FAGE INTERNATIONAL S.A.

ANNUAL REPORT
For the Year
Ended December 31, 2017

March 28, 2018

This report (the "Annual Report") includes the consolidated financial statements and other information of FAGE INTERNATIONAL S.A. and its subsidiaries (the "FAGE Group") as of and for the year ended December 31, 2017.

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

This report is organized as follows:

SECTION A

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 Annual 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 home.fage. The reference to this website is an inactive textual reference only and none of the information contained on this website is incorporated into this Annual Report. References to the FAGE Group include, unless the context requires otherwise, FAGE International S.A. and its consolidated subsidiaries (FAGE Dairy Industry S.A., FAGE U.K. Limited, FAGE USA Holdings, Inc., FAGE USA, Corp., FAGE USA Dairy Industry, Inc., FAGE Italia S.r.l. 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 9⅞% Senior Notes due 2020.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

- risks associated with our high leverage and debt service obligations;
- the impact of restrictive debt covenants on our operating flexibility;

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

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

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

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

DEFINITIONS

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

"2015 Senior Notes"	The 7½% Senior Notes due 2015 issued by FAGE International (as successor to FAGE Greece).
"2020 Senior Notes"	The 9⅞% Senior Notes due 2020 issued by FAGE International (as successor to FAGE Greece) and FAGE USA.
"CAGR"	Compound annual growth rate.
"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 Annual Report does not include separate financial statements for FAGE USA. The financial information of FAGE USA is fully consolidated into our consolidated financial statements, which are included elsewhere in this Annual Report.

Financial Information

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

The consolidated financial information for the FAGE Group has been presented as of and for the years ended December 31, 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 Annual Report, including the notes thereto (collectively, the "Consolidated Financial Statements"), together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Consolidated Financial Information." Some financial information in this Annual Report has been rounded and, as a result, the numerical figures shown as totals in this Annual Report may vary slightly from the exact arithmetic aggregation of the figures that precede them.

The FAGE Group adopted the U.S. dollar as its reporting currency effective October 1, 2012 and FAGE International S.A. adopted the U.S. dollar as its reporting and functional currency effective October 1, 2012. Solely for your convenience, this Annual Report contains translations of certain euro amounts into U.S. dollars at specified rates. These U.S. dollar amounts do not represent actual U.S. dollar amounts, nor could such euro amounts necessarily have been converted into U.S. dollars at the rates indicated. Unless otherwise indicated, euro amounts have been translated into U.S. dollars at the rate of U.S. $1.19930 per euro, which was the equivalent rate of the euro as reported by the European Central Bank in its foreign exchange rates report as at December 31, 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 Annual Report.

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

The Consolidated Financial Statements have been prepared as of and for the years ended December 31, 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 Annual Report contains information concerning the U.S. market for yogurt, the Greek dairy market and the dairy markets of certain other countries in which we conduct business. We operate in an industry in which it is difficult to obtain precise industry and market information. We have obtained the market and competitive position data in this Annual Report from industry publications and from surveys or studies conducted by third parties that we believe to be reliable, including research information produced by AC Nielsen Retail Measurement Services, a division of The Nielsen Company ("Nielsen"), for the U.S., Greek and U.K. markets and Information Resources International ("IRI") for the Italian market. We cannot assure you of the accuracy and completeness of such information, and we have not independently verified the market and competitive position data contained in this Annual Report. In addition, in many cases, statements in this Annual Report regarding the dairy industry and our competitive position in the dairy industry are based on our experience and our own investigation of market conditions. There can be no assurance that any of these assumptions are accurate or correctly reflect our competitive position in the industry, and none of these internal surveys or information have been verified by independent sources, which may have estimates or opinions regarding industry-related information which differ from ours.

ENFORCEABILITY OF CIVIL LIABILITIES

FAGE International is 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*.

SECTION B

RISK FACTORS

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

Risks Relating to Our Business

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

We compete in highly competitive markets with companies of varying sizes. Numerous brands and products compete for shelf space and sales, with competition based primarily on brand recognition, price, product, quality, taste, variety and convenience. A number of these competitors, including multinational dairy companies, have broader product offerings and substantially greater financial and other resources than we have.

The dairy industry is also characterized by the frequent introduction of new products, accompanied by substantial promotional campaigns. Our competitors may succeed in developing new or enhanced products that are more attractive to consumers than our products. Our competitors may also prove to be more successful in marketing and selling their products. From time to time our competitors may be able to devote greater financial and other resources to advertising and other competitive activities and may, in addition, sell products below cost in an attempt to gain market share from us. There can be no assurance that we will be able to maintain our market shares and margins, including our leading positions in the U.S. and Greek dairy industries, or otherwise compete successfully with these other companies. These and other competitive pressures could cause our products to lose market share or result in significant price erosion, which could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that we will continue to compete successfully with such other companies.

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

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

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

In addition, historically our results have been adversely affected by events affecting certain of our agricultural raw materials or product lines, including fluctuations in commodities markets, restrictive governmental agricultural policies, severe weather conditions, health epidemics or the operations of suppliers, including a competitor's product recalls. Such events could adversely affect the dairy industry in the future, reducing demand and requiring us to expend additional funds for advertising in order to restore public confidence in our products.

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

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

In particular, the success of our international expansion will depend on our ability to maintain sufficient manufacturing capacity in the United States and Europe to serve our international markets. Based on our experience with yogurt sales in the United States in the past 20 years, our management believes there is still growth potential for our yogurt products in the U.S. market. To meet increasing demand in the U.S. market, we have expanded production and warehouse capacity at our Johnstown, New York facility. The expansion began in early 2013 and was completed in the second half of 2017. As we continue to grow our business and increase our sales volumes in Europe, particularly in the United Kingdom and Italy, we plan to supplement our production capacity at our Greek facilities with additional production capacity in Europe by constructing a new manufacturing facility in Luxembourg (the "New Manufacturing Facility"). When fully operational, we expect that the New Manufacturing Facility initially will contribute an additional 40,000 tons of yogurt production capacity annually. The completion date of the New Manufacturing Facility cannot be determined due in part to delays in securing the required environmental licenses from the Luxembourg authorities. Pending completion of the New Manufacturing Facility, production at our yogurt facility in Greece is increasing in order to accommodate growing European demand. We cannot assure you that we will be able to sufficiently expand our production capacity to keep pace with current international demand for our products, or that demand will not decrease in the future.

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

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

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

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

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

For the year ended December 31, 2017, approximately 15.0% of our sales from continuing operations, excluding our discontinued milk business, were generated by our operations in Greece and, as a result, our operating results are affected to a certain extent by prevailing economic conditions in Greece. After eight years of recession in the period from 2009 to 2017, the economic and business environment in Greece remains challenging. Reduced disposable income and discretionary spending by our Greek customers have resulted in reduced sales of our products in the Greek market. Local economic disruptions and general economic and political uncertainty have also adversely affected consumer confidence, which may further dampen discretionary spending over time. Furthermore, economic conditions in Greece have led certain of our customers to be unable to pay for our products on a timely basis or at all. In an effort to reduce our credit exposure to delinquent clients, we have decided to reduce, and in some instances even stop, sales to less creditworthy clients, which has also negatively impacted sales. As a result of the economic crisis and the measures aimed at addressing it, our sales volumes and pricing strategies in Greece may be adversely affected for an indeterminate period of time.

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

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

If we fail to anticipate and respond to changes in consumer preferences, demand for our products could decline.

Consumer tastes and preferences are difficult to predict and evolve over time. Demand for our products depends on our ability to identify and offer products that appeal to shifting preferences. Factors that may affect consumer tastes and preferences include: (i) dietary trends and increased attention to nutritional values, such as the sugar, fat, protein, fiber or calorie content of different foods; (ii) concerns regarding the health effects of specific ingredients, including certain nutrients, sugar, dairy, nuts, oils or minerals; and (iii) increasing awareness of the environmental and social effects of production, among others. For instance, increased focus on nutrition or concerns about obesity and lactose intolerance may lead to lower consumer demand for certain of our dairy desserts. If we are unable to respond to changes in consumer preferences quickly and effectively, our sales or margins could be negatively affected leading to a material adverse effect on our business, financial position and results of operations.

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

Our major customers are supermarkets. For the year ended December 31, 2017, no single customer accounted for more than 8.2% of our sales. However, there is an increasing trend towards consolidation in the supermarket sector. These consolidations have concentrated sales channels, increased the bargaining power of the major supermarkets and intensified price competition among these retailers. As supermarkets continue to consolidate and customers grow larger and become more sophisticated, they may demand lower prices and increased promotional programs, which may require us to lower our prices. In addition, consolidation in the supermarket sector could cause us to lose customers. Increased pricing pressure from our large customers in the future, or the loss of customers due to industry consolidation could have a material adverse effect on our business, financial position and results of operations.

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

We could experience disruption to our manufacturing and distribution capabilities for reasons beyond our control. These disruptions could include, among others, extreme weather, fire, theft, labor disturbances (including work stoppages or slowdowns), human error or accidents, equipment failures, power failures, inadequate supplies of materials or services, or system failures or other events or developments beyond our control. Any significant problems with our supply chain or unavoidable disruption to our distribution operations could adversely affect our results of operations. We have arranged insurance policies to cover both the assets as well as losses due to business interruption emanating from external perils (basically due to physical phenomena and other sudden and unforeseen risks, as specifically identified in the respective insurance policies).

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

We are exposed to the risk of strikes and other industrial actions. If we are unable to maintain good relations with our employees and with our labor union, we may experience lengthy consultations with the labor union or even strikes, work stoppages or other industrial actions in the future. Strikes or other industrial actions could disrupt our operations and make it more costly to operate our facilities, which could have a material adverse effect on our business, financial position and results of operations.

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

Our products are currently sold in approximately 44 countries. In addition, we expect to further increase our international exposure due to our increased investments in the United States, the United Kingdom and other countries in which we conduct business. We generate a significant percentage of our revenues in currencies other than the U.S. dollar, our reporting currency. As a result, our financial position and results of operations are subject to currency translation risks. Significant fluctuations in the exchange rates between foreign currencies and our reporting currency might affect our ability to make payments due under the Senior Notes.

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

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

We are also subject to regulation with respect to the composition, packaging, labeling, advertising and safety of our products, the health, safety and working conditions of our employees and our competitive and marketplace conduct. From time to time, additional legislative initiatives may be introduced which may affect our operations and the conduct of our business. The cost of complying with such initiatives or the effects of such initiatives may have a material adverse effect on our business, financial position and results of operations.

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

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

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

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

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

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

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

In any of the geographic markets in which we operate, we could be subject to additional tax liabilities.

We operate in multiple geographic markets and our operations in each market are susceptible to additional tax assessments and audits. Authorities may engage in additional reviews, inquiries and audits that disrupt our operations or challenge our conclusions regarding tax matters. Tax assessments may be levied even where we consider our practices to be in compliance with tax laws and regulations. Should we challenge such taxes or believe them to be without merit, we may nonetheless be required to pay them.

Our insurance coverage may not be adequate to protect us against all potential losses to which we may be subject, which could have a material adverse effect on our business.

Although we believe that the insurance coverage that we maintain is reasonably adequate to cover normal risks associated with the operation of our business, claims under our insurance policies may not be honored fully or timely and our insurance coverage may not be sufficient in any respect or our insurance premiums may increase substantially. Accordingly, to the extent that we suffer loss or damage that is not covered by our insurance or which exceeds our insurance coverage, or have to pay higher insurance premiums, our business, financial position and results of operations may be materially adversely affected.

Risks Relating to Our Indebtedness and Our Structure

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

We are leveraged and have significant debt service obligations. As of December 31, 2017, our consolidated indebtedness was $422.9 million. In addition, subject to the restrictions in the Indenture, we may incur additional indebtedness from time to time. We anticipate that our leverage will continue for the foreseeable future.

Our leverage could have important consequences to you, including:

- our indebtedness could materially adversely affect us by making it more difficult for us to satisfy our obligations under the Senior Notes and our other payment obligations;

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions, research and development, advertising or general corporate purposes may be limited;

- if we are unable to refinance our existing or future debt obligations or renew our existing or future credit facilities on acceptable terms or at all, this could have material adverse effects on our business, financial position and results of operations;

- a substantial portion of our cash flow from operations must be dedicated to the payment of interest on the Senior Notes and any other indebtedness, thereby reducing the funds available to us for other operations and the pursuit of other business opportunities that require cash;

- we may be hindered in our ability to adjust rapidly to changing market conditions and demand for new products;

- we may be more vulnerable in the event of a downturn in general economic conditions or in our business; and

- we may be placed at a disadvantage when compared to our competitors that have less debt.

Additionally, we are not restricted under the covenants of the Senior Notes from incurring additional debt, including secured debt, or from repurchasing the Senior Notes, except as described in the Indenture. If additional debt is added to our substantial debt levels, the related risks that we face could intensify.

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

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

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

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

- incur additional indebtedness;

- pay dividends or make other distributions in respect of our capital stock;

- make certain other restricted payments and investments;

- repurchase or redeem capital stock;

- create liens;

- issue shares of subsidiaries;

- impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to us;

- repurchase shares;

- transfer or sell assets, including capital stock of subsidiaries;

- merge or consolidate with other entities;

- enter into transactions with affiliates; and

- engage in certain types of business.

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

Claims by secured creditors will have priority with respect to their security over the claims of the holders of the Senior Notes, to the extent of the value of the assets securing such indebtedness.

Claims by secured creditors will have priority with respect to the assets securing their indebtedness over the claims of holders of the Senior Notes. As such, any claims of the holders of the Senior Notes will be effectively subordinated to any secured indebtedness and other secured obligations of the Issuers and the Guarantor.

We have entered into a $35.0 million revolving credit facility provided by Citibank, N.A. in the United States, which is secured by accounts receivable and certain inventory of FAGE USA. Additionally, the Indenture will allow us to incur additional secured indebtedness in certain circumstances that will be effectively senior to the Senior Notes. While the value of the assets securing such indebtedness is relatively small as compared to the value of the Group's total assets, in the event that any of the secured indebtedness of the Issuers or the Guarantor becomes due or the creditors thereunder proceed against the operating assets that secured such indebtedness, the assets remaining after repayment of that secured indebtedness may not be sufficient to repay all amounts owing in respect of the Senior Notes. As a result, holders of Senior Notes may receive less, ratably, than holders of secured indebtedness of the Issuers or the Guarantor.

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

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

European Union insolvency law

FAGE International and FAGE Greece are organized under the laws of Member States of the European Union.

Pursuant to Regulation (EU) 2015/848 of the European Parliament and the Council of May 20, 2015 on insolvency proceedings (the"EU Insolvency Regulation"), the court with jurisdiction to open insolvency proceedings in relation to a company is the court of the Member State where the relevant company has its center of main interests ("COMI") (as that term is used in Article 3(1) of the EU Insolvency Regulation).

The EU Insolvency Regulation does not include a clear definition of the term "center of main interests," and the determination of where a company has its COMI is a question of fact that may change from time to time. Article 3 of the EU Insolvency Regulation states that the COMI of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties." In that respect, factors such as where board meetings are held, where a company conducts the majority of its business and where the majority of a company's creditors are established may all be relevant in determining the place where a company has its COMI. A company's COMI is determined when the relevant insolvency proceedings are opened.

However, there is a rebuttable presumption under Article 3(1) of the EU Insolvency Regulation that a company has its COMI in the Member State in which it has its registered office.

If a company's COMI is and will remain located in the state where it has its registered office, the main insolvency proceedings would be opened in that jurisdiction and, accordingly, a court in that jurisdiction would be entitled to open the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are recognized in the other Member States, although secondary proceedings may be opened in another Member State if the debtor has an "establishment" (as defined in the EU Insolvency Regulation) in the other Member State. Such secondary proceedings are restricted to the debtor's assets in the other Member State. If the COMI of a company is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open insolvency proceedings against that company only if such company has an "establishment" in the territory of such other Member State. An "establishment" is defined as a place of operations where the company carries on non-transitory economic activity with human means and goods. The effects of those insolvency proceedings opened in the other Member State are restricted to the assets of the company situated in such other Member State. Where main insolvency proceedings have been opened in the Member State in which the company has its COMI, any proceedings opened subsequently in another Member State in which the company has an establishment will be secondary insolvency proceedings.

Luxembourg insolvency law

FAGE International is incorporated under the laws of the Grand Duchy of Luxembourg and has its registered office in the Grand Duchy of Luxembourg. Accordingly, Luxembourg courts should have, in principle, jurisdiction to open main insolvency proceedings with respect to FAGE International. As FAGE International is an entity having its registered office and central administration (*administration centrale*) and COMI, as used in the EU Insolvency Regulation, in the Grand Duchy of Luxembourg, such proceedings would be governed by Luxembourg insolvency laws. According to the EU Insolvency Regulation, there is a rebuttable presumption that a company has its COMI in the jurisdiction in which its registered office is located. As a result, there is a rebuttable presumption that the COMI of FAGE International is in the Grand Duchy of Luxembourg and consequently that any "main insolvency proceedings" (as defined in the EU Insolvency Regulation) would be opened by a Luxembourg court and be governed by Luxembourg law. However, the determination of where FAGE International has its COMI is a question of fact, which may change from time to time.

Luxembourg insolvency proceedings

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

1. **bankruptcy proceedings (*faillite*):** the opening can be initiated by FAGE International filing for bankruptcy (*aveu de faillite*), by any of its creditors petitioning for bankruptcy (*assignation en faillite*), or in certain cases by Luxembourg courts *ex officio*. The directors of FAGE International have the obligation to file for bankruptcy within one month of meeting the conditions of bankruptcy, which are

   (i) if FAGE International is in a state of default of payment (*cessation de paiements*), in which the company cannot, or does not, fully pay its due, certain and liquid debts as they fall due (*dette certaine, liquide et exigible*); and

   (ii) if FAGE International has lost its creditworthiness (*ébranlement de crédit*) and is unable to obtain credit from any source.

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

2. **controlled management proceedings (*gestion controlée*):** the opening of which may only be requested by FAGE International and not by its creditors. More than 50% of the creditors (in number) representing more than 50% in value of the debtor's debts must approve the plan. If the plan is then approved by a court, the court will appoint one or more commissioners who will prepare a report on the financial situation of the distressed company and control its management.

3. **composition with creditors proceedings (*concordat préventif de la faillite*):** the obtaining of which is requested by FAGE International only after having received prior consent from a majority of ordinary creditors (in number) holding at least 75% of the claims against FAGE International. The application for composition with creditors can be filed with the district court sitting in commercial matters, if the company is unable to meet its engagements or is suffering from a lack of creditworthiness, if it is acting in good faith, and if there is a realistic possibility of achieving the reorganization in order to improve the business and reduce liabilities. The court must approve the voluntary arrangement made between the debtor and the creditors. The obtaining of such composition proceedings will trigger a provisional stay on enforcement of claims by creditors.

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

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

2. **suspension of payments (*sursis de paiement*):** any merchant (*commerçant*) or commercial company regulated by the 1915 Law may apply for suspension of payments if the company cannot pay its debts on a temporary basis.

Ranking

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

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

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

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

Carrying on business during insolvency in Luxembourg

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

The following payments or transactions may be set aside:

- pursuant to article 445 of the Luxembourg Commercial Code, specified transactions (such as the granting of a security interest for antecedent debts; the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets or entering into transactions generally without consideration or with substantially inadequate consideration) entered into during the suspect period (or the ten days preceding it) will be set aside or declared null and void, if so requested by the insolvency receiver. Article 445 does not apply to financial collateral arrangements and set-off arrangements subject to the Luxembourg law of August 5, 2005 on financial collateral arrangements, as amended (the "Luxembourg Collateral Law"), such as Luxembourg law pledges over shares or receivables.

- pursuant to article 446 of the Luxembourg Commercial Code, payments made for matured debts for consideration, as well as other transactions concluded during the hardening period (*période suspecte*), are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt's cessation of payments. Article 446 does not apply to financial collateral arrangements and set-off arrangements subject to the Collateral Law, such as Luxembourg law pledges over shares or receivables.

- regardless of the hardening period (*période suspecte*), article 448 of the Luxembourg Commercial Code and article 1167 of the Luxembourg Civil Code (*action paulienne*) give any creditor the right to challenge any fraudulent payments or transactions made prior to the bankruptcy in breach of the creditors' rights.

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

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

- the parties to an agreement may contractually agree that the occurrence of a bankruptcy constitutes an early termination or acceleration event. However, such clauses may not always be effective and enforceable against the bankruptcy receiver taking into account the interest of the distressed company and the legally binding provisions of bankruptcy laws in Luxembourg; and

- *intuitu personae* contracts (*i.e.*, contracts whereby the identity of the other party constitutes an essential element upon the signing of the contract) are automatically terminated as of the bankruptcy judgment since the debtor is no longer responsible for the management of the company. Parties can agree to continue to perform under such contracts.

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

Registration with the Administration de l'Enregistrement et des Domaines

No registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty (other than court fees and contributions for the registration with the Chamber of Commerce) should be due in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Senior Notes except if such Senior Notes are to be delivered by a bailiff. However, the registration of the Senior Notes (and any document in connection therewith) with the Administration de l'Enregistrement et des Domaines in Luxembourg will be required in the case of the Senior Notes (and any document in connection therewith) that are appended to any document that requires mandatory registration. In such case, or in the case of any documents that are voluntarily registered, either a nominal registration duty or an ad valorem duty (for instance, 0.24% of the amount of the payment obligation mentioned in the document so registered) will be payable depending on the nature of the document being registered.

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

Greek insolvency law

If FAGE Greece is declared bankrupt in Greece, Greek law (i.e. Greek Law 3588/2007, as amended from time to time (the "Greek Bankruptcy Code")) will apply. Under the Greek Bankruptcy Code, the following insolvency proceedings are currently available:

(a) bankruptcy, which is regulated by articles 1-98 of the Greek Bankruptcy Code, except for the simplified bankruptcy proceedings in respect of small debtors, which fall under the criteria of article 162 of the Greek Bankruptcy Code, as currently in force. These simplified proceedings are regulated by articles 162-163c of the Greek Bankruptcy Code);

(b) a rehabilitation agreement under the Greek Bankruptcy Code (articles 99-106f) between a debtor and a qualifying majority of its creditors; and

(c) a reorganization plan under the Greek Bankruptcy Code (articles 107-131) following its approval by the court and the creditors.

The Greek Bankruptcy Code includes detailed provisions on each of the above insolvency proceedings and the requirements that need to be met in respect of each proceeding, including the rights of creditors thereunder.

