



FAGE INTERNATIONAL S.A.

**QUARTERLY REPORT
For the Three Months
Ended March 31, 2017**

May 15, 2017

This report (the “Quarterly Report”) sets forth certain information regarding the financial condition and results of operations of FAGE International S.A. and its subsidiaries (the “FAGE Group”) for the fiscal quarter ended March 31, 2017. The Quarterly Report includes a review, in English, of the FAGE Group’s unaudited financial information and analysis for the first quarter as well as certain other information.

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

For a description of accounting policies see Notes to the Consolidated Financial Statements in the FAGE Group’s 2016 Annual Report.

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

On August 3, 2016, FAGE International S.A. (“FAGE International”) and FAGE USA Dairy Industry, Inc. (“FAGE USA”) and together with FAGE International, the “Issuers”) issued \$420,000,000 principal amount of their 5.625% Senior Notes due 2026 (the “Senior Notes”) under an indenture, dated as of August 3, 2016 (the “Indenture”), by and among the Issuers, FAGE Dairy Industry S.A. (“FAGE Greece”), as guarantor, The Bank of New York Mellon, acting through its London Branch, as trustee, The Bank of New York Mellon, as paying and transfer agent, and The Bank of New York Mellon (Luxembourg) S.A., as registrar.

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

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

FAGE International is a public limited company (*société anonyme*) incorporated under the laws 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 \$1,000,000 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 Quarterly Report. References to the FAGE Group include, unless the context requires otherwise, FAGE International S.A. and its consolidated subsidiaries (FAGE Dairy Industry S.A., FAGE U.K. Limited, FAGE USA Holdings, Inc., FAGE USA, Corp., FAGE USA Dairy Industry, Inc., FAGE Italia S.r.l. and FAGE Deutschland GmbH). The FAGE Group operates principally in the United States, the Hellenic Republic, also known as Greece, and, through its subsidiaries, elsewhere in Europe.

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

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

Following the issuance of the Senior Notes, the Issuers redeemed, on September 2, 2016, all of the \$400.0 million aggregate principal amount of their outstanding 9% Senior Notes due 2020.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

Because the risk factors referred to in this Quarterly Report could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Quarterly Report by us or on our behalf, you should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for us to predict which factors they will be. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements.

In addition, this Quarterly Report contains certain information concerning the Greek, EU and U.S. markets for dairy products that is forward-looking in nature and is based on a variety of assumptions regarding the ways and trends in which these markets will develop in the future. In certain cases, these assumptions have been derived from independent market research referred to in this Quarterly Report. Some market information is also based on our good faith estimates or derived from our review of internal surveys and statistics and our own knowledge of market conditions. If any of the assumptions regarding the dairy markets in which we operate are incorrect, actual market results could be different from those predicted. Although we do not know what impact any such differences may have on our business, our future results of operations and

financial condition could be materially and adversely affected. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Investors are urged to review carefully and consider the various disclosures made in this Quarterly Report that attempt to advise them of the factors affecting our business.

DEFINITIONS

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

“2015 Senior Notes”	The 7½% Senior Notes due 2015 issued by FAGE International (as successor to FAGE Greece).
“2020 Senior Notes”	The 9½% Senior Notes due 2020 issued by FAGE International (as successor to FAGE Greece) and FAGE USA.
“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.
“FAGE Group,” “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.
“Issuers”	FAGE International and FAGE USA.
“pounds,” “GBP” or “£”	Pounds sterling, the currency of the United Kingdom.
“Senior Notes”	The \$420,000,000 principal amount of 5.625% Senior Notes due 2026 issued by FAGE International and FAGE USA on August 3, 2016 pursuant to the Indenture.
“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 2020 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 2020 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 became one of the primary obligors of the 2020 Senior Notes.

FAGE International and FAGE USA are the two primary obligors of the Senior Notes. Following the issuance of the Senior Notes on August 3, 2016, the Issuers redeemed, on September 2, 2016, all of the \$400.0 million aggregate principal amount of their outstanding 2020 Senior Notes.

FAGE USA

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

Financial Information

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

The consolidated financial information for the FAGE Group has been presented as of and for the three months ended March 31, 2017 and 2016, and presents the consolidated net assets, financial position and results of operations of the FAGE Group during the periods presented. The consolidated financial statements of the FAGE Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed by the European Union. You should read the consolidated financial statements of the FAGE Group included at the end of this Quarterly Report, including the notes thereto (collectively, the “Consolidated Financial Statements”), together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Some financial information in this Quarterly Report has been rounded and, as a result, the numerical figures shown as totals in this Quarterly Report may vary slightly from the exact arithmetic aggregation of the figures that precede them.

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

U.S. \$1.0691 per euro, which was the equivalent rate of the euro as reported by the European Central Bank in its foreign exchange rates report as at March 31, 2017.

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

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

The Consolidated Financial Statements have been prepared as of and for the three months ended March 31, 2017 and 2016, and are presented in U.S. dollars rounded to the nearest thousand. The Consolidated Financial Statements have been prepared under the historical cost convention except for available-for-sale financial assets, derivative financial instruments and land, which are measured at fair value.

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

Industry Data

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

ENFORCEABILITY OF CIVIL LIABILITIES

FAGE International is a public limited company (*société anonyme*) incorporated under the laws of Luxembourg and FAGE Greece is organized under the laws of Greece. Certain 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. 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) enforce any judgments in the United States against such persons obtained in U.S. 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 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 (*exequatur*) set out in the relevant provisions of the Luxembourg New Code of Civil Procedure (*Nouveau Code de Procédure Civile*) and Luxembourg case law:

- 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 the defendant 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 U.S. judgments awarding punitive damages enforceable in Greece, in circumstances other than under U.S. securities laws, and have reduced the amount of damages enforceable in Greece to a figure deemed in the opinion of the Greek court to be compensatory;
- the judgment was issued by a competent court of the jurisdiction concerned, both according to Greek and U.S. law, and was confirmed by a competent Greek court, pursuant to the general principles of the Greek Code of Civil Procedure;
- it was established that the unsuccessful litigant in the proceedings leading to the judgment had not been deprived of its rights to participate in such proceedings other than by the application of the procedural rules of the jurisdiction concerned that apply to nationals and non-nationals of that jurisdiction; and
- the judgment is not contrary to a previous judgment issued by a competent Greek court involving the same dispute and constituting *res judicata*.

