

CRESUD INC  
Form 20-F/A  
December 30, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F/A**

**Amendment No. 1**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12 (b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: June 30, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-29190

# **CRESUD SOCIEDAD ANONIMA COMERCIAL INMOBILIARIA FINANCIERA Y AGROPECUARIA**

(Exact name of Registrant as specified in its charter)

**CRESUD INC.**

(Translation of Registrant's name into English)

**Republic of Argentina**

(Jurisdiction of incorporation or organization)

**Moreno 877, 23 Floor,**

**(C1091AAQ) Buenos Aires, Argentina**

(Address of principal executive offices)

**Gabriel Blasi**

**Chief Financial Officer**

**Tel +(5411) 4323-7449 [finanzas@cresud.com.ar](mailto:finanzas@cresud.com.ar)**

**Moreno 877 22<sup>nd</sup> Floor**

**(C1091AAQ) Buenos Aires, Argentina**

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing ten shares of Common Stock	Nasdaq National Market of the  Nasdaq Stock Market
Common Stock, par value one Peso per share	Nasdaq National Market of the  Nasdaq Stock Market*

\* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of Common Stock of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria as of June 30, 2008 was:

Shares of Common Stock 501,531,865

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act:  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by  Other

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the International Accounting Standards Board

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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**EXPLANATORY NOTE**

This Amendment No. 1 to the annual report on Form 20-F of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria that was originally filed on December 30, 2008 (the 2008 Form 20-F ), is being filed solely for the purpose of including (i) consolidated financial statements of IRSA, as of June 30, 2008 and 2007 and for the years ended June 30, 2008, 2007 and 2006, (ii) consolidated financial statements of Banco Hipotecario S.A. as of June 30, 2008 and 2007 and for the twelve months ended June 30, 2008, 2007 and 2006, and (iii) amended Presentation of financial and certain other information by adding the paragraph set forth below to reflect the inclusion of the financial statements referred to in (ii) above. For the convenience of the reader, the entire amended Form 20-F is re-filed herewith.

Also contained in this annual report are the consolidated financial statements of Banco Hipotecario S.A. ( Banco Hipotecario ) as of June 30, 2008 and 2007 and for the twelve months ended June 30, 2008, 2007 and 2006, which also have been audited by Price Waterhouse & Co. S.R.L., Buenos Aires, Argentina, a member firm of PricewaterhouseCoopers, an independent registered public accounting firm, whose report is included herein.

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**DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION**

The Private Securities Litigation Reform Act of 1995 provides a Safe Harbor for forward looking statements.

This Annual Report contains or incorporates by reference statements that constitute forward-looking statements, regarding the intent, belief or current expectations of our directors and officers with respect to our future operating performance. Such statements include any forecasts, projections and descriptions of anticipated cost savings or other synergies. Words such as anticipate, expect, intend, plan, believe, seek, variations of such words, and similar expressions are intended to identify such forward-looking statements. You should be aware that any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties, and that actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, without limitations, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates, and operating and financial risks related to managing growth and integrating acquired businesses), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.

Factors that could cause actual results to differ materially and adversely include, but are not limited to:

changes in general economic, business or political or other conditions in Argentina or changes in general economic or business conditions in Latin America;

changes in capital markets in general that may affect policies or attitudes toward lending to Argentina or Argentine companies;

changes in exchange rates or regulations applicable to currency exchanges or transfers;

unexpected developments in certain existing litigation;

increased costs;

unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and

the factors discussed under Risk Factors .

You should not place undue reliance on such statements, which speak only as of the date that they were made. Our independent public accountants have not examined or compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we might issue in the future. We do not undertake any obligation to release publicly any revisions to such forward-looking statements after filing of this Form to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

**CERTAIN MEASURES AND TERMS**

As used throughout this Annual Report, the terms Cresud , Company , we , us , and our refer to Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria, together with our consolidated subsidiaries, except where we make clear that such terms refer only to the parent company.

References to Tons , tons or Tns. are to metric tons, to kgs are to kilograms, to ltrs are to liters and Hct are to hectares. A metric ton is equal to 1,000 kilograms. A kilogram is equal to approximately 2.2 pounds. A metric ton of wheat is equal to approximately 36.74 bushels. A metric ton of corn is equal to approximately 39.37 bushels. A metric ton of soybean is equal to approximately 36.74 bushels. One gallon is equal to 3.7854

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liter. One hectare is equal to approximately 2.47 acres. One kilogram of live weight beef cattle is equal to approximately 0.5 to 0.6 kilogram of carcass (meat and bones).

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**PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION**

In this annual report where we refer to *Peso* , *Pesos* , or *Ps.* we mean Argentine pesos, the lawful currency in Argentina; when we refer to *U.S. dollars* , or *US\$* we mean United States dollars, the lawful currency of the United States of America; and when we refer to *Central Bank* we mean the Argentine Central Bank.

This Annual Report contains our audited consolidated financial statements as of June 30, 2008 and 2007 and for the years ended June 30, 2008, 2007 and 2006 (our *Consolidated Financial Statements* ). Our Consolidated Financial Statements have been audited by Price Waterhouse & Co. S.R.L. Buenos Aires Argentina, a member firm of PricewaterhouseCoopers, an independent registered public accounting firm, whose report is included herein. We prepare our Consolidated Financial Statements in Pesos and in conformity with generally accepted accounting principles used in Argentina, as set forth by the *Federación Argentina de Consejos Profesionales de Ciencias Económicas* ( *FACPCE* ) and as implemented, adapted, amended, revised and/or supplemented by the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* ( *CPCECABA* ) (collectively Argentine GAAP). In addition, we must comply with the regulations of the *Comisión Nacional de Valores* ( *CNV* ), the National Securities Commission in Argentina, which differ in certain significant respects from generally accepted accounting principles in the United States of America ( *US GAAP* ). Such differences involve methods of measuring the amounts shown in the Consolidated Financial Statements as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission ( *SEC* ). See Note 20 to our Consolidated Financial Statements for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

As discussed in Note 2.d), in order to comply with regulations of the CNV, we discontinued inflation accounting as from February 28, 2003. Since Argentine GAAP required companies to discontinue inflation adjustments only as from October 1, 2003, the application of CNV resolution represented a departure from Argentine GAAP. However, due to low inflation rates during the period from March to September 2003, such a departure has not had a material effect on the Consolidated Financial Statements.

In addition, in accordance with the CNV regulations, we recognized deferred income taxes on an undiscounted basis. This accounting practice represented a departure from Argentine GAAP but did not have a material effect on the consolidated financial statements for the year ended June 30, 2006. However, as further discussed below, the CPCECABA issued revised accounting standards. One of these standards required companies to account for deferred income taxes on an undiscounted basis, thus aligning the accounting to that of the CNV. Since the CNV adopted the CPCECABA standards effective for the Company for the year ended June 30, 2007, there was no longer a difference on this subject between Argentine GAAP and the CNV regulations.

Effective July 1, 2006, we adopted Technical Resolution No. 22 *Agricultural Activities* (RT No. 22). RT No. 22 prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets. RT No. 22 prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. It requires measurement at fair value less estimated point-of-sale costs from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. RT No. 22 requires that a change in fair value less estimated point-of-sale costs of a biological asset be included in profit or loss for the period in which it arises. RT No. 22 also requires that gains or losses arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs to be included in profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the entity. RT No. 22 is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Accordingly, RT No. 22 does not deal with the processing of agricultural produce after harvest; for example, the processing of milk into cheese.

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Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset. Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes. Biological transformation results in the following types of outcomes: asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants).

The adoption of RT No. 22 did not have a significant impact in our measurement and recognition of biological transformation. Rather, it changed the format of our income statement. Under RT No. 22 we disclose certain components of our costs as separate line items in the income statement. There was no change in our gross profit for any of the periods presented.

Prior to the adoption of RT No. 22 gains or losses arising from initial recognition of biological assets and agricultural produce as well as changes in fair value of biological assets were included as a deduction of costs of sales. Under RT No. 22 these changes are disclosed separately in the income statement under the line item titled "Production income" in our income statement.

Also, prior to the adoption of RT No. 22, costs directly related to the transformation of biological assets and agricultural produce were also included as an addition to costs of sales. Under RT No. 22, these costs are disclosed separately in the income statement under the line item titled "Cost of production" in our income statement due to the direct relationship to the transformation of biological assets and agricultural produce.

The adoption of RT No. 22 did not affect our recognition of revenue which is included in the line item titled "Sales" in our income statement. See Note 3 a) for our revenue recognition policies. As a result of the adoption of RT No. 22, our costs of sales only show certain direct costs related to the sales of agricultural produce other than selling expenses. RT No. 22 intends to purport that costs of sales are not significant in agricultural activities while costs of biological transformation into agricultural produce represent the major costs of these activities.

In addition, under RT No. 22, Exhibits "Cost of Sales" and "Cost of production" included in Note 18 e) and f) to our income statement present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. This reconciliation includes (a) the gain or loss arising from changes in fair value less estimated point-of-sale costs; (b) increases due to purchases; (c) decreases attributable to sales and biological assets classified as held for sale; (d) decreases due to harvest; (e) increases resulting from business combinations, if any; (f) other changes.

The CNV issued General Resolutions 485 and 487 on December 29, 2005 and January 26, 2006, respectively which adopted, with certain modifications, the new accounting standards previously issued by the CPCECABA through its Resolution CD 93/2005. These standards were effective for our fiscal year ended June 30, 2007.

The most significant changes included in the accounting standards adopted by the CNV relate to (i) changes in the impairment test of long-lived assets and (ii) changes to deferred income tax accounting and (iii) accounting of deferred income taxes on a non-discounted basis.

Under the new standards, the carrying value of a long-lived asset is considered impaired by a company when its value in use or its net realizable value, whichever is greater, is less than its carrying value. Value in use is determined by the expected cash flows from the assets discounted at a rate commensurate with the risk involved. Net realizable value is determined by the selling price of the asset less costs of sell.

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The new standards provided for the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements. The new accounting standard mandates companies to treat these differences as temporary but allowed a one-time accommodation to continue treating these differences as permanent at the time of adoption of the standard. As a result, we elected to continue treating differences as permanent.

As mentioned in Note 4.b) to our consolidated financial statements, as of June 30, 2008 we owned a 42.13% equity interest in Inversiones y Representaciones Sociedad Anónima ( IRSA ).

Also contained in this Annual Report are the consolidated financial statements of IRSA, as of June 30, 2008 and 2007 and for the years ended June 30, 2008, 2007 and 2006, which have been audited by Price Waterhouse & Co. S.R.L. Buenos Aires Argentina, a member firm of PriceWaterhouseCoopers, an independent registered public accounting firm, whose report is included herein. As of June 30, 2008, IRSA has a significant investment in *Banco Hipotecario S.A.* that accounts for approximately 6.5% of IRSA's total consolidated assets. Also contained in this annual report are the consolidated financial statements of Banco Hipotecario S.A. ( Banco Hipotecario ) as of June 30, 2008 and 2007 and for the twelve months ended June 30, 2008, 2007 and 2006, which also have been audited by Price Waterhouse & Co. S.R.L., Buenos Aires, Argentina, a member firm of PricewaterhouseCoopers, an independent registered public accounting firm, whose report is included herein.

IRSA prepares its financial statements in Pesos and in conformity with Argentine GAAP and the regulations of the *Comisión Nacional de Valores*, which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 28 to IRSA's consolidated financial statements contained elsewhere in this annual report for a description of the main differences between Argentine GAAP and U.S. GAAP as they relate to IRSA, and a reconciliation with U.S. GAAP of net income and shareholders' equity.

As discussed in Note 3.n. to IRSA's financial statements, in order to comply with *Comisión Nacional de Valores* regulations, IRSA recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represented a departure from Argentine GAAP for the year ended June 30, 2006. However, such departure has not had a material effect on the IRSA's consolidated financial statements.

Additionally, as discussed in Notes 2.c. to IRSA's financial statements, in order to comply with regulations of the CNV, we discontinued inflation accounting as from February 28, 2003. The application of this CNV regulation represented a departure from Argentine GAAP. However, such departure has not had a material effect on our consolidated financial statements.

Certain amounts which appear in this annual report (including percentage amounts) may not sum due to rounding. Solely for the convenience of the reader, we have translated certain Peso amounts into U.S. dollars at the exchange rate quoted by the Central Bank for June 30, 2008, which was Ps.3.025 = US\$ 1.00. We make no representation that the Peso or U.S. dollar amounts actually represent or could have been or could be converted into U.S. dollars at the rates indicated, at any particular rate or at all.

References to fiscal years 2004, 2005, 2006, 2007 and 2008 are to the fiscal years ended June 30 of each such year.

**MARKET DATA**

Market data used throughout this annual report were derived from reports prepared by unaffiliated third-party sources. Such reports generally state that the information contained therein has been obtained from sources believed by such sources to be reliable. Certain market data which appear herein (including percentage amounts) may not sum due to rounding.

**Table of Contents****PART I****Item 1. Identity of directors, Senior Management and Advisers**

This item is not applicable.

**Item 2. Offer statistics and expected timetable**

This item is not applicable.

**Item 3. Key information****A. SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data has been derived from our audited consolidated financial statements as of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements and the discussion in Operating and Financial Review and Prospects included elsewhere in this Annual Report. The selected consolidated statement of income data for the years ended June 30, 2008, 2007 and 2006 and the selected consolidated balance sheet data as of June 30, 2008 and 2007 have been derived from our consolidated financial statements which have been audited by Price Waterhouse & Co. S.R.L. Buenos Aires Argentina, a member firm of PricewaterhouseCoopers, Buenos Aires, Argentina, an independent registered public accounting firm.

The selected consolidated statement of income data for the years ended June 30, 2005 and 2004 and the selected consolidated balance sheet data as of June 30, 2006 and 2005 have been derived from our audited consolidated financial statements as of June 30, 2006 and 2005 and for the three years in the period ended June 30, 2006 which are not included herein.

Certain reclassifications have been made to consolidated financial data derived from our consolidated financial statements as of June 30, 2006 and 2005 and for the three years in the period ended June 30, 2006, which are not included herein, has been reclassified to conform to the presentation of our fiscal year ended June 30, 2008. The reclassifications had no impact on previously reported net income, net income per share, shareholders' equity or cash flows.

The selected consolidated balance sheet data as of June 30, 2004 has been derived from our audited consolidated financial statements as of June 30, 2005 and 2004 and for the three years in the period ended June 30, 2005 which are not included herein.