Under Greek law, upon a declaration of bankruptcy (regulated by articles 1-98 of the Greek Bankruptcy Code), all the assets of the bankrupt party are placed under the control of a receiver (*syndikos*) appointed by the bankruptcy court to be held for the benefit of all creditors. After a court declaration of bankruptcy, the bankrupt party may, following an application to, and approval by, the bankruptcy court, continue to manage its assets with the cooperation of a receiver. In addition, certain transactions occurring prior to the declaration of bankruptcy will or may be subject to revocation, usually following a court judgment after an examination of the merits of the particular transactions, if they are completed by the bankrupt party during the so-called "suspect period" and are detrimental to creditors. Such period is the time between the date of cessation of payments, which is determined by the bankruptcy court and may predate the declaration of bankruptcy by up to two years, and the date of the declaration of bankruptcy.

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

- donations (with certain exemptions) and any gratuitous legal acts, as well as agreements of the bankrupt party, where the consideration it receives is disproportionately small compared to its participation in the transaction;

- payments of debts that are not due;

- payments of debts due other than in cash or by the agreed form of discharge;

- *in rem* security rights, including pre-notices of mortgages, or any other securities and guaranties for a pre-existing indebtedness, which the bankrupt party had no obligation to secure or for security of new obligations of the bankrupt party, in replacement of those that already exist.

The bankruptcy court will revoke the transactions in the above categories and third parties shall, in principle, be obliged to re-transfer the relevant asset of the bankrupt party.

Certain other transactions entered into within a period of up to five years prior to the declaration of bankruptcy will also be revoked by the bankruptcy court if it is concluded by such court that they were entered into by the bankrupt party with a malicious intent (*dolos*) to prevent its creditors from satisfying their bona fide claims and the third party was aware of this fact.

Moreover, the bankruptcy court may revoke any payments or transactions (including the issuance of notes or guarantees or the granting of mortgages or other securities) that occurred after the date of cessation of payments by the bankrupt party and prior to the declaration of bankruptcy if the other contracting party had at that time actual knowledge of the cessation of payments and if such payments or transactions were detrimental to the creditors of the bankrupt party. If the bankrupt party is a legal person, the knowledge of its counterparty is deemed to exist, where such counterparty is a related party, as defined in art. 32 of Greek Law 4308/2014.

Under Greek law (art. 21 and 153 seq. of the Greek Bankruptcy Code in conjunction with the Greek Civil Procedure Code, effective as of January 1, 2016, as amended from time to time), the following claims will rank senior in priority to the Senior Notes, and the claims of the holders of the Senior Notes, being unsecured, will rank *pari passu* with those of all other unsecured creditors:

- legal expenses, the receiver's remuneration and claims against the bankrupt party arising post-bankruptcy;

- claims from the funding of any nature of the bankrupt party's enterprise and claims of third parties from the provision of goods and services up to the value thereof, in order to ensure the continuation of the bankrupt party's activity and its payments, as well as its rescue and the preservation or increase of its property, on the basis of the rehabilitation agreement or the reorganization plan, including similar claims against the bankrupt party's enterprise, serving the same purposes, that arise during the time of negotiations for achieving the rehabilitation agreement or the reorganization documents, which may precede by up to six (6) months the date of filing of the application for the validation of the rehabilitation agreement or the reorganization documents, as the case may be. This priority exists irrespective of the validation of the rehabilitation agreement or reorganization documents, on the condition that the purposes of such funding or provision of goods and services and the existence of this priority are explicitly referred to in such rehabilitation agreement or the reorganization documents that are executed within the above time period. This priority does not apply to shareholders or partners in respect of their contributions in cash or in kind in the course of an increase of the bankrupt party's share capital;

- claims of employees and attorneys who were paid with fixed periodic fees, if such claims occurred within the two years prior to the declaration of bankruptcy. Compensation claims due to termination of employment agreement and, as for attorneys, due to termination of a contract of mandate, without any time restriction;

- VAT and any withholding and attributable taxes, including related surcharges of any kind and interest due to the Greek State;

- claims of social security funds which are subject to the General Secretariat for Social Security arising until the declaration of bankruptcy;

- all secured claims, in accordance with the date of the perfection of the respective security interest on the asset liquidated;

- claims of farmers or farmers' unions from sales of agricultural products arising during the year prior to the declaration of bankruptcy;

- Greek state and local authorities' claims from any cause including any surcharges and interest thereon; and

- claims of the Athens Stock Exchange Members' Guarantee Fund against a bankrupt party, if the latter has been an enterprise providing investment services according to art. 2 of Greek law 3606/2007, and the claims occurred within the two years prior to the declaration of bankruptcy.

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

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

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

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

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

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

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

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

Risks Relating to the Senior Notes

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

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

The subsidiaries of FAGE International (other than FAGE USA and FAGE Greece) that did not guarantee the Senior Notes generated 18.8% of our total sales for the year ended December 31, 2017 and represented 4.3% of our total assets as of December 31, 2017. As of December 31, 2017, the subsidiaries of FAGE International (other than FAGE USA and FAGE Greece) had approximately $4.3 million of liabilities, including trade payables but excluding inter-company obligations, all of which ranked structurally senior to the Senior Notes.

You may be subject to Luxembourg withholding tax with respect to payments on the Senior Notes.

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-Luxembourg resident noteholders, nor on accrued but unpaid interest with respect to the Senior Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Senior Notes held by non-Luxembourg resident noteholders. In general, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident noteholders that are not individuals, nor on accrued but unpaid interest with respect to the Senior Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Senior Notes held by Luxembourg resident noteholders that are not individuals. However, under the law of 23 December 2005, as amended (the "Relibi Law"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 20% (the "20% withholding tax") levied on interest and certain income assimilated to interest paid to Luxembourg resident individuals by a paying agent established in Luxembourg. In addition, an optional 20% tax (the "20% tax") on interest and certain income assimilated to interest paid to Luxembourg resident individuals by a paying agent established in a European Union Member State (other than Luxembourg) or a Member State of the European Economic Area applies if the noteholder so requests. The 20% withholding tax and the 20% tax will operate as a full discharge of income tax for Luxembourg resident individuals acting in the context of the management of their private wealth. Responsibility for the withholding of tax in application of the Relibi Law is assumed by the Luxembourg paying agent (in the case of the 20% withholding tax) and by the Luxembourg resident noteholder (in the case of the 20% tax).

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

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

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

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

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

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

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

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

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

FAGE International is organized in Luxembourg and FAGE Greece is organized in the Hellenic Republic. Certain of the executive officers and directors of the Issuers and the Guarantor and certain experts named herein presently reside outside of the United States, principally in Greece. In addition, a significant portion of our assets are located in Greece. As a result, it will be necessary for investors to comply with Luxembourg or Greek law in order to obtain an enforceable judgment against any such foreign resident persons or assets of the FAGE Group, including an order to foreclose upon such assets. Although we will agree under the terms of the Indenture to accept service of process in the United States by an agent designated for such purpose, it may not be possible for investors to (i) effect service of process within the United States upon our officers, directors and certain experts named herein and (ii) enforce any judgments in the United States against such persons obtained in U.S. courts and predicated upon the 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.

The Senior Notes are initially to be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights or remedies.

Unless and until any Senior Notes in definitive registered form ("definitive registered notes") are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of Senior Notes. DTC (or its nominee) will be the registered holders of the Senior Notes. After payment to DTC (or its nominee), we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of DTC or if you are not a participant in DTC, you must rely on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder under the Indenture.

Unlike the holders of the Senior Notes themselves, owners of book-entry interests do not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Senior Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any request actions on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through DTC. We cannot assure you that the procedures to be implemented through DTC will be adequate to ensure the timely exercise of rights under the Senior Notes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table presents selected consolidated financial information of the FAGE Group for the dates and periods indicated and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited Consolidated Financial Statements as of and for the years ended December 31, 2016 and 2017, included elsewhere herein. The Consolidated Financial Statements have been prepared in accordance with IFRS. The information presented below for the year ended December 31, 2015 has been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS, not included herein. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year ended December 31,		
	2015	**2016**	**2017**
	($ thousands)		
Statement of Income Data:			
Sales......................................	648,228	653,361	619,629
Cost of sales..........................	(336,043)	(333,908)	(325,977)
Gross profit...........................	312,185	319,453	293,652
Selling, general and administrative expenses	(183,686)	(199,674)	(177,585)
Other income	503	1,001	1,033
Other expenses......................	(8,016)	(1,129)	(1,435)
Operating profit...............	120,986	119,651	115,665
Financial income/(expenses), net…	(43,581)	(66,116)	(25,185)
Impairment loss……………………….	(9,262)	(1,105)	-
Impairment on available for sale financial assets……………………….	(73)	-	-
Loss on disposal of financial assets………	-	-	(56)
Foreign exchange gains/(losses), net……	1,793	(6,001)	7,122
Profit before income taxes	69,863	46,429	97,546
Income tax benefit/(expense) ……………	(55,120)	15,075	(11,135)
Net profit……………………..	14,743	61,504	86,411

	Year ended December 31,		
	2015	**2016**	**2017**
	($ thousands)		
Consolidated Statement of Financial Position Data:			
Cash and cash equivalents……..	78,247	117,486	128,452
Restricted cash …………………	1,200	-	-
Trade and other receivables…..	76,168	75,967	77,698
Inventories	36,167	38,270	39,763
Net property, plant and equipment………………….	403,634	401,071	449,393
Total assets..........................	684,613	736,861	789,671
Short-term borrowings	-	5,271	11,993
Trade accounts payable and due to related companies……….............	38,601	33,211	23,803
Total debt	384,067	415,436	422,942
Net debt(1)............................	304,620	297,950	294,490
Total equity.........................	153,559	191,971	269,479

	Year ended December 31,		
	2015	**2016**	**2017**
	($ thousands)		
Other Financial Data:			
Cash flow from operating activities…………….	128,738	130,125	112,705
Cash flow used in investing activities…………….	(38,871)	(28,933)	(67,428)
Cash flow from/(used in) financing activities…………..	(56,839)	(61,263)	(39,490)
EBITDA(2)	144,652	141,637	153,350
Capital expenditures...............	(38,840)	(29,071)	(69,843)
Selected Ratios:			
Ratio of net debt to EBITDA(1) (2)….	2.1x	2.1x	1.9x
Ratio of EBITDA to financial income/(expenses), net(2)	3.3x	2.1x	6.1x

(1) Net debt represents short-term borrowings plus long-term interest-bearing loans and borrowings less cash and cash equivalents and restricted cash.

(2) EBITDA is defined as net profit/(loss) plus income tax benefit/(expense), financial income/(expenses), net and depreciation and amortization. The reconciliation of net profit/(loss) to EBITDA is as follows:

	Year ended December 31,		
	2015	**2016**	**2017**
		($ thousands)	
Net profit/(loss)......................	14,743	61,504	86,411
Income tax (benefit)/expense…….	55,120	(15,075)	11,135
Financial (income)/expenses, net……………..	43,581	66,116	25,185
Depreciation and amortization…………….	31,208	29,092	30,619
EBITDA................................	144,652	141,637	153,350

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

The table below sets forth the period-end and average exchange rates (representing, for any day, the rates published by the European Central Bank in its foreign exchange rates report) for U.S. dollars, expressed in dollars per €1.00, for the years indicated.

Year ended December 31,	**Year End**	**Average**
2015	1.0887	1.1046
2016	1.0541	1.1028
2017	1.1993	1.1370

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

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

Overview

We are a leading international dairy company with a focus on yogurt. We have significant sales in the U.S. yogurt market, growing international sales outside of the United States, and leading market positions in the Italian, U.K. and Greek yogurt markets. We have grown from our origins in Greece in 1926 to become an international company with sales in approximately 44 countries in Europe, the Americas, Asia and Africa. For the year ended December 31, 2017, we generated sales of $619.6 million and EBITDA of $153.4 million.

We market our yogurt worldwide under the *FAGE® Total®* brand. We believe that this highly recognized brand conveys an image of superior taste, quality and authenticity and enables us to enter new markets, expand our business in existing markets and bring new products to market. Our yogurt is the fourth largest yogurt brand in the United States in terms of sales, and our plain yogurt is the leading plain yogurt in the U.S. market in terms of sales.

The products that we manufacture are produced in our state-of-the-art, highly automated facilities in the United States and Greece. Between January 1, 2013 and December 31, 2017, we made a cumulative investment of $305.5 million in capital expenditures, largely financed through internal cash flow and proceeds of the 2020 and 2026 Senior Notes, including an investment of $235.5 million for the expansion of the U.S. production facility located in Johnstown, New York, which started commercial production in April 2008. Our U.S. facility is the largest of our facilities in terms of production capacity. It manufactures yogurt products for the U.S. market and the rest of the Americas. We have two facilities in Greece: one for yogurt products and a second for cheese products. We distribute our products to approximately 300 grocery store chains, which sell *FAGE®* products in approximately 50,000 of their stores in approximately 44 countries, primarily in the United States and throughout Europe. We also sell our products to bakeries, confectionaries, dairy stores and other smaller convenience stores.

As we continue to grow our business and increase our sales volumes in Europe, particularly in the United Kingdom and Italy, we plan to supplement our production capacity at our Greek facilities with additional production capacity in Europe by constructing our New Manufacturing Facility in Luxembourg. We plan to employ the same state-of-the-art technology and processes in the New Manufacturing Facility that we use in our U.S. production facility. When fully operational, we anticipate that the New Manufacturing Facility initially will contribute an additional 40,000 tons of yogurt production capacity annually. The completion date of the New Manufacturing Facility cannot be determined due in part to delays in securing the required environmental licenses from the Luxembourg authorities.

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

Key Line Items of Our Consolidated Statements of Income

Sales. Our sales comprise revenues generated primarily from sales of the dairy products that we manufacture or distribute to our customers and are shown net of intra-group or inter-company transactions. The amount of these revenues is driven primarily by the volume of products sold and the prices at which they are sold. Accordingly, growth of sales is primarily driven by volume growth, which can offset lower average prices per unit sold, and product innovation and the creation of new products that attract higher prices. We believe this volume growth is driven by the strength of our brand and the quality, diversity and innovation of our product line and our general policy of annual price increases consistent with annual inflation rates. Our sales are also affected by our decisions to enter or exit certain product categories as well as competitive market pressures that impact the prices for our products.

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

Over the past five years we have focused on improving our operating efficiency through technological and other capital improvements to our production facilities. In 2008, we moved the production of all of the yogurt that we sell in the United States to our manufacturing facility in Johnstown, New York. We also re-engineered operations in our Greek facilities in 2008 and achieved significant savings in operating costs. Our milk facility is a discontinued operation in accordance with our decision in December 2015 to withdraw from the milk business to better focus on our more profitable activities. We have consolidated and optimized our raw milk supply chain, rationalized our product mix by discontinuing slow-selling items and introduced other modifications to improve production processes and methods. These initiatives have lowered unit production costs, thereby contributing to our improvement in gross profit.

We have introduced a number of new high-margin products, such as *FAGE® Fruyo®*, a strained yogurt with fruit pieces blended in that is available in several fruit flavors and in non-fat, low-fat and full-fat varieties, and, most recently, *FAGE® Crossovers*™, a two-compartment offering that includes a blended yogurt and dry ingredients for mixing, which we market as “chef-level snacking” due to the use of high-quality ingredients combined in innovative ways. We plan to make additional investments with the aim of further enhancing and developing our production capabilities. We have significantly improved our overall gross profit by focusing on our higher margin products with broader appeal in different markets and discontinuing less profitable product lines.

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

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

Financial income/expenses. Financial income consists primarily of interest income on cash at banks and on time deposits. Financial expenses consist primarily of interest costs on the 2020 Senior Notes and the Senior Notes and short-term indebtedness, net of interest costs capitalized to property, plant and equipment. The 2020 Senior Notes were redeemed by the Senior Notes.

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

Factors and Trends Affecting Our Results of Operations

Increasing Sales in the United States. Our annual sales volume in the United States has quintupled since 2009. Based on our experience with yogurt sales in the United States in the past 20 years, management believes there is growth potential for our yogurt products in the U.S. market. As of December 31, 2017, we have invested approximately $422.5 million for the construction and expansion of a state-of-the-art, highly automated production facility in Johnstown, New York to produce and distribute *FAGE® Total®* yogurt products. The plant started commercial production in April 2008. Since the plant became operational, our U.S. production of yogurt has positively affected our gross margins and profitability since our production costs have been substantially reduced by lower U.S. milk prices and the efficiency of our new production facility. Furthermore, transatlantic transportation costs and duties for goods sold in the United States have been eliminated. Our U.S. facility currently has capacity to produce 160,000 tons of yogurt annually. Our expansion of the plant began in early 2013 and was completed in the second half of 2017. Our capital expenditures in recent years have been higher than their historical levels, due in large part to this expansion. The expansion utilizes existing milk receiving, pasteurizing, processing and cold storage warehouse operations and adds incubation, separator, processing, filling, packaging and cooling tunnel operations.

Increasing Sales to Export Markets. Our yogurt sales volume outside of the United States and Greece also has increased, reaching approximately 44 countries in Europe, Asia, Africa and the Americas. We serve these markets both through local distributors and through exports from Greece. We have our own distribution units in the United Kingdom, Italy and Germany. Our Greek facilities currently export more than half of the yogurt and dairy desserts that they produce and we expect exports to continue to grow.

Decreasing Sales in Greece. The deterioration of economic conditions in Greece in the past several years has led to worsening of expectations both in the business and consumer environments. The general decline in demand for consumer goods in Greece, including food products, has negatively affected our sales and those of other Greek dairy market participants. See “Risk Factors—Risks Relating to Our Business—Our business may be materially and adversely affected by economic and political conditions in Greece.”

Over the last three years, from 2015 to 2017, the contribution of sales in value in markets outside of Greece to our total sales in value increased from 82.4% for the year ended December 31, 2015 to 85.0% for the year ended December 31, 2016 and to 85.0% for the year ended December 31, 2017.

Sales of our products in the Greek market accounted for approximately 24.7%, 17.8% and 15.6% of our sales volume and 17.6%, 15.0% and 15.0% of our sales revenues for the years ended December 31, 2015, 2016 and 2017, respectively.

Changes to Product Portfolio. In recent years, we have improved our profitability by eliminating lower-margin products from our portfolio and focusing on more profitable products with a broader appeal in different markets. We launched our *FAGE® Fruyo®* yogurt brand, a strained yogurt with fruit pieces blended in that is available in several fruit flavors in non-fat, low-fat and full-fat varieties, to respond to consumer demand for thicker and tastier fruit yogurt. Most recently, we launched our *FAGE® Crossovers™* yogurt brand, a two-compartment offering that includes a blended yogurt and dry ingredients for mixing, which we market as “chef-level snacking” due to the use of high-quality ingredients combined in innovative ways. We plan to continue to evaluate our product line with a view towards focusing on higher-margin products.

Prices for Raw Materials and Other Manufacturing Costs. The price of cow’s milk and many of our other raw materials have fluctuated significantly in recent years due to the high volatility of the prices of commodities and energy internationally. For example the prices of milk collected in the U.S. market and used for the U.S. yogurt facility increased by 8.8% comparing the years ended December 31, 2017 and 2016, and the prices of milk used for the Greek facilities decreased by 3.8% comparing the years ended December 31, 2017 and 2016. We have also sought to manage our payroll costs and maintain production in areas with lower labor costs. In the future, we will seek to continue to purchase raw materials at cost-effective prices in order to remain profitable. See "Business—Suppliers and Raw Materials."

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

Results of Operations for the FAGE Group

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

	Year ended December 31,					
	2017			2016		
	Continuing Operations	Discontinued Operations	Total results	Continuing Operations	Discontinued Operations	Total results
Sales	100%	-	100%	100%	100%	100%
Cost of sales	(52.6)	-	(52.6)	(50.8)	(76.2)	(51.1)
Gross profit	47.4	-	47.4	49.2	23.8	48.9
Selling, general and administrative expenses	(28.7)	-	(28.7)	(30.7)	(16.2)	(30.6)
Other income	0.2	-	0.2	0.1	4.3	0.2
Other expenses	(0.2)	-	(0.2)	(0.2)	(2.7)	(0.2)
Operating profit	18.7	-	18.7	18.4	9.2	18.3
Financial income/(expenses), net	(4.1)	-	(4.1)	(10.2)	(0.1)	(10.1)
Impairment loss	-	-	-	-	(15.9)	(0.2)
Loss on disposal of financial assets	-	-	-	-	-	-
Foreign exchange gains/(losses), net	1.1	- -	1.1	(0.9)	-	(0.9)
Profit/(loss) before income taxes	15.7	-	15.7	7.3	(6.8)	7.1
Income tax benefit/(expense)	(1.8)	-	(1.8)	2.4	(13.2)	2.3
Net profit/(loss)	13.9%	-	13.9%	9.7%	(20.0)%	9.4%

Sales. Our sales in value for the year ended December 31, 2017 amounted to $619.6 million, a decrease of $33.8 million, or 5.2%, compared to sales of $653.4 million for the year ended December 31, 2016. This resulted from decreases in sales in value in the United States, the United Kingdom, Italy and Greece by 5.7%, 5.7%, 1.5% and 5.2% respectively.

Our sales in value were affected by the positive impact of 0.8% on sales in value due to the strengthening of the euro against the U.S. dollar and the negative impact of 0.3% due to the weakening of the British pound against the U.S. dollar (the exchange rates for 2017 and 2016 were €1=$1.1370 and €1=$1.1028 and £1=$1.2984 and £1=$1.3407, respectively).

Our sales in value outside of Greece accounted for 85.0% of our total sales in value both in 2017 and 2016. Our sales in value in markets outside of Greece, including the United States, collectively decreased by 5.2% on average for the year ended December 31, 2017, as compared to the year ended December 31, 2016.

Our sales in volume for the year ended December 31, 2017 decreased by 8.1% as compared to the year ended December 31, 2016. This resulted from decreases in sales in volume in the United States, the United Kingdom and Greece by 6.5%, 10.0% and 19.3% respectively, which were partially offset by an increase in sales in volume in Italy by 1.3%.

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

Our sales in value decreased by 5.2% whereas sales in volume decreased by 8.1% comparing the years 2017 and 2016 mainly due to the fact that the decrease in sales of the milk business had a greater impact on sales in volume than sales in value since the selling price per kilogram for milk products is much lower than for other products.