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

Results of Operations for the FAGE Group for the Three Months Ended March 31, 2017 and 2016

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

	Three months ended March 31,					
	2017			2016		
	Continuing Operations	Discontinued Operations	Total results	Continuing Operations	Discontinued Operations	Total results
Sales	100%	-	100%	100%	100%	100%
Cost of sales	(50.3)	-	(50.3)	(49.0)	(73.9)	(49.6)
Gross profit	49.7	-	49.7	51.0	26.1	50.4
Selling, general and administrative expenses	(33.9)	-	(33.9)	(31.3)	(15.8)	(30.9)
Other income	0.1	-	0.1	0.3	-	0.2
Other expenses	(0.5)	-	(0.5)	(0.2)	-	(0.2)
Operating profit for the period	15.4	-	15.4	19.8	10.3	19.5
Financial income/(expenses), net	(4.0)	-	(4.0)	(6.8)	(0.1)	(6.6)
Impairment loss	-	-	-	-	(12.7)	(0.3)
Foreign exchange gains/(losses), net	0.8	-	0.8	(0.6)	-	(0.6)
Profit/(loss) before income taxes	12.2	-	12.2	12.4	(2.5)	12.0
Income tax(expense)/benefit	(3.5)	-	(3.5)	(3.4)	0.7	(3.3)
Net profit/(loss)	8.7%	-	8.7%	9.0%	(1.8)%	8.7%

Three months ended March 31, 2017 compared to three months ended March 31, 2016

Sales. Our sales in value for the three months ended March 31, 2017 amounted to \$157.4 million, a decrease of \$7.9 million, or 4.8%, compared to sales in value of \$165.3 million for the three months ended March 31, 2016.

This decrease is mainly due to:

first, the fact that our sales in volume for the three months ended March 31, 2017 decreased by 10.8%, as compared to the three months ended March 31, 2016; and

second, the fact that our sales in value were affected by the negative impact of 1.5% on sales in value due to the weakening of the euro and the British pound against the U.S. dollar (the exchange rates for the three months ended March 31, 2017 and 2016, were €1=\$1.0681 and €1=\$1.1028 and £1=\$1.2470 and £1=\$1.3407, respectively).

Our sales in value outside of Greece accounted for 86.2% of our total sales in value for the three months ended March 31, 2017, as compared to 84.3% for the three months ended March 31, 2016. Our sales in value in markets outside of Greece, including the United States, collectively decreased by 2.6% on average for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016.

Our sales in volume for the three months ended March 31, 2017 decreased by 10.8% as compared to the three months ended March 31, 2016. This resulted from decreases in sales in volume in the United States, the United Kingdom and Greece by 4.8%, 8.4% and 39.3%, respectively, which were partially offset by an increase of 11.6% in sales in volume in Italy. Our sales in volume outside of Greece, including the United States, collectively decreased by 3.2% for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016.

The main reasons for the decrease in our sales in value and in volume in the Greek market were: first, the fact that the Group no longer sells milk products as of May 31, 2016; second, our decision to reduce sales to less creditworthy clients in an attempt to reduce our credit exposure; and third, 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.

Gross profit. Gross profit for the three months ended March 31, 2017 was \$78.2 million, a decrease of \$5.1 million, or 6.1%, from \$83.3 million for the three months ended March 31, 2016. Gross profit as a percentage of sales for the three

months ended March 31, 2017 was 49.7%, compared to 50.4% for the three months ended March 31, 2016. The main reason for this decrease was the increase in the prices of milk used both in the U.S. facility and the Greek facilities by 13.4% and 9.3%, respectively, comparing the three months ended March 31, 2017 and 2016. The negative effect of the increase in the prices of milk was partially offset by the weakening of the euro and the British pound against the U.S. dollar.

Selling, general and administrative expenses. Selling, general and administrative expenses (“SG&A”) for the three months ended March 31, 2017 were \$53.3 million, an increase of \$2.3 million, or 4.5%, from \$51.0 million for the three months ended March 31, 2016. As a percentage of sales, selling, general and administrative expenses were 33.9% for the three months ended March 31, 2017 and 30.9% for the three months ended March 31, 2016. This increase is mainly due to the increase in advertising expenses.

Other income/(expenses), net. Net other expenses for the three months ended March 31, 2017 amounted to \$0.6 million. Net other expenses for the three months ended March 31, 2016 amounted to \$0.04 million.

Operating profit. Operating profit for the three months ended March 31, 2017 was \$24.3 million, a decrease of \$8.0 million, or 24.8%, as compared to profit from operations of \$32.3 million for the three months ended March 31, 2016. As a percentage of sales, operating profit was 15.4% for the three months ended March 31, 2017 as compared to 19.5% for the three months ended March 31, 2016. This is mainly due to the decrease in gross profit and the increase in selling, general and administrative expenses.

Financial income/(expenses), net. Net financial expenses decreased by \$4.5 million from \$10.8 million for the three months ended March 31, 2016 to \$6.3 million for the three months ended March 31, 2017. This decrease is mainly due to the lower interest rate of the Senior Notes due 2026 in comparison with the interest rate of the Senior Notes due 2020 in the prior period. Financial income/(expenses), net as a percentage of sales was 4.0% for the three months ended March 31, 2017 and 6.6% for the three months ended March 31, 2016.

Impairment loss. Impairment loss for the three months ended March 31, 2016 amounted to \$0.6 million. This is due to the impairment of the assets held for sale related to the milk business. There was no impairment loss for the three months ended March 31, 2017.

Foreign exchange (losses)/gains, net. Net foreign exchange gains for the three months ended March 31, 2017 were \$1.3 million compared to net foreign exchange losses for the three months ended March 31, 2016 of \$1.0 million.

Profit before income taxes. Profit before income taxes for the three months ended March 31, 2017 was \$19.3 million, as compared to profit before income taxes of \$19.9 million for the three months ended March 31, 2016.

Income tax expense. Income tax expense for the three months ended March 31, 2017 was \$5.6 million compared to \$5.5 million for the three months ended March 31, 2016.

Net profit. Net profit for the three months ended March 31, 2017 was \$13.7 million, as compared to net profit of \$14.4 million for the three months ended March 31, 2016.