Certain reclassifications have been made to financial data derived from our consolidated financial statements as of June 30, 2005 and 2004 and for the three years in the period ended June 30, 2005 to conform to the presentation of our fiscal year ended June 30, 2008. The reclassifications had no impact on previously reported net income, net income per share, shareholders' equity or cash flows.

	2008 <sup>(1)</sup>	2008	As of the year ended June 30		2005	2004
	(in US\$, except for percentages)		2007	2006		
			(in Ps., except for percentages)			
<b>INCOME STATEMENT DATA</b>						
<i>Argentine GAAP</i>						
Production income:						
Crops	38,834,250	117,473,605	72,426,012	37,005,907	44,052,970	24,369,232
Beef cattle	7,909,727	23,926,925	19,462,410	20,452,655	19,993,923	20,637,512
Milk	6,089,368	18,420,338	10,911,397	7,892,462	3,463,144	3,191,948
Total production income	52,833,345	159,820,868	102,799,819	65,351,024	67,510,037	48,198,692

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Cost of production:

Crops	(27,157,260)	(82,150,711)	(51,538,292)	(34,635,590)	(34,463,844)	(17,616,790)
Beef cattle	(6,385,455)	(19,316,000)	(15,050,438)	(18,780,372)	(17,012,337)	(15,112,209)
Milk	(4,721,682)	(14,283,089)	(8,476,391)	(5,845,360)	(2,094,975)	(1,307,962)
Total cost of production	(38,264,397)	(115,749,800)	(75,065,121)	(59,261,322)	(53,571,156)	(34,036,961)
Gross income from production	14,568,948	44,071,068	27,734,698	6,089,702	13,938,881	14,161,731

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<b>Sales:</b>						
Crops	28,717,518	86,870,493	53,401,376	61,659,566	30,893,216	26,838,376
Beef cattle	10,721,299	32,431,928	31,966,582	33,713,479	36,826,885	27,723,604
Milk	5,782,662	17,492,552	9,730,929	7,892,462	3,463,144	3,191,948
Feed lot			3,102,229	2,721,377	2,129,838	7,120,335
Other	8,524,293	25,785,987	12,116,372	6,353,777	4,859,931	4,778,545
<b>Total sales</b>	<b>53,745,772</b>	<b>162,580,960</b>	<b>110,317,488</b>	<b>112,340,661</b>	<b>78,173,014</b>	<b>69,652,808</b>
<b>Cost of sales:</b>						
Crops	(25,106,948)	(75,948,518)	(47,350,203)	(52,948,920)	(26,272,586)	(23,992,089)
Beef cattle	(9,929,989)	(30,038,217)	(30,272,710)	(32,993,523)	(35,810,780)	(26,478,681)
Milk	(5,828,053)	(17,629,859)	(9,730,929)	(7,892,462)	(3,463,144)	(3,191,948)
Feed lot			(2,784,315)	(2,318,102)	(1,855,278)	(6,185,771)
Other	(5,745,198)	(17,379,224)	(6,737,019)	(3,257,448)	(1,546,204)	(1,196,060)
<b>Total cost of sales</b>	<b>(46,610,188)</b>	<b>(140,995,818)</b>	<b>(96,875,176)</b>	<b>(99,410,455)</b>	<b>(68,947,992)</b>	<b>(61,044,549)</b>
Gross income from sales	7,135,584	21,585,142	13,442,312	12,930,206	9,225,022	8,608,259
Gross profit	21,704,532	65,656,210	41,177,010	19,019,908	23,163,903	22,769,990
Selling expenses	(4,792,438)	(14,497,124)	(9,971,891)	(10,151,452)	(6,599,566)	(5,740,115)
Administrative expenses	(8,629,275)	(26,103,558)	(16,628,088)	(11,560,307)	(7,271,279)	(4,957,250)
Net gain on sale of farms	6,616,346	20,014,447	22,255,710	9,897,186	19,987,989	1,668,751
Unrealized gain on farm held for sale	292,565	885,009				
<b>Unrealized gain (loss) on inventories:</b>						
Beef cattle	2,821,539	8,535,154	5,102,943	2,847,711	11,620,779	2,236,255
Crops, raw materials and MAT	(3,595,940)	(10,877,719)	(3,926,654)	1,054,094	(4,644,234)	1,834,248
Operating income	14,417,329	43,612,419	38,009,030	11,107,140	36,257,592	17,811,879
Financial results, net	(17,278,539)	(52,267,581)	(10,457,994)	12,373,958	63,751,386	(18,969)
Gain on equity investees	12,699,903	38,417,207	40,198,825	22,140,997	28,087,632	26,669,884
Other expense, net	(1,352,894)	(4,092,503)	(4,250,800)	(3,367,594)	(5,065,386)	(363,761)
Management fee	(717,680)	(2,170,982)	(5,484,697)	(3,836,470)	(8,533,213)	(3,567,003)
Income before income tax and minority interest	7,768,119	23,498,560	58,014,364	38,418,031	114,498,011	40,532,030
Income tax expense	(93,908)	(284,073)	(8,375,095)	(5,431,831)	(37,787,594)	(8,570,269)
Minority interest	(88,082)	(266,449)	(277,000)	(102,924)	88,501	141,261
Net income	7,586,129	22,948,038	49,362,269	32,883,276	76,798,918	32,103,022
<b>U.S. GAAP</b>						
Total sales	53,745,772	162,580,960	104,493,979	105,371,504	75,582,982	62,179,287
Total cost of sales	(34,689,810)	(104,936,675)	(62,333,457)	(83,441,671)	(52,000,895)	(40,330,843)
Gross profit	19,055,962	57,644,285	42,160,522	21,929,833	23,582,087	21,848,444
Selling expenses	(4,795,301)	(14,505,785)	(9,935,884)	(10,195,068)	(6,612,375)	(5,674,857)
Administrative expenses	(10,618,964)	(32,122,366)	(24,306,848)	(16,096,656)	(19,677,287)	(4,561,060)
Operating income	3,641,697	11,016,134	7,917,790	(4,361,891)	(2,707,575)	11,612,527
Financial results, net	(18,466,472)	(55,861,079)	(15,752,831)	3,815,781	54,964,547	(8,998,813)
Gain on equity investees	14,084,411	42,605,343	40,562,309	21,758,975	47,201,959	3,455,098
Other expense, net	(1,350,030)	(4,083,842)	(4,126,463)	(3,245,776)	(1,815,594)	(539,804)
Income before income tax and minority interest	4,525,951	13,691,003	50,856,515	27,864,275	117,631,326	7,197,759
Income tax expense	988,443	2,990,040	(1,244,203)	(272,575)	(31,025,373)	(3,945,940)
Minority interest	(88,082)	(266,449)	(277,000)	(102,924)	88,501	35,483
Net income	5,426,312	16,414,594	49,335,312	27,488,776	86,694,454	3,287,302
<b>BALANCE SHEET DATA</b>						
<b>Argentine GAAP</b>						
<b>Current assets:</b>						
Cash and banks and investments	176,227,330	533,087,674	86,772,082	32,221,149	74,446,153	14,624,161
Inventories	36,867,855	111,525,262	52,460,289	28,932,135	46,293,640	35,441,885
Trade and other receivables, net	30,143,332	91,183,580	77,542,466	33,829,580	32,002,331	24,221,264
Other assets	353,886	1,070,506				
<b>Non-current assets:</b>						
Other receivables	13,674,317	41,364,810	43,236,560	36,005,292	6,480,334	101,758
Inventories	25,161,336	76,113,042	68,345,438	62,712,423	53,223,179	44,740,030



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Investments	306,105,954	925,970,511	474,022,374	428,598,147	364,468,960	367,512,830
Property and equipment, net	88,137,442	266,615,763	245,919,561	224,775,512	166,497,596	160,026,473
Intangible assets, net	7,546,790	22,829,041	23,581,646	23,581,646		
Total assets	684,218,244	2,069,760,189	1,071,880,416	870,655,884	743,412,193	646,668,401
<i>Current liabilities:</i>						
Trade accounts payable	16,376,703	49,539,528	30,935,851	26,438,528	17,894,529	10,840,177
Short-term debt	64,661,225	195,600,209	122,749,734	66,421,573	11,499,782	8,090,261
Other liabilities, taxes, charges, salaries and social security payable	5,688,412	17,207,447	14,006,121	9,048,990	36,585,829	10,370,898
<i>Non-current liabilities:</i>						
Long-term debt	693,129	2,096,716	27,085,386	99,550,449	114,798,751	125,920,201

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Taxes payable	13,824,075	41,817,828	51,312,237	42,770,882	39,285,385	26,213,217
Total liabilities	101,243,546	306,261,728	246,089,329	244,230,422	220,064,276	181,434,754
Minority interest	383,580	1,160,330	836,872	559,871	276,947	65,451
Shareholders' equity	582,591,118	1,762,338,131	824,954,215	625,865,591	523,070,970	465,168,196
<b>U.S. GAAP</b>						
<i>Non-current assets:</i>						
Inventories	11,370,386	34,395,419	32,297,175	26,348,869	16,950,827	14,371,493
Investments	286,622,351	867,032,613	597,100,979	444,010,858	289,309,184	236,526,965
Property and equipment, net	88,198,764	266,801,260	245,919,561	224,775,512	166,497,596	160,026,473
Total assets	650,651,127	1,968,219,659	1,158,910,758	843,456,953	625,764,749	478,020,170
<i>Non-current liabilities:</i>						
Long-term debt	49,066,974	148,427,595	4,722,857	69,708,185	74,810,412	76,346,451
Taxes payable	13,433,194	40,635,413	60,586,895	59,020,118	60,714,471	53,809,128
Total liabilities	149,226,510	451,410,192	233,001,458	228,821,956	199,627,882	155,443,201
Shareholders' equity	501,041,037	1,515,649,137	925,072,428	614,066,773	425,859,920	322,511,158
<b>CASH FLOW DATA</b>						
<b>Argentine GAAP</b>						
Net cash provided by (used in) operating activities	(25,217,658)	(76,283,416)	(56,140,794)	(21,470,041)	(10,100,935)	(280,751)
Net cash provided by (used in) investing activities	(134,428,461)	(406,646,096)	(866,877)	(110,865,934)	62,734,033	(25,089,388)
Net cash provided by (used in) financing activities	303,415,804	917,832,807	115,813,757	92,250,539	1,691,457	16,670,247
<b>U.S. GAAP<sup>(8)</sup></b>						
Net cash (used in) provided by operating activities	(24,649,907)	(74,565,968)	(62,359,968)	(3,839,611)	54,735,816	(13,156,027)
Net cash (used in) provided by investing activities	(215,646,300)	(652,330,059)	5,295,891	(133,000,622)	(1,918,881)	(12,983,501)
Net cash provided by (used in) financing activities	303,415,804	917,832,807	115,813,757	92,250,539	1,691,457	16,670,247
Effects of exchange rate changes	(567,751)	(1,717,448)	56,406	4,504,528	(183,837)	1,272,280
<b>OTHER FINANCIAL DATA</b>						
<b>Argentine GAAP</b>						
Basic net income per share <sup>(2)</sup>	0.02	0.06	0.20	0.19	0.49	0.23
Diluted net income per share <sup>(3)</sup>	0.02	0.06	0.16	0.13	0.25	0.13
Basic net income per ADS <sup>(2)(4)</sup>	0.21	0.62	2.00	1.93	4.90	2.30
Diluted net income per ADS <sup>(3)(4)</sup>	0.20	0.60	1.60	1.32	2.50	1.30
Weighted average number of common shares outstanding		368,466,065	247,149,373	170,681,455	155,343,629	137,137,783
Weighted average number of common shares outstanding plus conversion <sup>(5)</sup>		385,300,115	321,214,392	321,214,392	321,214,392	321,214,392
Dividends paid <sup>(6)</sup>	7.00	20.0	8.25	5.50	10.00	3.00
Dividends per share	0.013	0.040	0.026	0.024	0.059	0.020
Dividends per ADS <sup>(4)</sup>	0.13	0.40	0.26	0.24	0.59	0.20
Depreciation and amortization	2,140,115	6,473,847	4,459,067	5,112,088	4,169,139	3,937,141
Capital expenditures <sup>(7)</sup>	9,262,371	28,018,672	29,326,622	55,770,620	25,959,614	15,189,386
Gross margin <sup>(9)</sup>	41.1%	41.1%	40.1%	29.1%	34.3%	47.2%
Operating margin <sup>(10)</sup>	27.3%	27.3%	37.0%	17.0%	53.7%	37.0%
Net margin <sup>(11)</sup>	14.4%	14.4%	48.0%	50.3%	113.8%	66.6%
Ratio of current assets to current liabilities	2.81	2.81	1.29	0.93	2.31	2.54
Ratio of shareholders' equity to total liabilities	5.75	5.75	3.35	2.56	2.38	2.56
Ratio of non current assets to total assets	0.64	0.64	0.80	0.89	0.79	0.89
Ratio of Return on Equity ROE	0.02	0.02	0.07	0.06	0.16	0.07
<b>U.S. GAAP</b>						

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Basic net income per share <sup>(2)</sup>	0.01	0.04	0.20	0.16	0.56	0.02
Diluted net income per share <sup>(3)</sup>	0.01	0.04	0.18	0.15	0.34	0.02
Basic net income per ADS <sup>(2)(4)</sup>	0.13	0.40	2.00	1.61	5.58	0.24
Diluted net income per ADS <sup>(3)(4)</sup>	0.13	0.40	1.80	1.54	3.38	0.24
Weighted average number of common shares outstanding	368,466,065	247,149,373	170,681,455	155,343,629	137,137,783	
Weighted average number of common shares outstanding plus conversion <sup>(5)</sup>	388,439,848	305,057,442	270,811,838	283,140,627	137,137,783	
Gross margin <sup>(9)</sup>	35.5%	35.5%	40.3%	20.8%	31.2%	35.1%
Operating margin <sup>(10)</sup>	6.8%	6.8%	7.6%	(4.1%)	(3.6)%	18.7%
Net margin <sup>(11)</sup>	10.1%	10.1%	47.2%	26.1%	114.7%	5.3%

- (1) Solely for the convenience of the reader, we have translated Peso amounts into U.S. dollars at the exchange rate quoted by Banco de La Nación Argentina for June 30, 2008 which was Ps.3.025 = US\$1.00. We make no representation that the Peso or U.S. dollar amounts actually represent, could have been or could be converted into U.S. dollars at the rates indicated, at any particular rate or at all. See Exchange Rates.
- (2) Basic net income per share is computed by dividing the net income available to common shareholders for the period by the weighted average common shares outstanding during the period.
- (3) Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common shares assuming the total conversion of outstanding notes. See Notes 12 and 20.II.f) to our consolidated financial statements for details on the computation of earning per share under Argentine GAAP and U.S. GAAP, respectively.
- (4) Determined by multiplying per share amounts by ten (one ADS equals ten common shares).
- (5) Assuming (i) conversion into common shares of all of our outstanding convertible notes due 2007 and (ii) exercise of all outstanding warrants to purchase our common shares.
- (6) The shareholders meeting held on October 31, 2008 approved by majority the distribution of a cash dividend amounting to Ps.20.0 million.
- (7) Includes the purchase of farms and other property and equipment.
- (8) This table is intended to present cash flows from operating, investing and financing activities under Argentine GAAP but following the classification guidelines of SFAS No. 95 under U.S. GAAP. See Note 20.II.e) to our consolidated financial statements for details of the differences in classifications affecting the categories of cash flows.
- (9) Gross profit divided by the sum of production income and sales.
- (10) Operating income divided by the sum of production income and sales.
- (11) Net income divided by the sum of production income and sales.