Gross profit. Gross profit for the year ended December 31, 2017 was $293.7 million, a decrease of $25.8 million, or 8.1%, from $319.5 million for the year ended December 31, 2016. Gross profit as a percentage of sales for the year ended December 31, 2017 was 47.4%, compared to 48.9% for the year ended December 31, 2016. The main reasons for this decrease were first, the increase in the prices of milk used in the U.S. facility by 8.8% and second, the increase in cost of goods sold due to the strengthening of the euro against the U.S. Dollar by 0.5%. This decrease was partially offset by first, the decrease in the prices of milk used in the Greek facilities by 3.8% and second, the weakening of the British pound against the U.S. dollar by 0.4%.

*Selling, general and administrative expenses. S*elling, general and administrative expenses ("SG&A") for the year ended December 31, 2017 were $177.6 million, a decrease of $22.1 million, or 11.1%, from $199.7 million for the year ended December 31, 2016. As a percentage of sales, SG&A represented 28.7% for the year ended December 31, 2017 and 30.6% for the year ended December 31, 2016. This decrease is mainly due to the decrease in advertising expenses.

Other income/(expenses), net. Net other expenses for the year ended December 31, 2017 amounted to $0.4 million. Net other expenses for the year ended December 31, 2016 amounted to $0.1 million.

Operating profit. Operating profit for the year ended December 31, 2017 was $115.7 million, a decrease of $4.0 million, or 3.3%, as compared to operating profit of $119.7 million for the year ended December 31, 2016. As a percentage of sales, operating profit was 18.7% for the year ended December 31, 2017 as compared to 18.3% for the year ended December 31, 2016. This improvement is mainly due to the fact that the decrease in gross profit was more than offset by the decrease in SG&A as a percentage of sales.

Financial income/(expenses), net. Net financial expenses decreased by $40.9 million from $66.1 million for the year ended December 31, 2016 to $25.2 million for the year ended December 31, 2017. Financial expenses for the year ended December 31, 2016 included $13.2 million of early redemption costs for the 2020 Senior Notes and $13.7 million relating to the write-off of the outstanding balance of the unamortized costs of the issuance of the 2020 Senior Notes. Financial income/(expenses), net as a percentage of sales was 4.1% for the year ended December 31, 2017 and 10.1% for the year ended December 31, 2016.

Impairment loss. There was no impairment loss for the year ended December 31, 2017. The impairment loss for the year ended December 31, 2016 amounted to $1.1 million. This was due to the impairment of the assets held for sale related to the milk business (see Note 3 to the Consolidated Financial Statements).

Loss on disposal of financial assets. Loss on disposal of financial assets for the year ended December 31, 2017 amounted to $0.1 million. There was no loss on disposal of financial assets for the year ended December 31, 2016.

Foreign exchange losses/(gains), net. Net foreign exchange gains for the year ended December 31, 2017 were $7.1 million. This is mainly due to first, the strengthening of the Euro against the U.S. dollar which was partially offset by the weakening of the British pound against the U.S. dollar, and second, the conversion of the cash and cash equivalents balances from Euro and British pounds to U.S. dollars. Net foreign exchange losses for the year ended December 31, 2016 were $6.0 million. This is mainly due to the weakening of the Euro and British pound against the U.S. dollar and the conversion of the cash and cash equivalents balances from Euro and British pounds to U.S. dollars.

Profit/(loss) before income taxes. Profit before income taxes for the year ended December 31, 2017 was $97.5 million, compared to profit before income taxes of $46.4 million for the year ended December 31, 2016. Profit before income taxes as a percentage of sales increased from 7.1% in 2016 to 15.7% in 2017. The main reasons for this increase were the decrease in SG&A expenses, foreign exchange gains and the decrease in financial expenses. This improvement was partially offset by the decrease in gross profit.

Income tax benefit/(expense). Income tax expense for the year ended December 31, 2017 was $11.1 million compared to income tax benefit of $15.1 million for the year ended December 31, 2016. This is mainly due to the deferred tax asset of $30.0 million recognized for intangible assets and $7.0 million recognized for tax losses in 2016 (see Note 8 to the Consolidated Financial Statements).

Net profit/(loss). Net profit for the year ended December 31, 2017 was $86.4 million, as compared to net profit of $61.5 million for 2016.

Year ended December 31, 2017 and 2016
Continuing operations as compared to discontinued operations

Continuing operations. The Group's sales in value from continuing operations (milk business excluded) for the year ended December 31, 2017 amounted to $619.6 million, an increase of $26.8 million, or 4.1%, compared to sales of $646.4 million for the year ended December 31, 2016. This decrease is mainly due to the decrease in sales in volume by 4.5% comparing the years 2017 and 2016. This resulted from decreases in sales in volume in the United States by 6.5% and in the United Kingdom by 10.0%. This decrease was partially offset by increases in sales in volume in Greece by 2.2% and in Italy by 1.3%.

The gross profit from the continuing operations for the year ended December 31, 2017 amounted to $293.7 million as compared to $317.8 million for December 31, 2016. This is mainly due to first, the decrease in sales in volume in continuing operations by 4.5% comparing the years 2017 and 2016, and second, the increase in the prices of milk used in the U.S. facility by 8.8% comparing 2017 and 2016. The decrease in gross profit was partially offset by the decrease in the prices of milk used in the Greek facilities by 3.8%. Gross profit as a percentage of sales was 47.4% in 2017 and 49.2% in 2016.

Profit before income taxes for the year ended December 31, 2017 was $97.5 million, compared to profit before income taxes of $46.9 million for the year ended December 31, 2016. Profit before income taxes as a percentage of sales increased from 7.3% in 2016 to 15.7% in 2017. The main reasons for this improvement were the decrease in SG&A expenses, foreign exchange gains and the decrease in financial expenses.

Discontinued Operations. The Group had no sales from discontinued operations (milk business) in 2017. The Group's sales in value from discontinued operations (milk business) for 2016 were $6.9 million. The gross profit of the discontinued operations for the year ended December 31, 2016 was $1.6 million and the net loss was $1.4 million.

Liquidity and Capital Resources

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

Sources of capital. We fund our operating costs through cash from operations and short-term borrowings under various lines of credit. The available credit lines for the FAGE Group as of December 31, 2017 amounted to $47.0 million, of which $35.0 million was provided by Citibank, N.A. in the United States and secured by accounts receivable and certain inventory of FAGE USA and €10.0 million ($12.0 million equivalent) is provided by a revolving credit line with Alpha Bank in Greece. Out of the available credit lines as of December 31, 2017, the unused portion amounted to $35.0 million (see Note 24 to the Consolidated Financial Statements). 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 December 31, 2017 amounted to $128.5 million compared to $117.5 million as of December 31, 2016. We had no restricted cash at December 31, 2017 and 2016. We believe that the amount of our cash at banks and cash equivalents ($128.5 million), together with the lines of credit, is sufficient to finance both the operations and the investment program of the FAGE Group.

Cash flow data.

	Year ended December 31,	
	2017	**2016**
	($ thousands)	
Cash flow from/(used in) operating activities	112,705	130,125
Cash flow from/(used in) investing activities	(67,428)	(28,933)
Cash flow from/(used in) financing activities	(39,490)	(61,263)
Effect of exchange rates changes on cash	5,179	(690)
Cash and cash equivalents at beginning of year	117,486	78,247
Cash and cash equivalents at year-end	**128,452**	**117,486**

Cash flow from/(used in) operating activities. Net cash from operating activities for the year ended December 31, 2017 was $112.7 million, compared to net cash from operating activities of $130.1 million for the year ended December 31, 2016. This is mainly due to the fact that the improvement in operating profit before working capital changes from $144.7 million in 2016 to $153.9 million in 2017 was offset by working capital changes, particularly decreases in accrued and other current liabilities and due from related companies.

Cash flow from/(used in) investing activities. Net cash used in investing activities amounted to $67.4 million and $28.9 million for the years ended December 31, 2017 and 2016, respectively. Out of the capital expenditures for the year ended December 31, 2017, $40.0 million relate to the New Manufacturing Facility in Luxembourg, $22.7 million relate to capital expenditures for the expansion of the U.S. facility and $7.1 million relate to capital expenditures (primarily maintenance) for the facilities in Greece.

Cash flow from/(used in) financing activities. Net cash used in financing activities for the year ended December 31, 2017 was $39.5 million. This resulted from $25.2 million of interest paid, $5.7 million of net proceeds from short- and long-term borrowings and $20.0 million of dividends paid to our shareholders, of which $12.0 million comprises share premium and $8.0 million comprises retained earnings. Net cash used in financing activities for the year ended December 31, 2016 was $61.3 million, which reflects interest and early redemption costs paid of $56.5 million, proceeds from short and long-term borrowings of $15.2 million and share premium paid to our shareholders of $20.0 million.

Principal Risks and Uncertainties for the Remainder of 2018

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

- first, we are exposed to aggressive competition in the domestic Greek market;

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

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

Quantitative and Qualitative Disclosures About Market Risk

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

Foreign currency risk. We enter into transactions denominated in foreign currencies related to the sales and purchases of goods. Therefore, we were not exposed to market risk related to possible foreign currency fluctuations, which is mitigated to a certain extent by the set-off of credit and debit balances in the same currencies. We are subject to currency exchange risks due to our international exposure relating to our sales in the Eurozone and U.K. markets. For the year ended December 31, 2017, 35.5% of our sales were denominated in currencies other than the U.S. dollar, while 35.0% of our costs were denominated in currencies other than the U.S. dollar.

Interest rate risk. As of December 31, 2017, $12.0 million of short-term borrowings bore variable interest rates while $420.0 million of loans and other borrowings bore fixed interest rates. Based on the amount of our variable rate debt as of December 31, 2017, a hypothetical 100 basis point increase or decrease in interest rates on our variable rate debt would increase or decrease our annual interest expense by approximately $0.012 million.

Raw materials risk. We are also exposed to fluctuations in the cost of raw materials. The primary raw material that we use is cow's milk. Plastic and paper for packaging materials also are significant components of our cost of sales. The prices of many of our raw materials are affected by governmental agricultural policies, the operations of suppliers, political upheavals and acts of God such as severe weather conditions. To the extent that we are able to obtain sufficient quantities of raw materials in the event of a supply disruption, our ability to pass through any increase in raw material costs to our customers depends upon competitive conditions and pricing methods employed in the various markets in which we sell our products. See "Risk Factors—Risks Related to Our Business—Prices for our raw materials fluctuate significantly, and we may not be able to pass on cost increases to our customers."

Contractual Obligations

The following table sets forth the FAGE Group's contractual obligations as of December 31, 2017.

	Total	Less than 1 year	1-5 years	More than 5 years
		($ thousands)		
Interest-bearing loans and borrowings	420,000	-	-	420,000
Interest accruing on the Senior Notes	212,625	23,625	94,500	94,500
Operating lease obligations	4,334	1,488	2,846	-
Investment in U.S. facility and New Manufacturing Facility in Luxembourg(1)	46,882	-	46,882	-
	683,841	25,113	144,228	514,500

(1) Represents agreements with various suppliers for the acquisition and installation of equipment.

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

In accordance with Luxembourg tax regulations, the corporate tax rate applied by companies for fiscal years until 2016 was 29.2%. In December 2016, a new tax law was enacted in Luxembourg, which decreases the income tax rate to 27.08% for the fiscal year 2017 and to 26.01% for the fiscal year 2018 onwards.

For taxable years ending on or before December 31, 2017, U.S. corporations generally were subject to U.S. federal corporate income tax at a rate of 35%. New legislation enacted in late 2017 reduces the U.S. federal corporate income tax rate to 21% for taxable years beginning after December 31, 2017. In addition, corporations doing business in New York State generally are subject to a 6.5% corporate income tax. Based on a law enacted by the State of New York during the year ended December 31, 2014 for tax years beginning on or after January 1, 2014, the income rate for "Qualified New York Manufacturers" is 0% on the entire net income base. Management has concluded that the company meets the definition of a "Qualified New York Manufacturer" and accordingly will be subject to a 0% entire net income tax rate. The Company is subject to a capital base tax. However, the capital base tax for "Qualified New York Manufacturers" is currently being phased out for tax years beginning on or after January 1, 2015 through 2020.

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

OUR INDUSTRY

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

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

The U.S. Yogurt Market

As reported by Nielsen, the U.S. yogurt retail market declined in the fifty-two weeks ended January 13, 2018 for the second consecutive year. Yogurt retail sales in the United States decreased at an annual rate of 4.2% to an estimated $6.45 billion in the fifty-two weeks ended January 13, 2018 from $6.73 billion in the fifty-two weeks ended January 14, 2017. In terms of sales in volume, yogurt retail sales in the United States decreased at an annual rate of 6.6% to an estimated 1,259,629 metric tons in the fifty-two weeks ended January 13, 2018 from 1,349,263 metric tons in the fifty-two weeks ended January 14, 2017.

The U.S. yogurt market can be divided into two distinct categories: flavored and fruit yogurt, representing approximately 87.8% of sales in value, and plain yogurt, accounting for the remaining 12.2%. Retail sales in value of flavored and fruit yogurt decreased at an annual rate of 4.6% in the fifty-two weeks ended January 13, 2018. Plain yogurt experienced a slight decline in 2017, with retail sales in value in the United States of $785 million in the fifty-two weeks ended January 13, 2018 from $797 million in the fifty-two weeks ended January 14, 2017, declining at an annual rate of 1.5%. The majority of our sales in the United States are in the plain yogurt market. Our strength in the plain yogurt category has been driven by Greek strained yogurt. As reported by Nielsen, we are the leading plain yogurt brand in the United States, accounting for approximately 29.0% of sales in the plain yogurt market in the fifty-two weeks ended January 13, 2018.

Our principal competitors in the U.S. yogurt market are General Mills, with its Yoplait brand, Groupe Danone, with its Dannon brand, Stonyfield, Oikos and Chobani. Together, General Mills and Groupe Danone account for a joint market share across all product categories that exceeds 45.5% in terms of sales in value. Private label products account for approximately 9.3% of the market in terms of sales in value. We are reported by Nielsen to be the fourth largest market participant in terms of sales in value, accounting for approximately a 5.5% share of the yogurt market in the fifty-two weeks ended January 13, 2018. Our U.S. market share in volume is 3.8% for the fifty-two weeks ended January 13, 2018. However, our management, based on actual sales in volume, believes that our U.S. market share may be significantly understated, due to certain limitations in the availability of data from various food retailers.

The U.K. Yogurt Market

The total U.K. yogurt market was valued at £1.48 billion for the fifty-two weeks ended December 31, 2017. Yogurt household penetration in the United Kingdom is high and stable, while the market is categorized according to consumers' needs and the latest healthy diet trends. FAGE yogurt participates in the Greek, Greek-style and natural yogurt category of the U.K. yogurt market. The following table presents the size and growth rates of the U.K. yogurt market by sales in volume and sales in value for the years ended December 31, 2015, 2016 and 2017.

	Volume			Value		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**
		(metric tons)			**(£ thousands)**	
Total Yogurt Market..........	528,122	522,472	514,095	1,497,051	1,470,603	1,479,014
% annual change		(1.1)%	(1.6)%		(1.8)%	(0.6)%
Category in which we compete:						
Greek, Greek-Style and Natural Yogurt.............................	147,809	158,151	170,570	413,697	436,096	476,681
% annual change		7.0%	7.9%		5.4%	9.3%

Source: IRI GB and Northern Ireland Scanning data, December 31, 2017.

We have a 4.1% share of the total U.K. yogurt market in value and 2.3% in volume for the year ended December 31, 2017.

The following table presents the main participants in the U.K. yogurt market, together with their market positions by sales in value and sales in volume for the year ended December 31, 2017.

	Total Yogurt Market	
	Value Share	Volume Share
Müller	24.2%	25.2%
Private Label	15.5%	20.4%
Danone	13.8%	13.4%
Yoplait	11.9%	10.6%
Yeo Valley	7.7%	7.1%
Nestlé	5.0%	4.4%
FAGE	4.1%	2.3%
Emmi	4.0%	4.8%
Alpro	2.5%	2.3%

Source: IRI GB and Northern Ireland Scanning data, December 31, 2017.

FAGE® is the third largest brand in terms of sales in the Greek, Greek-style and natural category of the U.K. yogurt market, with 12.8% share of market value for the year ended December 31, 2017, while private label products accounted for 25.5% of the segment.

The following table presents the main participants in the U.K. Greek, Greek-style and natural yogurt category, together with their market positions by sales in value and sales in volume for the year ended December 31, 2017.

	Greek, Greek-Style and Natural Yogurt	
	Value Share	Volume Share
FAGE	12.8%	7.0%
Private Label	25.5%	35.0%
Yeo Valley Organic	13.4%	11.3%
Müller	13.0%	12.2%
Danone	12.2%	10.5%
Arla Foods	7.0%	5.3%
Emmi	3.6%	4.5%
Nestlé	3.0%	2.3%
Yoplait	2.5%	2.1%

Source: IRI GB and Northern Ireland Scanning data, December 31, 2017.

The Italian Yogurt Market

The total Italian yogurt market was valued at €1.37 billion for the year ended December 31, 2017 and experienced a sales decline of 1.3% both in value and in volume as compared to the year ended December 31, 2016. In this market, FAGE had a sales decrease of 0.4% in value but continued to grow in volume with a sales increase of 2.6% (IRI data) as compared to the year ended December 31, 2016, increasing its share to 8.0% of the total Italian yogurt market with respect to sales in value.

With a 23.5% share for the year ended December 31, 2017, our *FAGE® Total®* brand is the leader in the Italian plain yogurt market with respect to sales in value, which accounts for 14.8% of the total market and is made of two distinct product categories: the full-fat category, representing approximately 50%, and the low-fat category, accounting for the remaining 50%. With a share of 8.5% for the year ended December 31, 2017, our *FAGE® Fruyo®* brand is the fifth-largest in the Italian fruit yogurt market. Such market is divided into two categories: full-fat (accounting for 68%) and low-fat (accounting for 32%). *FAGE® Fruyo®* 0% is the second largest fruit yogurt in the low-fat category. *FAGE® Fruyo®* Classic has a value share of 3.7% in the full-fat category. With a share of 13.5%, our *FAGE® Total® Split Cup* brand is the second-ranked brand in the Italian two-compartment yogurt market. The two-compartment yogurt segment accounts for 7.4% of the total Italian market.

In the Italian strained yogurt segment, where FAGE is the historical leader, such segment continued its positive sales trend in 2017, showing an increase in sales value of 4.3% and accounting for approximately 12% of the Italian market with respect to total sales in value, equal to €170.1 million.

The following table presents the size and growth rates of the Italian yogurt and dairy desserts markets by volume and value for the years ended December 31, 2015, 2016 and 2017.

	Volume			Value		
	2015	2016	2017	2015	2016	2017
		(metric tons)			(€ thousands)	
Total Yogurt Market	349,878	349,158	344,555	1,402,510	1,384,684	1,367,366
% annual change		(0.2)%	(1.3)%		(1.3)%	(1.3)%
Categories in which we compete:						
Full-Fat White Yogurt Market	31,489	30,511	31,015	102,925	98,835	101,394
% annual change		(3.1)%	1.7%		(4.0)%	2.6%
Low-Fat White Yogurt Market	25,089	25,216	26,176	94,271	95,468	100,520
% annual change		0.5%	3.8%		1.3%	5.3%
Full-Fat Fruit Yogurt Market	115,208	112,601	110,467	389,238	377,916	376,185
% annual change		(2.3)%	(1.9)%		(2.9)%	(0.5)%
Low-Fat Fruit Yogurt Market	48,512	47,826	46,132	196,474	193,429	180,989
% annual change		(1.4)%	(3.5)%		(1.5)%	(6.4)%
Two-Compartment Yogurt Market	19,639	20,081	20,000	103,181	101,600	100,849
% annual change		2.3%	(0.4)%		(1.5)%	(0.7)%
Dairy Desserts Market	26,229	26,456	26,467	146,059	144,970	146,490
% annual change		0.9%	0.04%		(0.7)%	1.0%

Source: IRI Scanning data, December 31, 2017.

FAGE slightly increased its value share (0.1 pts) in 2017 as compared to the year ended December 31, 2016, overcoming Yomo and behind Vipiteno with an 8.2% market share for the year ended December 31, 2017. Brands of Müller and private label products increased their shares in 2017 as compared to 2016, with shares of 13.7% and 12.2%, respectively, while the market leader Danone's share has decreased from 25.6% in 2016 to 23.7% in 2017.

Our main competitors in the Italian plain yogurt market are Latteria Vipiteno, private label producers and Müller. Our main competitors in the Italian fruit yogurt market are Yomo, Latteria Vipiteno, certain private label producers, Müller and Danone. In the Italian dairy desserts market, Müller is our primary competitor. The following tables present the main participants in the Italian yogurt market, together with their market positions in value and volume terms by product category for the year ended December 31, 2017.

VALUE MARKET SHARES	Total Yogurt Market	Low-Fat White Market	Full-Fat White Market	Low-Fat Fruit Market	Full-Fat Fruit Market	Two Compartment Market
FAGE………………..	#5 8.0%	#1 34.8%	#4 12.4%	#2 18.9%	#8 3.7%	#2 13.5%
Danone……………….	#1 23.7%	#7 2.1%	- -	#3 16.6%	- -	- -
Müller………………..	#2 13.7%	#4 10.6%	#3 17.2%	#5 7.5%	#2 18.1%	#1 67.0%
Latteria Vipiteno…….	#4 8.2%	#3 15.3%	#1 20.0%	#6 6.7%	#3 16.9%	#6 1.4%
Yomo…………………	#6 7.6%	#5 3.7%	#19 0.6%	#4 8.7%	#1 18.8%	#12 0.4%
Granarolo…………....	#12 1.6%	#26 0.3%	#6 3.9%	- -	#9 3.5%	#5 1.4%
Parmalat……………..	#7 3.1%	#21 0.4%	- -	#12 3.0%	#5 5.0%	- -
Mila……….………….	#8 3.0%	#9 1.9%	#8 1.7%	#11 3.1%	#7 3.7%	#4 6.0%
Private Labels………..	#3 12.2%	#2 17.7%	#2 19.2%	#1 20.4%	#4 13.5%	#3 9.4%

VOLUME MARKET SHARES	Total Yogurt Market	Low-Fat White Market	Full-Fat White Market	Low-Fat Fruit Market	Full-Fat Fruit Market	Two Compartment Market
FAGE………………..	#6 4.4%	#3 19.5%	#4 5.9%	#3 10.1%	#9 1.6%	#3 8.6%
Danone……………….	#1 19.2%	#11 1.2%	- -	#2 14.9%	- -	- -
Müller………………..	#3 15.0%	#4 13.4%	#3 19.3%	#6 7.6%	#1 19.6%	#1 70.1%
Latteria Vipiteno…….	#4 10.4%	#2 19.6%	#2 20.8%	#4 9.2%	#2 17.8%	#5 1.2%
Yomo………………....	#5 7.2%	#5 2.7%	#21 0.5%	#5 9.1%	#4 16.0%	#12 0.0%
Granarolo……………	#12 1.6%	#30 0.3%	#6 3.2%	- -	#7 3.4%	#6 0.8%
Parmalat……………..	#8 3.7%	#22 0.5%	- -	#7 4.6%	#5 6.1%	- -
Mila…………….…….	#7 3.8%	#6 2.5%	#8 1.9%	#8 4.5%	#6 4.4%	#4 6.4%
Private Labels………..	#2 16.2%	#1 24.0%	#1 24.0%	#1 26.6%	#3 16.2%	#2 11.6%

Source: IRI Scanning data, December 31, 2017.