Three months ended March 31, 2017 compared to three months ended March 31, 2016: Continuing operations as compared to discontinued operations

Continuing operations. The Group’s sales from continuing operations (milk business excluded) for the three months ended March 31, 2017 amounted to \$157.4 million, a decrease of \$3.5 million, or 2.2%, compared to sales of \$160.9 million for the three months ended March 31, 2016. This decrease is mainly due to the decrease in sales in volume by 1.8% comparing the two periods. The gross profit of the continuing operations for the three months ended March 31, 2017 amounted to \$78.2 million as compared to \$82.1 million in the three months ended March 31, 2016. Gross profit as a percentage of sales was 49.7% in the three months ended March 31, 2017 and 51.0% in the three months ended March 31, 2016, mainly due to the higher milk prices both in the U.S. facility and in the Greek facilities by 13.4% and 9.3%, respectively, comparing the two periods. Profit before income taxes for the three months ended March 31, 2017 amounted to \$19.3 million compared to \$20.0 million in the three months ended March 31, 2016. As a percentage of sales, profit before income taxes was 12.2% for the three months ended March 31, 2017 compared to 12.4% in the three months ended March 31, 2016. Net profit for the three months ended March 31, 2017 was \$13.7 million, as compared to net profit of \$14.5 million for the three months ended March 31, 2016.

Discontinued operations. The Group’s sales from discontinued operations (milk business) for the three months ended March 31, 2016 amounted to \$4.4 million. There were no sales from discontinued operations for the three months ended March 31, 2017. The gross profit of the discontinued operations for the three months ended March 31, 2016 amounted to

\$1.1 million. The loss before income taxes for the discontinued operations for the three months ended March 31, 2016 amounted to \$0.1 million due mainly to the impairment of the assets held for sale relating to the 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 March 31, 2017 amounted to \$45.7 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 and €10.0 million (\$10.7 million equivalent) was provided by a revolving credit line with Alpha Bank in Greece. Out of the available credit lines as of March 31, 2017, the unused portion amounted to \$40.4 million (see Note 18). The available credit lines for the Group as of December 31, 2016 amounted to \$45.5 million.

Cash at banks and cash equivalents as of March 31, 2017 amounted to \$123.9 million compared to \$117.5 million as of December 31, 2016 (See Note 15).

We believe that this amount of our cash at banks and cash equivalents (\$123.9 million), together with the lines of credit, is sufficient to finance both the operations and the investment program of the FAGE Group.

Cash flow data

	Three months ended	
	March 31,	
(\$ thousands)	2017	2016
Cash flow from/(used in) operating activities.....	38,328	18,544
Cash flow from/(used in) investing activities	(7,837)	(5,437)
Cash flow from/(used in) financing activities.....	(24,731)	(19,839)
Effect of exchange rates changes on cash.....	605	3,400
Cash and cash equivalents at beginning of period.....	117,486	78,247
Cash and cash equivalents at period-end	123,851	74,915

Cash flow from/(used in) operating activities. Net cash from operating activities for the three months ended March 31, 2017 was \$38.3 million, compared to net cash from operating activities of \$18.5 million for the three months ended March 31, 2016. This is mainly due to the working capital changes, which decreased from \$(8.6) million in the three months ended March 31, 2016 to \$5.3 million in the three months ended March 31, 2017. This decrease is mainly due to the increase in trade accounts payable and due to related companies, of which an amount of \$12.0 million related to dividends payable to the shareholders.

Cash flow from/(used in) investing activities. Net cash used in investing activities amounted to \$7.8 million and \$5.4 million for the three months ended March 31, 2017 and 2016, respectively. Out of the capital expenditures of \$9.4 million in the first three months of 2017, \$0.9 million related to capital expenditures (primarily maintenance) for the facilities in Greece, \$4.0 million related to the New Manufacturing Facility in Luxembourg and \$4.5 million related to capital expenditures for the expansion of the U.S. facility.

Cash flow from/(used in) financing activities. Net cash used in financing activities for the three months ended March 31, 2017 was \$24.7 million. This resulted from \$12.7 million of interest paid and \$12.0 million of dividends payable. Net cash used in financing activities for the three months ended March 31, 2016 was \$19.8 million, which reflects interest paid.

Other Financial Data

EBITDA (net profit/(loss) plus income tax (expense)/benefit, financial income/(expenses), net and depreciation and amortization) for the three months ended March 31, 2017 amounted to \$33.0 million, as compared to \$38.0 million for the three months ended March 31, 2016. The reconciliation of net profit to EBITDA is as follows:

	Three months ended March 31,	
	2017	2016
	(\$ thousands)	
Net profit.....	13,668	14,409
Income tax expense	5,612	5,467
Financial (income)/expenses, net	6,317	10,797
Depreciation and amortization	7,366	7,361
EBITDA.....	<u>32,963</u>	<u>38,034</u>

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

The net debt (short-term borrowings plus long-term interest-bearing loans and borrowings less cash and cash equivalents) of the Group as of March 31, 2017 amounted to \$291.9 million, as compared to \$298.0 million as of December 31, 2016.

Principal Risks and Uncertainties for the Remaining Nine months of 2017

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

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

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

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

Related Party Transactions

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

Account balances with related companies are as follows:

	March 31, 2017	December 31, 2016
Due from:		
- Ioannis Nikolou ULP	457	455
- Evga S.A.	124	47
- G. S. Kostakopoulos & Associates	2	-
- Mornos S.A.	-	2
	583	504
Due to:		
- Hellenic Quality Foods S.A.	217	49
- Mornos S.A.	205	74
- Vis S.A.	59	17
- G. S. Kostakopoulos & Associates	-	9
- Agan S.A.	172	263
- Alpha Phi S.à r.l.	6,351	266
- Theta Phi S.à r.l.	6,351	276
	13,355	954

Transactions with related companies for the three months ended March 31, 2017 and 2016, are analyzed as follows:

	Purchases from related parties		Sales to related parties	
	2017	2016	2017	2016
	(\$ thousands)			
Inventories, materials and supplies	8,726	11,275	119	74
Other services	1,910	1,877	-	-
	10,636	13,152	119	74

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AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2017**

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FAGE INTERNATIONAL S.A.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2017

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

(UNAUDITED)

	Notes	Three months ended March 31,					
		2017			2016		
		Continuing Operations	Discontinued Operations	Total results	Continuing Operations	Discontinued Operations	Total results
Sales		157,417	-	157,417	160,900	4,364	165,264
Cost of sales		(79,203)	-	(79,203)	(78,767)	(3,223)	(81,990)
Gross profit		78,214	-	78,214	82,133	1,141	83,274
Selling, general and administrative expenses	(6)	(53,305)	-	(53,305)	(50,295)	(690)	(50,985)
Other income		84	-	84	402	-	402
Other expenses		(703)	-	(703)	(439)	-	(439)
OPERATING PROFIT FOR THE PERIOD		24,290	-	24,290	31,801	451	32,252
Financial expenses	(7)	(6,328)	-	(6,328)	(10,799)	(6)	(10,805)
Financial income	(7)	11	-	11	8	-	8
Impairment loss	(3)	-	-	-	-	(556)	(556)
Foreign exchange gains/(losses), net		1,307	-	1,307	(1,023)	-	(1,023)
PROFIT/(LOSS) FOR THE PERIOD BEFORE INCOME TAXES		19,280	-	19,280	19,987	(111)	19,876
Income tax (expense)/benefit	(8)	(5,612)	-	(5,612)	(5,498)	31	(5,467)
NET PROFIT/(LOSS)		13,668	-	13,668	14,489	(80)	14,409
Attributable to:		13,668	-	13,668	14,489	(80)	14,409
Equity holders of the parent		13,668	-	13,668	14,489	(80)	14,409
Earnings/(loss) per share							
Basic and diluted		13.67	-	13.67	14.49	(0.08)	14.41
Weighted average number of shares, basic and diluted		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 THREE MONTHS ENDED MARCH 31, 2017**