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In April 1991, Argentine law established a fixed exchange rate according to which the Central Bank was statutorily obliged to sell U.S. dollars to any individual at a fixed exchange rate of Ps.1.00 per US\$1.00. On January 7, 2002, the Argentine congress enacted the Public Emergency Law, abandoning over ten years of fixed Peso-U.S. dollar parity at Ps.1.00 per US\$1.00. After devaluing the Peso and setting the official exchange rate at Ps.1.40 per US\$1.00, on February 11, 2002, the government allowed the Peso to float. The shortage of U.S. dollars and their heightened demand caused the Peso to further devalue significantly in the first half of 2002. Since June 30, 2002, the Peso has appreciated versus the U.S. dollar from an exchange rate of Ps.3.80=US\$1.00 to an exchange rate of Ps.3.4060=US\$1.00 at December 17, 2008 as quoted by *Banco de la Nación Argentina* at the U.S. dollar selling rate. Due to external shocks and aiming to maintain a stable parity, during the fiscal year 2008 the Central Bank has indirectly affected the exchange rate market, through active participation.

The following table presents the high, low, average and period closing exchange rate for the purchase of U.S. dollars stated in *nominal* Pesos per U.S. dollar.

	Exchange Rate			Period Closing
	High <sup>(1)</sup>	Low <sup>(2)</sup>	Average <sup>(3)</sup>	
Fiscal year ended June 30, 2003	3.7400	2.7120	3.2565	2.8000
Fiscal year ended June 30, 2004	2.9510	2.7100	2.8649	2.9580
Fiscal year ended June 30, 2005	3.0400	2.8460	2.9230	2.8670
Fiscal year ended June 30, 2006	3.0880	2.8590	3.0006	3.0860
Fiscal year ended June 30, 2007	3.1080	3.0480	3.0862	3.0930
Fiscal year ended June 30, 2008	3.1840	3.0160	3.1396	3.0250
June 2008	3.1110	3.0160	3.0485	3.0250
July 2008	3.0440	3.0140	3.0230	3.0440
August 2008	3.0520	3.0250	3.0333	3.0300
September 2008	3.1350	3.0280	3.0833	3.1350
October 2008	3.3880	3.1340	3.2423	3.3880
November 2008	3.3870	3.2850	3.3264	3.3730
December 2008 (As of December 17, 2008)	3.4680	3.3830	3.4175	3.4060

Source: *Banco de la Nación Argentina*

(1) The high exchange rate stated was the highest closing exchange rate of the month during the fiscal year or any shorter period, as indicated.

(2) The low exchange rate stated was the lowest closing exchange rate of the month during the fiscal year or any shorter period, as indicated.

(3) Average month-end closing exchange rates.

Fluctuations in the Peso-dollar exchange rate may affect the equivalent in dollars of the price in Pesos of our shares on the Buenos Aires Stock Exchange. Increases in Argentine inflation or devaluation of the Argentine currency could have a material adverse effect on our operating results.

**B. CAPITALIZATION AND INDEBTEDNESS**

This section is not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

This section is not applicable.

**D. RISK FACTORS**

*You should consider the following risks described below, in addition to the other information contained in this annual report. We may face additional risks and uncertainties that are not presently known to us, or that we currently deem immaterial, which may also impair our business. In general, you take more risk when you invest in the securities of issuers in emerging markets such as Argentina than when you invest in the securities of issuers in the United States. You should understand that an investment in our common shares, ADSs and warrants involves a high degree of risk, including the possibility of loss of your entire investment.*

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**Risks Related to Argentina**

***Argentina's recent growth may not be sustainable.***

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high inflation and currency devaluation. During 2001 and 2002, Argentina experienced a period of severe political, economic and social crisis, which caused a significant economic contraction and led to radical changes in government policies. Although the economy has recovered significantly since then, uncertainty remains as to whether the recent growth is sustainable, since it has depended, to a significant extent, on favorable exchange rates, high commodity prices and excess capacity. The recovery, however, has resulted in inflation and has intensified the country's need for capital investment, with many sectors, in particular the energy sector, operating near full capacity. Additionally, the current global financial crisis and economic downturn has begun to have a significant adverse impact on the country's performance and could worsen in the foreseeable future. Commodities prices, particularly those related to Argentine exports such as soybean, have declined significantly recently. Access to international financing, already limited as a result of the sovereign default in 2002, is currently virtually unavailable. Moreover, the country's relative stability since 2002 has been affected recently, by increased political tension and government intervention in the economy.

Our business depends to a significant extent on macroeconomic and political conditions in Argentina. We cannot assure you that Argentina's recent growth will continue. A deterioration in the country's economy would likely have a significant adverse effect on our business, financial condition and results of operations.

***Continuing inflation may have an adverse effect on the economy.***

The devaluation of the Peso in January 2002 created pressures on the domestic price system that generated high inflation throughout 2002, before inflation substantially stabilizing in 2003. However, inflationary pressures have since reemerged with consumer prices increasing by 12.3% in 2005. In 2006 and in 2007, inflation was 9.8% and 8.5%, respectively, in part due to actions implemented by the Argentine government to control inflation, which included limitations on exports and price arrangements agreed to with private sector companies. However, in spite of this decline in inflation, uncertainty surrounding future inflation may impact the country's growth.

As of November 30, 2008, according to the Argentine statistics and census agency, or INDEC, consumer prices increased by 7.9% on an annualized basis.

In the past, inflation has undermined the Argentine economy and the government's ability to create conditions conducive to growth. A return to a high inflation environment would impact in the long term credit market and real estate market and may also affect Argentina's foreign competitiveness by diluting the effects of the Peso devaluation and negatively impacting the level of economic activity and employment. If inflation remains high or continues to rise, Argentina's economy may be negatively impacted and our business could be adversely affected.

***There are concerns about the accuracy of Argentina's official inflation statistics.***

In January 2007, INDEC modified its methodology used to calculate the consumer price index, which is calculated as the monthly average of a weighted basket of consumer goods and services that reflects the pattern of consumption of Argentine households. Several economists as well as the international and Argentine press have suggested that this change in methodology was related to the Argentine government's policy aimed at curbing inflation. At the time that INDEC adopted this change in methodology, the Argentine government also replaced several key personnel at INDEC, prompting complaints of governmental interference from the technical staff at INDEC. In addition, the International Monetary Fund, or IMF, has requested that the government clarify its inflation rates. More recently, in June 2008, INDEC published a new consumer price index that eliminates nearly

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half of the items included in previous surveys and introduces adjustable weightings for fruit, vegetables and clothing, which have seasonal cost variations. INDEC has indicated that it based its evaluation of spending habits on a study of a national household consumption survey from 2004 to 2005 in addition to other sources; however, the new index has been criticized by economists and investors after its debut report found prices rising well below expectations. These events have affected the credibility of the consumer price index published by INDEC, as well as other indexes published by INDEC which require the consumer price index for their own calculation, including the poverty index, the unemployment index and real gross domestic product. Argentina's inflation rate may be significantly higher than the rates indicated by official reports. In addition, if it is determined that it is necessary to correct the consumer price index and the other INDEC indexes derived from the consumer price index, there could be a significant decrease in confidence in the Argentine economy, which could, in turn, have a materially adverse effect on our ability to access international credit markets at market rates to finance our operations.

***Argentina's ability to obtain financing from international markets is limited which may affect its ability to implement reforms and foster economic growth.***

In the first half of 2005, Argentina restructured part of its sovereign debt that had been in default since the end of 2001. The Argentine government announced that as a result of the restructuring, it had approximately US\$126.6 billion in total outstanding debt remaining. Of this amount, approximately US\$19.5 billion are defaulted bonds owned by creditors who did not participate in the restructuring of the external financial debt. As of June 30, 2008, the total outstanding debt was approximately US\$ 149.8 billion.

Some bondholders in the United States, Italy and Germany have filed legal actions against Argentina, and holdout creditors may initiate new suits in the future. Additionally, foreign shareholders of certain Argentine companies have filed claims in excess of US\$17 billion before the International Centre for the Settlement of Investment Disputes, or ICSID, alleging that certain government measures are inconsistent with the fair and equitable treatment standards set forth in various bilateral treaties to which Argentina is a party. As of the date of this annual report, the ICSID has rendered decisions in eight cases, requiring the Argentine government to pay approximately US\$ 1.0 billion plus interest in claims.

Argentina has recently reinitiated discussions with holdout creditors and certain multilateral institutions. However, Argentina's past default and its failure to restructure completely its remaining sovereign debt and fully negotiate with the holdout creditors may prevent Argentina from reentering the international capital markets. Litigation initiated by holdout creditors as well as ICSID claims may result in material judgments against the Argentine government and could result in attachments of, or injunctions relating to, assets of Argentina that the government intended for other uses. As a result, the government may not have the financial resources necessary to implement reforms and foster growth which could have a material adverse effect on the country's economy and, consequently, our business. In addition, the difficulties Argentina faces to access financing in the international markets could have an adverse effect on our capacity to obtain financing in the international markets in order to finance our operations and growth.

***Significant devaluation of the Peso against the U.S. dollar may adversely affect the Argentine economy as well as our financial performance.***

Despite the positive effects of the real depreciation of the Peso in 2002 on the competitiveness of certain sectors of the Argentine economy, it has also had a far-reaching negative impact on the Argentine economy and on businesses and individuals' financial condition. The devaluation of the Peso has had a negative impact on the ability of Argentine businesses to honor their foreign currency-denominated debt, initially led to very high inflation, significantly reduced real wages, had a negative impact on businesses whose success is dependent on domestic market demand, such as utilities and the financial industry, and adversely affected the government's ability to honor its foreign debt obligations.

If the Peso devalues significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences to our business. Moreover, it would likely result in a decline in the value of our common shares and the ADSs as measured in U.S. dollars.

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***Significant appreciation of the Peso against the U.S. dollar may adversely affect the Argentine economy.***

A substantial increase in the value of the Peso against the U.S. dollar also presents risks for the Argentine economy. The appreciation of the Peso against the U.S. dollar negatively impacts the financial condition of entities whose foreign currency-denominated assets exceed their foreign currency-denominated liabilities, such as us. In addition, in the short term, a significant real appreciation of the Peso would adversely affect exports. This could have a negative effect on GDP growth and employment as well as reduce the Argentine public sector's revenues by reducing tax collection in real terms, given its current heavy reliance on taxes on exports. The appreciation of the Peso against the U.S. dollar could have an adverse effect on the Argentine economy and our business.

***Government measures to preempt or respond to social unrest may adversely affect the Argentine economy.***

The Argentine government has historically exercised significant influence over the country's economy. Additionally, the country's legal and regulatory frameworks have at times suffered radical changes, undue political influence and significant uncertainties. Moreover, during its crisis in 2001 and 2002, Argentina experienced significant social and political turmoil, including civil unrest, riots, looting, nationwide protests, strikes and street demonstrations. Despite Argentina's economic recovery and relative stabilization, social and political tension and high levels of poverty and unemployment continue. In 2008, Argentina faced nationwide strikes and protests from farmers due to increased export taxes on agricultural products, which disrupted economic activity and have heightened political tension. Future government policies to preempt, or in response to, social unrest may include expropriation, nationalization, forced renegotiation or modification of existing contracts, suspension of the enforcement of creditors' rights, new taxation policies, including royalty and tax increases and retroactive tax claims, and changes in laws and policies affecting foreign trade and investment. Such policies could destabilize the country and adversely and materially affect the economy, and thereby our business.

***The nationalization of Argentina's pension funds will adversely affect local capital markets.***

In December 2008, the Argentina government transferred the approximately Ps. 94.4 billion (US\$29.3 billion) in assets held by the country's ten private *Administradoras de Fondos de Jubilaciones y Pensiones* (pension fund management companies, or AFJPs) to the government-run social security agency (ANSES).

AFJPs were the largest participants in the country's local capital market. With the nationalization of their assets, the local capital market is expected to diminish in size and be substantially concentrated in the hands of the government. In addition, the government will become a significant shareholder in many of the country's private companies. As a result, access to liquidity may be further limited, funding costs may rise and the government may have greater influence over the operations of private companies.

The nationalization of the AFJPs has adversely affected investor confidence in Argentina. In addition, we cannot assure you that the government will not take similar measures in the future that interfere with private sector businesses and adversely affect the economy.

***Exchange controls and restrictions on transfers abroad and capital inflow restrictions have limited, and can be expected to continue to limit, the availability of international credit.***

In 2001 and 2002, Argentina imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. Many of these restrictions were substantially eased after the crisis. However, in June 2005, the government issued decree No. 616/2005, that established additional controls on capital inflows, including the requirement that, subject to limit exemptions, 30% of funds remitted to Argentina remain deposited in a domestic financial institution for one year without earning any interest. This measure increases the cost of obtaining foreign funds and limits access to these funds.

The Argentine government may impose additional controls on the foreign exchange market and on capital flows from and into Argentina, in the future, for example in response to capital flight or depreciation of the peso. These restrictions may have a negative effect on the economy and our business if imposed in an economic environment where access to local capital is substantially constrained.