The Greek Yogurt Market

In Greece, the dairy market consists of five principal product categories: yogurt, dairy desserts, ultra high temperature (UHT) pasteurized milk and evaporated milk and milk creams, refrigerated milk (fresh and extended shelf life (ESL) milk) and cheese. Within these product categories, we focus primarily on the yogurt market. The Greek yogurt market was valued at approximately € 259 million for the twelve months ended November 30, 2017. We hold the leading position in the Greek yogurt market.

The following table presents the size and growth rates of the Greek yogurt market (not including traditional yogurt, *i.e.* yogurt with a layer of fat on top) by volume and value for the twelve months ended November 30, 2015, 2016 and 2017.

	Volume			**Value**		
	Twelve months ended November 30,			**Twelve months ended November 30,**		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**
		(metric tons)			**(€ thousands)**	
Yogurt........................	68,068	64,367	64,270	285,893	266,605	258,852
% annual change.........		(5.4)%	(0.2)%		(6.7)%	(2.9)%

Source: Nielsen MarketTrack, December 2014-November 2017. Nielsen survey figures are derived by extrapolation from a sample of an estimated 85% of the Greek yogurt market (not including traditional yogurt, *i.e.* yogurt with a layer of fat on top).

Yogurt has traditionally been a staple of the Greek diet. For the twelve months ended November 30, 2017, the Greek yogurt market (not including traditional yogurt) was approximately 64,270 metric tons in volume and approximately €259 million in value, representing a decrease of approximately 0.2% and 2.9%, respectively, compared to the twelve months ended November 30, 2016. Despite adverse economic conditions, Greece continues to have a high per capita rate of yogurt consumption (9.8 kg/year). In contrast to other countries where yogurt is typically only a dessert or breakfast product, in Greece it is mainly consumed as a stand-alone snack or as part of a meal. In recent years, the Greek yogurt market experienced decreases in terms of volume with an estimated average annual decrease of approximately 1.9 % between 2015 and 2017. Over this same period, the value of the total Greek yogurt market is estimated to have decreased by nearly 3,3 % annually. The market trend in 2017 of declining volume of yogurt sales continued in the twelve months ended November 30, 2017. However, the trend began to reverse in the second half of the year due to the acquisition of former Marinopoulos stores by Sklavenitis Group (Ellinikes Yperagores Sklavenitis).

The Greek yogurt market is very competitive. Our principal competitors are Kri-Kri and Vivartia S.A. (formerly Delta). We also compete with various private labels, Olympos, Dodoni, Mevgal, Dodoni, Friesland/Campina, Danone, Farma Koukaki and a number of other regional and local dairy businesses, as well as other foreign dairy companies.

The following table presents the main participants in the Greek yogurt market, together with their market positions by volume and value for the twelve months ended November 30, 2017.

	Yogurt (Volume) *	**Yogurt (Value) ***
FAGE……	#1 21.4%	#1 24.0%
Kri-Kri …….	#2 13.7%	#3 12.8%
Vivartia ……	#3 12.4%	#2 16.8%
Private Labels……..	#4 12.3%	#5 7.6%
Olympos……	#5 8.3%	#4 9.5%
Dodoni……..	#6 8.0%	#6 6.3%
Mevgal……..…	#7 6.2%	#7 6.3%
Friesland/Campina…….	#8 4.1%	#9 3.7%
Danone…….	#9 2.7%	#8 4.0%
Farma Koukaki …….	#10 2.1%	#10 2.0%
	91.2%	93.0%

Source: Nielsen MarketTrack, annualized figures for all bi-monthly periods within the twelve months ended November 30, 2017.

*The figures refer to branded yogurt (including drinking and sealed yogurt, but not including traditional yogurt).

BUSINESS

Overview

We are a leading international dairy company with a focus on yogurt. We have significant sales in the U.S. yogurt market, growing international sales outside of the United States, and leading market positions in the Italy, U.K. and Greek yogurt markets. We have grown from our origins in Greece in 1926 to become an international company with sales in approximately 44 countries in Europe, the Americas, Asia and Africa. For the year ended December 31, 2017, we generated sales of $619.6 million and EBITDA of $153.4 million.

From 2013 to 2017, we had a five-year revenue CAGR of 2.4% and an EBITDA CAGR of 11.7%. This growth is attributable to the combined effect of the growth in the overall yogurt market, the favorable trend towards consumer preferences for our product categories and the gain of market share from our competitors. We have also benefited from high and improving EBITDA margins that increased from 10.4% for the year ended December 31, 2013 to 24.7% for the year ended December 31, 2017 and which, together with the growth in sales, resulted in an increase in EBITDA from $59.7 million for the year ended December 31, 2013 to $153.4 million for the year ended December 31, 2017. Since completing construction of our U.S. manufacturing facility, we have benefited from relatively modest maintenance capital expenditure and net working capital requirements, which has led to strong free cash flow generation.

We market, advertise and sell our yogurt worldwide under the *FAGE® Total®* brand. We believe that this highly recognized brand conveys an image of superior taste, quality and authenticity and enables us to enter new markets, expand our business in existing markets and bring new products to market. Our yogurt brand is the fourth largest yogurt brand in the United States in terms of sales, and our plain yogurt is the leading plain yogurt in the U.S. market in terms of sales. For the year ended December 31, 2017, approximately 64.0% of our sales and 60.0% of our EBITDA were generated in the United States and 36.0% of our sales and 40.0% of our EBITDA were generated in Europe, primarily in the United Kingdom, Italy and Greece. For the year ended December 31, 2017, our sales breakdown by geography was 64.0% in the United States, 21.0% in Europe (mainly the United Kingdom and Italy) and other markets, and 15.0% in Greece.

The products that we manufacture are produced in our state-of-the-art, highly automated facilities in the United States and Greece. Our U.S. manufacturing facility, located in Johnstown, New York, started commercial production in April 2008 and is the largest of our facilities in terms of production capacity. It manufactures yogurt products for the U.S. market and the rest of the Americas. We have two facilities in Greece: one for yogurt products and a second for cheese products. Our total number of full-time employees as of December 31, 2017 was approximately 1,026. We distribute our products to approximately 300 grocery store chains, which sell *FAGE®* products in approximately 50,000 of their stores in approximately 44 countries, primarily in the United States and throughout Europe. We also sell our products to bakeries, confectionaries, dairy stores and other smaller convenience stores.

For the year ended December 31, 2016, we had sales of $619.6 million and EBITDA of $153.4 million. Sales and EBITDA for the year ended December 31, 2016 amounted to $653.4 million and $141.6 million, respectively.

As we continue to grow our business and increase our sales volumes in Europe, particularly in the United Kingdom and Italy, we plan to supplement our production capacity at our Greek facilities with additional production capacity in Europe by constructing our New Manufacturing Facility in Luxembourg. We plan to employ the same state-of-the-art technology and processes in the New Manufacturing Facility that we use in our U.S. production facility. When fully operational, we anticipate that the New Manufacturing Facility initially will contribute an additional 40,000 tons of yogurt production capacity annually. The completion date of the New Manufacturing Facility cannot be determined due in part to delays in securing the required environmental licenses from the Luxembourg authorities.

The FAGE Group has been continuously owned since it was founded in 1926 by the family of Mr. Athanassios Filippou. FAGE International is a corporation organized under the laws of the Grand Duchy of Luxembourg. FAGE USA is a corporation organized under the laws of the State of New York and an indirect wholly owned subsidiary of FAGE International.

Competitive Strengths

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

Strong Trademark and Brand Image. We believe the *FAGE® Total®* trademark conveys an image of superior taste, quality and authenticity that has allowed us to reinforce and expand our leading positions in the yogurt market in the United States, Greece and other international markets. We believe that we pioneered the Greek yogurt market by being the first company to introduce branded yogurt products in Greece and our brand has been instrumental in changing consumer preferences and driving the growth of this market internationally. We have been recognized in an October 2014 survey conducted by Consumer Reports® for the top quality of our products. Out of 27 plain and vanilla Greek yogurts that were evaluated in this survey, *FAGE® Total 2% Fat* yogurt, *FAGE® Total®* yogurt and *FAGE® Total® 0%* yogurt ranked first, second and seventh, respectively, for plain Greek yogurts and *FAGE® Fruyo® Nonfat* yogurt ranked second for vanilla Greek yogurts.

Distinctive Products of Superior Quality. We believe that our products are recognized by consumers for their superior quality and taste. This reputation for product quality has been built during our 90-year history through advanced technical expertise and significant investment in sophisticated production facilities. We offer some of the most distinctively Greek yogurt products. We believe that our strained yogurt, which is produced using our own proprietary recipe and process, has a fuller, richer taste and a thicker texture than that of other yogurts sold in the United States and Europe. We believe that our superior product quality and distinctive product offering has allowed us to expand internationally and will continue to provide growth opportunities in international markets. In addition to our premium product positioning, we have a strong focus on innovation, with a history of innovations in packaging, flavors and ingredients, such as our *FAGE® Crossovers*™ range, which was launched in the United States in 2016 and features a number of novel flavor combinations.

Leading Positions in Core Markets. We have category-leading positions in our core markets of the United States, Italy, the United Kingdom and Greece.

- In the United States, we are the fourth largest producer of branded yogurt overall and the number one producer of plain branded yogurt in terms of sales, with a market share of approximately 29.0% in that segment.
- In Italy, we are the number one plain yogurt producer overall in terms of sales.
- In the United Kingdom, we are the number one Greek, Greek-style or Natural yogurt producer in terms of sales.
- We are the number one yogurt producer in Greece in terms of sales.

State-of-the-Art Production Facilities and Processes. Between January 1, 2013 and December 31, 2017, we made cumulative capital investments of $305.5 million, largely financed through internal cash flows and proceeds of the 2020 Senior Notes and the Senior Notes, including an investment of $235.5 million for the expansion of the production facility in the United States, which started commercial production in April 2008. Our U.S. manufacturing facility currently has capacity to produce 160,000 tons of yogurt annually, which we estimate will enable us to meet the growing demand for our products for at least the next five years and further optimize our production costs. Our capital expenditure and investment program as well as our active management of our entire manufacturing footprint have allowed us to benefit from higher productivity, lower production costs and improved operating efficiencies, as increased automation and greater capacity utilization have lowered our per unit production costs. We believe that our production processes afford us a competitive advantage as they enable us to produce distinctive products of the highest quality. We protect our manufacturing know-how vigorously and invest extensively in our people to ensure that they follow the highest standards of production.

Strong Growth in Sales, Margins and Operating Cash Flows. From 2013 to 2017, we delivered strong growth in sales, margins and operating cash flow. Our sales have increased from $574.8 million in 2013 to $619.6 million in 2017, a five-year CAGR of 2.4%, which is attributable to the combined effect of the growth in the overall yogurt market, the favorable trend towards healthier eating habits and the gain of market share from our competitors. Our EBITDA margins have increased from 10.4% for the year ended December 31, 2013 to 24.7% for the year ended December 31, 2017 and which, together with the growth in sales, resulted in an increase in EBITDA from $59.7 million for the year ended December 31, 2013 to $153.4 million for the year ended December 31, 2017, a five-year CAGR of 11.7%. This margin expansion is attributable to a number of factors, including: an improvement in product mix with increasing contributions of yogurt sales and decreasing concentrations of milk and other lower-margin products in Greece in 2015; a reduction in raw material prices in both the United States and Europe, as a result of a favorable shift in the competitive landscape in the United States and the suspension of dairy quotas in Northern Europe; the successful implementation of product price increases; and lower production costs in Greece and the United States due to operating efficiencies. Since we completed the construction of our U.S. facility in 2008, our business has benefited from relatively modest maintenance capital expenditure and net working capital requirements, which have led to strong free cash flow generation in recent years.

Strength of Management. We are owned and strategically led by the Filippou family, which has been active in the dairy industry for the past 91 years. The Filippou family has successfully introduced several innovative trends in the dairy industry, particularly over the last 30 years. For example, the Filippou family developed the packaged yogurt, one of the most profitable products in the Greek dairy market. Our present management team has made strategic decisions to support and strengthen our competitive position and profitability, and has demonstrated leadership in expanding the FAGE Group from its origins in Greece to international markets, particularly the United States, the United Kingdom, Italy and Germany, including the successful implementation of the Group's new production facilities. Our strong corporate culture and loyal shareholders, management and employees have enabled us to successfully weather significant macroeconomic challenges and to continue to expand our business over our nine-decade history.

Business Strategy

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

Grow Our Business in the United States. Since we introduced our *FAGE® Total®* product line in the United States in 1998, consumers have responded very favorably to this authentic Greek yogurt and sales have grown considerably. Our sales volume in the United States has grown from 8,896 tons in 2007 to 83,777 tons in 2017. Based on our experience with yogurt sales in the United States in the past 20 years, management believes that there is growth potential for our yogurt products in the U.S. market through the introduction of new products and increased product penetration and distribution. Additionally, based on kilograms of yogurt consumed per capita in 2017, the U.S. market consumed yogurt in significantly lower amounts than Europe and Canada. On this basis, we believe that there is scope for growth in the U.S. market. We believe we are well-positioned to capitalize on U.S. demand for yogurt products. Since January 1, 2008, our cumulative investment in our state-of-the-art, highly automated production facility in the United States, which started commercial production in April 2008, amounted to $420 million as of December 31, 2017. Our production capacity at Johnstown has reached a total of approximately 160,000 tons of yogurt annually. We believe that our U.S. plant's production capability and standards are among the highest in the dairy industry, both in terms of technology and operating efficiency.

Expand Production Capacity and Grow Our Business in Europe and Other International Markets. As we continue to grow our business and increase our sales volumes in Europe, particularly in the United Kingdom and Italy, we plan to supplement our production capacity at our Greek facilities with additional production capacity in Europe by constructing our New Manufacturing Facility in Luxembourg. We intend to employ the same state-of-the-art technology and processes in the New Manufacturing Facility that we use in our U.S. production facility. We expect to invest approximately $170.0 million to construct the New Manufacturing Facility, all or substantially all of which will be funded through our operating cash flows. When fully operational, we expect that the New Manufacturing Facility initially will contribute an additional 40,000 tons of yogurt production capacity annually. Pending completion of the New Manufacturing Facility, production at our yogurt facility in Greece is increasing in order to accommodate growing European demand. We own our distribution units in the United Kingdom, Germany and Italy and we plan to continue making investments to streamline the production and distribution of our products internationally. We also plan to continue to grow our activities in other international markets and intend to continue to actively pursue opportunities to introduce our products to new geographic areas.

Continue to Develop, Launch and Promote New and Innovative Product Lines. Our product development effort will be focused on further expanding our product offerings in the yogurt market by introducing new, higher-margin yogurt products and launching new fruit yogurt products. For example, in 2016 we launched our new *FAGE® Crossovers*™ yogurt brand, a two-compartment offering that includes a blended yogurt and dry ingredients for mixing, which we market as "chef-level snacking" due to the use of high-quality ingredients combined in innovative ways.

Further Improve Efficiency and Profitability. Our management is committed to improving the efficiency of our production and distribution processes in order to enhance our profitability. Production at our U.S. facility has significantly enhanced the profitability of our U.S. operations. We have achieved significant savings by re-engineering our Greek production facilities and by consolidating our raw milk supply chain and rationalizing our product mix. We believe that the New Manufacturing Facility will contribute to further margin improvements through lower production costs and transportation costs as compared to our existing Greek facilities. We have also enhanced efficiency by negotiating more favorable terms with our suppliers, reducing other costs of sales and eliminating lower-margin products from our product portfolio. As part of this effort, we have ceased the production and distribution of certain of our smaller product lines in favor of higher-margin products with broader appeal in different markets. We plan to further develop our product offering and promote higher-margin products.

Company History

We are owned and strategically led by the Filippou family, which has been involved with the Greek dairy industry for the past 91 years. Today, third-generation members of the Filippou family run and manage our operations and lead our expansion in international markets. The FAGE Group is the successor to a business founded in 1926 by the establishment of the first dairy shop in Athens by the family of Mr. Athanassios Filippou, the grandfather of today's Chief Executive Officer and Chairman. In 1954, Mr. Ioannis Filippou, son of Mr. Athanassios Filippou, entered the family business and helped to create the first wholesale distribution network for yogurt. By 1964, the first yogurt and pastry production facility in Galatsi, Athens was founded by the two sons of Mr. Athanassios Filippou, Messrs. Ioannis and Kyriakos Filippou. In 1975, the yogurt plant was relocated from Galatsi to the property that we own at Metamorfossi in Attica, where our largest production facility in Greece remains to this day.

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

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

In June 2000, FAGE USA Holdings, Inc. (formerly FAGE USA, Corp.) was incorporated as a wholly owned subsidiary of FAGE Greece, which was then the parent company of the FAGE Group, to import, distribute and promote *FAGE® Total®* in the U.S. market. After only four years of sales in the United States and with sales of 2,146 tons of imported yogurt in 2004, we saw significant growth potential for our yogurt products in the U.S. market. In late 2004, we decided to invest in new manufacturing capacity in the United States in order to meet current and future demand and increase the profitability of our U.S. sales through the elimination of transportation costs and import duties. In February 2005, we established FAGE USA Dairy Industry, Inc., a wholly owned subsidiary of FAGE USA Holdings, Inc., to build and operate a state-of-the-art yogurt manufacturing facility in Johnstown, New York. Our initial plan was to invest $33.0 million, to build a facility with an annual capacity of 6,000 tons. While we were designing and constructing the new facility, U.S. sales growth and customer feedback were so strong that our management team instructed our engineers to increase the facility's capacity, first to 12,000 tons and then gradually to its current capacity of 160,000 tons. The facility started commercial production in April 2008. Since June 2008, all of the yogurt that we sell in the United States has been produced at our manufacturing facility in Johnstown, New York.

In 2011, we launched our *FAGE® Fruyo®* yogurt brand, a strained yogurt with fruit pieces blended in that is available in several fruit flavors in non-fat, low-fat and full-fat varieties, to respond to consumer demand for thicker and tastier fruit yogurt.

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 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. ("FAGE International").

Products

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

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

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

Most recently, in 2016, we launched our new *FAGE® Crossovers*™ yogurt brand, a two-compartment offering that includes a blended yogurt and dry ingredients for mixing, which we market as "chef-level snacking" due to the use of high-quality ingredients combined in innovative ways.

Sales and Marketing

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

The largest part of our advertising expenditure is for TV advertising and we also invest in print, cinema and radio advertising. Beginning in 2011, we have actively engaged in Internet social media, with a focus on Facebook and Instagram, and also in digital advertising. As of 2016, our Facebook page has more than 2.0 million fans globally. In 2013, we launched separate websites for each of our export countries, so that consumers around the world have access to updated information about our products as well as ideas for cooking and healthy living. In 2015, we launched a new international TV campaign for *FAGE® Total®* with the slogan *"nothing more. never less."* This campaign was aired simultaneously in the United States, the United Kingdom, Italy and Greece and was designed to celebrate the simplicity, versatility and premium quality of our product.

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

To promote international sales of our yogurt products in countries other than the United States, Italy, the United Kingdom, Greece and Germany, we rely on independent sales representatives and distributors in approximately 38 countries. FAGE yogurt is marketed as authentic Greek recipe strained yogurt, made with FAGE's proprietary method using only milk and FAGE-made yogurt cultures, that is of superior taste, quality and authenticity.

Customers

We distribute our products to approximately 300 grocery store chains, which sell *FAGE®* products in approximately 50,000 of their stores in approximately 44 countries, primarily in the United States and throughout Europe. We also sell our products to bakeries, confectionaries, dairy stores and other smaller convenience stores. No single customer accounted for more than 8.2% of our sales in 2017. We believe that the wide availability of our products enhances our strong brand image, which further assists in maintaining consumer demand for *FAGE®* products.

Distribution

We distribute our products to the U.S. market from our U.S. production facility directly to regional and national grocery store chains and warehouse chains and indirectly, through national and regional grocery distributors, to independent and local stores. Deliveries are arranged with common carriers.

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

We distribute our products to other international markets through our own distribution units in the United Kingdom, Italy and Germany and through sales representatives and distributors in approximately 38 other countries. Products sold to our customers outside of the Americas and Greece are shipped from Greece and delivered to approximately 25,000 retail outlets in the countries of destination.

Suppliers and Raw Materials

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

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

Competition

We face competition from a number of different manufacturers of varying sizes in the United States, Italy, the United Kingdom, Greece and throughout the world. Our principal competitors all have substantial financial, marketing and other resources. Competition is based on product innovation, price, product quality, brand recognition and loyalty, effectiveness of marketing, promotional activity, and the ability to identify and satisfy consumer preferences. Our principal strategies for competing include product innovation based on consumer feedback and continuous research and development, superior product quality, innovative advertising, product promotion and an efficient supply chain and price. In most product categories, we compete not only with other widely advertised branded products, but also with regional brands and with generic and private label products that are generally sold at lower prices.

Governmental Regulation

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

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

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

We are also subject to certain employee safety regulations, including regulations issued pursuant to the U.S. Occupational Safety and Health Act. These regulations require us to comply with certain manufacturing safety standards to protect our employees from accidents. We believe that we are in material compliance with all employee safety regulations applicable to our business.

Environmental Matters

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

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

Employees

Our total number of full-time employees as of December 31, 2017 was approximately 1,026. We promote the recruitment, development and retention of well-qualified managers and employees. U.S., Greek, U.K., German, Luxembourg and Italian legislation provides for mandatory minimum wage levels for our employees. Pursuant to our agreement with the union representing our Greek employees, we typically pay our employees more than the legislation requires and provide certain additional employee benefits. We believe that our relationship with our employees is good and we have not experienced any work stoppages due to labor unrest in the last five years.

