	46,334

Legal Reserve:

Under Greek corporate law, corporations are required to transfer a minimum of 5% of their annual net profit as reflected in their statutory books to a legal reserve, until such reserve equals one-third of the outstanding share capital. The above reserve cannot be distributed during the existence of the FAGE Dairy Industry S.A.

Under Luxembourg law, a minimum of 5% of the net profit of the year must be allocated to legal reserve until such reserve equals 10% of the issued share capital. This reserve may not be distributed in form of cash, dividends, or otherwise, during the life of the Company.

Tax Free Reserves:

Under the provisions of Law 1892/1990 (Art. 12), corporations were allowed to establish tax free reserves equal to sixty percent of their pre-tax profits, as reflected in their statutory books, generated from manufacturing activities, after allowing for legal reserve, dividends and Board of Directors fees, but limited to sixty percent of the capital expenditures made in the respective year under this law. This incentive expired on December 31, 2004. According to the Greek tax regulations, this reserve is exempt from income tax, provided it is not distributed to shareholders. FAGE Dairy Industry S.A. has no intention of distributing this reserve and, accordingly, has not provided for deferred income tax liability that would be required in the event the reserve is distributed.

19. LEGAL, TAX FREE AND SPECIAL RESERVES (continued)***Tax Free Reserves:***

If the above reserves are distributed then income taxes will be payable at the then prevailing rates.

Special Reserves:

- (a) Under the provisions of Law 1892/1990 (Art. 23a) FAGE Dairy Industry S.A. submitted to the Greek State a business plan concerning the expansion and upgrading of certain production units, during the period from 1995 through 1997. FAGE Dairy Industry S.A. was obliged to record its own contribution as a special reserve out of each year's profits as reflected in the statutory books. The reserve could not be distributed for a period of ten years from the completion of the business plan.

During 2015, the special reserves were reduced by an amount of \$8,886, from which \$8,871 was paid to FAGE Dairy Industry S.A.'s sole shareholder, FAGE International, as a dividend and the balance of \$15 was included in other income in the consolidated statement of profit or loss.

- (b) Under the provisions of Law 3296/2004 FAGE Dairy Industry S.A. was obliged to record, as a special reserve, the balance of the allowance for doubtful accounts receivable reflected in its statutory books which had not been offset against specific account receivable balances.

20. DIVIDENDS:

In accordance with the Luxembourg law dated August 1915 on commercial companies, as amended and restated from time to time (the "Law"), and the articles of association of FAGE International:

1. Five per cent (5%) of our annual net profits must be allocated to the reserve required by law. This allocation ceases when the legal reserve reaches an amount equal to ten per cent (10%) of our share capital which is currently set at \$1,000.
2. The general meeting of FAGE International's shareholders determines the allocation of the balance of the annual net profits at the annual general meeting. The general meeting of FAGE International's shareholders may decide on the payment of an annual dividend, to transfer the balance to a reserve account, or to carry it forward in accordance with the applicable legal provisions. Annual dividends are distributions made to FAGE International's shareholders after the end of a financial year, which are paid out of the amount of the profits at the end of such financial year plus any profits carried forward, less any losses carried forward and sums to be placed to the legal reserve or any other reserve in accordance with the law on commercial companies, 10th August 1915, as amended and restated from time to time or the articles of association of FAGE International. In accordance with the Law, except for cases of reductions of subscribed capital, no distributions (including dividends) to shareholders may be made when on the closing date of the last financial year the net assets as set out in the annual accounts are, or following such a distribution would become, lower than the amount of the subscribed capital plus the reserves which may not be distributed under law or by virtue of the articles of association of FAGE International. In excess, any distribution made in infringement of this latter rule must be returned by the shareholders who have received it if FAGE International proves that the shareholders knew of the irregularity of the distributions made in their favor or could not, in the circumstances, have been unaware of it.
3. The Board of Directors of FAGE International (the "Board") may distribute interim dividends subject to the following conditions:
 - a. the Board must prepare interim accounts;
 - b. the interim accounts must reflect that sufficient profits and other reserves (including share premium) are available for distribution; it being understood that the amount to be distributed may not exceed the profits made since the end of the last financial year for which the annual accounts have been approved, if any, increased by profits carried forward and distributable reserves, and reduced by losses carried forward and sums to be allocated to the legal or a statutory reserve;
 - c. the decision to distribute interim dividends must be taken by the Board within two (2) months from the date of the interim accounts; and
 - d. the approved external auditors (réviseur d'entreprises agréé) must prepare a report addressed to the Board which must verify whether the above conditions have been satisfied.