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### ***Payment of dividends to non-residents has been limited in the past and may be limited again.***

Beginning in February 2002, the payment of dividends, irrespective of amount, outside Argentina required prior authorization from the Central Bank. On January 7, 2003, the Central Bank issued communication A 3859 eliminating the limitation on companies' ability to purchase foreign currency and transfer it outside Argentina to pay dividends. However similar restrictions may be enacted by the Argentine government or the Central Bank again and, if this were to occur, it could have an adverse effect on the value of our common shares and the ADSs. Moreover, in such event, restrictions on the transfers of funds abroad may impede your ability to receive dividend payments as a holder of ADSs.

### ***The stability of the Argentine banking system is uncertain.***

During 2001 and the first half of 2002, a significant amount of deposits were withdrawn from Argentine financial institutions. This massive withdrawal of deposits was largely due to the loss of confidence of depositors in the Argentine government's ability to repay its debts, including its debts within the financial system, and to maintain peso-dollar parity in the context of its solvency crisis. To prevent a run on the U.S. dollar reserves of local banks, the government restricted the amount of money that account holders could withdraw from banks and introduced exchange controls restricting capital outflows. While the condition of the financial system has improved, adverse economic developments, even if not related to or attributable to the financial system, could result in deposits flowing out of the banks and into the foreign exchange market, as depositors seek to shield their financial assets from a new crisis. Any run on deposits could create liquidity or even solvency problems for financial institutions, resulting in a contraction of available credit.

In the event of a future shock, such as the failure of one or more banks or a crisis in depositor confidence, the Argentine government could impose further exchange controls or transfer restrictions and take other measures that could lead to renewed political and social tensions and undermine the Argentine government's public finances, which could adversely affect Argentina's economy and prospects for economic growth.

### ***The Argentine economy could be adversely affected by economic developments in other global markets, in particular the current global financial crisis and economic downturn.***

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other global markets. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into other countries, including Argentina and the availability of funds for issuers in such countries. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility.

The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian devaluation in January 1999.

In addition, Argentina may also be affected by the economic conditions of major trade partners, such as Brazil, or countries such as the United States, that are significant trade partners and/or have influence over world economic cycles. If interest rates rise significantly in developed economies, including the United States, Argentina and other emerging market economies could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. In addition, if these countries, which are also Argentina's trade partners, fall into a recession the Argentine economy would be impacted by a decrease in exports. All of these factors would have a negative impact on us, our business, operations, financial condition and prospects.

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In 2008, particularly in recent months, the global financial system has been experiencing unprecedented volatility and disruption. The current financial turmoil has led to a significant tightening of credit, low levels of liquidity, extreme volatility in fixed income, credit, currency and equity markets and capital outflows away from emerging markets, including Argentina. This financial crisis has also begun to significantly and adversely impact global economic conditions. Countries around the world are currently experiencing a significant deterioration in economic conditions, including the United States which is currently in a pronounced recession. These conditions have had a negative impact on the Argentine economy, and could continue to adversely affect the conditions in the country in the foreseeable future. Although the extent of the impact is difficult to predict at this time, current global financial and economic conditions are expected to have a material adverse effect on Argentina's economy, and consequently on our business.

*If the decline in international prices for Argentina's main commodity exports continues it could have an adverse effect on Argentina's economic growth and on our business*

Argentina's economy has historically relied on the export of commodities, the prices of which have been volatile in the past and largely outside its control.

Argentina's recovery from the crisis at 2001 and 2002 has depended to a significant extent on the rise in commodity prices, particularly prices of its main commodity exports, such as soybean. High commodity prices have contributed significantly to government revenues from taxes on exports. In recent months, the prices of the commodities that Argentina exports have declined significantly. If commodity prices continue to decline, the growth of the Argentine economy, could be adversely affected. Such occurrence would have a negative impact on the levels of government revenues, the government's ability to service its debt and on our business.

*Restrictions on the supply of energy could negatively affect Argentina's economy.*

As a result of several years of recession, and the forced conversion into Pesos and subsequent freeze of gas and electricity tariffs, there has been a lack of investment in gas and electricity supply and transport capacity in Argentina in recent years. At the same time, demand for natural gas and electricity has increased substantially, driven by a recovery in economic conditions and price constraints. The federal government has been taking a number of measures to alleviate the short-term impact of energy shortages on residential and industrial users. If these measures prove to be insufficient, or if the investment that is required to increase natural gas production and transportation capacity and energy generation and transportation capacity over the medium-and long-term fails to materialize on a timely basis, economic activity in Argentina could be curtailed.

### **Risks Relating to Brazil**

*The Brazilian government has exercised and continues to exercise influence over the Brazilian economy, which together with Brazil's historically volatile political and economic conditions could adversely affect our financial condition and results of operations.*

Our business is dependent to some extent on the economic conditions in Brazil. As of June 30, 2008, approximately 8.3% of our consolidated assets were located in Brazil through our affiliate BrasilAgro.

Historically, the Brazilian government has changed monetary, credit, tariff, and other policies to influence the course of Brazil's economy. Such government actions have included increases in interest rates, changes in tax policies, price controls, currency devaluations, as well as other measures such as imposing exchange controls and limits on imports and exports.

Our operations in Brazil may be adversely affected by changes in public policy at federal, state and municipal levels with respect to public tariffs and exchange controls, as well as other factors, such as:

fluctuation in exchange rates in Brazil;

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monetary policy;

exchange controls and restrictions on remittances outside Brazil, such as those which were imposed on such remittances (including dividends) in 1989 and early 1990;

inflation in Brazil;

interest rates;

liquidity of the Brazilian financial, capital and lending markets;

fiscal policy and tax regime in Brazil; and

other political, social and economical developments in or affecting Brazil.

Actions of the Brazilian government in the future could have a significant effect on economic conditions in Brazil, which could adversely affect private sector companies such as BrasilAgro, and thus, could adversely affect us.

***Inflation and government policies to combat it in Brazil may adversely affect the operations of BrasilAgro which could adversely impact our financial condition and results of operations.***

Brazil has experienced high and generally unpredictable rates of inflation for many years in the past. Inflation itself, as well as governmental policies to combat inflation, has had significant negative effects on the Brazilian economy in general. Inflation, government efforts to control inflation and public speculation about future governmental actions have had, and can be expected to continue to have, significant impact on the Brazilian economy and on our operations in Brazil. As measured by the Brazilian *Índice Nacional de Preços au Consumidor* (National Consumer Price Index), or INPC, inflation in Brazil was 5.1%, 2.8% , 5.2% and 4.3% in 2005, 2006, 2007 and for the six-month period ended June 30, 2008, respectively. We cannot assure you that levels of inflation in Brazil will not increase in future years and have a material adverse effect on our business, financial condition or results of operations. Inflationary pressures may lead to further government intervention in the economy, including the introduction of government policies that could adversely affect the results of operations of BrasilAgro and consequently our financial condition and results of operations and the market price of our common shares and ADSs.

***The Brazilian real is subject to depreciation and exchange rate volatility which could adversely affect our financial condition and results of operations.***

Brazil's rate of inflation and the government's actions to combat inflation have also affected the exchange rate between the *real* and the U.S. dollar. As a result of inflationary pressures, the Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian federal government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini devaluations (during which the frequency of adjustments has ranged from daily to monthly), floating exchange rate systems, exchange controls and dual exchange rate markets. During 2005, 2006, and 2007, the *real* appreciated 11.8%, 8.7% and 17.2%, respectively, against the U.S. dollar. As for the period of eleven-months ended November 30, 2008, as an impact of the world's economy crisis that unfolded in mid 2007 as a result of the disruption of the United States's subprime mortgage market, the *real* depreciated 31.7% against the U.S. dollar. Despite the recent depreciation there can be no assurance that the rate of exchange between the *real* and the dollar will not fluctuate significantly. In the event of a devaluation of the *real*, the financial condition and results of operations of our Brazilian subsidiary could be adversely affected.

Depreciation of the *real* relative to the U.S. dollar may increase the cost of servicing foreign currency-denominated debt that we may incur in the future, which could adversely affect our financial condition and results of operations. In addition, depreciation of the *real* could create additional inflationary pressures in Brazil that may adversely affect our results of operations. Depreciation generally curtails access to international capital markets



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and may prompt government intervention. It could also reduce the U.S. dollar value of BrasilAgro's revenues, distributions and dividends, and the U.S. dollar equivalent of the market price of our common shares. On the other hand, the appreciation of the *real* against the U.S. dollar may lead to the deterioration of Brazil's public accounts and balance of payments, as well as to lower economic growth from exports.

***The Brazilian government imposes certain restrictions on currency conversions and remittances abroad which could affect the timing and amount of any dividend or other payment we receive.***

Brazilian law guarantees foreign shareholders of Brazilian companies the right to repatriate their invested capital and to receive all dividends in foreign currency provided that their investment is registered with the *Banco Central do Brazil*, or the Brazilian Central Bank. We registered our investment in BrasilAgro with the Brazilian Central Bank on April 28, 2006. Although dividend payments related to profits obtained subsequent to April 28, 2006 are not subject to income tax, after the sum of repatriated capital and invested capital exceeds the investment amount registered with the Brazilian Central Bank, repatriated capital is subject to a capital gains tax of 15%. There can be no assurance that the Brazilian government will not impose additional restrictions or modify existing regulations that would have an adverse effect on an investor's ability to repatriate funds from Brazil nor can there be any assurance of the timing or duration of such restrictions, if imposed in the future.

***Widespread uncertainties, corruption and fraud relating to ownership of real estate may adversely affect our business.***

There are widespread uncertainties, corruption and fraud relating to title ownership of real estate in Brazil. In Brazil, ownership of real property is conveyed through filing of deeds before the relevant land registry. In certain cases, land registry recording errors, including duplicate and/or fraudulent entries, and deed challenges frequently occur, leading to judicial actions. Property disputes over title ownership are frequent, and, as a result, there is a risk that errors, fraud or challenges could adversely affect us, causing the loss of all or substantially all of our properties.

In addition, our land may be subject to expropriation by the Brazilian government. An expropriation could materially impair the normal use of our lands or have a material adverse effect on our results of operations. In addition, social movements, such as *Movimento dos Trabalhadores Rurais Sem Terra* and *Comissão Pastoral da Terra*, are active in Brazil. Such movements advocate land reform and mandatory property redistribution by the government. Land invasions and occupations of rural areas by a large number of individuals is common practice for these movements, and, in certain areas, including some of those in which we are likely to invest, police protection and effective eviction proceedings are not available to land owners. As a result, we cannot give you any assurance that our properties will not be subject to invasion or occupation by these groups. A land invasion or occupation could materially impair the normal use of our lands or have a material adverse effect on us or the value of our common shares or ADRs.

***The lack of efficient transportation, and adequate storage or handling facilities in certain of the regions in which we operate may have a material adverse effect on our business.***

One of the principal disadvantages of the agriculture industry in some of the regions of Brazil is that they are located a long distance from major ports—in some cases, nearly 1,500 kilometers. Efficient access to transportation infrastructure and ports is critical to the profitability in the agricultural industry. Furthermore, as part of our business strategy, we intend to acquire and develop land in specific areas where existing transportation is poor. A substantial portion of agricultural production in Brazil is currently transported by truck, a means of transportation significantly more expensive than the rail transportation available to the U.S. and other international producers. As a result, we may be unable to obtain efficient transportation to make our production reach our most important markets in a cost-effective manner, if at all.

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### **Risks Relating to Our Region**

*Our business is dependent on economic conditions in the countries where we operate and intend to operate.*

We had made investments in farmland in Argentina, Brazil, Paraguay and Bolivia and we may possibly make investments in other countries in and outside Latin America. Because demand for agricultural products and farmland usually is correlated to economic conditions prevailing in the local market, which in turn is dependent on the macroeconomic condition of the country in which the market is located, our financial condition and results of operations are, to a considerable extent, dependent upon political and economic conditions prevailing from time to time in the countries where we operate. Latin American countries have historically experienced uneven periods of economic growth, as well as recession, periods of high inflation and economic instability. Certain countries have experienced severe economic crises, which may still have future effects. As a result, governments may not have the financial resources necessary to implement reforms and foster growth. Any of these adverse economic conditions could have a material adverse effect on our business.

Currently, the world's economy is experiencing the effects of the crisis that unfolded in mid 2007 as a result of the disruption of the United States's subprime mortgage market. The final impact of the crisis on the economic conditions is difficult to predict. However, this crisis could trigger a less favorable or an unfavorable international environment for the countries where we operate and intend to operate, forcing domestic policy adjustments, which could trigger adverse economic conditions and adversely affect our business.

*We face the risk of political and economic crises, instability, terrorism, civil strife, expropriation and other risks of doing business in emerging markets.*

In addition to Argentina and Brazil, we conduct or intend to conduct our operations in other Latin-American countries. Economic and political developments in these countries, including future economic changes or crises (such as inflation or recession), government deadlock, political instability, terrorism, civil strife, changes in laws and regulations, expropriation or nationalization of property, and exchange controls could adversely affect our business, financial condition and results of operations.

Although economic conditions in one country may differ significantly from another country, we cannot assure that events in one country alone will not adversely affect our business or the market value of, or market for, our common shares or ADRs.

*Governments in the countries where we operate or intend to operate exercise significant influence over their economies.*

Emerging market governments, including governments in the countries where we operate or intend to operate, frequently intervene in the economies of their respective countries and occasionally make significant changes in policy and regulations. Governmental actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and prospects may be adversely affected by changes in government policies or regulations, including factors, such as:

exchange rates and exchange control policies;

inflation rates;

interest rates;

tariff and inflation control policies;

import duties on information technology equipment;

liquidity of domestic capital and lending markets;

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electricity rationing;

tax policies; and

other political, diplomatic, social and economic developments in or affecting the countries where we intend to operate.

An eventual reduction of foreign investment in any of the countries where we operate and intend to operate may have a negative impact on such country's economy, affecting interest rates and the ability of companies such as us to access financial markets.

***Local currencies used in the conduct of our business may be subject to exchange rate volatility and exchange controls.***

The currencies of many countries in Latin America have experienced substantial volatility in recent years. Currency movements, as well as higher interest rates, have materially and adversely affected the economies of many Latin American countries, including countries in which we operate or intend to operate. The depreciation of local currencies creates inflationary pressures that may have an adverse effect on us generally, and may restrict access to international capital markets. On the other hand, the appreciation of local currencies against the U.S. dollar may lead to deterioration in the balance of payments of the countries where we operate or intend to operate, as well as to a lower economic growth.