The following table sets forth a breakdown of employees by main category of activity:

	Number of Employees
Production process	667
General and administrative	124
Selling and distribution	235
	1,026

Research and Development

We place significant emphasis on our research and development activities. Our Quality Assurance and Research and Development (“QARD”) division is staffed by 54 employees who work in four laboratories in three different locations, with our main QARD facility located at our Athens plant. Most of our QARD employees have many years of experience in the dairy sector and some have advanced degrees. The QARD director reports directly to our Chief Executive Officer.

Our QARD activities include development of new products as well as regular review of product quality, safety parameters and legal compliance for existing products. Over the last five years, we have developed approximately 100 new product variants of yogurt, cheese, milk creams and dairy desserts. Based on our experience, we expect to be able to develop approximately 20 new product varieties per year. We continuously research new ingredients and alternative sources of supplies to improve the quality of our products and manage our costs. Our QARD division also develops and implements food safety and manufacturing and quality assurance programs for our production lines in accordance with international standards, as audited by accredited certification organizations. Such quality assurance programs were instrumental in the extension of our production technology for our strained yogurt product line in our U.S. facility.

Certifications

All of our production facilities maintain certain certifications according to relevant standards. For example, our Athens plant maintains certifications according to the following standards, among others:

- Quality Management System ISO 9001;
- Food Safety Management System ISO 22000; and
- Food Safety and Quality System IFS FOOD.

Our U.S. facility is certified according to Safe Quality Foods standard SQF Level 2. Both IFS FOOD and SQF Level 2 are recognized by the Global Food Safety Initiative (GFSI).

Trademarks

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

Properties

The following table sets forth our principal owned properties:

Location	Approximate Building Area (in square meters)
Metamorfossi, Athens (Yogurt Facility)	52,729
Johnstown Industrial Park, Johnstown, New York, U.S.A. (Yogurt Facility)	40,035
Trikala (Cheese Facility)	4,095
Thessaloniki (Distribution Facility)	3,352
Luxembourg (Land)	104,283

Our main Greek facility in Metamorfossi, Athens, houses our principal yogurt production facilities. As of December 31, 2017, we also leased 11 properties, of which three are in Greece, two are in the United States, two are in the United Kingdom, one is in Italy, one is in Luxembourg, one is in France and one is in Germany. These leased properties consist primarily of warehouses and office space. Most of the commercial leases will expire between 2018 and 2022, subject to Greek statutory provisions that enable commercial and industrial tenants to extend the contractual term of a lease for a period of 6 to 12 years in total.

Insurance

We maintain the types and amounts of insurance coverage that we believe are consistent with customary industry practices in the jurisdictions in which we operate and consider our insurance coverage to be adequate for our business. Our insurance policies cover product liability, employee-related accidents and injuries, property damage, machinery breakdowns, fixed assets, facilities and liability deriving from our activities.

Legal Proceedings

From time to time, lawsuits have been filed against FAGE Greece by milk producers claiming damages and loss of income due to alleged violations of the rules of Greek anti-trust law relating to FAGE Greece's case with the Hellenic Competition Commission, which was irrevocably closed in 2013. There is currently one of these cases pending before the Court of Appeal of Athens and one pending before the Supreme Court of Greece, which the Group believes are entirely without merit.

We are, from time to time, involved in various other legal proceedings incidental to the conduct of our business. Management does not believe that the outcome of any of such current legal proceedings will have a material adverse effect on our financial condition or results of operations.

MANAGEMENT

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

Name	Age	Position
Athanassios-Kyros Filippou	49	Chairman and Chief Operating Officer and Director
Athanassios Filippou	52	Vice Chairman and Chief Executive Officer and Director
Christos Koloventzos	63	Chief Financial Officer and Director
Alexios Alexopoulos	55	Chief Commercial Officer and Director
Spyridon Theodorou.................	51	Chief Engineering Officer and Director
Robert Shea	56	Director
Ioannis Ravanis	50	Director
Jeffrey Scipione.........................	47	Director
Spyridon Gianpapas	64	Director
Charalampos Krommydas	47	Director

Mr. Athanassios-Kyros Filippou has been the Chairman of the Board of Directors of FAGE International since its inception in September 2012 and Chief Operating Officer of FAGE International since December 2016. He is the Chairman of the Board of Directors of FAGE USA and, since December 20, 2012, the Vice Chairman and Chief Executive Officer of FAGE Greece. He was a Vice Chairman of FAGE Greece, the FAGE Group's former parent company, from 2006 to 2010, its Chairman of the Board of Directors from 2010 to 2012 and a Director since 1994. He also currently holds the position of Chairman of the Board of Directors of Hellenic Milk and Flour Industry S.A. ("Evga"), Mornos S.A. ("Mornos"), Palace S.A. ("Palace") and Agan S.A. ("Agan"). Previously, he served as the Chief Executive Officer of Evga until January 30, 2017, the Chief Executive Officer of Mornos until December 6, 2016 and the Chief Executive Officer of Agan until February 14, 2017. Earlier, he served as a director of Palace and its Vice Chairman from 2004 to 2011. He has served as a director of Dafnos S.A. since 2006 and its Vice Chairman since July 2011. He is the son of Mr. Kyriakos Filippou. See "Ownership of Share Capital" and "Related Party Transactions."

Mr. Athanassios Filippou has been Vice Chairman and Chief Executive Officer of FAGE International since its inception in September 2012. He is the Vice Chairman and Chief Executive Officer of FAGE USA. He was the Chief Executive Officer of FAGE Greece from 2006 to 2012 and a Director since 1994. He is the son of Mr. Ioannis Filippou. See "Ownership of Share Capital" and "Related Party Transactions."

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

Mr. Alexios Alexopoulos has been Chief Commercial Officer since December 2016 and a Director of FAGE International since February 2017. He was a Director of FAGE Greece from 2007 to 2016 and its Chief Commercial Officer from 2010 to 2016. He has been the President of FAGE Italia S.r.l. and the President of FAGE U.K. Limited since 2015. He previously held the positions of Marketing and Communication Director from 2002 to 2007 and Deputy Commercial Director from 2007 to 2010.

Mr. Spyridon Theodorou has been Chief Engineering Officer since January 2016 and a Director of FAGE International since February 2017. Previously he held various managerial positions in FAGE Greece's Technical Department since 1991.

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

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

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

Mr. Spyridon Gianpapas has been a Director of FAGE International since February 2017. He also has been the Executive Vice President, Quality Assurance, R&D, and Production and a Director of FAGE USA since 2014. He was the Chief Quality Assurance, R&D and Regional Plants Officer and a Director of FAGE Greece from 2006 to 2013. Previously he was the Quality Control, Research, and Development Manager and held various managerial positions at FAGE Greece from 1984 to 2006.

Mr. Charalampos Krommydas has been a Director of FAGE International since February 2017. He also has been the Chief Athens Plant Officer and a Director of FAGE Greece since October 2016. He previously held various managerial positions in FAGE Greece's Production and Logistics Department since 1997.

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

Name	Age	Position
Athanassios-Kyros Filippou	49	Chairman
Athanassios Filippou	52	Vice Chairman and Chief Executive Officer and a Director
Ioannis Ravanis	50	Executive Vice President, Manufacturing and Operations and a Director
Spyros Gianpapas	64	Executive Vice President, Quality Assurance, R&D, and Production and a Director
Robert Shea	56	Secretary, Chief Financial Officer and a Director
Jeffrey Scipione	47	Vice President of Sales & Marketing and a Director

The following table identifies each of the directors and executive officers of FAGE Greece. Directors are elected for a term of three years, which may be extended until the ordinary general meeting of shareholders that follows the end of this term, but cannot exceed four years. Officers hold office until their successors are elected and qualified. The address of each director and executive officer of FAGE Greece is 35 Hermou Street, 144 52, Metamorfossi, Athens, Greece.

Name	Age	Position
Kyriakos Filippou	79	Lifelong Honorary Chairman of the Board (non-executive Director)
Ioannis Filippou	82	Chairman of the Board
Dimitrios Filippou	49	Vice Chairman of the Board
Dimitra Filippou	76	Director (non-executive Director)
Charalampos Krommydas	47	Chief Athens Plant Officer and Director
Ioanna Skreki	63	Office Manager and Director
Emmanuel Papaefthimiou	67	Director

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

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

Mr. Ioannis Filippou is Chairman of the Board of FAGE Greece since December 2016. He had been FAGE Greece's Chairman or its Chief Executive Officer in alternate years from 1989 to 2005. He is the brother of Mr. Kyriakos Filippou. See "Ownership of Share Capital" and "Related Party Transactions."

Mr. Dimitrios Filippou is the Vice Chairman of the Board of FAGE Greece since December 2016 and was the Chairman of the Board of Directors of FAGE Greece from December 2012 to December 2016. He currently holds the positions of Chairman of the Board of Directors and Chief Executive Officer of HQF and Chairman of the Board and Chief Executive Officer of Vis. He is the son of Mr. Ioannis Filippou. See "Ownership of Share Capital" and "Related Party Transactions."

Mrs. Dimitra Filippou is a non-executive Director of FAGE Greece, a position she has held since 2002. She held the position of the Chairman of the Board of Directors of Palace from 2003 until October 2016. Mrs. Dimitra Filippou is the wife of Mr. Kyriakos Filippou. See "Ownership of Share Capital" and "Related Party Transactions."

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

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

Compensation of Directors and Executive Officers

We paid an aggregate of $13.4 million and $12.6 million for the years ended December 31, 2017 and 2016, respectively, to our executive officers and directors. We have no share option or other share-based compensation. Of these amounts, $9.2 million and $9.3 million have been paid to our shareholders and certain family members who are our affiliates in the years ended December 31, 2017 and 2016, respectively.

OWNERSHIP OF SHARE CAPITAL

FAGE International

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

FAGE USA

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

RELATED PARTY TRANSACTIONS

Transactions with Family-Owned Companies

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

Mornos S.A. ("Mornos"): We purchase plastic yogurt tubs, aluminum yogurt tub tops and other packaging products from Mornos. This company is controlled by a company owned by Mr. Athanassios-Kyros Filippou and members of his family. Mr. Athanassios Kyros Filippou is the Chairman of the Board of Directors of Mornos and was its Chief Executive Officer until December 6, 2016. Our purchases from Mornos totaled $14.8 million and $15.4 million for the years ended December 31, 2017 and 2016, respectively.

Vis S.A. ("Vis"): We purchase packaging materials from Vis, a public company that is listed on the Athens Exchange. Mr. Ioannis Filippou and Hellenic Quality Foods S.A. ("HQF") collectively owned 75.47% of Vis until November 2017 and we owned 7.098% of Vis until November 2017. Since November 2017, Mr. Ioannis Filippou and HQF collectively own 82.56% of Vis. Mr. Dimitrios Filippou is the Chairman of the Board and Chief Executive Officer of Vis. Our purchases from Vis totaled $1.6 million and $3.7 million for the years ended December 31, 2017 and 2016, respectively. On November 17, 2017 the Group sold its shares in Vis S. A. to HQF for $0.2 million.

Hellenic Quality Foods S.A.: HQF is a company 100% owned by members of Mr. Ioannis Filippou's family and a company that he beneficially owns. Mr. Dimitrios Filippou is the Chairman of the Board and Managing Director of HQF. HQF operates in the food industry and is also the controlling shareholder of Vis. We purchase packaging materials from HQF. Our purchases of packaging materials from HQF totaled $14.4 million and $16.0 million for the years ended December 31, 2017 and 2016.

Agan S.A. ("Agan"): Agan is a service company controlled by Mr. Athanassios Kyros Filippou. Mr. Athanassios-Kyros Filippou is the Chairman of the Board of Directors of Agan and was its Chief Executive Officer until February 14, 2017. Agan was renamed Evga Holdings S.A. in January 2018. Our purchases of packaging materials from Agan totaled $2.1 million and $8.6 million for the years ended December 31, 2017 and 2016, respectively.

Elbisco S.A. ("Elbisco"): Elbisco is an industrial and commercial food company controlled by members of Mr. Kyriakos Filippou's family. Mrs. Dimitra Filippou is the beneficial owner of the majority shareholder of Elbisco. On December 15, 2017, the Group sold its shares in Elbisco S.A. to Agan for $0.2 million.

Ioannis Nikolou ULP: Mr. Ioannis Nikolou is the brother-in-law of Mr. Ioannis Filippou and is one of our sales representatives. As such, he buys products from us at a discounted price and resells them at a marked-up price, with the difference being retained as his commission. We determine the discounts offered to and mark-ups charged by our sales representatives in a uniform manner. Purchases from us by Ioannis Nikolou totaled $0.1 million and $0.1 million for the years ended December 31, 2017 and 2016, respectively. Ioannis Nikolou derives a standard commission on resale of such purchased products.

G.S. Kostakopoulos & Associates: We engage the law firm G.S. Kostakopoulos & Associates for various legal services. Mr. Georgios Kostakopoulos, the managing partner of the firm, is the brother-in-law of Messrs. Ioannis and Kyriakos Filippou. Our payments to G.S. Kostakopoulos & Associates were approximately $0.3 million and $0.3 million for the years ended December 31, 2017 and 2016, respectively.

Alpha Phi S.à r.l.: Alpha Phi S.à r.l. ("Alpha Phi") is a company owned by the Filippou family. It provides consulting services to the FAGE Group. Services provided to us by Alpha Phi for the years ended December 31, 2017 and 2016, amounted to $3.6 million and $3.6 million, respectively.

Theta Phi S.à r.l.: Theta Phi S.à r.l. ("Theta Phi") is a company owned by the Filippou family. It provides consulting services to the FAGE Group. Services provided to us by Theta Phi for the years ended December 31, 2017 and 2016, amounted to $3.6 million and $3.6 million, respectively.

Compensation to Family Members

In addition to the relationships described above, certain members of the Filippou family are directors of various entities that (i) are in the FAGE Group or (ii) provide various services to us. The aggregate compensation paid by the Group in this respect for the years ended December 31, 2017 and 2016, was $9.2 million and $9.3 million, respectively.

RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

a) Market Risk

(i) ***Interest Rate Risk:*** As of December 31, 2017, the Group had short-term borrowings amounting to $12.0 million at variable rates with a weighted average interest rate of 6.45%. As of December 31, 2016, we had short-term borrowings amounting to $5.3 million at variable rates with a weighted average interest rate of 6.80%. We do not use derivative financial instruments to hedge the interest rate risk on our debt obligations

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

As of December 31, 2017, and 2016, approximately 35.5% and 35.1%, respectively, of our sales were denominated in currencies other than the presentation currency of the Group and 35.0% and 30.8%, respectively, of costs were denominated in foreign currencies. The following table demonstrates a model of the sensitivity to a change in the U.S. dollar and British pound exchange rate that is reasonable and possible, with all other variables held constant, of our profit/(loss) before tax and our equity.

		Increase/ decrease in foreign currency rate	Effect on profit/(loss) before tax	Effect on equity
		+5%	(581)	568
2017	Euro	-5%	581	(568)
		+5%	25	(10)
	GB pound	-5%	(25)	10
2016	Euro	+5%	536	1,300
		-5%	(536)	(1,300)
	GB pound	+5%	30	(20)
		-5%	(30)	20

(iii) ***Fair Value Risk:*** The carrying amounts reflected in the accompanying consolidated statement of financial position for cash and cash equivalents, trade and other receivables, trade and other payables and accrued and other current liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of available for sale financial assets in the accompanying consolidated statement of financial position reflect their fair value. The fair value of variable rate borrowings and other long-term liabilities approximate their carrying amounts. The fair value of the Senior Notes, at December 31, 2017 and 2016, amounted to $406.4 million and $419.4 million, respectively.

b) Credit Risk: Our maximum exposure to credit risk, due to the failure of counterparties to perform their obligations as at December 31, 2017 and 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 our customer base. We generally do not require collateral or other security to support customer receivables. There was no customer which accounted for more than 8.2% of our revenue or receivables in 2017.

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

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

The table below summarizes the maturity profiles of various financial liabilities as at December 31, 2017 and 2016, based on contractual undiscounted payments.

December 31, 2017	1 to 12 months	2 to 5 years	Over 5 years	Total
Interest bearing loans and borrowings	-	-	420,000	420,000
Interest accruing on Senior Notes due 2026	23,625	94,500	94,500	212,625
Trade, other payables and accruing interest	32,793	-	-	32,793
	56,418	94,500	514,500	665,418

December 31, 2016	1 to 12 months	2 to 5 years	Over 5 years	Total
Interest bearing loans and borrowings	-	-	420,000	420,000
Interest accruing on Senior Notes due 2020	23,625	94,500	109,266	227,391
Trade, other payables and accruing interest	42,900	-	-	42,900
	66,525	94,500	529,266	690,291

Capital Management

We manage our capital structure and make adjustments to it, in light of changes in economic conditions. We monitor capital using a gearing ratio, which is net debt divided by total equity plus net debt. We include within net debt interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. We fund our operating costs through cash from operations and short-term borrowings under various lines of credit maintained with several banks. As of December 31, 2017 and 2016, the available credit lines amounted to $47.0 million and $45.5 million, respectively.

Following is a table setting forth our capitalization as of December 31, 2017 and 2016.

	December 31,	
	2017	2016
Interest bearing loans and borrowings	410,949	410,165
Short-term borrowings	11,993	5,271
Trade accounts payable and due to related companies	23,803	33,211
Less cash and cash equivalents	(128,452)	(117,486)
Net debt	**318,293**	**331,161**
Total equity	**269,479**	**191,971**
Equity and net debt	**587,772**	**523,132**
Gearing ratio	**54.2%**	**63.3%**

Financial Instruments

Set forth below is a comparison by category of carrying amounts and fair values as of December 31, 2017 and 2016, of all of the financial instruments that are carried in the consolidated financial statements.

	Carrying amount		Fair value	
	December 31,		December 31,	
	2017	2016	2017	2016
	($ in thousands)			
Non-financial assets				
Land	73,968	41,981	73,968	41,981
Financial assets				
Cash and cash equivalents	128,452	117,486	128,452	117,486
Available-for-sale investments	106	593	106	593
Trade and other receivables	77,698	75,967	77,698	75,967
Due from related companies	828	504	828	504
Financial liabilities				
Interest-bearing loans and borrowings	410,949	410,165	406,350	419,441
Short-term borrowings	11,993	5,271	11,993	5,271
Trade accounts payables	22,841	32,257	22,841	32,257
Due to related companies	962	954	962	954
Accrued and other liabilities	29,028	36,258	29,028	36,258

Fair Value Hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Fair value		Fair value hierarchy
	2017	2016	
	($ in thousands)		
Financial assets			
Available-for-sale investments	-	335	Level 1
Available-for-sale investments	106	258	Level 2
Financial liabilities			
Fixed rate borrowings	406,350	419,441	Level 1

SECTION C- D

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Building a better
working world

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Independent auditor's report

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of FAGE International S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income/loss, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Law and standards are further described in the "responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Report of the Board of Directors but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The Report of the Board of Directors is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Werner Weynand

Luxembourg, 28 March 2018

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2017
(All amounts in thousands of U.S. dollars, except share and per share data)

		December 31,					
	Notes	**2017**			**2016**		
		Continuing Operations	**Discontinued Operations**	**Total results**	**Continuing Operations**	**Discontinued Operations**	**Total results**
Sales		619,629	-	619,629	646,439	6,922	653,361
Cost of sales		(325,977)	-	(325,977)	(328,631)	(5,277)	(333,908)
Gross profit		**293,652**	**-**	**293,652**	**317,808**	**1,645**	**319,453**
Selling, general and administrative expenses	(6)	(177,585)	-	(177,585)	(198,551)	(1,123)	(199,674)
Other income		1,033	-	1,033	704	297	1,001
Other expenses		(1,435)	-	(1,435)	(946)	(183)	(1,129)
OPERATING PROFIT FOR THE YEAR		**115,665**	**-**	**115,665**	**119,015**	**636**	**119,651**
Financial expenses	(7)	(25,326)	-	(25,326)	(66,183)	(7)	(66,190)
Financial income	(7)	141	-	141	72	2	74
Impairment loss	(3)	-	-	-	-	(1,105)	(1,105)
Loss on disposal of financial assets	(12)	(56)	-	(56)	-	-	-
Foreign exchange gains/(losses), net		7,122	-	7,122	(6,001)	-	(6,001)
PROFIT/(LOSS) FOR THE YEAR BEFORE INCOME TAXES		**97,546**	**-**	**97,546**	**46,903**	**(474)**	**46,429**
Income tax benefit/(expense)	(8)	(11,135)	- -	(11,135)	15,987	(912)	15,075
NET PROFIT/(LOSS)		**86,411**	**-**	**86,411**	**62,890**	**(1,386)**	**61,504**
Attributable to:		86,411		86,411	62,890	(1,386)	61,504
Equity holders of the parent		**86,411**	**-**	**86,411**	**62,890**	**(1,386)**	**61,504**
Earnings/(loss) per share							
Basic and diluted		86.41	-	86.41	62.89	(1.39)	61.50
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 consolidated financial statements.