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

(UNAUDITED)

		Three months ended March 31,	
	Notes	2017	2016
Net profit for the period		13,668	14,409
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange gains on translation of foreign operations		1,402	7,515
Net unrealized gains/(losses) on available for sale financial assets		(29)	19
Income tax		8	(6)
	10	(21)	13
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		1,381	7,528
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans		(14)	44
Income tax		4	(13)
		(10)	31
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		(10)	31
Other comprehensive income for the period, net of tax		1,371	7,559
Total comprehensive income for the period, net of tax		15,039	21,968
Attributable to:		15,039	21,968
Equity holders of the parent		15,039	21,968

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

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT MARCH 31, 2017
(All amounts in thousands of U.S. dollars)
(UNAUDITED)

	Notes	March 31, 2017	December 31, 2016
ASSETS			
Non-Current Assets			
Property, plant and equipment		404,506	401,071
Intangible assets		1,963	2,060
Goodwill	9	2,869	2,827
Available for sale financial assets	10	94	93
Other non-current assets	11	550	570
Deferred income taxes		91,473	92,198
Total non-current assets		501,455	498,819
Current Assets:			
Inventories	12	41,390	38,270
Trade and other receivables	13	83,313	75,967
Due from related companies	14	583	504
Prepaid income taxes		28	2,057
Available for sale financial assets	10	478	500
Cash and cash equivalents	15	123,851	117,486
Total current assets		249,643	234,784
Assets held for sale	3	1,094	3,258
TOTAL ASSETS		752,192	736,861
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent Company			
Share capital		1,000	1,000
Share premium		18,778	30,778
Other reserves		459	459
Land revaluation surplus		37,068	37,068
Reversal of fixed assets statutory revaluation surplus		(44,410)	(44,410)
Legal, tax free and special reserves		37,545	37,545
Retained earnings		179,206	165,538
Other components of equity		(34,636)	(36,007)
Total Equity		195,010	191,971
Non-Current Liabilities			
Interest-bearing loans and borrowings	16	410,361	410,165
Provision for staff retirement indemnities		3,276	3,170
Deferred income taxes		56,652	55,424
Other non-current liabilities		29	29
Total non-current liabilities		470,318	468,788
Current Liabilities:			
Trade accounts payable	17	40,030	32,257
Due to related companies	14	13,355	954
Short-term borrowings	18	5,346	5,271
Income taxes payable		2,028	657
Accrued and other current liabilities	19	25,567	36,258
Total current liabilities		86,326	75,397
Total liabilities		556,644	544,185
Liabilities directly associated with the assets held for sale	3	538	705
TOTAL EQUITY AND LIABILITIES		752,192	736,861

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

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017

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

(UNAUDITED)

	Share capital	Share premium	Land revaluation surplus	Reversal of fixed assets statutory revaluation surplus	Legal, tax free and special reserves	Other reserves	Retained earnings/ (losses)	Unrealized gains/(losses) on available for sale financial assets	Actuarial gains/ (losses)	Foreign exchange gains/ (losses)	Total equity
Balance December 31, 2016	1,000	30,778	37,068	(44,410)	37,545	459	165,538	127	(250)	(35,884)	191,971
Profit for the period	-	-	-	-	-	-	13,668	-	-	-	13,668
Other comprehensive income/(loss)	-	-	-	-	-	-	-	(21)	(10)	1,402	1,371
Total comprehensive income/(loss)	-	-	-	-	-	-	13,668	(21)	(10)	1,402	15,039
Dividends distribution from share premium	-	(12,000)	-	-	-	-	-	-	-	-	(12,000)
Balance, March 31, 2017	1,000	18,778	37,068	(44,410)	37,545	459	179,206	106	(260)	(34,482)	195,010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016

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

(UNAUDITED)

	Share capital	Share premium	Land revaluation surplus	Reversal of fixed assets statutory revaluation surplus	Legal, tax free and special reserves	Other reserves	Retained earnings/ (losses)	Unrealized gains/(losses) on available for sale financial assets	Actuarial gains/ (losses)	Foreign exchange gains/ (losses)	Total equity
Balance December 31, 2015	1,000	50,778	37,068	(44,410)	37,545	459	104,034	105	(207)	(32,813)	153,559
Profit for the period	-	-	-	-	-	-	14,409	-	-	-	14,409
Other comprehensive income/(loss)	-	-	-	-	-	-	-	13	31	7,515	7,559
Total comprehensive income/(loss)	-	-	-	-	-	-	14,409	13	31	7,515	21,968
Balance, March 31, 2016	1,000	50,778	37,068	(44,410)	37,545	459	118,443	118	(176)	(25,298)	175,527

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

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(All amounts in thousands of U.S. dollars)
(UNAUDITED)