The General Meeting of Shareholders of FAGE Dairy Industry S.A. met on April 22, 2015 and approved the distribution of tax reserves relating to the fiscal years 1995, 1996 and 1997 amounting to \$8,886, from which \$8,871 was paid to its sole shareholder, FAGE International, as a dividend and the balance of \$15 was included in other income in the consolidated statement of profit or loss.

During 2015, FAGE International S.A. paid dividends to its shareholders amounting to \$10,000.

21. INTEREST BEARING LOANS AND BORROWINGS:

Interest bearing loans and borrowings are analyzed as follows:

	December 31,	
	2015	2014
Senior Notes due 2020	400,000	400,000
Total long-term debt	400,000	400,000
Less: Unamortized issuance costs	(15,933)	(18,953)
	384,067	381,047

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 (i) to redeem \$26.4 million of the 2015 Senior Notes and \$60.7 million of other long-term debt and (ii) 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 (i) to redeem \$138.9 million of the 2015 Senior Notes and the coupon accrued to that date, (ii) to repay \$22.6 million of short-term borrowings and (iii) 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 and 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, 2015 and 2014.

Finance expenses on the Group's interest-bearing loans and borrowings for the years ended December 31, 2015 and 2014, amounted to \$42,520 and \$42,220, respectively, and are included in financial expenses in the accompanying consolidated statements of profit or loss (Note 7).

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

	December 31,	
	2015	2014
2 – 5 years	400,000	-
Over 5 years	-	400,000
	400,000	400,000

22. PENSION AND STAFF RETIREMENT INDEMNITIES:

- (a) **State Pension:** In various countries where the Group operates there are defined contribution plans. FAGE Greece's employees are covered by one of several Greek State sponsored pension funds. Each employee is required to contribute a portion of their monthly salary to the fund, with FAGE Greece also contributing a portion. Upon retirement, the pension fund is responsible for paying the employees retirement benefits. As such, FAGE Greece has no legal or constructive obligation to pay future benefits under this plan. FAGE Greece 's contributions to the pension funds for the years ended December 31, 2015 and 2014, have been recorded to expenses and were \$4,925 and \$6,106, respectively.
- (b) **Staff Retirement Indemnities:** For FAGE Greece, under Greek labor law, employees and workers are entitled to termination/retirement payments in the event of dismissal or retirement with the amount of payment varying in relation to the employee's or worker's compensation, length of service and manner of termination (dismissed or retired). Employees or workers who resign or are dismissed with cause are not entitled to termination payments. The indemnity payable in case of retirement is equal to 40% of the amount which would be payable upon dismissal without cause. In Greece, local practice is that pension plans are not funded.

22. PENSION AND STAFF RETIREMENT INDEMNITIES (continued)

(b) *Staff Retirement Indemnities (continued)*: In accordance with this practice, FAGE Greece does not fund these plans. FAGE Greece charges operations for benefits earned in each period with a corresponding increase in pension liability. Benefit payments made each period to retirees are charged against this liability.

The movements in the net liability in the accompanying consolidated statement of financial position are as follows:

	December 31,	
	2015	2014
Net liability at beginning of the year	4,508	5,055
Actual benefits paid by the Company	(139)	(176)
Expense recognized in the statements of profit or loss (Note 4)	263	399
Expense/(income) recognized in the statements of comprehensive income	(533)	(160)
Foreign currency remeasurement	(459)	(610)
	3,640	4,508
Less liabilities classified as held for distribution (see Note 3)	(292)	-
Net liability at end of the year	3,348	4,508

An international firm of independent actuaries estimated the Group's liabilities arising from the obligation to pay retirement indemnities. The details and principal assumptions of the actuarial study as at December 31, 2015 and 2014, are as follows:

	December 31,	
	2015	2014
Present value of unfunded obligations	4,508	5,055
Components of net periodic pension cost:		
Service cost	168	204
Interest cost	77	166
Termination benefits	18	29
Total charge to operations	263	399
Reconciliation of benefit obligation:		
Present value of obligation at start of year	4,508	5,055
Service cost	168	204
Interest cost	77	166
Additional costs of extra benefits	18	29
Benefits paid	(139)	(176)
Actuarial net (gain)/loss	(533)	(160)
Foreign currency remeasurement	(459)	(610)
Present value of obligation at the end of year	3,640	4,508
Principal Assumptions:		
Discount rate	2.0%	1.9%
Rate of compensation increase	2.0%	2.0%
Increase in consumer price index	2.0%	2.0%

Additional cost of extra benefits relate to benefits paid to employees who became redundant. Most of these benefits were not expected within the terms of this plan and, accordingly, the excess of benefit payments over existing reserves have been treated as an additional pension charge. The additional pension charge for the years ended December 31, 2015 and 2014, amounted to \$18 and \$29, respectively.