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/ LOSS
FOR THE YEAR ENDED DECEMBER 31, 2017
(All amounts in thousands of U.S. dollars)

	Notes	Year ended December 31, 2017	2016
Net profit for the year		**86,411**	**61,504**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange gains/(losses) on translation of foreign operations	2.3(c)	14,764	(3,071)
Net unrealized gains on available for sale financial assets		-	31
Deferred income taxes on unrealized gains on available for sale financial assets	8	-	(9)
	12	-	22
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**14,764**	**(3,049)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans	22	(49)	(61)
Deferred income taxes on net actuarial gains/(losses)	8	11	18
		(38)	(43)
Devaluation of land at fair value	8	(4,909)	-
Income tax		1,424	-
		(3,485)	-
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(3,523)**	**(43)**
Other comprehensive income/(loss) for the year, net of deferred income taxes		**11,241**	**(3,092)**
Total comprehensive income/(loss) for the year, net of deferred income taxes		**97,652**	**58,412**
Attributable to:		97,652	58,412
Equity holders of the parent		**97,652**	**58,412**

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

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

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Non-Current Assets			
Property, plant and equipment	9	449,393	401,071
Intangible assets	10	1,830	2,060
Goodwill	11	3,171	2,827
Available for sale financial assets	12	106	93
Other non-current assets	13	468	570
Deferred income taxes	8	87,737	92,198
Total non-current assets		**542,705**	**498,819**
Current Assets:			
Inventories	14	39,763	38,270
Trade and other receivables	15	77,698	75,967
Due from related companies	16	828	504
Prepaid income taxes	8	225	2,057
Available for sale financial assets	12	-	500
Cash and cash equivalents	17	128,452	117,486
Total current assets		**246,966**	**234,784**
Assets held for sale	3	**-**	**3,258**
TOTAL ASSETS		**789,671**	**736,861**
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent Company			
Share capital	18	1,000	1,000
Share premium	18	18,778	30,778
Other reserves		459	459
Land revaluation surplus	9	33,583	37,068
Reversal of fixed assets statutory revaluation surplus	18	(44,410)	(44,410)
Legal, tax free and special reserves	19	37,528	37,545
Retained earnings		243,949	165,538
Other components of equity		(21,408)	(36,007)
Total Equity		**269,479**	**191,971**
Non-Current Liabilities			
Interest-bearing loans and borrowings	21	410,949	410,165
Provision for staff retirement indemnities	22	3,753	3,170
Deferred income taxes	8	39,461	55,424
Other non-current liabilities		-	29
Total non-current liabilities		**454,163**	**468,788**
Current Liabilities:			
Trade accounts payable	23	22,841	32,257
Due to related companies	16	962	954
Short-term borrowings	24	11,993	5,271
Income taxes payable		1,205	657
Accrued and other current liabilities	25	29,028	36,258
Total current liabilities		**66,029**	**75,397**
Total liabilities		**520,192**	**544,185**
Liabilities directly associated with the assets held for sale	3	**-**	**705**
TOTAL EQUITY AND LIABILITIES		**789,671**	**736,861**

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

FAGE INTERNATIONAL S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(All amounts in thousands of U.S. dollars)

	Share capital	Share premium	Land revaluation surplus	Reversal of fixed assets statutory revaluation surplus	Legal, tax free and special reserves	Other reserves	Retained earnings	Unrealized gains/(losses) on available for sale financial assets	Actuarial gains/ (losses)	Foreign exchange gains/ (losses)	Total 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 year	-	-	-	-	-	-	61,504	-			61,504
Other comprehensive income	-	-	-	-	-	-	-	22	(43)	(3,071)	(3,092)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**61,504**	**22**	**(43)**	**(3,071)**	**58,412**
Dividends	-	(20,000)	-	-	-	-	-	-	-	-	(20,000)
Distribution of special reserves	-	-	-	-	-	-	-	-	-	-	-
Increase of legal reserves	-	-	-	-	-	-	-	-	-	-	-
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 year	-	-	-	-	-	-	86,411	-	-	-	86,411
Other comprehensive income	-	-	(3,485)	-	-	-	-	-	(38)	14,764	11,241
Total comprehensive income	**-**	**-**	**(3,485)**	**-**	**-**	**-**	**86,411**	**-**	**(38)**	**14,764**	**97,652**
Dividends distribution	-	(12,000)	-	-	-	-	(8,000)	-	-	-	(20,000)
Sale of financial assets	-	-	-	-	(17)	-	-	(127)	-	-	(144)
Balance, December 31, 2017	**1,000**	**18,778**	**33,583**	**(44,410)**	**37,528**	**459**	**243,949**	**-**	**(288)**	**(21,120)**	**269,479**

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

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

	Notes	December 31, 2017	December 31, 2016
Profit before income taxes from continuing operations		97,546	46,903
Loss before income taxes from discontinued operations		-	(474)
		97,546	46,429
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	5	30,619	29,092
Provision for staff retirement indemnities	22	455	394
Provision for doubtful accounts receivable	15	200	1,455
Financial income	7	(109)	(33)
Financial expenses	7	25,326	66,170
Interest on financial leasing	7	-	20
(Gain)/loss from valuation of non-current assets on fair value	7	(32)	(41)
Loss on disposal of property, plant and equipment		(139)	60
Loss on disposal of financial assets		56	-
Impairment loss	3	-	1,105
Operating profit before working capital changes		**153,922**	**144,651**
(Increase)/Decrease in:			
Restricted cash	17	-	1,200
Inventories	14	(1,369)	(827)
Trade and other receivables	15	(1,931)	607
Due from related companies	16	(324)	12,771
Increase/(Decrease) in:			
Trade accounts payable	23	(9,482)	(6,704)
Due to related companies	16	8	45
Accrued and other current liabilities	25	(7,115)	3,600
Working capital changes		**(20,213)**	**10,692**
Income taxes paid	8	(20,684)	(24,949)
Payment of staff indemnities	22	(425)	(471)
(Increase)/decrease in other non-current assets	13	134	216
(Increase)/decrease in other non-current liabilities		(29)	(14)
Net Cash from Operating Activities		**112,705**	**130,125**
Investing Activities:			
Capital expenditure for property, plant and equipment	9	(69,843)	(29,071)
Additions to intangible assets	10	(363)	(180)
Proceeds from disposal of property, plant and equipment		2,328	285
Proceeds from disposal of financial assets		341	-
Interest and other related income received	7	109	33
Net Cash used in Investing Activities		**(67,428)**	**(28,933)**
Financing Activities:			
Proceeds from short and long-term borrowings		5,685	426,425
Repayments of short and long-term borrowings		-	(411,156)
Interest and early redemption cost paid	7	(25,175)	(56,532)
Dividends and share premium paid to equity holders of the parent		(20,000)	(20,000)
Net Cash used in Financing Activities		**(39,490)**	**(61,263)**
Net increase in cash and cash equivalents		**5,787**	**39,929**
Effect of exchange rates changes on cash		5,179	(690)
Cash and cash equivalents at beginning of year	17	117,486	78,247
Cash and cash equivalents at end of year	17	**128,452**	**117,486**

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

	December 31, 2017	December 31, 2016
Net Cash from Operating Activities	(359)	381
Net Cash used in Investing Activities	2,755	153
Net Cash used in Financing Activities	-	-
	2,396	**534**

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

1. CORPORATE INFORMATION:

FAGE International S.A. ("FAGE International") is a corporation organized under the laws of the Grand Duchy of Luxembourg on September 25, 2012. Its registered office is located at 5 rue des Primeurs, L-2361 Strassen, Grand Duchy of Luxembourg.
FAGE International has a share capital of $1,000 and is registered with the Luxembourg Register of Commerce and Companies under number B 171645.

References to the Group include, unless the context requires otherwise, FAGE International and its wholly owned subsidiaries consolidated therewith:

- FAGE USA Holdings, Inc., United States
- FAGE USA, Corp., United States
- FAGE USA Dairy Industry, Inc., United States
- FAGE U.K. Limited, United Kingdom
- FAGE Italia S.r.l., Italy
- FAGE Deutschland GmbH (in liquidation), Germany
- FAGE Dairy Industry S.A., Greece
- FAGE Commercial S.A. (Xylouris) and Zagas S.A., liquidated in 2015.

FAGE International operates principally in the United States, the Hellenic Republic, also known as Greece, and, directly or through its subsidiaries, elsewhere in Europe and the rest of the world.

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. See Note 11 for further details.

2. BASIS OF PRESENTATION:

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

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

The preparation of financial statements, in accordance with IFRS, requires the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies which have been adopted. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.5.

2.2 ***Basis of consolidation:*** The consolidated financial statements comprise the financial statements of FAGE International and its subsidiaries as at December 31, 2017.

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary,
- Derecognizes the carrying amount of any non-controlling interest,
- Derecognizes the cumulative translation differences, recorded in equity,
- Recognizes the fair value of the consideration received,
- Recognizes the fair value of any investment retained,

2.2 Basis of consolidation (continued)

- Recognizes any surplus or deficit in profit or loss and,
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.3 Summary of Significant Accounting Policies

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

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

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

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

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

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

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

(b) ***Investments in Associates:*** The Group's investments in other entities in which it exercises significant influence and are neither a subsidiary nor a joint venture are accounted for using the equity method. Under this method the investment in associates is initially recognized at cost and subsequently increased or decreased to recognize the investor's share of the profit or loss of the associate, changes in the investor's share of net assets of the associate since the acquisition. The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. When a change has been directly recognized in the equity of the associate, the Group recognizes its share of such change, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value.

(c) ***Functional and Presentation Currency:*** The Group's presentation currency is the U.S. dollar and, accordingly, the consolidated financial statements are presented in U.S. dollars which is also the parent company's functional currency.

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

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

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

2.3 Summary of Significant Accounting Policies (continued)

(c) Functional and Presentation Currency (continued)

The exchange rates used were as follows:
December 31, 2016: €1: $1.0541 GBP1: $1.2312
December 31, 2017: €1: $1.1993, GBP1: $1.3517
Year 2016 average: €1.1028 GBP1: $1.3407
Year 2017 average: €1.1370 GBP1: $1.2984

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

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

As at the reporting date, all consolidated statement of financial position accounts of those foreign subsidiaries are translated into U.S. dollars using the exchange rate in effect at the reporting date. Revenues and expenses are translated at the weighted average rate of exchange rate prevailing during the year. The exchange differences arising on translation for consolidation are recognized as a component of other comprehensive income/(loss), which amounted to $14,764 and $(3,071) for the years ended December 31, 2017 and 2016, respectively. Translation gains/ (losses) are reported in other reserves, a component of equity, which balance amounted to $(21,120) and $(35,884) at December 31, 2017 and 2016, respectively.

(d) ***Advertising Costs:*** All advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the consolidated statement of profit or loss. Advertising costs for the years ended December 31, 2017 and 2016, were $65,297 and $79,072, respectively (Note 6).

(e) ***Intangible Assets:*** Intangible assets consist of product development costs, the customer network and employment contract acquired through a business combination and software. Purchased intangible assets are capitalized at cost while those acquired through business combinations are capitalized at fair value at the date of acquisition. Following initial recognition, those intangibles are carried at cost less accumulated amortization and any accumulated impairment losses.

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

Classification	Annual Rates
Customer network	6.7%
Employment contract	25%
Product development costs	20%
Software costs	20%

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

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

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

2.3 Summary of Significant Accounting Policies (continued)

(g) ***Revenue Recognition:*** Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of discounts, rebates, and sales taxes or duty. The Group recognizes revenues, net of trade discounts and sales incentives, when the significant risks and rewards of ownership of the goods have passed to customers and can be reliably measured. Shipping and handling costs are classified as part of selling, general and administrative expenses. Such costs for the years ended December 31, 2017 and 2016, amounted to $40,422 and $48,434, respectively (Note 6). Furthermore, trade support actions that are generally invoiced to the Group by customers are accounted for as a reduction of sales rather than selling expenses.

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

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

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

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

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

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. See Note 9 for further details.

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

The rates used are as follows:

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

(j) ***Impairment of Non-financial assets:*** With the exception of goodwill which is tested for impairment on an annual basis, the carrying values of other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Whenever the carrying value of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized in the consolidated statement of profit or loss. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last

2.3 Summary of Significant Accounting Policies (continued)
(j) Impairment of Non-financial assets (continued)

impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

i) Financial Assets

Initial recognition and measurement of financial assets

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

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

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

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

Subsequent measurement of financial assets

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

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

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

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

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

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

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the financial position date. For investments where there

2.3 Summary of Significant Accounting Policies (continued)
(iv) Available-for-sale financial assets (continued)

is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

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

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

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

Impairment of financial assets

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

(i) Financial assets carried at amortized cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the

2.3 Summary of Significant Accounting Policies (continued)
(i) Financial assets carried at amortized cost (continued)

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

(ii) Available-for-sale financial assets

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

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

(iii) Financial Liabilities

Initial recognition and subsequent measurement of financial liabilities

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

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

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

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (continued)
(ii) Loans and borrowings (continued)

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

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

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

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

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

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

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

(l) Derivative financial instruments and hedge accounting

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

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

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

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the

2.3 Summary of Significant Accounting Policies (continued)

(l) Derivative financial instruments and hedge accounting (continued)

exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

(m) ***Inventories:*** Inventories are stated at the lower of cost or net realizable value. Cost of finished and semi-finished products includes all costs incurred in bringing inventories to their current location and state of manufacture and comprises raw materials, labor, an applicable amount of production overhead (based on normal operating capacity, but excludes borrowing costs) and packaging. The cost of raw materials and finished goods is determined based on the weighted average method. Net realizable value for finished goods is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The net realizable value for raw materials is the estimated replacement cost in the ordinary course of business.

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

(o) ***Cash and Cash Equivalents:*** The Group considers time deposits and other highly liquid investments with original maturity of three months or less, to be cash equivalents.

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

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

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

(q) ***Borrowing Costs:*** Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(r) ***Reserve for Staff Retirement Indemnities:*** Staff retirement obligations are calculated at the present value of the future retirement benefits deemed to have accrued at the reporting date, based on the employees earning retirement benefit rights steadily throughout the working period. The reserve for retirement obligations is calculated on the basis of financial and actuarial assumptions detailed in Note 22 and are determined using the projected unit credit actuarial valuation method. Net pension costs for the period are included in payroll in the consolidated statement of profit or loss.

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

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

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

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

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

2.3 Summary of Significant Accounting Policies (continued)

(s) Income Taxes (Current and Deferred): Current and deferred income taxes are computed based on the tax rates and tax laws that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Income tax expense consists of income taxes for the current year based on each entity's profits as adjusted in its tax returns, additional income taxes resulting from the audits of the tax authorities and deferred income taxes.

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

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future and there will be available taxable profit which will be used against temporary differences.

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

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

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

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

(t) Leases:

Group as a lessee

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

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

2.3 Summary of Significant Accounting Policies (continued)

(u) ***Provisions and Contingencies:*** Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the present value of the expenditure expected to be required to settle the obligation.
When the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability.

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

(v) ***Operating Segment Reporting:*** The Group produces dairy products. It operates primarily in Greece and the United States of America and has also certain foreign activities in other European Union countries. Due to the nature of the products and the manner in which they are marketed to customers, the business is operated and managed as one business segment distinguished between the European operations and the U.S. subsidiaries' operations. Intra-segment balances and transactions have been eliminated on consolidation.

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

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

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

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

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

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

2.4 Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended IFRSs effective as of January 1, 2017. These changes are as follows:

The Group has adopted the following amended IFRS as of January 1, 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  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. This amendment did not have a material impact on the Group's consolidated financial position or results of operations.

- **IAS 7: Disclosure Initiative (Amendments)**
  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. The amendments did not have a material impact on the Group's consolidated financial statements.

2.5 Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

(d) ***Goodwill and impairment test:*** The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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

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

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

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

(e) ***Impairment of property, plant and equipment:*** Property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

(f) ***Deferred tax assets:*** Deferred tax assets are recognized for all unused tax losses and the tax value of intellectual property to the extent that it is probable that taxable profits will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(g) ***Measurement of land at fair value:*** The Group's policy is to measure land at revalued amounts (estimated fair values), as these are determined by independent appraisal firms, less any impairment losses recognized after the date of revaluation. Valuations are performed frequently enough to ensure that the fair value of the revalued asset does not differ materially from its carrying amount.

(h) ***Provisions:*** The Group records provisions for risks and contingencies that may arise from legal cases which may result in outflow of economic benefits for their settlement. The provisions are recorded based on the amount of the legal case and the possibilities related to the final outcome of the case.

(i) ***Discontinued Operations***
In December 2015, the Group, in the context of its efforts to improve its profitability, decided to withdraw from the milk business and the related assets are classified as Non-Current Assets Held for Sale and Discontinued

Operations as of December 31, 2015. Management considered that this business met the criteria to be classified as held for sale at that date for the following reasons:

- The assets of this business were available for immediate sale and can be sold to a potential buyer in their current condition.
- Management planned to sell the assets of this business and had entered into preliminary negotiations with potential buyers.
-

2.5 Significant Accounting Judgments, Estimates and Assumptions (continued)

- Management expected negotiations for the sale of the assets of milk business to be finalized and the sale to be completed during 2017. The discontinued operations were disposed of in 2017. For more details on the discontinued operation refer to Note 3.

2.6 Standards issued but not yet effective and not early adopted

- **Amendments to IFRS 4, Insurance contracts**
The standard is effective for annual periods beginning on or after January 1, 2018. Management believes that the amendment will not have an impact on the Group's consolidated financial position or results of operations.

- **IFRS 9 Financial Instruments: Classification and Measurement**
The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management considers that the amendment will not have an impact on the Group's consolidated financial position or results of operations. During 2017, the Group performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position or equity or on the related disclosures from the adoption of IFRS 9.

- **Amendments to IFRS 9, Prepayment Features with Negative Compensation**
The standard is effective for annual periods beginning on or after January 1, 2019 not yet endorsed by the EU. Management considers that the amendment will not have an impact on the Group's consolidated financial position or results of operations.

- **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.

- **IFRS 15 Revenue from Contracts with Customers**
The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. In 2017, the Group performed a detailed impact assessment of IFRS 15. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 15. Overall, the Group expects no significant impact on its statement of financial position or equity or on the related disclosures from the adoption of IFRS 15.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
The Clarifications apply for annual periods beginning on or after January 1, 2018, with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations, amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of the control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management is in the process of assessing what effects the amendment will have 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. Management is in the process of assessing what effects the amendment will have on the Group's consolidated financial position or results of operations.

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

- **IFRS 17, Insurance Contracts**
  The standard is effective for annual periods beginning on or after January 1, 2021 and has not yet been endorsed by the EU. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features issued. Management does not expect that this standard will have an impact on the Group's consolidated financial position or results of operations.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. 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.

- **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 amendment will not have an impact on the Group's consolidated financial position or results of operations.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
  The Interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier adoption 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.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation has not yet been endorsed by the EU. Management is currently assessing whether the Interpretation will have any impact on the Group's consolidated financial position or results of operations.

  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. Management has assessed that the amendment will not have an impact on the Group's consolidated financial position or results of operations.

  IFRSs 2015 – 2017 Cycle. The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The standards affected, and the subjects of the amendments, are IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation, IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity and IAS 23 Borrowing Costs – borrowing costs eligible for capitalization. This Interpretation has 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.

2.7 Approval of Financial Statements:

FAGE International's Board of Directors approved the consolidated financial statements as of and for the year ended December 31, 2017, on March 28, 2018. The above mentioned consolidated financial statements are subject to the final approval by the Annual General Assembly of Shareholders which is scheduled for June 2018.

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

3. ASSETS AND LIABILITIES ASSOCIATED WITH THE ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS:

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 as well as goodwill related to the milk business, which have been classified as of December 31, 2015, as held for sale, were 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 accompanying consolidated statement of profit or loss for the year ended December 31, 2015. Furthermore, the carrying value of goodwill for the Amyntaio facility and inventories of $2,701 has been impaired by $2,344 and $1,318, respectively, and such impairment losses have been recorded in the accompanying consolidated statement of profit or loss for the year ended December 31, 2015.

During 2016, an additional impairment loss of $1,105 related to property, plant and equipment of the discontinued milk business has been recorded in the accompanying consolidated statement of profit or loss for the year ended December 31, 2016. Moreover, during 2017 the Group sold to third parties the remaining discontinued operations consisting of land, machinery and equipment related to the Amyntaio facility. This sale had no significant effect on the Group's financial statements because these assets had been almost fully impaired.

The major classes of assets and liabilities concerning the Amyntaio facility classified as held for sale as at December 31, 2016 are presented within discontinued operations in the consolidated statement of financial position and profit or loss statement for comparative purposes:

	Balance as of December 31, 2017	**Balance as of December 31, 2016**
Assets		
Property, plant and equipment	-	3,022
Inventories (Note 14)	-	124
Deferred income taxes (Note 8)	-	109
Cash and cash equivalents (Note 17)	-	3
Assets held for sale	**-**	**3,258**
Liabilities		
Provision for staff retirement indemnities (Note 22)	-	55
Trade accounts payable (Note 23)	-	66
Accrued and other current liabilities (Note 25)	-	584
Liabilities directly associated with assets held for sale	**-**	**705**
Net assets directly associated with disposal group	**-**	**2,553**

4. PAYROLL COST:

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

	Year ended December 31,	
	2017	**2016**
Wages and salaries	49,926	46,763
Social security costs	6,845	7,096
Provision for staff retirement indemnities (Note 22)	425	394
Other staff costs	7,249	7,124
Total payroll	**64,445**	**61,377**
Less: amounts charged to cost of production	(33,963)	(33,265)
amounts capitalized to tangible and intangible assets	(488)	(404)
Payroll expensed (Note 6)	**29,994**	**27,708**

The Group's total number of employees as of December 31, 2017 and 2016, was approximately 1,026 and 1,037, respectively.

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

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

5. DEPRECIATION AND AMORTIZATION:

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

	Year ended December 31,	
	2017	**2016**
Depreciation on property, plant and equipment (Note 9)	29,894	28,375
Amortization of intangible assets (Note 10)	725	717
Total depreciation and amortization	**30,619**	**29,092**
Less: amounts charged to cost of production	(25,020)	(22,597)
Depreciation and amortization expensed (Note 6)	**5,599**	**6,495**

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

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

	Year ended December 31,	
	2017	**2016**
Shipping and handling costs (Note 2.3(g))	40,422	48,434
Advertising costs (Note 2.3(d))	65,297	79,072
Third party fees	23,494	25,839
Payroll (Note 4)	29,994	27,708
Depreciation and amortization (Note 5)	5,599	6,495
Repairs and maintenance	1,673	1,532
Travelling and entertainment	1,689	1,516
Allowance for doubtful accounts (Note 15)	200	1,455
Other	9,217	7,623
Total	**177,585**	**199,674**

Compensation paid to directors and executive officers for the years ended December 31, 2017 and 2016, included in payroll and third party fees, amounted to $13,392 and $12,597, respectively. Of these amounts, $9,221 and $9,329 have been paid to the shareholders and family members in the years ended December 31, 2017 and 2016, respectively.

Audit fees for the years ended December 31, 2017 and 2016, amounted to $462 and $ 587 respectively.

7. FINANCIAL INCOME AND EXPENSES:

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

	Year ended December 31,	
	2017	**2016**
Financial expenses on loans and borrowings (Note 21)	(24,409)	(65,376)
Interest on short-term borrowings (Note 24)	(553)	(246)
Finance leasing interest expense	-	(20)
Amortization of fees (Note 24)	(67)	(322)
Other	(297)	(226)
Total financial expenses	**(25,326)**	**(66,190)**
Interest earned on cash at banks and on time deposits (Note 17)	109	33
Interest income on non- current assets	32	41
Total financial income	**141**	**74**
Total financial income/(expenses), net	**(25,185)**	**(66,116)**

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

8. INCOME TAXES:

In accordance with Luxembourg tax regulations, the corporate tax rate applied by companies for fiscal years 2017 and 2016, was 27.08%. In December 2016, a new tax law was enacted in Luxembourg, which decreases the income tax rate to 27.08% for the fiscal year 2017 and to 26.01% for the fiscal year 2018 onwards.