	Notes	March 31,	
		2017	2016
Profit before income taxes from continuing operations		19,280	19,987
Loss before income taxes from discontinued operations		-	(111)
		<u>19,280</u>	<u>19,876</u>
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	5	7,366	7,361
Provision for staff retirement indemnities		45	286
Provision for doubtful accounts receivable	13	-	45
Financial income	7	(7)	(8)
Financial expenses	7	6,328	10,780
Interest on financial leasing		-	25
(Gain)/loss from valuation of non-current assets on fair value		(4)	44
(Gain)/loss on disposal of property, plant and equipment		(41)	(4)
Impairment loss		-	556
Operating profit before working capital changes		<u>32,967</u>	<u>38,961</u>
(Increase)/Decrease in:			
Inventories	12	(2,996)	(4,156)
Trade and other receivables	13	(7,346)	(7,851)
Due from related companies	14	(79)	(746)
Increase/(Decrease) in:			
Trade accounts payable	17	7,708	(2,658)
Due to related companies	14	12,401	(105)
Accrued and other current liabilities	19	(4,417)	6,871
Working capital changes		<u>5,271</u>	<u>(8,645)</u>
Income taxes paid		(109)	(11,531)
Payment of staff indemnities		-	(165)
(Increase)/decrease in other non-current assets	11	199	(76)
Net Cash from Operating Activities		<u>38,328</u>	<u>18,544</u>
Investing Activities:			
Capital expenditure for property, plant and equipment		(9,358)	(5,407)
Additions to intangible assets		(41)	(42)
Proceeds from disposal of property, plant and equipment		1,555	4
Interest and other related income received	7	7	8
Net Cash used in Investing Activities		<u>(7,837)</u>	<u>(5,437)</u>
Financing Activities:			
Interest paid	7	(12,731)	(19,839)
Dividends paid to equity holders of the parent		(12,000)	-
Net Cash used in Financing Activities		<u>(24,731)</u>	<u>(19,839)</u>
Net increase in cash and cash equivalents		5,760	(6,732)
Effect of exchange rates changes on cash		605	3,400
Cash and cash equivalents at beginning of period	15	<u>117,486</u>	<u>78,247</u>
Cash and cash equivalents at March 31	15	<u>123,851</u>	<u>74,915</u>

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

	March 31,	
	2017	2016
Net Cash from/(used in) Operating Activities	(286)	11
Net Cash used in Investing Activities	1,495	-
Net Cash used in Financing Activities	-	-
	<u>1,209</u>	<u>11</u>

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

FAGE INTERNATIONAL S.A. AND SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2017

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

1. CORPORATE INFORMATION:

FAGE International S.A. (“FAGE International”) is a corporation organized under the laws of the Grand Duchy of Luxembourg on September 25, 2012. Its registered office is located at 5 rue 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 and FAGE Dairy Industry S.A.). FAGE International operates principally in the United States, the Hellenic Republic, also known as Greece and, through its subsidiaries, elsewhere in Europe.

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

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

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

The Group's total number of employees as of March 31, 2017 and 2016, was approximately 1,051 and 1,079, respectively.

2. BASIS OF PRESENTATION:

- (a) ***Basis of Preparation of Financial Statements:*** The accompanying interim condensed consolidated financial statements have been prepared under the historical cost convention, except for the valuation of available for sale financial assets and derivative financial instruments and land, which have been measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges that would otherwise be carried at cost are adjusted to record changes in the fair values attributable to the risks that are being hedged. These interim condensed consolidated financial statements have been prepared by management in accordance with IAS 34 (Interim Financial Reporting). The interim condensed consolidated financial statements do not include all the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as of and for the year ended December 31, 2016. The interim condensed consolidated financial statements are presented in thousands of U.S. dollars, except when otherwise indicated.
- (b) ***Use of Estimates:*** The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may ultimately differ from those estimates.
- (c) ***Significant Accounting Policies:*** The interim condensed consolidated financial statements have been prepared using accounting policies consistent with those adopted for the preparation of the Group’s annual consolidated financial statements as of and for the year ended December 31, 2016 and which are comprehensively presented in the notes of the annual financial statements, except for the adoption of new or amended IFRIC Standards and interpretations effective as of January 1, 2017. These changes are as follows:

FAGE INTERNATIONAL S.A. AND SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2017

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

- **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. Management considers that the amendment will not have an impact on the Group's consolidated financial position or results of operations.
- **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. Management is in the process of assessing what effects the amendment will have on the Group's 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. Management is in the process of assessing what effects the amendment will have on the Group's consolidated financial position or results of operations.
- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
The Amendments become effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. These amendments have not yet been endorsed by the EU. Management is in the process of assessing what effects the amendment will have on the Group's consolidated financial position or results of operations.
- **IAS 7: Disclosure Initiative (Amendments)**
The Amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfill the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. These Amendments have not yet been endorsed by the EU. Management has assessed that the amendment will not have an impact on the Group's consolidated financial position or results of operations but only on the Group's disclosure.
- **IAS 40: Transfers to Investment Property (Amendments)**
The Amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of, investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. Management has assessed that the Amendments will not have an impact on the Group's consolidated financial position or results of operations.

FAGE INTERNATIONAL S.A. AND SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2017

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

- **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. Management has assessed that the Interpretation will not have an impact on the Group's consolidated financial position or results of operations.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2017, for IFRS 12 Disclosure of Interests in Other Entities and on or after January 1, 2018, for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. Management has assessed that the amendments will not have an impact on the Group's consolidated financial position or results of operations.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities applicable for first-time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale or as discontinued operations in accordance with IFRS 5.

3. ASSETS AND LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE:

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 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 was recorded in the consolidated statement of profit or loss for the year ended December 31, 2015. Furthermore, the carrying value of goodwill of \$2,344 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 consolidated statement of profit or loss for the year ended December 31, 2015. During 2016, an additional impairment loss of \$1,105 related to property, plant and equipment of the discontinued milk business was recorded in the accompanying consolidated statement of profit or loss for the year ended December 31, 2016.

The major classes of assets and liabilities concerning the Amyntaio facility classified as held for sale as March 31, 2017 are presented within discontinued operations in the consolidated statement of financial position and profit or loss statement and are analyzed as follows:

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	<u>Balance as of March 31, 2017</u>	<u>Balance as of December 31, 2016</u>
Assets		
-Property, plant and equipment	1,092	3,022
-Inventories (Note 14)	-	124
-Deferred income taxes	-	109
-Cash and cash equivalents (Note 15)	2	3
Assets held for sale	<u>1,094</u>	<u>3,258</u>
Liabilities		
Provision for staff retirement indemnities	56	55
Deferred income taxes	234	-
Trade accounts payable (Note 17)	1	66
Accrued and other current liabilities (Note 19)	247	584
Liabilities directly associated with assets held for sale	<u>538</u>	<u>705</u>
Net assets directly associated with disposal group	<u>556</u>	<u>2,553</u>

During the three months ended March 31, 2017, the Group sold to a third party machinery and equipment related to the Amyntaio facility for an amount of \$1,495. This sale had no significant effect on the Group's financial statements because the value of these assets had previously been impaired.