In addition, we may be subject to exchange control regulations in these Latin-American countries which might restrict our ability to convert local currencies into U.S. dollars.

***Inflation and certain government measures to curb inflation may have adverse effects on the economies of the countries where we operate or intend to operate, our business and our operations.***

Most countries where we operate or intend to operate have historically experienced high rates of inflation. Inflation and some measures implemented to curb inflation have had significant negative effects on the economies of Latin American countries. Governmental actions taken in an effort to curb inflation, coupled with speculation about possible future actions, have contributed to economic uncertainty at times in most Latin American countries. The countries where we operate or intend to operate may experience high levels of inflation in the future that could lead to further government intervention in the economy, including the introduction of government policies that could adversely affect our results of operations. In addition, if any of these countries experience high rates of inflation, we may not be able to adjust the price of our services sufficiently to offset the effects of inflation on our cost structures. A high inflation environment would also have negative effects on the level of economic activity and employment and adversely affect our business and results of operations.

***Developments in other markets may affect the Latin American countries where we operate or intend to operate, and as a result our financial condition and results of operations may be adversely affected.***

The market value of securities of companies such as us, may be, to varying degrees, affected by economic and market conditions in other global markets. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into and securities from issuers in other countries, including Latin American countries. Various Latin American economies have been adversely impacted by the political and economic events that occurred in several emerging economies in recent times. Furthermore, Latin American economies may be affected by events in developed economies which are trading partners or that impact the global economy.

***Land in Latin-American countries may be subject to expropriation or occupation.***

Our land may be subject to expropriation by governments of the countries where we operate and intend to operate. An expropriation could materially impair the normal use of our lands or have a material adverse effect on our results of operations. In addition, social movements, such as *Movimento dos Trabalhadores Rurais Sem Terra* and *Comissão Pastoral da Terra* in Brazil, are active in certain of the countries where we operate or intend to



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operate. Such movements advocate land reform and mandatory property redistribution by governments. Land invasions and occupations of rural areas by a large number of individuals is common practice for these movements, and, in certain areas, including some of those in which we are likely to invest, police protection and effective eviction proceedings are not available to land owners. As a result, we cannot give you any assurance that our future properties will not be subject to invasion or occupation by these groups. A land invasion or occupation could materially impair the normal use of our lands or have a material adverse effect on us or the value of our common shares or ADRs.

### **Risks Relating to Our Business**

#### ***Fluctuation in market prices for our agriculture products could adversely affect our financial condition and results of operations.***

Prices for cereals, oilseeds and by-products, like those of other commodities, can be expected to fluctuate significantly. The prices that we are able to obtain for our agriculture products depend on many factors beyond our control, including:

prevailing world prices, which historically have been subject to significant fluctuations over relatively short periods of time, depending on worldwide demand and supply;

changes in the agricultural subsidy levels in certain important countries (mainly the United States and countries in the European Union) and the adoption of other government policies affecting industry market conditions and prices; and

demand for and supply of competing commodities and substitutes.

Our financial condition and results of operations could be materially and adversely affected if the prices of grains and agricultural by-products decline.

#### ***Unpredictable weather conditions may have an adverse impact on our crop and beef cattle production.***

As we do not maintain insurance over our crop production, the occurrence of severe adverse weather conditions, especially droughts, hail or floods, is unpredictable and may have a potentially devastating impact upon our crop production and, to a lesser extent, our beef cattle production. The occurrence of severe adverse weather conditions may reduce yields on our farms or require us to increase our level of investment to maintain yields. As a result, we cannot assure you that future severe adverse weather conditions will not adversely affect our operating results and financial condition.

#### ***Disease may strike our crops without warning potentially destroying some or all of our yields.***

The occurrence and effect of crop disease and pestilence can be unpredictable and devastating to crops, potentially destroying all or a substantial portion of the affected harvests. Even when only a portion of the crop is damaged, our results of operations could be adversely affected because all or a substantial portion of the production costs for the entire crop have been incurred. Although some crop diseases are treatable, the cost of treatment is high, and we cannot assure that such events in the future will not adversely affect our operating results and financial condition.

#### ***Our cattle are subject to diseases.***

Diseases among our cattle herds, such as tuberculosis, brucellosis and foot-and-mouth disease, can have an adverse effect on milk production and fattening, rendering cows unable to produce milk or meat for human consumption. Outbreaks of cattle diseases may also result in the closure of certain important markets, such as the United States, to our cattle products. Although we abide by national veterinary health guidelines, which include laboratory analyses and vaccination, to control diseases among the herds, especially foot-and-mouth disease, we cannot assure that future outbreaks of cattle diseases will not occur. A future outbreak of diseases among our cattle herds may adversely affect our beef cattle and milk sales which could adversely affect our operating results and financial condition.

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*We may be exposed to material losses due to volatile crop prices since we hold significant uncovered futures and options positions to hedge our crop price risk.*

Due to the fact that we do not have 100% of our crops hedged, we are unable to have minimum price guarantees for all of our production and are therefore exposed to significant risks associated with the level and volatility of crop prices. We are subject to fluctuations in crop prices which could result in receiving a lower price for our crops than our production cost. We are also subject to exchange rate risks related to our crops that are hedged, because our futures and options positions are valued in U.S. dollars, and thus are subject to exchange rate risk.

In addition, if severe weather or any other disaster generates a lower crop production than the position already sold in the market, we may suffer material losses in the repurchase of the sold contracts.

*The creation of new export taxes may have an adverse impact on our sales.*

In order to prevent inflation and variations in the exchange rate from adversely affecting prices of primary and manufactured products (including agricultural products), and to increase tax collections and reduce Argentina's fiscal deficit, the Argentine government has imposed new taxes on exports. Pursuant to Resolution No. 11/02 of the Ministry of Economy and Production, as amended by Resolution 35/02, 160/2002, 307/2002 and 530/2002, effective as of March 5, 2002, the Argentine government imposed a 20%, 10% and 5% export tax on primary and manufactured products. On November 12, 2005, pursuant to Resolution No. 653/2005, the Ministry of Economy and Production increased the tax on beef cattle exports from 5% to 10%, and on January 2007 increased the tax on soybean exports from 23.5% to 27.5%. Pursuant to Resolutions No. 368/07 and 369/07 both dated November 12, 2007, the Ministry of Economy and Production further increased the tax on soybean exports from 27.5% to 35.0% and also the tax on wheat and corn exports from 20.0% to 28.0% and from 20.0% to 25.0%, respectively. In early March 2008, the Argentine government introduced a regime of sliding scale export tariffs for oilseed, grains and by-products, where the withholding rate (in percentage) would increase to the same extent as the crops price. This tariff regime, which according to farmers effectively sets a maximum price for their crops, sparked widespread strikes and protests by farmers whose exports have been one of the principal driving forces behind Argentina's recent growth. In April 2008, as a result of the export tariff regime, farmers staged a 21-day strike in which, among other things, roadblocks were set up throughout the country, triggering Argentina's most significant political crisis in five years. These protests disrupted transport and economic activity, which led to food shortages, a surge in inflation and a drop in export registrations. Finally, the federal executive branch decided to send the new regime of sliding-scale export tariffs to the federal congress for its approval. The project was approved in the House of Representatives but rejected by the Senate. Subsequently, the federal government abrogated the regime of sliding-scale export tariffs and reinstated the previous scheme of fixed withholdings.

Export taxes might have a material and adverse effect on our sales. We produce exportable goods and, therefore, an increase in export taxes is likely to result in a decrease in our products price, and, therefore, may result in a decrease of our sales. We cannot guarantee the impact of those or any other future measures that might be adopted by the Argentine government on our financial condition and result of operations.

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***The current credit crisis could have a negative impact on our major customers which in turn could materially adversely affect our results of operations and liquidity.***

The current credit crisis is having a significant negative impact on businesses around the world. Although we believe that available borrowing capacity, under the current conditions, and proceeds resulting from potential farm sales will provide us with sufficient liquidity through the current credit crisis, the impact of the crisis on our major customers cannot be predicted and may be quite severe. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity.

***Government intervention in our markets may have a direct impact on our prices.***

The Argentine government has set certain industry market conditions and prices in the past. In order to prevent a substantial increase in the price of basic products as a result of inflation, the Argentine government is adopting an interventionist policy. In March 2002, the Argentine government fixed the price for milk after a conflict among producers and the government. Since 2005, the Argentine government, in order to increase the domestic availability of beef and reduce domestic prices, adopted several measures, such as: increased the withholding rate, established several times a minimum weight requirement for animals to be slaughtered, suspended momentarily the foreign sales of cuts of beef cattle, and closed temporarily the registries for beef exports. However, these measures were softened once prices decreased. There can be no assurance that the Argentine government will not interfere in other areas by setting prices or regulating other market conditions. Accordingly, we cannot assure you that we will be able to freely negotiate all our products' prices in the future or that the prices or other market conditions that the Argentine government could impose will allow us to freely negotiate the price of our products.

***We may increase our crop price risk since we could have a long position in crop derivatives.***

In order to improve the use of land and capital allocation, we may have a long position in crops in addition to our own production. This strategy increases our crop price risk, generating material losses in a downward market.

***We do not maintain insurance over all of our crop storage facilities; therefore, if a fire or other disaster damages some or all of our harvest, we will not be completely covered.***

We store a significant portion of our grain production during harvest due to the seasonal drop in prices that normally occurs at that time. Currently, we store a significant portion of our grain production in plastic silos. We do not maintain insurance on our plastic silos. Although our plastic silos are placed in several different locations, and it is unlikely that a natural disaster affects all of our plastic silos simultaneously, a fire or other natural disaster which damages the stored grain, particularly if such event occurs shortly after harvesting, could have an adverse effect on our operating results and financial condition.

***Worldwide competition in the markets for our products could adversely affect our business and results of operations.***

We experience substantial worldwide competition in each of our markets and in many of our product lines. The market for cereals, oil seeds and by-products is highly competitive and also sensitive to changes in industry capacity, producer inventories and cyclical changes in the world's economies, any of which may significantly affect the selling prices of our products and thereby our profitability. Due to the fact that many of our products are agricultural commodities, they compete in the international markets almost exclusively on the basis of price. Many other producers of these products are larger than us, and have greater financial and other resources. Moreover, many other producers receive subsidies from their respective countries while we do not receive any such subsidies from the Argentine government. These subsidies may allow producers from other countries to produce at lower costs than us and/or endure periods of low prices and operating losses for longer periods than we can. Any increased competitive pressure with respect to our products could materially and adversely affect our financial condition and results of operations.

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***If we are unable to maintain our relationship with our customers, particularly with the single customer who purchases our entire raw milk production each month, our business may be adversely affected.***

Though our cattle sales are diversified, we are and will continue to be significantly dependent on a number of third party relationships, mainly with our customers for crop and milk sales. In 2008, we sold our products to approximately 140 customers. Sales to our ten largest customers represented approximately 61.4% of our net sales for the fiscal year ended June 30, 2008. Of these customers, our biggest three customers, Cargill S.A., Mastellone Hnos. S.A. and Monsanto S.A.I.C., represented, in the aggregate, approximately 37.5% of our net sales, while the remaining seven customers in the aggregate represented approximately 23.9% of our net sales in fiscal year 2008.

In addition, we currently sell our entire raw milk production to one customer in Argentina, Mastellone Hnos. S.A. For the year ended June 30, 2008, these sales represented approximately 11.8% of our total revenues. There can be no assurance that this customer will continue to purchase our entire raw milk production or that, if it fails to do so, we could enter into satisfactory sale arrangements with new purchasers in the future.

We sell our crop production mainly to exporters and manufacturers that process the raw materials to produce meal and oil, products that are sent to the export markets. The Argentine crop market is characterized by a few purchasers and a great number of sellers. Although most of the purchasers are international companies with strong financial conditions, we cannot assure you that this situation will remain the same in the future or that this market will not get more concentrated in the future.

We may not be able to maintain or form new relationships with customers or others who provide products and services that are important to our business. Accordingly, we cannot assure you that our existing or prospective relationships will result in sustained business or the generation of significant revenues.

***Our business is seasonal, and our revenues may fluctuate significantly depending on the growing cycle.***

Our agribusiness business is highly seasonal in nature. The harvest and sale of crops (corn, soybean and sunflower) generally occurs from February to June. Wheat is harvested from December to January. Our operations and sales are affected by the growing cycle of the crops we process and by decreases during the summer in the price of the cattle we fatten. As a result, our results of operations have varied significantly from period to period, and are likely to continue to vary, due to seasonal factors.

***Dividend restrictions in our subsidiaries debt agreements may adversely affect us.***

We have subsidiaries and hence an important source of funds for us is cash dividends and other permitted payments from our subsidiaries. The debt agreements of our subsidiaries contain covenants restricting their ability to pay dividends or make other distributions. If our subsidiaries are unable to make payments to us, or are able to pay only limited amounts, we may be unable to pay dividends or make payments on our indebtedness.

***Our principal shareholder has the ability to direct our business and affairs, and its interests could conflict with yours.***

As of November 30, 2008, Mr. Eduardo S. Elsztain, was the beneficial owner of 33.4% of our common shares. As a result of his significant influence over us, Mr. Elsztain, by virtue of his position in IFISA, has been able to elect a majority of the members of our board of directors, direct our management and determine the result of substantially all resolutions that require shareholders approval, including fundamental corporate transactions and our payment of dividends by us.

The interests of our principal shareholder and management may differ from, and could conflict with, those of our other shareholders. Pursuant to a consulting agreement we pay a management fee equal to 10% of our annual net income to Consultores Asset Management S.A., formerly known as Dolphin Fund Management S.A. ( Consultores Asset Management ), a company whose capital stock is 85% owned by Eduardo Elsztain and 15%

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owned by Saúl Zang, the first vice-chairman of our board of directors. This performance based fee could be viewed as an incentive for Consultores Asset Management to favor riskier or more speculative investments than would otherwise be the case. In addition, as of November 30, 2008 Mr. Elsztain was the beneficial owner, due to his indirect shareholding through Cresud of approximately 55.2% of the common shares of IRSA, an Argentine company that currently owns approximately 63.3% of the common shares of its subsidiary Alto Palermo whose chief executive officer is Mr. Alejandro G. Elsztain, Mr. Eduardo Elsztain's brother and our chief executive officer of Cresud. We cannot assure you that our principal shareholders will not cause us to forego business opportunities that their affiliates may pursue or to pursue other opportunities that may not be in our interest, all of which may adversely affect our business, results of operations and financial condition and the value of our common shares and the ADSs.