A quantitative sensitivity analysis for significant assumptions as at December 31, 2015, is shown below:

Sensitivity information for defined benefit obligation

Effect on the present value of defined benefit obligation due to:

		2015
Change in the discount rate	+0.5%	-5%
	-0.5%	+5%
Change in the salary increase	+0.5%	+5%
	-0.5%	-5%

22. PENSION AND STAFF RETIREMENT INDEMNITIES (continued)

Sensitivity information for service cost

Effect on current service cost (including interest) due to:

		<u>2016</u>
Change in the discount rate	+0.5%	-5%
	-0.5%	+5%
Change in the salary increase	+0.5%	+6%
	-0.5%	-6%

23. TRADE ACCOUNTS PAYABLE:

Trade accounts payable are analyzed as follows:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Suppliers in U.S. dollars	21,193	33,269
Suppliers in other currencies	17,834	22,620
	39,027	55,889
Less liabilities classified as held for distribution (see Note 3)	(1,335)	-
	37,692	55,889

24. SHORT-TERM BORROWINGS:

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

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Credit lines available	41,532	42,285
Unused credit lines	(41,532)	(35,000)
Short-term borrowings	-	7,285

The weighted average interest rates on short-term borrowings for the years ended December 31, 2015 and 2014, was 7.71% and 7.77%, respectively.

Interest on short-term borrowings for the years ended December 31, 2015 and 2014, totaled \$604 and \$330, respectively, for the Group and is included in interest expense in the accompanying consolidated statements of profit or loss (Note 7). Amortization of fees for the revolving credit facility of FAGE USA Dairy Industry, Inc. for the years ended December 31, 2015 and 2014, amounted to \$357 and \$354, respectively, and is included in interest expense in the accompanying consolidated statements of profit or loss (Note 7).

The available credit lines for the FAGE Group as of December 31, 2015 amounted to \$41,532 of which \$35,000 was provided by Citibank, N.A. in the United States and secured by accounts receivable and certain inventory of FAGE USA Dairy Industry, Inc. and \$6,532 was provided by a revolving credit line with Alpha Bank in Greece. Out of the available credit lines as of December 31, 2015 and 2014, the unused part amounted to \$41,532 and \$35,000, respectively. The available credit lines for the Group as of December 31, 2014 amounted to \$42,285.

25. ACCRUED AND OTHER CURRENT LIABILITIES:

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

	December 31,	
	2015	2014
Taxes withheld:		
Payroll	937	766
Third parties	10	16
Milk producers	5	11
Other	1,043	519
	1,995	1,312
Advances from customers	2,943	1,397
Accrued interest	16,491	16,496
Social security funds payable	1,217	1,525
Accrued and other liabilities	17,398	11,535
	35,106	29,556
Total	40,044	32,265
Less liabilities classified as held for distribution (see Note 3)	(2,737)	-
	37,307	32,265

26. 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 years ended December 31, 2015 and 2014, is analyzed as follows:

	Year ended December 31, 2015			
	European operations	U.S. operations	Eliminations	Consolidated
Revenues				
Net sales to external customers	236,997	411,231	-	648,228
Inter-segment sales	109,780	-	(109,780)	-
Segment revenues	346,777	411,231	(109,780)	648,228
Results				
Profit/(loss) before income taxes	4,929	64,934	-	69,863
Segment result net profit/(loss)	(15,838)	30,581	-	14,743
Other segment information:				
Capital expenditures:				
Tangible and intangible fixed assets	5,732	33,341	-	39,073
Depreciation and amortization	11,908	19,300	-	31,208
Financial expenses	21,677	22,027	(96)	43,608
Income tax expense	20,768	34,352	-	55,120

26. SEGMENT INFORMATION (continued)

	Year ended December 31, 2014			
	European operations	U.S. operations	Eliminations	Consolidated
Revenues				
Net sales to external customers	265,238	402,679	-	667,917
Inter-segment sales	110,241	-	(110,241)	-
Segment revenues	<u>375,479</u>	<u>402,679</u>	<u>(110,241)</u>	<u>667,917</u>
Results				
Profit/(loss) before income taxes	12,093	20,500	-	32,593
Segment result net profit/(loss)	<u>6,368</u>	<u>(6,271)</u>	<u>-</u>	<u>97</u>
Other segment information:				
Capital expenditures:				
Tangible and intangible fixed assets				
	5,672	114,892	-	120,564
Depreciation and amortization	<u>12,757</u>	<u>13,230</u>	<u>-</u>	<u>25,987</u>
Financial expenses	<u>21,358</u>	<u>17,986</u>	<u>(176)</u>	<u>39,168</u>
Income tax expense	<u>5,725</u>	<u>26,771</u>	<u>-</u>	<u>32,496</u>