4. PAYROLL COST:

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

	<u>March 31,</u>	
	<u>2017</u>	<u>2016</u>
Wages and salaries	11,419	11,851
Social security costs	1,573	1,681
Provision for staff retirement indemnities	45	165
Other staff costs	1,818	1,814
Total payroll	<u>14,855</u>	<u>15,511</u>
Less: amounts charged to cost of production	(7,922)	(8,182)
amounts capitalized to tangible and intangible assets	(107)	(774)
Payroll expensed (Note 6)	<u><u>6,826</u></u>	<u><u>6,555</u></u>

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 interim condensed consolidated financial statements is analyzed as follows:

	<u>March 31,</u>	
	<u>2017</u>	<u>2016</u>
Depreciation of property, plant and equipment	7,210	7,202
Amortization of intangible assets	156	159
Total depreciation and amortization	<u>7,366</u>	<u>7,361</u>
Less: amounts charged to cost of production	(5,906)	(5,801)
Depreciation and amortization expensed (Note 6)	<u><u>1,460</u></u>	<u><u>1,560</u></u>

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6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

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

	March 31,	
	2017	2016
Shipping and handling costs	11,299	12,933
Advertising costs	25,170	20,754
Third party fees	5,628	6,591
Payroll (Note 4)	6,826	6,555
Depreciation and amortization (Note 5)	1,460	1,560
Repairs and maintenance	366	317
Travelling and entertainment	466	318
Allowance for doubtful accounts (Note 13)	-	45
Other	2,090	1,912
Total	53,305	50,985

Compensation paid to directors and executive officers for the three months ended March 31, 2017 and 2016, included in payroll and third party fees, amounted to \$1,937 and \$2,462, respectively. Of these amounts, \$1,435 and \$1,908 have been paid to members of the Filippou family in the three months ended March 31, 2017 and 2016, respectively.

7. FINANCIAL INCOME AND EXPENSES:

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

	March 31,	
	2017	2016
Financial expenses on loans and borrowings	(6,102)	(10,622)
Interest on short-term borrowings	(127)	(33)
Amortization of fees for revolving credit facility	(12)	(88)
Other	(87)	(62)
Total financial expenses	(6,328)	(10,805)
Interest earned on cash at banks and on time deposits	7	8
Interest income on non-current assets	4	-
Total financial income	11	8
Total financial income/(expense), net	(6,317)	(10,797)

8. INCOME TAXES:

In accordance with Luxembourg tax regulations, the corporate tax rate for fiscal year 2017 is 29.2% (2016: 29.2%).

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

	March 31,	
	2017	2016
Income taxes:		
Current income tax expense	3,508	5,929
Deferred income tax expense	2,104	(462)
Total income tax reported in the statements of income	5,612	5,467

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9. 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 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 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 expressly assumed all of the obligations of Old FAGE Parent, one of the primary obligors on the Senior Notes.

The consolidated financial statements as at March 31, 2017 and December 31, 2016 include the financial statements of FAGE International and its subsidiaries listed below:

	Equity interest		Country of incorporation	
	March 31, 2017	December 31, 2016		
FAGE USA Holdings, Inc. (subgroup analyzed below)	100.0%	100.0%	USA	Holding company of FAGE USA Dairy Industry, Inc., and FAGE USA, Corp.
FAGE Dairy Industry S.A.	100.0%	100.0%	Greece	Greek operating subsidiary with its primary activity being the operation of the Group's Greek production facilities and distribution of its products in Greece.
FAGE Italia S.r.l.	100.0%	100.0%	Italy	Distribution network covering Italy
FAGE U.K. Limited	100.0%	100.0%	United Kingdom	Distribution network covering the United Kingdom
FAGE Deutschland GmbH	100.0%	100.0%	Germany	Distribution network covering Germany; Under liquidation

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

	Equity interest		Country of incorporation	
	March 31, 2017	December 31, 2016		
FAGE USA Dairy Industry, Inc.	100.0%	100.0%	USA	U.S. operating subsidiary with its primary activity being the operation of the Group's U.S. yogurt production facility and the distribution of its products in the U.S.
FAGE USA, Corp.	100.0%	100.0%	USA	U.S. operating subsidiary with its primary activity being the provision of sales and marketing services to FAGE USA Dairy Industry, Inc.

GOODWILL

During 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) was tested for impairment and its carrying value was impaired (Note 3).

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

	March 31, 2017	December 31, 2016
Foods Hellas S.A. (FAGE Dairy Industry S.A.)	1,385	1,366
FAGE Italia S.r.l.	304	299
FAGE U.K. Limited	1,180	1,162
Total	2,869	2,827

	THE GROUP
Balance at January 1, 2016	3,120
Less: Foreign currency remeasurement	(293)
Balance at December 31, 2016	2,827
Less: Foreign currency remeasurement	42
Balance at March 31, 2017	2,869

Goodwill is tested annually for impairment in 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 11.6% 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 Group's industry.

Management did not identify any impairment at the Group level as a result of this test. As of March 31, 2017, no impairment indications were identified by management.

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10. AVAILABLE FOR SALE FINANCIAL ASSETS:

Available for sale financial assets are analyzed as follows:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Shares—listed and unlisted:		
Vis S.A. (listed)	310	335
Elbisco Holdings S.A. (unlisted)	168	165
Total Available for Sale Financial Assets in Current Assets	<u>478</u>	<u>500</u>
Shares—unlisted:		
Packing Hellas Development S.A.	94	93
Total Available for Sale Financial Assets in Non-Current Assets	<u>94</u>	<u>93</u>

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 are carried at their fair value with the difference in the fair values reflected in other comprehensive income/(loss) unless a significant or prolonged decline exists, in which case it is included in the consolidated statement of profit or loss.

For the three months ended March 31, 2016, gains of \$13 net of deferred income taxes were recognized and reported in equity. For the three months ended March 31, 2017, losses of \$21 net of deferred income taxes were recognized and reported in equity.

11. OTHER NON-CURRENT ASSETS:

Other non-current assets are analyzed as follows:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Utility deposits	409	425
Other	141	145
	<u><u>550</u></u>	<u><u>570</u></u>

12. INVENTORIES:

Inventories are analyzed as follows:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Merchandise	233	2,714
Finished and semi-finished products	19,481	13,377
Raw materials and supplies	21,676	22,303
	41,390	38,394
Less assets classified as held for sale (Note 3)	-	(124)
	<u><u>41,390</u></u>	<u><u>38,270</u></u>

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13. TRADE AND OTHER RECEIVABLES:

Trade and other receivables are analyzed as follows:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Trade:		
—In U.S. dollars	35,936	30,728
—In foreign currencies	38,730	30,980
	<u>74,666</u>	<u>61,708</u>
—Less: allowance for doubtful accounts	(5,272)	(5,114)
	<u>69,394</u>	<u>56,594</u>
Other:		
—Value added tax	6,920	9,126
—Prepaid expenses	2,386	3,610
—Advances to suppliers	6,260	6,203
—Various debtors	4,569	6,563
	<u>20,135</u>	<u>25,502</u>
—Less: allowance for doubtful accounts	(6,216)	(6,129)
	<u>13,919</u>	<u>19,373</u>
	<u>83,313</u>	<u>75,967</u>
—Less: assets classified as held for sale	-	-
	<u>83,313</u>	<u>75,967</u>

The consolidated statements of profit or loss for the three months ended March 31, 2017 and 2016, reflect a charge of \$0 and \$45, respectively, for additional allowance for doubtful accounts.