***We depend on our chairman and senior management.***

Our success depends, to a significant extent, on the continued employment of Eduardo S. Elsztain, our president and chairman of the board of directors, and Alejandro G. Elsztain, our chief executive officer. The loss of their services for any reason could have a material adverse effect on our business. If our current principal shareholders were to lose their influence on the management of our business, our principal executive officers could resign or be removed from office.

Our future success also depends in part upon our ability to attract and retain other highly qualified personnel. We cannot assure you that we will be successful in hiring or retaining qualified personnel, or that any of our personnel will remain employed by us.

***The Investment Company Act may limit our future activities.***

Under Section 3(a)(3) of the Investment Company Act of 1940, as amended, an investment company is defined in relevant part to include any company that owns or proposes to acquire investment securities that have a value exceeding 40% of such company's unconsolidated total assets (exclusive of U.S. government securities and cash items). Investments in minority interests of related entities as well as majority interests in consolidated subsidiaries which themselves are investment companies are included within the definition of investment securities for purposes of the 40% limit under the Investment Company Act.

Companies that are investment companies within the meaning of the Investment Company Act, and that do not qualify for an exemption from the provisions of such Act, are required to register with the Securities and Exchange Commission and are subject to substantial regulations with respect to capital structure, operations, transactions with affiliates and other matters. In the event such companies do not register under the Investment Company Act, they may not, among other things, conduct public offerings of their securities in the United States or engage in interstate commerce in the United States. Moreover, even if we desired to register with the Commission as an investment company, we could not do so without an order of the Commission because we are a non-U.S. corporation, and it is unlikely that the Commission would issue such an order.

In recent years we have made a significant minority investment in the capital stock of IRSA, an Argentine company engaged in a range of real estate activities. As of September 30, 2007, we owned approximately 31.9% of IRSA's outstanding shares. As of June 30, 2007, our total investment in IRSA represented approximately 35.7% of our total assets. Although we believe we are not an investment company for purposes of the Investment Company Act, our belief is subject to substantial uncertainty, and we cannot give you any assurance that we would not be determined to be an investment company under the Investment Company Act. As a result, the uncertainty regarding our status under the Investment Company Act may adversely affect our ability to offer and sell securities in the United States or to U.S. persons. The United States capital markets have historically been an important source of funding for us, and our future financing ability may be adversely affected by a lack of access to the United States capital markets. If an exemption under the Investment Company Act is unavailable to us in the future and we desire to access the U.S. capital markets, our only recourse would be to file an application to the SEC for an exemption from the provisions of the Investment Company Act which is a lengthy and highly uncertain process.

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Moreover, if we offer and sell securities in the United States or to U.S. persons and we were deemed to be an investment company and not exempted from the application of the Investment Company Act, contracts we enter into in violation of, or whose performance entails a violation of, the Investment Company Act, including any such securities, may not be enforceable against us.

*We hold Argentine securities which might be more volatile than U.S. securities and carry a greater risk of default.*

We currently have and in the past have had certain investments in Argentine government debt, corporate debt, and equity securities. In particular, we hold a significant interest in IRSA, an Argentine company that has suffered material losses, particularly during fiscal years 2001 and 2002. Although our holding of these investments, excluding IRSA, tends to be short term, investments in such securities involve certain risks, including:

market volatility, higher than those typically associated with U.S. government and corporate securities; and

loss of principal.

Some of the issuers in which we have invested and may invest, including the Argentine government, have in the past experienced substantial difficulties in servicing their debt obligations, which have led to the restructuring of certain indebtedness. We cannot assure that the issuers in which we have invested or may invest will not be subject to similar or other difficulties in the future which may adversely affect the value of our investments in such issuers. In addition, such issuers and, therefore, such investments, are generally subject to many of the risks that are described in this section with respect to us, and, thus, could have little or no value.

*We could be adversely affected by our investment in IRSA if IRSA's value decreases.*

As of November 30, 2008, we owned 54.01% of IRSA's outstanding shares. As of June 30, 2008, we owned 42.13% of IRSA's outstanding shares which represented an investment of Ps.622.6 million through the purchase of shares and the conversion of convertible notes. In addition, as of such date, we have no further warrants or convertible notes of IRSA. At the end of fiscal year 2008, our investment in IRSA represented approximately 35.1% of our total consolidated assets, and during fiscal year 2008, our gain from our investment in IRSA was Ps.31.5 million.

Our investment in IRSA is subject to risks common to investments in commercial and residential properties in general, many of which are not within IRSA's control. Any one or more of these risks might materially and adversely affect IRSA's business, financial condition or results of operations. The yields available from equity investments in real estate depend on the level of sales or rental income generated and expenses incurred. In addition, other factors may affect the performance and value of a property adversely, including local economic conditions where the properties are located, macroeconomic conditions in Argentina and the rest of the world, competition from other real estate developers, IRSA's ability to find tenants, tenant default or rescission of leases, changes in laws and governmental regulations (including those governing usage, zoning and real property taxes), changes in interest rates (including the risk that increased interest rates may result in decreased sales of lots in the residential development properties) and the availability of financing. IRSA may also be unable to respond effectively to adverse market conditions or may be forced to sell one or more of its properties at a loss because the real estate market is relatively illiquid. Certain significant expenditures, such as debt service, real estate taxes, and operating and maintenance costs, generally are not reduced in circumstances resulting in a reduction in income from the investment.

It is possible that these or other factors or events will impair IRSA's ability to respond to adverse changes in the performance of its investments, causing a material decline in IRSA's financial condition or results of operations which could adversely affect our financial condition and results of operations.

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***We could be materially and adversely affected by our investment in BrasilAgro.***

As of June 30, 2008, our investment in BrasilAgro represented 8.3% of our total consolidated assets. BrasilAgro was formed on September 23, 2005 to exploit opportunities in the Brazilian agricultural sector. BrasilAgro seeks to acquire and develop future properties to produce a diversified range of agricultural products (which may include sugarcane, grains, cotton, forestry products and livestock). BrasilAgro is a startup company that has been operating since 2006. As a result, it has a developing business strategy and limited track record. BrasilAgro's business strategy may not be successful, and if not successful, BrasilAgro may be unable to successfully modify its strategy. BrasilAgro's ability to implement its proposed business strategy may be materially and adversely affected by many known and unknown factors. If we were to write-off our investments in BrasilAgro, this would likely materially and adversely affect our business. As of December 17, 2008, we owned 14.79% of the outstanding common shares of BrasilAgro.

***We may invest in countries other than Argentina and Brazil and cannot give you any current assurance as to the countries in which we will ultimately invest, and we could fail to list all risk factors for each possible country.***

We have a broad and opportunistic business strategy and you should understand that we may invest in countries other than Argentina and Brazil including countries in other emerging markets outside Latin America such as Africa. As a result, it is not possible at this time to identify all risk factors that may affect our future operations and the value of our common shares and ADSs.

***We may be negatively affected by the financial crisis in the U.S. and global and capital markets.***

We must maintain liquidity to fund its working capital, service its outstanding indebtedness and finance investment opportunities. Without sufficient liquidity, we could be forced to curtail its operations or it may not be able to pursue new business opportunities.

The capital and credit markets have been experiencing extreme volatility and disruption during the last months. If our current resources do not satisfy its liquidity requirements, we may have to seek additional financing. The availability of financing will depend on a variety of factors, such as economic and market conditions, the availability of credit and our credit ratings, as well as the possibility that lenders could develop a negative perception our prospects or the industry generally. We may not be able to successfully obtain any necessary additional financing on favorable terms, or at all.

***We will be subject to extensive environmental regulation.***

Our activities are subject to a wide set of federal, state and local laws and regulations relating to the protection of the environment, which impose various environmental obligations. Obligations include compulsory maintenance of certain preserved areas in our properties, management of pesticides and associated hazardous waste and the acquisition of permits for water use. Our proposed business is likely to involve the handling and use of hazardous materials that may cause the emission of certain regulated substances. In addition, the storage and processing of our products may create hazardous conditions. We could be exposed to criminal and administrative penalties, in addition to the obligation to remedy the adverse affects of our operations on the environment and to indemnify third parties for damages, including the payment of penalties for non-compliance with these laws and regulations. Since environmental laws and their enforcement are becoming more stringent in Argentina, our capital expenditures and expenses for environmental compliance may substantially increase in the future. In addition, due to the possibility of future regulatory or other developments, the amount and timing of environmental-related capital expenditures and expenses may vary substantially from those currently anticipated. The cost of compliance with environmental regulation may result in reductions of other strategic investments which may consequently decrease our profits. Any material unforeseen environmental costs may have a material adverse effect on our business, results of operations, financial condition or prospects.

As of June 30, 2008, we owned land reserves in excess of 230,532 hectares, most of which are located in under-utilized areas where agricultural production is not fully developed. Existing or future environmental regulations may prevent us from completely developing our land reserves, requiring us to maintain a portion of

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such land as unproductive land reserves. In accordance with legislative requirements, we have applied for approval to develop parts of our land reserves, to the extent allowed. We cannot assure you that current or future development applications will be approved, and if so, to what extent we will be allowed to develop our land.

### ***Increased energy prices could adversely affect our operations.***

We require substantial amounts of fuel oil and other resources for our harvest activities and transport of our agricultural products. We rely upon third parties for our supply of the energy resources consumed in our operations. The prices for and availability of energy resources may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions. The prices of various sources of energy may increase significantly from current levels. An increase in energy prices could materially adversely affect our results of operations and financial condition.

### **Risks Related to IRSA's Business**

#### ***IRSA's performance is subject to risks associated with its properties and with the real estate industry.***

IRSA's economic performance and the value of its real estate assets, and consequently the value of the securities issued by IRSA, are subject to the risk that if IRSA properties do not generate sufficient revenues to meet its operating expenses, including debt service and capital expenditures, IRSA's cash flow and ability to pay distributions to its shareholders will be adversely affected. Events or conditions beyond IRSA's control that may adversely affect IRSA's operations or the value of its properties include:

downturns in the national, regional and local economic climate;

volatility and decline in discretionary spending;

competition from other office, industrial and commercial buildings;

local real estate market conditions, such as oversupply or reduction in demand for office, or other commercial or industrial space;

changes in interest rates and availability of financing;

the exercise by its tenants of their legal right to early termination of their leases;

vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;

increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;

civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;



declines in the financial condition of IRSA's tenants and IRSA's ability to collect rents from its tenants;

changes in IRSA's ability or its tenants' ability to provide for adequate maintenance and insurance, possibly decreasing the useful life of and revenue from property; and

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law reforms and governmental regulations (such as those governing usage, zoning and real property taxes). If any one or more of the foregoing conditions were to affect IRSA's business, it could have a material adverse effect on IRSA's financial condition and results of operations.

*IRSA's investment in property development or redevelopment may be less profitable than IRSA anticipates.*

IRSA is engaged in the development and construction of office space, retail and residential properties, frequently through third-party contractors. Risks associated with IRSA's development, re-development and construction activities include the following, among others:

abandonment of development opportunities and renovation proposals;

construction costs of a project may exceed its original estimates for reasons including raises in interest rates or increases in the costs of materials and labor, making a project unprofitable;

occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on IRSA's investment;

pre-construction buyers may default on their purchase contracts or units in new buildings may remain unsold upon completion of construction;

the unavailability of favorable financing alternatives in the private and public debt markets;

sale prices for residential units may be insufficient to cover development costs;

construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs; and

IRSA may be unable to obtain, or may face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, or IRSA may be affected by building moratoria and anti-growth legislation.

*The real estate industry in Argentina is increasingly competitive.*

IRSA's real estate and construction activities are highly concentrated in the Buenos Aires metropolitan area, where the real estate market is highly competitive due to a scarcity of properties in sought-after locations and the increasing number of local and international competitors.

Furthermore, the Argentine real estate industry is generally highly competitive and fragmented and does not have high-entry barriers restricting new competitors from entering the market. The main competitive factors in the real estate development business include availability and location of land, price, funding, design, quality, reputation and partnerships with developers. A number of residential and commercial developers and real estate services companies compete with IRSA in seeking land for acquisition, financial resources for development and prospective purchasers and tenants. Other companies, including joint ventures of foreign and local companies, have become increasingly active in the real estate business in Argentina, further increasing this competition. To the extent that one or more of IRSA's competitors are able to acquire and develop desirable properties, as a result of greater financial resources or otherwise, IRSA's business could be materially and adversely affected. If IRSA is not able to respond to such pressures as promptly as its competitors, or the level of competition increases, IRSA's financial condition and results of its operations could be adversely affected.



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In addition, many of IRSA's shopping centers are located in close proximity to other shopping centers, numerous retail stores and residential properties. The number of comparable properties located in the vicinity of IRSA's properties could have a material adverse effect on its ability to lease retail space in IRSA's shopping centers or sell units in its residential complexes and on the rent price or the sale price that IRSA is able to charge. We cannot assure you that other shopping center operators, including international shopping center operators, will not invest in Argentina in the near future. As additional companies become active in the Argentine shopping center market, such increased competition could have a material adverse effect on IRSA's results of operations.

### ***IRSA faces risks associated with property acquisitions.***

IRSA has in the past acquired, and intends to acquire in the future, properties, including large properties (such as the acquisition of Abasto de Buenos Aires or Alto Palermo Shopping) that would increase IRSA's size and potentially alter its capital structure. Although IRSA believes that the acquisitions that IRSA has completed in the past and that it expects to undertake in the future, have, and will, enhance IRSA's future financial performance, the success of such transactions is subject to a number of uncertainties, including the risk that:

IRSA may not be able to obtain financing for acquisitions on favorable terms;

acquired properties may fail to perform as expected;

the actual costs of repositioning or redeveloping acquired properties may be higher than IRSA's estimates;

acquired properties may be located in new markets where IRSA may have limited knowledge and understanding of the local economy, absence of business relationships in the area or unfamiliarity with local governmental and permitting procedures; and

IRSA may not be able to efficiently integrate acquired properties, particularly portfolios of properties, into its organization and to manage new properties in a way that allows us to realize cost savings and synergies.

