ADMINISTRATORS' REPORT
Regarding the consolidated financial statements 30.09.2016

GROUP ACTIVITY in the first nine months of 2016

The main object of activity of the Group in the first nine months of 2016 it was the collection of milk, industrialization and marketing of dairy products to various beneficiaries. Along with the increase of the workload by increasing the turnover and the production volume had been permanently considered the increase of profitability of the company and the improvement of its financial results.

1. Raw material situation in the first nine months of 2016

The amount of milk purchased by Albalact group in the first nine months of 2016 has seen a slight increase in quantitative terms compared to the same period of the last year. Regarding the collection milk activity, the major objective was to increase the quality of raw material purchased from livestock farms. Group orientation is to collect raw milk from a relatively small number of suppliers, which leads to lower supply/ transport costs and maintains the quality of standards of the milk supplied.

2. Sale of products made during the nine months 2016

In the first nine months of 2016 the Group continued the media advertising campaign, aiming to support both Fulga and Albalact brand, focusing on the 10 years anniversary since the launch of the successful brand Zuzu.

In the first nine months of 2016 Fulga, Zuzu, ZUZU MAX, ZUZU Bifidus, Rarăul and Poiana Florilor continues to expand the product range, in particular by launching the fresh yoghurt to different weights.

The Plant located in Oiejdea is one of the most modern and largest factories in the Southeastern Europe. Based on art technology, the plants in Campulung Moldovenesc and Oiejdea are equipped with fully automated facilities and extremely rigorous control systems of processing parameters and of those of packaging, ensuring a production process without interruptions and problems.

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NET RESULT

	30.09.2015	30.09.2016
1. Operating income	313.469.250	367.633.840
2. Revenue expenditures	300.090.271	341.076.599
OPERATING PROFIT AND LOSS:		
-Profit	13.378.979	26.557.241
FINANCIAL PROFIT AND LOSS:		
-Profit		
-Loss	392.882	53.430
GROSS PROFIT AND LOSS:		
-Profit	12.986.097	26.503.811
-Loss		
NET PROFIT AND LOSS OF THE FINANCIAL YEAR:		
- Profit	9.980.991	23.812.553
- Loss		

From the presented indicators is find out an increase of the net profit with **239 %** in comparison with the first nine months of 2015.

ANALYSIS OF OPERATING RESULTS

Indicator name	Financial year concluded on September 30, 2015 (lei)	Financial year concluded on September 30, 2016 (lei)
1. Operating income	313.469.250	367.633.840
2. Raw materials and consumables	(201.812.723)	(240.053.895)
3. Wages and contributions	(33.325.065)	(40.133.080)
4. Expenses with rents	(832.834)	(1.268.403)
5. Other services provided by third parties	(6.663.604)	(7.199.687)
6. Advertising and publicity	(8.754.505)	(8.764.024)
7. Amortization	(17.411.609)	(16.035.304)
8. Other operating expenses	(31.289.931)	(27.622.206)
9. Operating result	13.378.979	26.557.241

On 30.09.2016 the Group had loans (excluding finance lease obligations) amounting to 47.265.385lei, of which 30.255.218 lei short-term loans and 17.010.167 lei long-term loans, up to 5 years .

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OTHER INFORMATION

The situation of payments to the state budget related to the first nine months of 2016 is as follows:

	Balance beginning of the year	Constitutes	Transferred	Balance
1. Tax profit	(349.760)	2.684.912	5.533.931	2.499.259
2. Deferred income tax asset	0	0	0	0
3. Deferred income tax liabilities	(2.102.264)	0	0	(2.102.264)
4. Salary tax	(462.718)	4.816.167	4.628.153	(650.732)
5. VAT to be paid	(1.147.718)	4.944.991	4.961.704	(1.131.005)
6. VAT to be recovered	4.782.316	6.347.600	6.237.444	4.672.160
7. HIF, HIW, Unemployment	(1.307.926)	13.448.537	13.103.837	(1.652.626)

Balances are related to the due obligations on October 25, 2016.

INVESTMENTS IN BRANCHES

The group had the following branches September 30, 2016 :

Name	Percentage of ordinary shares held by the parent company (%)	Percentage of ordinary shares held by non-controlling interests (%)
Rarăul SA	99,01	0,99
Albalact Logistic SRL	100	-

Total non-controlling interests in these periods amount to 62.140 lei, and are assigned to Rarăul SA branches.

The posts included in annual financial statements September 30, 2016 correspond to the data registered in accounting, as reflected in the trial balance of synthetic accounts.

From unaudited consolidated financial data for the period ended in September 30, 2016 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union and are unaudited.

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ECONOMIC – FINANCIAL STATEMENTS

1. global liquidity = $\frac{\text{current assets}}{\text{Total debts < 1 year}} = \frac{80.432.085}{89.468.864} = 0,90$

2. reduced liquidity = $\frac{\text{current assets-stocks}}{\text{Total debts < 1 year}} = \frac{59.284.875}{89.468.864} = 0,66$

3. Economic rate of return = $\frac{\text{operating profit}}{\text{total assets}} = \frac{26.557.241*100}{225.859.368} = 11,76\ \%$

4. solvability = $\frac{\text{ownership equity}}{\text{total passive}} = \frac{99.723.376}{225.859.368} = 0,44$

5. degree of indebtedness = $\frac{\text{long term debts}}{\text{ownership equity}} = \frac{36.667.128}{99.723.376} = 0,37$

IMPORTANT OBJECTIVES PROPOSED FOR 2016

The main objectives in 2016 followed by the Group's management shall be increasing the market share in most products, sustained growth on cheese market and improved of profitability and the financial position of the group.

On this line is trying to increase the number of customers, a consolidation of the shelf space and increase of sales by each type of client by a better performance on the market and by implementing an appropriate assortment.

As part of the support and continuity to reach the objectives for 2016, in January 2016, Lactalis entered into an agreement to acquire the entire interest of the Company's key shareholders, who hold 70.3% of Albalact SA share capital.

During July 2016, the contracting parties found that all the conditions precedent laid down in the agreement had been fulfilled. Thus, Lactalis submitted the bid documentation related to the voluntary takeover through B.S.A. International, a member of the group, and received the approval from the Financial Supervision Authority on such bid on 27 July 2016. The minimum price bid is RON 0.5252 per share. The public voluntary takeover offer was valid during 10 August 2016 – 14 September 2016, and the bidder acquired a number of 618,771,221 Albalact SA shares, which amounts to 94.80% of Albalact SA's share capital.

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Upon expiry of the voluntary takeover offer, i.e. on 19 September 2016, the members of the board of directors tendered their resignation, and on 6 October 2016, the Ordinary GSN passed the election of a new Board of Directors including:
Mr Aurelio Antuna Rodriguez – chairman of board of directors;
Mr Gilles Joseph Stephane Meziere- member of board of directors;
Mr Michel Francois Jacques Auguste Peslier – member of board of directors.

PRESIDENT OF THE BOARD OF DIRECTORS,

AURELIO ANTUNA RODRIGUEZ

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