There was no write-off of accounts receivable during the three months ended March 31, 2017 and 2016.

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

14. 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:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Due from:		
- Ioannis Nikolou ULP	457	455
- Evga S.A.	124	47
- G. S. Kostakopoulos & Associates	2	-
- Mornos S.A.	-	2
	<u>583</u>	<u>504</u>
Due to:		
- Hellenic Quality Foods S.A.	217	49
- Mornos S.A.	205	74
- Vis S.A.	59	17
- G. S. Kostakopoulos & Associates	-	9
- Agan S.A.	172	263
- Alpha Phi S.à r.l.	6,351	266
- Theta Phi S.à r.l.	6,351	276
	<u>13,355</u>	<u>954</u>

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Transactions with related companies for the three months ended March 31, 2017 and 2016, are analyzed as follows:

	<u>Purchases from related parties</u>		<u>Sales to related parties</u>	
	<u>Three months ended March 31,</u>		<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Inventories, materials and supplies				
- Mornos S.A.	3,262	4,073	(2)	21
- Vis S.A.	612	972	3	14
- Hellenic Quality Foods S.A.	3,283	4,036	-	-
- Agan S.A.	1,569	2,194	-	1
- Evga S.A.	-	-	104	4
- Ioannis Nikolou ULP	-	-	14	34
	<u>8,726</u>	<u>11,275</u>	<u>119</u>	<u>74</u>
Other services				
- Alpha Phi	900	900	-	-
- Theta Phi	900	900	-	-
- G. S. Kostakopoulos & Associates	81	77	-	-
- Ioannis Nikolou ULP	29	-	-	-
	<u>1,910</u>	<u>1,877</u>	<u>-</u>	<u>-</u>
Total	<u>10,636</u>	<u>13,152</u>	<u>119</u>	<u>74</u>

Purchases of inventories, materials and supplies from related parties represent approximately 12% and 15% of the Group's total purchases for the three months ended March 31, 2017 and 2016, respectively.

Advertising, media buying and other services from related parties represent approximately 7% and 8% of the Group's total respective costs for the three months ended March 31, 2017 and 2016, respectively.

15. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are analyzed as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Cash in hand	116	144
Cash at banks	123,737	117,345
	123,853	117,489
Less assets classified as held for sale (Note 3)	(2)	(3)
	<u>123,851</u>	<u>117,486</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 \$7 and \$8 for the three months ended March 31, 2017 and 2016, respectively, and is included in financial income in the accompanying consolidated statements of profit or loss (Note 7).

Cash and cash equivalents for the Group at March 31, 2017 consists of \$66,772 denominated in foreign currencies and \$57,079 in U.S. dollars (\$71,884 and \$45,602, respectively, at December 31, 2016).

There was no restricted cash at March 31, 2017 or December 31, 2016.

16. INTEREST BEARING LOANS AND BORROWINGS:

Interest bearing loans and borrowings are analyzed as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Senior Notes due 2026	420,000	420,000
Less: Unamortized issuance costs	(9,639)	(9,835)
	<u>410,361</u>	<u>410,165</u>

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

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

The 2020 Senior Notes bore nominal interest at a rate of 9.875% per annum (effective rate 10.75% per annum), payable semi-annually on each February 1 and August 1 commencing on August 1, 2010. The 2020 Senior Notes were 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 constituted a general unsecured senior obligation of FAGE International S.A. and ranked *pari passu* in right of payment with all other senior indebtedness and ranked senior in right of payment to all subordinated indebtedness of FAGE International S.A.

The 2020 Senior Notes Indenture contained certain covenants that, among other things, limited the type and amount of additional indebtedness that may be incurred by FAGE International S.A. and its subsidiaries and imposed 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 2020 Senior Notes Indenture as of December 31, 2015.

On August 3, 2016, the Group completed the issuance of additional debt securities (the Senior Notes) at an aggregate face amount of \$420 million with maturity date on August 15, 2026. The net proceeds of the Senior Notes (after issuance premium and issuance costs) of approximately \$410.0 million were used to redeem all of the outstanding 2020 Senior Notes and the coupon accrued to that date.

The Senior Notes bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on each February 15 and August 15 commencing on February 15, 2017. The Senior Notes are redeemable, in whole or in part, at the option of the Group, at any time on or after August 15, 2021. The indebtedness evidenced by the 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 ranks senior in right of payment to all subordinated indebtedness of FAGE International S.A.

The 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 impose 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 Senior Notes Indenture as of March 31, 2017.

Finance expenses on the Group's interest-bearing loans and borrowings for the three months ended March 31, 2017 and 2016, amounted to \$6,102 and \$10,622, 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 March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017	December 31, 2016
2 – 5 years	-	-
Over 5 years	420,000	420,000
	420,000	420,000

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17. TRADE ACCOUNTS PAYABLE:

Trade accounts payable are analyzed as follows:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Suppliers in U.S. dollars	26,632	23,052
Suppliers in other currencies	13,399	9,271
	<u>40,031</u>	<u>32,323</u>
Less liabilities classified as held for sale (Note 3)	(1)	(66)
	<u>40,030</u>	<u>32,257</u>

18. 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 is presented below:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Credit lines available	45,691	45,541
Unused credit lines	(40,345)	(40,270)
Short-term borrowings	<u>5,346</u>	<u>5,271</u>

The weighted average interest rates on short-term borrowings for the three months ended March 31, 2017 and 2016, were 4.1% and 2.2%, respectively.

Interest on short-term borrowings for the three months ended March 31, 2017 and 2016, totaled \$127 and \$121 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 three months ended March 31, 2017 and 2016, amounted to \$12 and \$88 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 March 31, 2017 amounted to \$45,691 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 \$11,161 was provided by a revolving credit line with Alpha Bank in Greece.