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

December 31, 2015	European operations	U.S. operations	Eliminations	Consolidated
Segment assets	<u>371,228</u>	<u>412,711</u>	<u>(99,326)</u>	<u>684,613</u>
Segment liabilities	<u>324,917</u>	<u>300,086</u>	<u>(99,326)</u>	<u>525,677</u>
December 31, 2014	European operations	U.S. operations	Eliminations	Consolidated
Segment assets	<u>381,682</u>	<u>379,749</u>	<u>(57,333)</u>	<u>704,098</u>
Segment liabilities	<u>297,252</u>	<u>294,567</u>	<u>(57,333)</u>	<u>534,486</u>

27. 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 the 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.

(b) Commitments:

(i) Operating Lease Commitments:

As of December 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 years ended December 31, 2015 and 2014, amounted to \$2,606 and \$2,570, respectively.

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

27. CONTINGENCIES AND COMMITMENTS (continued)

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Within one year	969	1,110
1-5 years	2,590	2,935
Over 5 years	253	696
Total	<u>3,812</u>	<u>4,741</u>

(ii) Finance Lease Commitments:

As of December 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>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2014</u>
	<u>Minimum</u>	<u>Present value</u>	<u>Minimum</u>	<u>Present value</u>
	<u>payments</u>	<u>of payments</u>	<u>payments</u>	<u>of payments</u>
Within one year	111	90	123	95
1-5 years	323	319	473	456
Total minimum lease payments	434	409	596	551
Less amounts representing finance charges	(25)	-	(45)	-
Present value of minimum lease payments	<u>409</u>	<u>409</u>	<u>551</u>	<u>551</u>

(iii) Letters of Guarantee:

At December 31, 2015 and 2014, the Group had outstanding bank letters of guarantee in favor of various parties amounting to \$1,280 and \$781, respectively. Such guarantees have been provided for the good execution of agreements and for the participation in 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 December 31, 2015 amounted to \$16,464, all of which is due within one year. Of the total future amounts payable, \$8,821 is denominated in Euro.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES:

The Group's principal financial liabilities comprise of short-term borrowings, interest-bearing loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise funds for the Group's operations and investments. The Group also has trade and other receivables and cash and cash equivalents that are derived directly from its operations. The Group also holds certain available for sale investments.

The Group is exposed to a) Market Risk (comprised mainly of interest rate risk, foreign exchange risk and fair value risk), b) Credit Risk and c) Liquidity Risk, which are further discussed below:

a) Market Risk

(ii) Interest rate risk: As of December 31, 2014, the Group had short-term borrowings amounting to \$7,285 at variable rates with a weighted average interest rate of 7.77%. As of December 31, 2015, the Group was not exposed to interest rate fluctuations because all of its loans and borrowings bore fixed interest rates. The Group does not use derivative financial instruments to hedge the interest rate risk on our debt obligations.

(ii) Foreign Currency Risk: The Group enters into transactions denominated in foreign currencies related to the sales and purchases of goods. Therefore, the Group is exposed to market risk related to possible foreign currency fluctuations, which is however, mitigated to a certain extent by the set-off of credit and debit balances in the same currencies. Due to the fact that the Group has increased its international exposure due to the sales to the Euro zone and the UK market, its financial position and results of operations are increasingly subject to currency translation risks.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

- (ii) **Foreign Currency Risk:** As of December 31, 2015 and 2014, approximately 36.6% and 39.7%, respectively, of the Group's sales were denominated in currencies other than the presentation currency of the Group, which starting October 1, 2012, is the U.S. dollar, and 36.1% and 34.9%, respectively, of costs were denominated in foreign currencies. The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and British pound exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax and the Group's equity.

	Increase/ decrease in foreign currency rate	Effect on profit/(loss) before tax	Effect on equity
2015 Euro	+5%	9	1,751
	-5%	(9)	(1,751)
	+5%	(26)	4
	-5%	26	(4)
2014 Euro	+5%	(239)	890
	-5%	239	(890)
	+5%	(24)	1
	-5%	24	(1)

- (iii) **Fair Value Risk:** The carrying amounts reflected in the accompanying consolidated statement of financial position for cash and cash equivalents, trade and other receivables, trade and other payables and accrued and other current liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of available for sale financial assets in the accompanying consolidated statement of financial position reflect their fair value. The fair value of variable rate borrowings and other long-term liabilities approximate their carrying amounts. The fair value of the Group's Senior Notes at December 31, 2015 and 2014, amounted to \$415,500 and \$411,100, respectively.