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

	December 31,	
	2017	**2016**
Income taxes:		
Current income tax expense	23,065	16,910
Deferred income tax (benefit)/expense	(11,930)	(31,985)
Total income tax reported in the consolidated statements of profit or loss	**11,135**	**(15,075)**

As part of the restructuring which took place in September 2012, the Group increased the tax basis of its intellectual property. The tax basis of its intellectual property was assessed at $630,500 as compared to its carrying value of $1,061. Management, considering the tax deductibility profile of the related asset, as well its recoverability and recognized a deferred tax asset of $80,530.

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

Pursuant to the IRS Agreement, the FAGE US Group agreed to pay additional tax in the amount of approximately $10,400, plus interest, for tax years 2009 to 2014. This amount was included in current taxes payable at December 31, 2015 and paid during 2016. As a further consequence of IRS Agreement, the tax basis of the Group's intellectual property was re-assessed from $630,500 to $490,389 as compared to its carrying value of $1,061 and the respective deferred tax asset of $80,530 was reduced to $62,583. The 2015 net deferred tax asset decreased from $71,470 to $52,413, a difference of $19,057, out or which $15,928 relates to the period 2012 to 2014 and $3,129 relates to amortization for 2015. After giving effect to the tax rate changes for 2017 and 2018, the net deferred tax asset for 2016 decreased to $44,015, a difference of $8,398, which includes a $5,269 difference due to the change in tax rates and $3,129 of amortization for 2016.

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

In December 2016, a new tax law was enacted in Luxembourg which, among other things, (i) decreases the income tax rate from 29.2% to 27.08% for fiscal year 2017 and 26.01% for fiscal year 2018 onwards and (ii) abolishes the partial exemption of 80% that applies to net income and capital gains derived from software copyrights, patents, trademarks, designs, domain names and models acquired or created after December 31, 2007, after a five-year transitional period.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act, which, among other measures, reduces the U.S. federal corporate income tax rate from 35% to 21%. Such change affects the measure of our U.S. deferred tax assets and liabilities because of the rates at which these assets and liabilities are expected to reverse in the future.

At December 31, 2016, the Group re-measured its deferred income taxes and recognized a charge of $5.4 million to the accompanying consolidated statement of profit or loss for the year ended December 31, 2016. In addition, under the current tax regime, the amortization of FAGE International's intellectual property is allocated between trademark and technology and the portion allocated to trademarks is 80% tax-exempt, thus only 20% is tax-deductible. As discussed above, the new tax law abolishes the partial exemption for qualifying intellectual property. As a result, FAGE International S.A. recognized a deferred tax asset of approximately $38.5 million on the basis that the amortization of intellectual property will be 100% tax-deductible after 2021. In recognizing such deferred tax asset, management assessed that adequate future taxable profits would be available to realize such deferred tax asset.

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

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

8. INCOME TAXES (Continued)

	December 31,	
	2017	**2016**
Profit/(loss) before income taxes	**97,546**	**46,429**
Income tax charge/(benefit) calculated at the nominal applicable tax rate of 27.08% for 2017 and 2016	26,415	13,557
Write-off of deferred tax previously recognized	(699)	2,022
Effect of recognition of deferred taxes not previously recognized	(2,532)	-
Income tax effect from utilization of deferred tax asset on losses and deferred tax asset on incentives not previously recognized	(1,814)	(1,210)
Deferred tax asset for intangible assets recognized due to change in tax regime	-	(38,446)
Effect on deferred tax asset from change in tax rate	(15,305)	5,350
Tax effect of different tax rates of subsidiaries	4,971	2,855
Tax effects of non-taxable income and expenses not deductible for tax purposes	99	797
Provision for income taxes reported in the consolidated statement of income	**11,135**	**(15,075)**
Effective income tax rate	**11.4%**	**(32.5)%**

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

At December 31, 2017, the Group had accumulated tax carryforward losses of $59,482 which, if not utilized to offset future taxable income, can be carried forward indefinitely. The Group has recognized a deferred tax asset of $6,317 on tax carryforward losses of $53,832 as it believes that sufficient taxable profits will be available against which the deferred tax assets can be utilized. No deferred tax asset has been recognized on tax carryforward losses of $5,650 as management has assessed that they did not meet the recognition criteria.

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

Company Names	**Fiscal years**
FAGE International S.A.	2012-2017
FAGE USA Holdings, Inc.	2016-2017*
FAGE USA, Corp.	2016-2017*
FAGE USA Dairy Industry, Inc.	2016-2017*
FAGE U.K. Limited	2010-2017
FAGE Italia S.r.l.	2016-2017
FAGE Deutschland GmbH	2012-2017
FAGE Dairy Industry S.A.	2011-2017
FAGE Commercial S.A.	2010-2015
Zagas S.A.	2007-2015

* FAGE USA Holdings, Inc., FAGE USA, Corp. and FAGE USA Dairy Industry, Inc. are no longer subject to federal examination for the years before 2015 and no longer subject to state and local examination for the years before 2014.

The Group, based upon previous years' tax examinations and interpretations of the relevant tax laws in the countries where it operates enacted or substantively enacted as of December 31, 2017, believes to have recognized adequate and sufficient provisions for probable tax costs.

	December 31,	
	2017	**2016**
Opening balance net deferred tax asset /(liability)	36,883	4,394
(Charge)/credit to the consolidated statement of profit or loss	11,930	31,985
Translation difference	(1,972)	495
Directly charged against other comprehensive income	1,435	9
Closing balance of the net deferred tax asset	**48,276**	**36,883**

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

8. INCOME TAXES (Continued)

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

	Consolidated Statements of Financial Position	
	December 31,	
	2017	2016
Deferred income tax liabilities		
- Property, plant and equipment	32,435	49,325
- Land revaluation to fair value	7,049	7,408
- Investments	451	1,045
Gross deferred income tax liabilities	**39,935**	**57,778**
Deferred income tax assets		
- Intangible asset	(79,559)	(82,461)
- Deferred cost	(842)	(386)
- Staff retirement indemnities	(1,046)	(951)
- Tax loss carry forwards	(6,317)	(8,737)
- Investment tax credits	-	(1,163)
- Accounts receivable	(403)	(476)
- Other	(44)	(487)
Gross deferred income tax assets	**(88,211)**	**(94,661)**
Less: deferred income tax assets separately classified	87,737	92,198
	(474)	**(2,463)**
Total	**39,461**	**55,315**
Less: deferred tax liability directly associated with assets held for sale (see Note 3)	-	109
Net deferred tax liabilities	**39,461**	**55,424**

	Consolidated Statements of Profit or Loss	
	Year Ended December 31,	
	2017	2016
Deferred income tax liabilities		
- Property, plant and equipment	(18,037)	854
- Foreign currency translation	-	(6)
- Deferred costs	(442)	(980)
Deferred income tax assets		
- Intangible asset	2,902	(30,048)
- Staff retirement indemnities	41	92
- Tax loss carry forwards	2,457	(5,390)
- Investments	(699)	679
- Investment tax credits	1,229	971
- Accounts receivable	133	1,520
- Other	486	323
Deferred income tax charge/(benefit) in consolidated statement of profit or loss	**(11,930)**	**(31,985)**

Movement of deferred tax balances charged directly to equity	2017	2016
- Unrealized gains on available for sale financial assets	-	9
- Devaluation of land at fair value	(1,424)	-
- Net actuarial gains/(losses)	(11)	(18)
- Net movement due to translation differences	1,972	(495)

As at December 31, 2017, the prepaid income taxes for the Group amounted to $225 ($2,057 as at December 31, 2016).

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

9. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment (excluding land since December 31, 2008) are stated at original cost, net of related Greek State subsidies of $9,238 concerning FAGE Dairy Industry S.A. at December 31, 2017 and 2016, for both of the years, plus interest costs capitalized during periods of construction for qualifying assets based upon the weighted average borrowing rate. There were no capitalized interest costs for 2017 or 2016. Based on the Group's accounting policy land is measured at fair value.

Property, plant and equipment are analyzed as follows:

	Land	Buildings	Machinery and equipment	Transportation equipment	Furniture and fixtures	Construction in progress (CIP)	Total
COST							
At January 1, 2016	**43,330**	**200,049**	**319,956**	**4,479**	**30,724**	**11,315**	**609,853**
Additions	-	106	1,766	896	725	25,578	29,071
Transfers from CIP	-	3,874	18,880	-	67	(22,821)	-
Foreign currency remeasurement	(1,349)	(1,070)	(3,645)	(35)	(831)	(21)	(6,951)
Disposals	-	(169)	(2,167)	(362)	(306)	-	(3,004)
At December 31, 2016	**41,981**	**202,790**	**334,790**	**4,978**	**30,379**	**14,051**	**628,969**
Additions	30,839	424	10,527	2,936	828	24,758	70,312
Devaluation at fair value	(4,909)	-	-	-	-	-	(4,909)
Sales of fixed assets	(90)	-	(61)	(133)	(868)	-	(1,152)
Transfers from CIP	-	48	1,632	(1,357)	25	(323)	25
Foreign currency remeasurement	6,147	4,478	15,295	478	3,249	272	29,919
Disposals	-	-	(4)		(40)		(44)
At December 31, 2017	**73,968**	**207,740**	**362,179**	**6,902**	**33,573**	**38,758**	**723,120**
ACCUMULATED DEPRECIATION							
At January 1, 2016	**-**	**(38,769)**	**(137,990)**	**(3,307)**	**(26,153)**	**-**	**(206,219)**
Depreciation expense (Note 5)	-	(6,175)	(19,981)	(373)	(1,846)	-	(28,375)
Foreign currency remeasurement	-	716	2,594	1	727	-	4,038
Disposals	-	98	2,130	225	205	-	2,658
At December 31, 2016	**-**	**(44,130)**	**(153,247)**	**(3,454)**	**(27,067)**	**-**	**(227,898)**
Depreciation expense (Note 5)	-	(6,373)	(21,959)	(459)	(1,103)	-	(29,894)
Sales of fixed assets	-	-	538	120	868	-	1,526
Transfer to assets held for distribution	-	-	-	-	(36)	-	(36)
Foreign currency remeasurement	-	(2,803)	(11,273)	(407)	(2,986)	-	(17,469)
Disposals	-	-	4	-	40	-	44
At December 31, 2017	**-**	**(53,306)**	**(185,937)**	**(4,200)**	**(30,284)**	**-**	**(273,727)**
NET BOOK VALUE							
At December 31, 2016	**41,981**	**158,660**	**181,543**	**1,524**	**3,312**	**14,051**	**401,071**
At December 31, 2017	**73,968**	**154,434**	**176,242**	**2,702**	**3,289**	**38,758**	**449,393**

Cumulative capital expenditure relating to the construction and expansion of the Group's U.S. facility amounted to $422,491 and $400,528 as of December 31, 2017 and 2016, respectively. Cumulative capital expenditure related to the New Manufacturing Facility in Luxembourg amounted to $42,000 and $2,041 as of December 31, 2017 and 2016, respectively.

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

In 2014, the Group engaged an accredited independent appraiser to determine the fair value of its land as at December 31, 2014. The measurement resulted in a devaluation of $5,036 recognized in the consolidated statement of comprehensive income/(loss) and in the equity component "land revaluation surplus", net of deferred taxes of $1,770.

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

9. PROPERTY, PLANT AND EQUIPMENT (continued)

During 2015, land revaluation surplus was reduced by an amount of $844 due to the change of the statutory tax rate concerning the Greek subsidiary.
In 2017, the Group engaged an accredited independent appraiser to determine the fair value of its land as at December 31, 2017. The measurement resulted in a devaluation of $3,485 recognized in the consolidated statement of comprehensive income/(loss) and in the equity component "land revaluation surplus", net of deferred taxes of $1,424.

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", property, plant and equipment related to the milk business, was classified as of December 31, 2015 as held for sale and carried at the lower of their carrying amount and their fair value less costs to sell. Accordingly, an impairment loss of $5,600 and $1,105 has been recorded in the accompanying consolidated statement of profit or loss for the years ended December 31, 2015 and 2016, respectively. Moreover, during 2017, the Group sold to third parties land, machinery and equipment related to the Amyntaio facility. This sale had no significant effect on the Group's financial statements because these assets had been almost fully impaired.

10. INTANGIBLE ASSETS:

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

	Customer network	Development costs	EDP license fees/expenses	Total
Balance, January 1, 2016	**851**	**1,802**	**118**	**2,771**
Additions	-	157	23	180
Foreign currency remeasurement	(145)	(29)	-	(174)
Amortization (Note 5)	(164)	(521)	(32)	(717)
Balance, December 31, 2016	**542**	**1,409**	**109**	**2,060**
Additions	-	260	103	363
Foreign currency remeasurement	53	79	-	132
Amortization (Note 5)	(180)	(387)	(158)	(725)
Balance, December 31, 2017	**415**	**1,361**	**54**	**1,830**

11. CONSOLIDATED SUBSIDIARIES AND GOODWILL:

CONSOLIDATED SUBSIDIARIES

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

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

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

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

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

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

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

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

11. CONSOLIDATED SUBSIDIARIES AND GOODWILL (continued)

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

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

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

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

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

11. CONSOLIDATED SUBSIDIARIES AND GOODWILL (continued)

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

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

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

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

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

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

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

GOODWILL

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

	December 31, 2017	December 31, 2016
Foods Hellas S.A. (FAGE Dairy Industry S.A.)	1,554	1,366
FAGE Italia S.r.l.	341	299
FAGE U.K. Limited	1,276	1,162
Total	**3,171**	**2,827**

The movement in goodwill is analyzed as follows:

Balance at January 1, 2016	**3,120**
Less: Foreign currency remeasurement	(293)
Balance at December 31, 2016	**2,827**
Less: Foreign currency remeasurement	344
Balance at December 31, 2017	**3,171**

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

The annual impairment test for goodwill was based on the value in use approach as described in Note 2.5(d), 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 11.5% and cash flows beyond the five-year period were extrapolated using a 2.0% growth rate which is the expected average growth rate for the specific industry.

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

11. CONSOLIDATED SUBSIDIARIES AND GOODWILL (continued)

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

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

12. AVAILABLE FOR SALE FINANCIAL ASSETS:

Available for sale financial assets are analyzed as follows:

	December 31,	
	2017	**2016**
Shares—listed and unlisted:		
Vis S.A. (listed)	-	335
Elbisco S.A. (unlisted)	-	165
Total Available for Sale Financial Assets in Current Assets	**-**	**500**
Shares—unlisted:		
Packing Hellas Development S.A.	106	93
Total Available for Sale Financial Assets in Non-Current Assets	**106**	**93**

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

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

For the year ended December 31, 2016, gains of $22 (net of deferred income taxes of $9) were recognized and reported in other comprehensive income/(loss). During 2017, the Group sold its shares in Vis S.A. and Elbisco S.A. and recorded a related loss of $56, which is reported in the consolidated statement of profit or loss.

13. OTHER NON-CURRENT ASSETS:

Other non-current assets are analyzed as follows:

	December 31,	
	2017	**2016**
Utility deposits	420	425
Other	48	145
	468	**570**

14. INVENTORIES:

Inventories are analyzed as follows:

	December 31,	
	2017	**2016**
Merchandise	204	2,714
Finished and semi-finished products	16,276	13,377
Raw materials and supplies	23,283	22,203
	39,763	38,394
Less assets classified as held for sale (see Note 3)	-	(124)
	39,763	**38,270**

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

15. TRADE AND OTHER RECEIVABLES:

Trade and other receivables are analyzed as follows:

	December 31, 2017	December 31, 2016
Trade:		
—In U.S. dollars	27,119	30,728
—In foreign currencies	37,474	30,980
	64,593	**61,708**
—Less: allowance for doubtful accounts	(4,257)	(5,114)
	60,336	**56,594**
Other:		
—Value added tax	10,298	9,126
—Prepaid expenses	2,825	3,610
—Advances to suppliers	3,292	6,203
—Various debtors	3,084	6,563
	19,499	**25,502**
—Less: allowance for doubtful accounts	(2,137)	(6,129)
	17,362	**19,373**
	77,698	**75,967**
—Less: assets classified as held for sale (see Note 3)	-	-
	77,698	**75,967**

The movement of the allowance for doubtful accounts during the years ended December 31, 2017 and 2016, was as follows:

	Trade	Other	Total
Balance at January 1, 2016	**3,856**	**6,321**	**10,177**
Provision (Note 6)	1,455	-	1,455
Utilization	-	-	-
Foreign currency remeasurement	(197)	(192)	(389)
Balance at December 31, 2016	**5,114**	**6,129**	**11,243**
Provision (Note 6)	136	64	200
Utilization	(1,623)	(4,649)	(6,272)
Foreign currency remeasurement	630	593	1,223
Balance at December 31, 2017	**4,257**	**2,137**	**6,394**

The ageing analysis of trade accounts receivable is as follows:

	Total	Neither past due nor impaired	Past due but not impaired	
		Current	Over 60 days	Over 180 days
2017	60,336	56,495	3,841	-
2016	56,594	56,019	575	-

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

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

16. RELATED PARTIES:

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

Account balances with related companies are as follows:

	December 31,	
	2017	**2016**
Due from:		
- Ioannis Nikolou ULP	508	455
- Evga S.A.	37	47
- Hellenic Quality Foods S.A.	120	-
- Vis S.A.	1	-
- Palace S.A.	162	-
- Mornos S.A.	-	2
	828	**504**
Due to:		
- Hellenic Quality Foods S.A.	-	49
- Mornos S.A.	257	74
- Vis S.A.	-	17
- G. S. Kostakopoulos & Associates	3	9
- Agan S.A.	-	263
- Alpha Phi S.à r.l.	351	266
- Theta Phi S.à r.l.	351	276
	962	**954**

Transactions with related companies for the years ended December 31, 2017 and 2016, are analyzed as follows:

	Purchases from related parties		Sales to related parties	
	2017	**2016**	**2017**	**2016**
Inventories, materials and supplies				
- Mornos S.A.	14,765	15,413	6	41
- Vis S.A.	1,624	3,691	11	30
- Hellenic Quality Foods S.A.	14,417	15,958	10	3
- Agan S.A.	2,147	8,605	-	-
- Palace S.A.	3,502	-	-	-
- Evga S.A.	26	-	168	78
- Ioannis Nikolou ULP	-	-	65	76
	36,481	**43,667**	**260**	**228**
Other services				
- Alpha Phi	3,600	3,600	-	-
- Theta Phi	3,600	3,600	-	-
- Ioannis Nikolou ULP	158	147	-	-
- G. S. Kostakopoulos & Associates	332	314	-	-
	7,690	**7,661**	**-**	**-**
Total	**44,171**	**51,328**	**260**	**228**

Purchases of inventories, materials and supplies from related parties represent approximately 12.8% and 14.8% of the Group's total purchases for the years ended December 31, 2017 and 2016, respectively.

Advertising, media buying and other services from related parties represent approximately 10.5% and 8.8% of the Group's total respective costs for the years ended December 31, 2017 and 2016, respectively.

Mornos S.A.: The Group purchases plastic yogurt tubs, aluminum yogurt tub tops and other packaging products from Mornos S.A. ("Mornos"). This company is controlled by a company owned by Mr. Athanassios-Kyros Filippou and members of his family. Mr. Athanassios-Kyros Filippou is the Chairman of the Board of Directors of Mornos and has been its Chief Executive Officer until December 6, 2016. The Group's purchases from Mornos totaled $14,765 and $15,413 for the years ended December 31, 2017 and 2016, respectively.

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

16. RELATED PARTIES (continued)

Vis S.A.: The Group purchases packaging materials from Vis S.A. ("Vis"), a public company that is listed on the Athens Exchange. Mr. Ioannis Filippou and Hellenic Quality Foods S.A. ("HQF") collectively owned 75.47% of Vis until November 2017 and the Group owned 7.098% of Vis until November 2017. Since November 2017, Mr. Ioannis Filippou and HQF collectively own 82.56% of Vis. Mr. Dimitrios Filippou is the Chairman of the Board and Chief Executive Officer of Vis. Purchases from Vis totaled $1,624 and $3,691 for the years ended December 31, 2017 and 2016, respectively. On November 17, 2017 the Group sold its shares in Vis S. A. to HQF for $171.

Hellenic Milk and Flour Industry S.A. ("Evga"): The Group was the exclusive distributor in Greece of fresh fruit juices produced by Hellenic Milk and Flour Industry S.A. ("Evga") until March 2014. Evga is controlled by a company owned by Mr. Athanassios-Kyros Filippou and members of his family. Mr. Athanassios-Kyros Filippou is the Chairman of the Board of Directors of Evga. Currently, Evga produces ice cream products, croissants and sweet doughs. The Group's purchases from Evga totaled $26 and $0 for the years ended December 31, 2017 and 2016, respectively. From time to time, the Group sells to Evga various raw materials for its products. Sales to Evga totaled $168 and $78 for the years ended December 31, 2017 and 2016, respectively.

Hellenic Quality Foods S.A.: HQF is a company 100% owned by members of Mr. Ioannis Filippou's family and a company that he beneficially owns. Mr. Dimitrios Filippou is the Chairman of the Board and Managing Director of HQF. HQF operates in the food industry and is also the controlling shareholder of Vis. The Group purchases packaging materials from HQF. The Group's purchases of packaging materials from HQF totaled $14,417 and $15,958 for the years ended December 31, 2017 and 2016.

Agan S.A. ("Agan"): Agan is a service company controlled by Mr. Athanassios-Kyros Filippou. Mr. Athanassios-Kyros Filippou is the Chairman of the Board of Directors of Agan and was its Chief Executive Officer until February 14, 2017. Agan was renamed Evga Holdings S.A. in January 2018. The Group's purchases of packaging materials from Agan totaled $2,147 and $8,605 for the years ended December 31, 2017 and 2016, respectively.

Elbisco S.A.: Elbisco S.A. is an industrial and commercial food company controlled by members of Mr. Kyriakos Filippou's family. Mrs. Dimitra Filippou is the beneficial owner of the majority shareholder. On December 15, 2017, the Group sold its shares in Elbisco S.A. to Agan for $171.