19. ACCRUED AND OTHER CURRENT LIABILITIES:

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

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Taxes withheld:		
Payroll	397	671
Third parties	174	502
Other	264	257
	<u>835</u>	<u>1,430</u>
Advances from customers	143	2,836
Accrued interest	3,078	9,689
Social security funds payable	959	1,913
Accrued and other liabilities	20,799	20,974
	<u>24,836</u>	<u>32,576</u>
Total	25,814	36,842
Less liabilities classified as held for sale (Note 3)	(247)	(584)
	<u>25,567</u>	<u>36,258</u>

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20. SEGMENT INFORMATION:

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

Segment information for the three months ended March 31, 2017 and 2016, is analyzed as follows:

	Three months ended March 31, 2017			
	European operations	U.S. operations	Eliminations	Consolidated
Revenues				
Net sales to external customers	54,326	103,091	-	157,417
Inter-segment sales	40,116	-	(40,116)	-
Segment revenues	<u>94,442</u>	<u>103,091</u>	<u>(40,116)</u>	<u>157,417</u>
Results				
Profit/(loss) before income taxes	10,872	8,408	-	19,280
Segment result net profit/(loss)	<u>8,225</u>	<u>5,443</u>	<u>-</u>	<u>13,668</u>
Other segment information:				
Capital expenditures:				
Tangible and intangible fixed assets				
	4,820	4,579	-	9,399
Depreciation and amortization	<u>1,845</u>	<u>5,521</u>	<u>-</u>	<u>7,366</u>
Financial expenses	4,098	2,230	-	6,328
Income tax expense	<u>2,647</u>	<u>2,965</u>	<u>-</u>	<u>5,612</u>
	Three months ended March 31, 2016			
	European operations	U.S. operations	Eliminations	Consolidated
Revenues				
Net sales to external customers	57,447	107,817	-	165,264
Inter-segment sales	41,457	-	(41,457)	-
Segment revenues	<u>98,904</u>	<u>107,817</u>	<u>(41,457)</u>	<u>165,264</u>
Results				
Profit/(loss) before income taxes	(25,866)	45,742	-	19,876
Segment result net profit/(loss)	<u>(25,968)</u>	<u>40,377</u>	<u>-</u>	<u>14,409</u>
Other segment information:				
Capital expenditures:				
Tangible and intangible fixed assets				
	1,127	4,322	-	5,449
Depreciation and amortization	<u>2,112</u>	<u>5,249</u>	<u>-</u>	<u>7,361</u>
Financial expenses	5,247	5,558	-	10,805
Income tax expense	<u>101</u>	<u>5,366</u>	<u>-</u>	<u>5,467</u>

The following table presents segment assets and liabilities of the Group as at March 31, 2017 and December 31, 2016.

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

March 31, 2017	European operations	U.S. operations	Eliminations	Consolidated
Segment assets	<u>373,078</u>	<u>415,615</u>	<u>(36,501)</u>	<u>752,192</u>
Segment liabilities	<u>358,578</u>	<u>234,567</u>	<u>(36,501)</u>	<u>556,644</u>
December 31, 2016	European operations	U.S. operations	Eliminations	Consolidated
Segment assets	<u>357,579</u>	<u>406,235</u>	<u>(26,953)</u>	<u>736,861</u>
Segment liabilities	<u>340,508</u>	<u>230,630</u>	<u>(26,953)</u>	<u>544,185</u>

21. CONTINGENCIES AND COMMITMENTS:

(a) Litigation and claims:

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

(b) Commitments:

(i) Operating Lease Commitments:

As of March 31, 2017 and 2016, 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 2021.

Rental expense included in the accompanying consolidated statements of profit or loss for the three months ended March 31, 2017 and 2016, amounted to \$777 and \$678, respectively.

Future undiscounted minimum rentals payable under non-cancelable operating leases as at March 31, 2017 and December 31, 2016, are as follows:

	March 31,	December 31,
	2017	2016
Within one year	952	949
1-5 years	1,637	1,863
Total	<u>2,589</u>	<u>2,812</u>

(ii) Finance Lease Commitments:

As of December 31, 2016, the Group has entered into finance leases covering packaging machinery at its facility in Amyntaio, Greece. During the three months ended March 31, 2017, the Group decided not to exercise the right to purchase this equipment. Future undiscounted minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

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

	March 31,		December 31,	
	2017	2017	2016	2016
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	-	-	320	308
1-5 years	-	-	-	-
Total minimum lease payments	-	-	320	308
Less amounts representing finance charges	-	-	(12)	-
Present value of minimum lease payments	-	-	308	308

(iii) Letters of Guarantee:

At March 31, 2017 and December 31, 2016, the Group had outstanding bank letters of guarantee in favor of various parties amounting to \$1,842 and \$2,700, respectively. Such guarantees have been provided for the good execution of agreements and for participation in the related biddings.

(iv) Investment in USA:

The Group has signed agreements with various suppliers and contractors related to expanding its production and warehouse capacity in the U.S. Future minimum amounts payable under these agreements as at March 31, 2017 amounted to \$17,698 all of which is due within one year. Of the total future amounts payable, \$10,888 is denominated in Euro.

(v) Investment in New Facility in Luxembourg:

The Group has signed agreements with various suppliers and contractors related to the new facility in Luxembourg. Future minimum amounts payable under these agreements as at March 31, 2017 amounted to \$60,530 out of which an amount of \$38,292 is due within one year. Of the total future amounts payable, \$60,530 is denominated in Euro.

22. RISK MANAGEMENT OBJECTIVES AND POLICIES

- a) **Credit Risk:** The Group's maximum exposure to credit risk, due to the failure of counterparties to perform their obligations as at March 31 2017 and December 31, 2016, 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 that accounted for more than 10% of the Group's revenue or receivables.

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

- b) **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 interim condensed consolidated financial statements:

	Carrying amount		Fair value	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
<i>Non-financial assets</i>				
Land	42,566	41,981	42,566	41,981
<i>Financial assets</i>				
Cash and cash equivalents	123,851	117,486	123,851	117,486
Available-for-sale investments	572	593	572	593
Trade and other receivables	83,313	75,967	83,313	75,967
Due from related companies	583	504	583	504
<i>Financial liabilities</i>				
Interest-bearing loans and borrowings	410,361	410,165	421,050	419,441
Short-term borrowings	5,346	5,271	5,346	5,271
Trade accounts payables	40,030	32,257	40,030	32,257
Due to related companies	13,355	954	13,355	954
Accrued and other liabilities	25,567	36,258	25,567	36,258

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
	March 31, 2017	December 31, 2016	
<i>Financial assets:</i>			
Available-for-sale investments	310	335	Level 1
Available-for-sale investments	262	258	Level 2
<i>Financial liabilities:</i>			
Fixed-rate borrowings	421,050	419,441	Level 1