- b) **Credit Risk:** The Group's maximum exposure to credit risk, due to the failure of counter parties to perform their obligations as at December 31, 2015 and 2014, in relation to each class of recognized financial assets, is the carrying amount of those assets as indicated in the accompanying consolidated statement of financial position. Concentrations of credit risks are limited with respect to receivables due to the large number of customers comprising the Group's customer base. The Group generally does not require collateral or other security to support customer receivables. There was no customer which accounted for more than 10% of the Group's revenue or receivables.
- c) **Liquidity Risk:** The Group manages liquidity risk by monitoring forecasted cash flows and ensuring that adequate banking facilities and reserve borrowing facilities are maintained. The Group has sufficient undrawn borrowing facilities that can be utilised to fund any potential shortfall in cash resources.

Prudent liquidity risk management implies the availability of funding through adequate amounts of committed credit facilities, cash and marketable securities and the ability to close out those positions as and when required by the business or project.

The table below summarizes the maturity profile of financial liabilities at December 31, 2015 and 2014, respectively, based on contractual undiscounted payments.

Year ended December 31, 2015	1 to 12 months	2 to 5 years	Over 5 years	Total
		(\$ in thousands)		
Interest bearing loans and borrowings	-	400,000	-	400,000
Interest accruing on Senior Notes due 2020	39,500	121,792	-	161,292
Trade, other payables and accrued interest	55,092	-	-	55,092
	94,592	521,792	-	616,384
Year ended December 31, 2014	1 to 12 months	2 to 5 years	Over 5 years	Total
		(\$ in thousands)		
Interest bearing loans and borrowings	-	-	400,000	400,000
Interest accruing on Senior Notes due 2020	39,500	158,000	3,292	200,792
Short-term borrowings	7,850	-	-	7,850
Trade, other payables and accrued interest	78,900	-	-	78,900
	126,250	158,000	403,292	687,542

28. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital Management: The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. The Group funds its operating costs through cash from operations and short-term borrowings under various lines of credit maintained with several banks. As of December 31, 2015 and 2014, the unused credit lines amounted to \$41,532 and \$35,000, respectively.

	December 31,	
	2015	2014
	(\$ in thousands)	
Interest bearing loans and borrowings	384,067	381,047
Short-term borrowings	-	7,285
Trade and other payables	38,601	62,404
Less cash and cash equivalents	(78,247)	(56,086)
Less restricted cash	(1,200)	-
Net debt	343,221	394,650
Total equity	153,559	169,612
Equity and net debt	496,780	564,262
Gearing ratio	69.1%	69.9%

Financial Instruments: Set out below is a comparison by category of carrying amounts and fair values of all of the financial instruments that are carried in the consolidated financial statements:

	Carrying amount		Fair value	
	December 31,		December 31,	
	2015	2014	2015	2014
	(\$ in thousands)			
<i>Financial assets</i>				
Cash and cash equivalents	78,247	56,086	78,247	56,086
Restricted cash	1,200	-	1,200	-
Available-for-sale investments	581	622	581	622
Trade receivables	58,155	62,816	58,155	62,816
<i>Financial liabilities</i>				
Short-term borrowings	-	7,285	-	7,285
Interest-bearing loans and borrowings:				
Fixed rate borrowings	384,067	381,047	415,500	411,100

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuing technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Fair value		Fair value hierarchy
	2015	2014	
	(\$ in thousands)		
<i>Financial assets</i>			
Available-for-sale investments	315	326	Level 1
Available-for-sale investments	266	296	Level 2
<i>Financial liabilities</i>			
Fixed rate borrowings	415,500	411,100	Level 1

29. SUBSEQUENT EVENTS:

Pursuant to the IRS Agreement in February 2016, royalties payable by FAGE USA to FAGE Greece (for the period January 1, 2009 to September 25, 2012) and to FAGE International (for the period from September 25, 2012 to December 31, 2014) were reduced by \$15,506 and \$15,136, respectively. Accounts receivable owed to FAGE USA by FAGE Greece and FAGE International of \$15,506 and \$15,136, respectively, were established in 2016 pursuant to the IRS Agreement. Such accounts receivable, plus the accrued interest, were paid in full in March 2016.