Ioannis Nikolou ULP: Mr. Ioannis Nikolou is the brother-in-law of Mr. Ioannis Filippou and is one of the Group's sales representatives. As such, he buys products from the Group at a discounted price and resells them at a marked-up price, with the difference being retained as his commission. The Group determines the discounts offered to and mark-ups charged by its sales representatives in a uniform manner. Purchases from the Group by Ioannis Nikolou totaled $65 and $78 for the years ended December 31, 2017 and 2016, respectively. Ioannis Nikolou derives a standard commission on resale of such purchased products.

G.S. Kostakopoulos & Associates: The Group engages the law firm G.S. Kostakopoulos & Associates for various legal services. Mr. Georgios Kostakopoulos, the managing partner of the firm, is the brother-in-law of Messrs. Ioannis and Kyriakos Filippou. The Group's payments to G.S. Kostakopoulos & Associates were approximately $332 and $314 for the years ended December 31, 2017 and 2016, respectively.

Palace S.A. ("Palace"): Palace is a service company controlled by Mr. Athanassios-Kyros Filippou, who is the Chairman of the Board of Directors. The Group's purchases of packaging materials from Palace totaled $3,502 and $0 for the years ended December 31, 2017 and 2016, respectively.

Alpha Phi S.à r.l. ("Alpha Phi"): Alpha Phi is a company owned by the Filippou family. It provides consulting services to the Group. Services provided to the Group by Alpha Phi for the years ended December 31, 2017 and 2016, amounted to $3,600 and $3,600, respectively.

Theta Phi S.à r.l. ("Theta Phi"): Theta Phi is a company owned by the Filippou family. It provides consulting services to the Group. Services provided to the Group by Theta Phi for the years ended December 31, 2017 and 2016, amounted to $3,600 and $3,600, respectively.

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

	December 31,	
	2017	**2016**
Compensation paid to shareholders and family members as directors and executive officers	9,221	9,329
Compensation to other directors and executive officers	3,717	2,888
	12,938	12,217
Payments to state pension plans	449	380
	13,387	**12,597**

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

17. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are analyzed as follows:

	December 31,	
	2017	**2016**
Cash in hand	79	144
Cash at banks	128,373	117,345
	128,452	117,489
Less assets classified as held for sale (see Note 3)	-	(3)
	128,452	**117,486**

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 $109 and $33 for the years ended December 31, 2017 and 2016, respectively, for the Group 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 December 31, 2017 consisted of $55,943 denominated in foreign currencies and $72,509 in U.S. dollars ($71,884 and $45,602, respectively, at December 31, 2016).

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

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

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

FAGE International's share capital is composed of one million (1,000,000) indivisible shares in registered form, each with a par value of one U.S. dollar ($1), all subscribed and fully paid up, representing the entire share capital. Each share is entitled to one vote.

Share capital and share premium are analyzed as follows:

	December 31,	
	2017	**2016**
Share capital	1,000	1,000
Share premium	18,778	30,778
	19,778	**31,778**

During 2017, the share premium was reduced by $12,000 and was returned to the shareholders.

The reversal of fixed assets statutory revaluation surplus of $44,410 as at December 31, 2017 and 2016, represents gains resulting from the statutory tax law revaluation of fixed assets in Greece which have been capitalized according to the provisions of the relevant laws. These revaluations have been reversed in the accompanying consolidated financial statements with the reversal of the net revaluation gains being reflected as a separate component of equity.

19. LEGAL, TAX FREE AND SPECIAL RESERVES:

Legal, tax free and special reserves for the Group relate to reserves of FAGE International and its subsidiary FAGE Dairy Industry S.A. and are analyzed as follows:

	December 31,	
	2017	**2016**
Legal reserve	3,757	3,757
Tax free reserves		
- Greek Law 1892/1990 (Art. 12)	32,741	32,758
Special reserves		
- Greek Law 1892/1990 (Art. 23a)		-
- Greek Law 3296/2004	1,030	1,030
	1,030	1,030
	37,528	**37,545**

19. LEGAL, TAX FREE AND SPECIAL RESERVES (continued)

Legal Reserve:

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

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

Tax Free Reserves:

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

Tax Free Reserves:

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

Special Reserves:

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

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

20. DIVIDENDS:

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

1. The general meeting of FAGE International's shareholders determines the allocation of the balance of the annual net profits at the annual general meeting. The general meeting of FAGE International's shareholders may decide on the payment of an annual dividend, to transfer the balance to a reserve account, or to carry it forward in accordance with the applicable legal provisions. Annual dividends are distributions made to FAGE International's shareholders after the end of a financial year, which are paid out of the amount of the profits at the end of such financial year plus any profits carried forward, less any losses carried forward and sums to be placed to the legal reserve or any other reserve in accordance with the law on commercial companies, 10th August 1915, as amended and restated from time to time or the articles of association of FAGE International. In accordance with the Law, except for cases of reductions of subscribed capital, no distributions (including dividends) to shareholders may be made when on the closing date of the last financial year the net assets as set out in the annual accounts are, or following such a distribution would become, lower than the amount of the subscribed capital plus the reserves which may not be distributed under law or by virtue of the articles of association of FAGE International. In excess, any distribution made in infringement of this latter rule must be returned by the shareholders who have received it if FAGE International proves that the shareholders knew of the irregularity of the distributions made in their favor or could not, in the circumstances, have been unaware of it.

2. The Board of Directors of FAGE International (the "Board") may distribute interim dividends subject to the following conditions:

   a. the Board must prepare interim accounts;

   b. the interim accounts must reflect that sufficient profits and other reserves (including share premium) are available for distribution; it being understood that the amount to be distributed may not exceed the profits made since the end of the last financial year for which the annual accounts have been approved, if any,

   c. increased by profits carried forward and distributable reserves, and reduced by losses carried forward and sums to be allocated to the legal or a statutory reserve;

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

20. DIVIDENDS (continued)

d. the decision to distribute interim dividends must be taken by the Board within two (2) months from the date of the interim accounts; and

e. the approved external auditors (réviseur d'entreprises agréé) must prepare a report addressed to the Board which must verify whether the above conditions have been satisfied.

In 2017, FAGE International S.A. paid interim dividends to its shareholders amounting to $8,000. All of the above conditions for such dividends were met.

21. INTEREST BEARING LOANS AND BORROWINGS:

Interest bearing loans and borrowings are analyzed as follows:

	December 31,	
	2017	**2016**
Senior Notes due 2026	420,000	420,000
Total long-term debt	420,000	420,000
Less: Unamortized issuance costs	(9,051)	(9,835)
	410,949	**410,165**

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

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

The 2020 Senior Notes 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 and during the year ended December 31, 2017.

Finance expenses on the Group's interest-bearing loans and borrowings for the years ended December 31, 2017 and 2016, amounted to $24,409 and $65,376, respectively, and are included in financial expenses in the accompanying consolidated statements of profit or loss (Note 7).

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

21. INTEREST BEARING LOANS AND BORROWINGS (continued)

The annual principal payments required to be made on all loans subsequent to December 31, 2017 and 2016, are as follows:

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

The Group's borrowings arising from financing activities include the Senior Notes (2017: $410,949 and 2016: 410,165 respectively) and drawdowns under various lines of credit maintained by the Group with several banks (2017: $11,993 and 2016: $5,271 respectively). The net increase in the carrying amount during 2017 includes new drawdowns under the existing credit lines of $6,722 (see Note 24) – of which net cash proceeds were $5,685 – as well as a non-cash decrease of $851 due to amortization using the effective interest rate method.

22. PENSION AND STAFF RETIREMENT INDEMNITIES:

(a) ***State Pension:*** In various countries where the Group operates there are defined contribution plans. FAGE Greece's employees are covered by one of several Greek State sponsored pension funds. Each employee is required to contribute a portion of their monthly salary to the fund, with FAGE Greece also contributing a portion. Upon retirement, the pension fund is responsible for paying the employees retirement benefits. As such, FAGE Greece has no legal or constructive obligation to pay future benefits under this plan. FAGE Greece's contributions to the pension funds for the years ended December 31, 2017 and 2016, have been recorded to expenses and were $4,527 and $4,812, respectively.

(b) ***Staff Retirement Indemnities:*** For FAGE Greece**,** under Greek labor law, employees and workers are entitled to termination/retirement payments in the event of dismissal or retirement with the amount of payment varying in relation to the employee's or worker's compensation, length of service and manner of termination (dismissed or retired). Employees or workers who resign or are dismissed with cause are not entitled to termination payments. The indemnity payable in case of retirement is equal to 40% of the amount which would be payable upon dismissal without cause. In Greece, local practice is that pension plans are not funded. In accordance with this practice, FAGE Greece does not fund these plans. FAGE Greece charges operations for benefits earned in each period with a corresponding increase in pension liability. Benefit payments made each period to retirees are charged against this liability.

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

	December 31,	
	2017	**2016**
Net liability at beginning of the year	**3,225**	**3,640**
Less liabilities classified as held for sale	(55)	(292)
Net liability at the beginning of the year (continued operations)	**3,170**	**3,348**
Actual benefits paid by the Group	(366)	(471)
Expense recognized in the consolidated statements of profit or loss (Note 4)	19	394
Expense/(income) recognized in the consolidated statements of comprehensive income	485	61
Foreign currency remeasurement	445	(107)
	3,753	**3,225**
Less liabilities classified as held for sale (see Note 3)	-	(55)
Net liability at end of the year	**3,753**	**3,170**

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

22. PENSION AND STAFF RETIREMENT INDEMNITIES (continued)

An international firm of independent actuaries estimated the Group's liabilities arising from the obligation to pay retirement indemnities. The details and principal assumptions of the actuarial study as at December 31, 2017 and 2016, are as follows:

	December 31,	
	2017	**2016**
Present value of unfunded obligations	**3,225**	**3,640**
Components of net periodic pension cost:		
Service cost	139	152
Interest cost	52	68
Termination benefits	161	174
Total charge to operations	**352**	**394**
Reconciliation of benefit obligation:		
Net liability at the beginning of the year	3,225	3,640
Less liabilities classified as held for sale	(55)	(292)
Net liability at the beginning of the year (continued operations)	3,170	**3,348**
Service cost	485	152
Interest cost	-	68
Additional costs of extra benefits	-	174
Benefits paid	(366)	(471)
Actuarial net (gain)/loss	19	61
Foreign currency remeasurement	445	(107)
Present value of obligation at the end of year	**3,753**	**3,225**
Principal Assumptions:		
Discount rate	**1.50%**	**1.50%**
Rate of compensation increase	**1.75%**	**1.75%**
Increase in consumer price index	**1.75%**	**1.75%**

Additional cost of extra benefits relates to benefits paid to employees who became redundant. Most of these benefits were not expected within the terms of this plan and, accordingly, the excess of benefit payments over existing reserves have been treated as an additional pension charge. The additional pension charge for the years ended December 31, 2017 and 2016, amounted to \$161 and \$174, respectively.

A quantitative sensitivity analysis for significant assumptions as at December 31, 2017, is shown below:

Sensitivity information for defined benefit obligation

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

		2017
Change in the discount rate	+0.5%	- 6%
	-0.5%	+ 6%
Change in the salary increase	+0.5%	+ 6 %
	-0.5%	- 6 %

Sensitivity information for service cost

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

		2018
Change in the discount rate	+0.5%	- 8%
	-0.5%	+ 8%
Change in the salary increase	+0.5%	+ 8 %
	-0.5%	- 8 %

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

23. TRADE ACCOUNTS PAYABLE:

Trade accounts payable are analyzed as follows:

	December 31,	
	2017	**2016**
Suppliers in U.S. dollars	15,175	23,052
Suppliers in other currencies	7,666	9,271
	22,841	**32,323**
Less liabilities classified as held for sale (see Note 3)	-	(66)
	22,841	**32,257**

24. SHORT-TERM BORROWINGS:

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

	December 31,	
	2017	**2016**
Credit lines available	46,993	45,541
Unused credit lines	(35,000)	(40,270)
Short-term borrowings	**11,993**	**5,271**

The weighted average interest rates on short-term borrowings for the years ended December 31, 2017 and 2016, was 6.45% and 6.80%, respectively.

Interest on short-term borrowings for the years ended December 31, 2017 and 2016, totaled $553 and $246, respectively, for the Group and is included in interest expense in the accompanying consolidated statements of profit or loss (Note 7). Amortization of fees for the revolving credit facility of FAGE USA Dairy Industry, Inc. for the years ended December 31, 2017 and 2016, amounted to $67 and $322, respectively, and is included in interest expense in the accompanying consolidated statements of profit or loss (Note 7).

The available credit lines for the FAGE Group as of December 31, 2017 amounted to $46,993 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 $11,993 was provided by a revolving credit line with Alpha Bank in Greece. Out of the available credit lines as of December 31, 2017 and 2016, the unused part amounted to $35,000 and $40,270, respectively.

25. ACCRUED AND OTHER CURRENT LIABILITIES:

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

	December 31,	
	2017	**2016**
Taxes withheld:		
Payroll	1,066	671
Third parties	643	502
Other	3	257
	1,712	**1,430**
Advances from customers	**1,022**	**2,836**
Accrued interest	8,989	9,689
Social security funds payable	1,327	1,913
Accrued and other liabilities	15,978	20,974
	26,294	**32,576**
Total	**29,028**	**36,842**
Less liabilities classified as held for sale(see Note 3)	-	(584)
	29,028	**36,258**

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

26. SEGMENT INFORMATION:

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

Segment information for the years ended December 31, 2017 and 2016, is analyzed as follows:

	Year ended December 31, 2017			
	European operations	**U.S. operations**	**Eliminations**	**Consolidated**
Revenues				
Net sales to external customers	222,789	396,840	-	619,629
Inter-segment sales	163,182	-	(163,182)	-
Segment revenues	385,971	396,840	(163,182)	619,629
Results				
Profit/(loss) before income taxes	36,881	60,665	-	97,546
Segment result net profit/(loss)	32,277	54,134	-	86,411
Other segment information:				
Capital expenditures:				
Tangible and intangible fixed assets	47,234	22,704	-	69,938
Depreciation and amortization	8,066	22,553	-	30,619
Financial expenses	16,393	8,933	-	25,326
Income tax benefit/(expense)	(4,603)	(6,532)	-	(11,135)

	Year ended December 31, 2016			
	European operations	**U.S. operations**	**Eliminations**	**Consolidated**
Revenues				
Net sales to external customers	232,350	421,011	-	653,361
Inter-segment sales	164,322	-	(164,322)	-
Segment revenues	396,672	421,011	(164,322)	653,361
Results				
Profit/(loss) before income taxes	(34,700)	81,129	-	46,429
Segment result net profit/(loss)	(1,581)	63,085	-	61,504
Other segment information:				
Capital expenditures:				
Tangible and intangible fixed assets	6,727	22,524	-	29,251
Depreciation and amortization	7,529	21,563	-	29,092
Financial expenses	32,930	33,260	-	66,190
Income tax expense	33,119	(18,044)	-	15,075

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

26. SEGMENT INFORMATION (continued)

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

December 31, 2017	European operations	U.S. operations	Eliminations	Consolidated
Segment assets	392,812	434,847	(37,988)	789,671
Segment liabilities	353,072	205,108	(37,988)	520,192

December 31, 2016	European operations	U.S. operations	Eliminations	Consolidated
Segment assets	357,579	406,235	(26,953)	736,861
Segment liabilities	340,508	230,630	(26,953)	544,185

27. CONTINGENCIES AND COMMITMENTS:

(a) Litigation and claims:

(i) From time to time, lawsuits have been filed against FAGE Greece by milk producers claiming damages and loss of income due to alleged violations of the rules of Greek anti-trust law relating to FAGE Greece's case with the Hellenic Competition Commission, which was irrevocably closed in 2013. There are currently two of these lawsuits pending against FAGE Greece before the Greek Courts of First Instance, which the Group believes are entirely without merit. The claims of the foregoing plaintiffs so far have been rejected.

(ii) The Group is involved in various other legal proceedings incidental to the conduct of its business. Management does not believe that the outcome of any of these other legal proceedings will have a material adverse effect on the Group's financial condition or results of operations. The Group maintains product liability insurance that it believes is adequate at the present time in light of the Group's prior experience.

(b) Commitments:

(i) Operating Lease Commitments:

As of December 31, 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 2022.

Rental expense included in the accompanying consolidated statements of income for the years ended December 31, 2017 and 2016, amounted to $4,030 and $2,819, respectively.

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

	December 31, 2017	December 31, 2016
Within one year	1,488	949
1-5 years	2,846	1,863
Over 5 years	-	-
Total	**4,334**	**2,812**

(ii) Letters of Guarantee:

At December 31, 2017 and 2016, the Group had outstanding bank letters of guarantee in favor of various parties amounting to $760 and $2,700, respectively. Such guarantees have been provided for the good execution of agreements and for the participation in biddings.

(iii) Investment in the United States:

To remain current in the U.S. market, the Group is engaged in modifications to the Johnstown facility. The Group has signed agreements with various suppliers and contractors related to these modifications. Future minimum amounts payable under these agreements as at December 31, 2017 amounted to $22,002 all of which is due within the next 15 months. Of the total future amounts payable, $11,812 is denominated in Euro.

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

27. CONTINGENCIES AND COMMITMENTS (continued)

(iv) Investment in Luxembourg:
The Company has decided to construct its New Manufacturing Facility in Luxembourg to meet increasing European demand. The Group has signed agreements with various suppliers and contractors related to this construction. Future minimum amounts payable under these agreements as at December 31, 2017 amounted to $24,880 all of which are denominated in Euro. Most of these amounts are due between one and five years.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES:

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

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

a) Market Risk

(i) ***Interest Rate Risk:*** As of December 31, 2017, the Group had short-term borrowings amounting to $11,993 at variable rates with a weighted average interest rate of 6.45%. As of December 31, 2016, the Group had short-term borrowings amounting to $5,271 at variable rates with a weighted average interest rate of 6.80%. The Group does not use derivative financial instruments to hedge the interest rate risk on our debt obligations.

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

As of December 31, 2017 and 2016, approximately 35.5% and 35.1%, respectively, of the Group's sales were denominated in currencies other than the presentation currency of the Group and 35.0% and 30.8%, respectively, of costs were denominated in foreign currencies. The following table demonstrates a model of the sensitivity to a change in the U.S. dollar and British pound exchange rate that is reasonable and possible, with all other variables held constant, of the Group's profit/(loss) before tax and the Group's equity.

a) Market Risk (continued)

		Increase/ decrease in foreign currency rate	Effect on profit/(loss) before tax	Effect on equity
2017	Euro	+5%	(581)	568
		-5%	581	(568)
	GB pound	+5%	25	(10)
		-5%	(25)	10
2016	Euro	+5%	536	1,300
		-5%	(536)	(1,300)
	GB pound	+5%	30	(20)
		-5%	(30)	20

(iii) ***Fair Value Risk:*** The carrying amounts reflected in the accompanying consolidated statement of financial position for cash and cash equivalents, trade and other receivables, trade and other payables and accrued and other current liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of available for sale financial assets in the accompanying consolidated statement of financial position reflect their fair value. The fair value of variable rate borrowings and other long-term liabilities approximate their carrying amounts. The fair value of the Group's Senior Notes on December 31, 2017 and 2016, amounted to $406,350 and $419,441, respectively.

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

28. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) ***Credit Risk:*** The Group's maximum exposure to credit risk, due to the failure of counter parties to perform their obligations as at December 31, 2017 and 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 which accounted for more than 10% of the Group's revenue or receivables.

c) ***Liquidity Risk:*** The Group manages liquidity risk by monitoring forecasted cash flows and ensuring that adequate banking facilities and reserve borrowing facilities are maintained. The Group has sufficient undrawn borrowing facilities that can be utilized to fund any potential shortfall in cash resources.

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

The table below summarizes the maturity profiles of various financial liabilities as at December 31, 2017 and 2016, based on contractual undiscounted payments.

December 31, 2017	1 to 12 months	2 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	-	-	420,000	420,000
Interest accruing on Senior Notes	23,625	94,500	94,500	212,625
Trade, other payables and accrued interest	32,793	-	-	32,793
	56,418	94,500	514,500	665,418

December 31, 2016	1 to 12 months	2 to 5 years	Over 5 years	Total
Interest bearing loans and borrowings	-	-	420,000	420,000
Interest accruing on Senior Notes	23,625	94,500	109,266	227,391
Trade, other payables and accrued interest	42,900	-	-	42,900
	66,525	94,500	529,266	690,291

Capital Management

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. The Group funds its operating costs through cash from operations and short-term borrowings under various lines of credit maintained with several banks. As of December 31, 2017 and 2016, the unused credit lines amounted to $35,000 and $40,270, respectively.

Following is a table setting forth our capitalization as of December 31, 2017 and 2016.

	December 31,	
	2017	**2016**
Interest bearing loans and borrowings	410,949	410,165
Short-term borrowings	11,993	5,271
Trade accounts payables and due to related companies	23,803	33,211
Less cash and cash equivalents	(128,452)	(117,486)
Net debt	**318,293**	**331,161**
Total equity	**269,479**	**191,971**
Equity and net debt	**587,772**	**523,132**
Gearing ratio	**54.2%**	**63.3%**

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

28. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial Instruments

Set forth below is a comparison by category of carrying amounts and fair values as of December 31, 2017 and 2016, of all of the financial instruments that are carried in the consolidated financial statements.

	Carrying amount		Fair value	
	December 31,		December 31,	
	2017	2016	2017	2016
Non-financial assets				
Land	73,968	41,981	73,968	41,981
Financial assets				
Cash and cash equivalents	128,452	117,486	128,452	117,486
Available-for-sale investments	106	593	106	593
Trade and other receivables	77,698	75,967	77,698	75,967
Due from related companies	828	504	828	504
Financial liabilities				
Interest-bearing loans and borrowings	410,949	410,165	406,350	419,441
Short-term borrowings	11,993	5,271	11,993	5,271
Trade accounts payables	22,841	32,257	22,841	32,257
Due to related companies	962	954	962	954
Accrued and other liabilities	29,028	36,258	29,028	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
	2017	2016	
Financial assets			
Available-for-sale investments	-	335	Level 1
Available-for-sale investments	106	258	Level 2
Financial liabilities			
Fixed rate borrowings	406,350	419,441	Level 1

29. SUBSEQUENT EVENTS:

On March 1, 2018, FAGE International S.A. paid dividends to its shareholders in an aggregate amount of $20,000.