### ***Some of the land IRSA has purchased is not zoned for development purposes, and IRSA may be unable to obtain, or may face delays in obtaining the necessary zoning permits and other authorizations.***

IRSA owns several plots of land which are not zoned for development purposes or for the type of developments IRSA intends to propose, including Santa María del Plata (through Solares de Santa María S.A.) and Puerto Retiro (through Puerto Retiro S.A.C.I. y N. ( Puerto Retiro )). In addition, IRSA does not yet have the required land-use, building, occupancy and other required governmental permits and authorizations. IRSA cannot assure you that it will continue to be successful in its attempts to rezone land and to obtain all necessary permits and authorizations, or that rezoning efforts and permit requests will not be unreasonably delayed. Moreover, IRSA may be affected by building moratoria and anti-growth legislation. If IRSA is unable to obtain all of the governmental permits and authorizations it needs to develop its present and future projects as planned, IRSA may be forced to make unwanted modifications to such projects or abandon them altogether.

### ***Acquired properties may subject IRSA to unknown liabilities.***

Properties that IRSA acquire may be subject to unknown liabilities for which IRSA would have no recourse, or only limited recourse, to the former owners of such properties. As a result, if a liability were asserted against IRSA based upon ownership of an acquired property, IRSA might be required to pay significant sums to settle it, which could adversely affect its financial results and cash flow. Unknown liabilities relating to acquired properties could include:

liabilities for clean-up of undisclosed environmental contamination;

law reforms and governmental regulations (such as those governing usage, zoning and real property taxes); and

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liabilities incurred in the ordinary course of business.

*Some potential losses are not covered by insurance, and certain kinds of insurance coverage may become prohibitively expensive.*

IRSA currently carries liability and fire insurance policies that cover potential risks such as property damage, negligence liability, fire, falls, collapse, lightning and gas explosion, electrical and water damages, theft and business interruption on all of its properties. Although IRSA believes the policy specifications and insured limits of these policies are generally customary, there are certain types of losses, such as lease and other contract claims and terrorism and acts of war that generally are not insured. Should an uninsured loss or a loss in excess of insured limits occur, IRSA could lose all or a portion of the capital it has invested in a property, as well as the anticipated future revenue from the property. In such an event, IRSA might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material losses in excess of insurance proceeds will not occur in the future. If any of IRSA's properties were to experience a catastrophic loss, it could seriously disrupt IRSA's operations, delay revenue and result in large expenses to repair or rebuild the property.

In addition, we cannot assure you that IRSA will be able to renew its insurance coverage in an adequate amount or at reasonable prices. Insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and mold, or, if offered, these types of insurance may be prohibitively expensive.

*Demand for IRSA's premium properties which target the high-income demographic may be insufficient.*

IRSA has focused on development projects intended to cater to affluent individuals and has entered into property swap agreements pursuant to which IRSA contributes its undeveloped properties to ventures with developers who will deliver to IRSA units in full-service apartments in premium locations. At the time the developers return these properties to IRSA, demand for premium apartments could be significantly lower than IRSA currently projects. In such case, IRSA would be unable to sell these apartments at the prices or in the time frame IRSA estimated, which could have a material adverse effect on IRSA's financial condition and results of operations.

*It may be difficult to buy and sell real estate quickly and transfer restrictions apply to some of IRSA's properties.*

Real estate investments are relatively illiquid and this tends to limit IRSA's ability to vary its portfolio promptly in response to changes in economic or other conditions. In addition, significant expenditures associated with each equity investment, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. If income from a property declines while the related expenses do not decline, IRSA's business would be adversely affected. A significant portion of IRSA's properties are mortgaged to secure payments of indebtedness, and if IRSA is unable to meet its mortgage payments, IRSA could lose money as a result of foreclosure on the properties by the various mortgages. In addition, if it becomes necessary or desirable for IRSA to dispose of one or more of the mortgaged properties, it might not be able to obtain a release of the lien on the mortgaged property without payment of the associated debt. The foreclosure of a mortgage on a property or inability to sell a property could adversely affect IRSA's business. In transactions of this kind, IRSA may also agree, subject to certain exceptions, not to sell the acquired properties for significant periods of time.

*The current economic environment for real estate companies and credit crisis may adversely impact IRSA's results of operations and business prospects significantly.*

The success of IRSA's business and profitability of its operations are dependent on continued investment in the real estate markets and access to capital and debt financing. A long term crisis of confidence in real estate investments and lack of available credit for acquisitions would be likely to constrain IRSA's business growth. As part of IRSA's business goals, IRSA intends to increase its properties portfolio with strategic acquisitions of core properties at advantageous prices, and value added properties where IRSA believes it can bring the necessary

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expertise to enhance property values. In order to pursue acquisitions, IRSA needs access to equity capital and also debt financing. Current disruptions in the financial markets, including the bankruptcy and restructuring of major financial institutions, may adversely impact IRSA's ability to refinance existing debt and the availability and cost of credit in the near future. Presently, access to capital and debt financing options are severely restricted and it is uncertain how long current economic circumstances may last. Any consideration of sales of existing properties or portfolio interests may be tempered by the current decreasing property values. IRSA's ability to make scheduled payments or to refinance its indebtedness obligations depends on its operating and financial performance, which in turn is subject to prevailing economic conditions. There can be no assurances that government responses to the disruptions in the financial markets will restore investor confidence, stabilize the markets or increase liquidity and the availability of credit.

***IRSA's level of debt may adversely affect its operations and its ability to pay its debt as it becomes due.***

IRSA has had, and expects to continue to have, substantial liquidity and capital resource requirements to finance its business. As of June 30, 2008, IRSA's consolidated financial debt was Ps.1,311.4 million (including accrued and unpaid interest and deferred financing costs). Although IRSA is generating sufficient funds from operating cash flows to satisfy its debt service requirements and its capacity to obtain new financing is adequate, given the current availability of credit lines with banks, we cannot assure you that IRSA will maintain such cash flow and adequate financial structure in the future. The fact that IRSA is leveraged may affect its ability to refinance existing debt or borrow additional funds to finance working capital, acquisitions and capital expenditures. In addition, current disruptions in the financial markets, including the bankruptcy and restructuring of major financial institutions, may adversely impact IRSA's ability to refinance existing debt and the availability and cost of credit in the near future. Presently, access to capital and debt financing options are severely restricted and it is uncertain how long current economic circumstances may last. This would require IRSA to allocate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. IRSA's leverage could place IRSA at a disadvantage compared to its competitors who are less leveraged and limit its ability to react to changes in market conditions such as the current international crisis, changes in the real estate industry and economic downturns. Although IRSA has successfully restructured its debt, we cannot assure you that IRSA will not relapse and become unable to pay its obligations.

IRSA may not be able to generate sufficient cash flows from operations to satisfy its debt service requirements or to obtain future financing. If IRSA cannot satisfy its debt service requirements or if IRSA defaults on any financial or other covenants in its debt arrangements, the holders of IRSA's debt will be able to accelerate the maturity of such debt or cause defaults under the other debt arrangements. IRSA's ability to service debt obligations or to refinance them will depend upon its future financial and operating performance, which will, in part, be subject to factors beyond IRSA's control such as macroeconomic conditions and regulatory changes in Argentina. Also, the illiquidity of the international capital markets and the illiquidity of the local capital market, due to the nationalization of the Argentine private pension funds, may create IRSA additional difficulties to obtain future financing. If IRSA cannot obtain future financing, it may have to delay or abandon some or all of its planned capital expenditures, which could adversely affect IRSA's ability to generate cash flows and repay its obligations.

***IRSA may be negatively affected by the financial crisis in the U.S. and global and capital markets.***

IRSA must maintain liquidity to fund its working capital, service its outstanding indebtedness and finance investment opportunities. Without sufficient liquidity, IRSA could be forced to curtail its operations or IRSA may not be able to pursue new business opportunities.

The capital and credit markets have been experiencing extreme volatility and disruption during the last months. If IRSA's current resources do not satisfy our liquidity requirements, IRSA may have to seek additional financing. The availability of financing will depend on a variety of factors, such as economic and market conditions, the availability of credit and IRSA's credit ratings, as well as the possibility that lenders could develop a negative perception of the prospects of our company or the industry generally. IRSA may not be able to successfully obtain any necessary additional financing on favorable terms, or at all.

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*The current credit crisis could have a negative impact on IRSA's major customers which in turn could materially adversely affect its results of operations and liquidity.*

The current credit crisis is having a significant negative impact on businesses around the world. Although IRSA believes that its cash provided by operations and available borrowing capacity under the current conditions will provide IRSA with sufficient liquidity through the current credit crisis, the impact of the crisis on IRSA's major customers cannot be predicted and may be quite severe. A disruption in the ability of IRSA's significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in the demand for leasable spaces and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on its results of operations and liquidity.

*IRSA is subject to risks inherent to the operation of shopping centers that may affect its profitability.*

Shopping centers are subject to various factors that affect their development, administration and profitability. These factors include:

the accessibility and the attractiveness of the area where the shopping center is located;

the intrinsic attractiveness of the shopping center;

the flow of people and the level of sales of each shopping center rental unit;

increasing competition from internet sales;

the amount of rent collected from each shopping center rental unit; and

the fluctuations in occupancy levels in the shopping centers.

An increase in operating costs, caused by inflation or other factors, could have a material adverse effect on IRSA if its tenants are unable to pay higher rent due to the increase in expenses. Moreover, the shopping center business is closely related to consumer spending and to the economy in which customers are located. All of IRSA's shopping centers are in Argentina, and, as a consequence, their business could be seriously affected by potential recession in Argentina. For example, during the economic crisis in Argentina, spending decreased significantly, unemployment, political instability and inflation significantly reduced consumer spending in Argentina, lowering tenants' sales and forcing some tenants to leave IRSA's shopping centers. If the international financial crisis has a substantial impact on economic activity in Argentina, it will likely have a material adverse effect on the revenues from the shopping center activity.

*The loss of significant tenants could adversely affect both the operating revenues and value of IRSA's shopping center and other rental properties.*

If certain of IRSA's most important tenants were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, or if IRSA simply failed to retain their patronage, its business could be adversely affected. IRSA's shopping centers and, to a lesser extent, its office buildings are typically anchored by significant tenants, such as well known department stores who generate shopping traffic at the mall. A decision by such significant tenants to cease operations at IRSA's shopping centers or office buildings could have a material adverse effect on the revenues and profitability of the affected segment and, by extension, on IRSA's financial condition and results of operations. The closing of one or more significant tenants may induce other tenants at an affected property to terminate their leases, to seek rent relief and/or cease operating their stores or otherwise adversely affect occupancy at the property. If IRSA is not able to successfully lease the affected space again, the bankruptcy and/or closure of significant tenants, could have an adverse effect on both the operating revenues and underlying value of the properties involved.





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***IRSA is subject to payment default risks due to its investments in consumer financing through its subsidiary Alto Palermo.***

Through its subsidiary Alto Palermo IRSA owns as of November 30, 2008 a 93.4% interest in Tarshop S.A., or Tarshop, a company dedicated to the consumer financing business that originates credit cards accounts and personal loans to promote sales from Alto Palermo's tenants and other selected retailers. For the fiscal year ended June 30, 2008, Tarshop had net revenues of Ps 291.0 million, representing 45.5% of Alto Palermo's consolidated revenues and 26.8% of IRSA's consolidated revenues for such fiscal period and incurred a net loss of Ps 18.6 million. For the three months ended September 30, 2008, Tarshop had net revenues of Ps. 48.8 million, representing for such period 33.9% of Alto Palermo's consolidated revenues and 22.3% of our consolidated revenues for such fiscal period, and incurred a net loss of Ps. 57.1 million.

Consumer financing businesses such as Tarshop are adversely affected by defaults or late payments by borrowers and card holders on credit card accounts, difficulties enforcing collection of payments, fraudulent accounts and the writing off of past due receivables. Alto Palermo may face higher liquidity risks due to the nationalization of the AFJPs. Tarshop provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns and management judgment. Due to the current credit crisis and other conditions, some customers experienced delays in payments and delinquency rates increased during the year ended June 30, 2008. Moreover, delinquency rates further increased as of September 30, 2008 and thereafter. Tarshop has increased the level of the allowance for doubtful accounts which amounts to Ps. 66.5 million as of June 30, 2008. The allowance for doubtful accounts was increased to Ps. 83.7 million as of September 30, 2008. Tarshop is closely monitoring the delays, delinquency and uncollectibility rates.

The present rates of delinquency, collection proceedings and loss of receivables may vary and be affected by numerous factors beyond IRSA's control, which, among others, include:

adverse changes in the Argentine economy;

adverse changes in the regional economies;

political instability;

changes in regulations;

increases in unemployment; and

erosion of real and/or nominal salaries.

Recent months have witnessed an unprecedented, and largely unpredicted, turmoil in financial markets in the US and in global economies. This contraction and the factors described above may have an adverse effect on rates of delinquency, collections and receivables, any one or more of which could have a material adverse effect on the results of operations of Tarshop's consumer financing business.

In addition, if IRSA's consumer financing business is adversely affected by one or more of the above factors, the quality of Alto Palermo's securitized receivables is also likely to be adversely affected. Therefore, Alto Palermo could be adversely affected to the extent that Alto Palermo holds an interest in any such securitized receivables.

Tarshop's accounts receivables, which consist of cash flows from consumer financing and personal loans, are placed into a number of trust accounts that securitize those receivables. Tarshop sells beneficial interests in these trust accounts through the sale of debt certificates, but remains a beneficiary of these trust accounts by holding Ps.156.8 million in equity certificates as of June 30, 2008.

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The securitization market is still open and Tarshop completed securitization programs during the recent months with no disruptions. As of June 30, 2008, Tarshop credit risk exposure is contractually limited to the subordinated retained interests representing Ps.156.8 million and Ps.19.4 escrow reserves for losses. As of September 30, 2008, Tarshop credit risk exposure is contractually limited to the subordinated retained interests representing Ps.161.2 million and Ps.17.9 million escrow reserves for losses. Due to the factors mentioned above, as of June 30, 2008, Tarshop recorded an other-than-temporary impairment charge of Ps. 12.0 million to the retained interests to reflect current fair value. For the three months ended September 30, 2008 no additional impairment charge of related to the retained interests in securitized receivables was necessary.

Alto Palermo cannot assure you that collection of payments from credit card accounts and personal loans will be sufficient to distribute earnings to holders of participation certificates, which would reduce Tarshop's earnings. In addition, local authorities might increase credit card or trust account regulations, negatively affecting Tarshop's revenues and results of operation. The Company may also face higher liquidity risks on financial trusts.

***IRSA's subordinated interest in Tarshop's securitized assets may have no value.***

Tarshop S.A., an Alto Palermo subsidiary, is a consumer financing company that originates credit card accounts and personal loans to promote sales from Alto Palermo's tenants and other selected retailers. Tarshop operates in the issuance, processing and marketing of its own non-banking credit card called *Tarjeta Shopping* and grants loans and personal credits. Tarshop's accounts receivables, which consist of cash flows from consumer financing and personal loans, are placed into a number of trust accounts that securitize those receivables. Tarshop sells beneficial interests in these trust accounts through the sale of debt certificates, but remains a beneficiary of these trust accounts by holding Ps.156.8 million in participation certificates as of June 30, 2008. As of June 30, 2008, the Company has recorded an other-than-temporary impairment charge of Ps. 12.0 million to the retained interests in securitized receivables to reflect current fair value of the participation certificates.

IRSA cannot assure you that collection of payments from credit card accounts and personal loans will be sufficient to distribute earnings to holders of participation certificates, which would reduce Tarshop's earnings. In addition, local authorities might increase credit card or trust account regulations, negatively affecting Tarshop's revenues and results of operation. In addition, as the nationalization of the AFJPs may cause cost an increase in funding costs, IRSA may also face higher liquidity risks on financial trusts.

***IRSA is subject to risks affecting the hotel industry.***

The full-service segment of the lodging industry in which IRSA's hotels operate is highly competitive. The operational success of IRSA's hotels is highly dependant on IRSA's ability to compete in areas such as access, location, quality of accommodations, rates, quality food and beverage facilities and other services and amenities. IRSA's hotels may face additional competition if other companies decide to build new hotels or improve their existing hotels to increase their attractiveness.

In addition, the profitability of IRSA's hotels depends on:

IRSA's ability to form successful relationships with international and local operators to run its hotels;

changes in tourism and travel patterns, including seasonal changes;

affluence of tourists, which can be affected by a slowdown in global economy; and

taxes and governmental regulations affecting wages, prices, interest rates, construction procedures and costs.

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***IRSA's business is subject to extensive regulation and additional regulations may be imposed in the future.***

IRSA's activities are subject to federal, state and municipal laws, and to regulations, authorizations and licenses required with respect to construction, zoning, use of the soil, environmental protection and historical patrimony, consumer protection, antitrust and other requirements, all of which affect IRSA's ability to acquire land, buildings and shoppings, develop and build projects and negotiate with customers. In addition, companies in this industry are subject to increasing tax rates, the creation of new taxes and changes in the taxation regime. IRSA is required to obtain licenses and authorizations with different governmental authorities in order to carry out its projects. Maintaining IRSA's licenses and authorizations can be a costly provision. In the case of non-compliance with such laws, regulations, licenses and authorizations, IRSA may face fines, project shutdowns, cancellation of licenses and revocation of authorizations.

In addition, public authorities may issue new and stricter standards, or enforce or interpret existing laws and regulations in a more restrictive manner, which may force IRSA to make expenditures to comply with such new rules. Development activities are also subject to risks relating to potential delays or an inability to obtain all necessary zoning, environmental, land-use, development, building, occupancy and other required governmental permits and authorizations. Any such delays or failures to obtain such government approvals may have an adverse effect on IRSA's business.

In the past, the Argentine government imposed strict and burdensome regulations regarding leases in response to housing shortages, high rates of inflation and difficulties in accessing credit. Such regulations limited or prohibited increases on rental prices and prohibited eviction of tenants, even for failure to pay rent. Most of IRSA's leases provide that the tenants pay all costs and taxes related to their respective leased areas. In the event of a significant increase in the amount of such costs and taxes, the Argentine government may respond to political pressure to intervene by regulating this practice, thereby negatively affecting IRSA's rental income. We cannot assure you that the Argentine government will not impose similar or other regulations in the future. Changes in existing laws or the enactment of new laws governing the ownership, operation or leasing of properties in Argentina could negatively affect the Argentine real estate market and the rental market and materially and adversely affect IRSA's operations and profitability.

***Lease Law No. 23,091 imposes restrictions that limit IRSA's flexibility.***

Argentine laws governing leases impose certain restrictions, including the following:

lease agreements may not contain inflation adjustment clauses based on consumer price indexes or wholesale price indexes. Although many of IRSA's lease agreements contain readjustment clauses, these are not based on an official index nor do they reflect the inflation index. In the event of litigation it may be impossible for us to adjust the amounts owed to IRSA under its lease agreements;

residential leases must comply with a mandatory minimum term of two years and retail leases must comply with a mandatory minimum term of three years except in the case of stands and/or spaces for special exhibitions;

lease terms may not exceed ten years, except for leases regulated by Law No. 25,248 (which provides that leases containing a purchase option are not subject to term limitations); and

tenants may rescind commercial lease agreements after the initial six-month period.

As a result of the foregoing, IRSA is exposed to the risk of increases of inflation under its leases and the exercise of rescission rights by its tenants could materially and adversely affect IRSA's business and we cannot assure you that IRSA's tenants will not exercise such right, especially if rent values stabilize or decline in the future.

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### ***Eviction proceedings in Argentina are difficult and time consuming.***

Although Argentine law permits a summary proceeding to collect unpaid rent and a special proceeding to evict tenants, eviction proceedings in Argentina are difficult and time-consuming. Historically, the heavy workloads of the courts and the numerous procedural steps required have generally delayed landlords' efforts to evict tenants. Eviction proceedings generally take between six months and two years from the date of filing of the suit to the time of actual eviction.

IRSA has usually attempted to negotiate the termination of lease agreements with defaulting tenants after the first few months of non-payment in order to avoid legal proceedings. Delinquency may increase significantly in the future, and such negotiations with tenants may not be as successful as they have been in the past. Moreover, new Argentine laws and regulations may forbid or restrict eviction proceedings, and in such case, they would likely have a material and adverse effect on IRSA's financial condition and results of operation.

### ***IRSA's assets are concentrated in the Buenos Aires area.***

IRSA's principal properties are located in the City of Buenos Aires and the Province of Buenos Aires and a substantial portion of its revenues are derived from such properties. For the fiscal year ended June 30, 2008, more than 88% of IRSA's consolidated revenues were derived from properties in the Buenos Aires metropolitan area including the City of Buenos Aires. Although IRSA owns properties and may acquire or develop additional properties outside Buenos Aires, IRSA expects to continue to depend to a large extent on economic conditions affecting those areas, and therefore, an economic downturn in those areas could have a material adverse effect on its financial condition and results of operations.

### ***IRSA faces risks associated with potential expansion to other Latin American markets.***

From 1994 to 2002, IRSA had substantial investments outside of Argentina, including Brazil Realty, which was sold in 2002, and Fondo de Valores Inmobiliarios in Venezuela, which was sold in 2001. IRSA continues to believe that Brazil and other Latin American countries offer attractive opportunities for growth in the real estate sector. IRSA will continue to consider investment opportunities outside of Argentina as they arise.

Investments in Brazil and other Latin American countries are subject to significant risks including sovereign risks and risks affecting these countries' real estate sectors. These risks include competition by well-established as well as new developers, unavailability of financing or financing on terms that are not acceptable to IRSA, exchange rate fluctuations, lack of liquidity in the market, rising construction costs and inflation, extensive and potentially increasing regulation and bureaucratic procedures to obtain permits and authorizations, political and economic instability that may result in sharp shifts in demand for properties, risks of default in payment and difficulty evicting defaulting tenants.

### ***If the bankruptcy of Inversora Dársena Norte S.A. is extended to IRSA's subsidiary Puerto Retiro, IRSA will likely lose a significant investment in a unique waterfront land reserve in the City of Buenos Aires.***

On November 18, 1997, in connection with the acquisition of IRSA's subsidiary Inversora Bolívar S.A. or Inversora Bolívar, IRSA indirectly acquired 35.2% of the capital stock of Puerto Retiro. Inversora Bolívar had purchased such shares of Puerto Retiro from Redona Investments Ltd. N.V. in 1996. In 1999, IRSA, through Inversora Bolívar, increased its interest in Puerto Retiro to 50.0% of its capital stock. On April 18, 2000, Puerto Retiro received notice of a complaint filed by the Argentine government, through the Ministry of Defense, seeking to extend the bankruptcy of Inversora Dársena Norte S.A. (Indarsa). Upon filing of the complaint, the bankruptcy court issued an order restraining the ability of Puerto Retiro to dispose of, in any manner, the real property it had purchased in 1993 from Tandanor S.A. (Tandanor). Puerto Retiro appealed the restraining order which was confirmed by the court on December 14, 2000.

In 1991, Indarsa had purchased 90% of Tandanor, a formerly government owned company, which owned a large piece of land near Puerto Madero of approximately 8 hectares, divided into two spaces: Planta 1 and 2. After the purchase of Tandanor by Indarsa, in June 1993 Tandanor sold Planta 1 to Puerto Retiro, for a sum of US\$18 million pursuant to a valuation performed by J.L. Ramos, a well-known real estate brokerage firm in Argentina.

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Indarsa failed to pay to the Argentine government the outstanding price for its purchase of the stock of Tandanor. As a result the Ministry of Defense requested the bankruptcy of Indarsa. Since the only asset of Indarsa was its holding in Tandanor, the Argentine government is seeking to extend the bankruptcy to the companies or individuals which, according to its view, acted as a single economic group. In particular, the Argentine government has requested the extension of the bankruptcy to Puerto Retiro which acquired Planta 1 from Tandanor.

The time for producing evidence in relation to these legal proceeding has expired. The parties have submitted their closing arguments and are awaiting a final judgment. However, the judge has delayed his decision until a final judgment in the criminal proceedings against the former Defense Minister and former directors of Indarsa has been delivered. We cannot give you any assurance that IRSA will prevail in this proceeding, and if the plaintiff's claim is upheld by the courts, all of the assets of Puerto Retiro would likely be used to pay Indarsa's debts and IRSA's investment in Puerto Retiro, valued at Ps.54.5 million as of June 30, 2008, would be lost. As of June 30, 2008, IRSA had not established any reserve in respect of this contingency.

***Property ownership through joint ventures may limit IRSA's ability to act exclusively in its interest.***

IRSA develops and acquires properties in joint ventures with other persons or entities when it believes circumstances warrant the use of such structures. For example, in the Shopping Center segment, IRSA owns 63.3% of Alto Palermo, while Parque Arauco S.A. owns 29.6%. IRSA owns 80% of Panamerican Mall S.A., while 20% is owned by Centro Comercial Panamericana S.A. In the Development and Sale segment, IRSA has majority ownership interests in various properties, including 100% ownership of Pereiraola S.A. IRSA also has ownership of 50% in Puerto Retiro and Cyrsa. In addition IRSA has a 90% stake in Solares de Santa María S.A. while Sutton Group owns the remaining 10%. In the Hotel operations segment, IRSA owns 50% of the Llao Llao Hotel, while another 50% is owned by the Sutton Group. IRSA owns 80% of the Hotel Libertador, while 20% is owned by Hoteles Sheraton de Argentina S.A. In the financial services sector, IRSA owns 11.8% of Banco Hipotecario, while the Argentine government has a controlling interest in it. Finally, after the end of fiscal year ended June 30, 2008, IRSA acquired a 30% interest in Metropolitan 885 Third Avenue LLC.

IRSA could become engaged in a dispute with one or more of its joint venture partners that might affect its ability to operate a jointly-owned property. Moreover, IRSA's joint venture partners may, at any time, have business, economic or other objectives that are inconsistent with its objectives, including objectives that relate to the timing and terms of any sale or refinancing of a property. For example, the approval of certain of the other investors is required with respect to operating budgets and refinancing, encumbering, expanding or selling any of these properties. In some instances, IRSA's joint venture partners may have competing interests in its markets that could create conflicts of interest. If the objectives of IRSA's joint venture partners are inconsistent with its own objectives, IRSA will not be able to act exclusively in its interests.

If one or more of the investors in any of IRSA's jointly owned properties were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, there could be an adverse effect on the relevant property or properties and in turn, on IRSA's financial performance. Should a joint venture partner be declared bankrupt, IRSA could become liable for its partner's share of joint venture liabilities.

***IRSA may not be able to recover the mortgage loans it has provided to purchasers of units in its residential development properties.***

In recent years, IRSA has provided mortgage financing to purchasers of units in its residential development properties. Before January 2002, IRSA's mortgage loans were U.S. dollar-denominated and accrued interest at a fixed interest rate generally ranging from 10% to 15% per year and for terms generally ranging from one to fifteen years. However, on March 13, 2002, the Central Bank converted all U.S. dollar denominated debts into Peso denominated debts at the exchange rate of Ps.1.00 =US\$1.00. In addition, the Central Bank imposed maximum interest rates of 3% for residential mortgage loans to individuals and 6% for mortgage loans to businesses. These regulations adversely affected the U.S. dollar value of IRSA's outstanding mortgages.

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Beside risks normally associated with providing mortgage financing, including the risk of default on principal and interest, other regulatory risks such as suspension of foreclosure enforcement proceedings could adversely affect IRSA's cash flow. Argentine law imposes significant restrictions on IRSA's ability to foreclose and auction properties. Thus, when there is a default under a mortgage, IRSA does not have the right to foreclose on the unit. Instead, in accordance with Law No. 24,441, in order to reacquire a property IRSA is required to purchase it at a court ordered public auction, or at an out-of-court auction. However, the Public Emergency Law temporarily suspended all judicial and non-judicial mortgage and pledge enforcement actions. Several laws and decrees extended this mortgage foreclosure suspension period. On June 14, 2006, a new suspension period was approved, which established a 180-day suspension period for mortgage foreclosure proceedings affecting debtors only dwellings and where the original loan was no higher than Ps.100,000.

On November 6, 2003 Law No. 25,798 was enacted. It established a system to restructure debts resulting from unpaid mortgage loans, by creating a trust by means of which the Executive Branch will refinance the mortgage debts and reschedule the maturity date. Financial institutions were given up to 60 business days from the enactment of the law to accept said terms. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004), which included various conditions referring to the incorporation into this system of the mortgage loans that were in judicial or private execution proceedings. The parties to secured loan agreements were given a term to express their adhesion to such system. The term for financial institutions to accept the system was extended in several occasions by Decree No. 352/2004, Law No. 26,062, Law No. 26,084 and Law No. 26,103.

On November 8, 2006, Law No. 26,167 was enacted. It established a special proceeding to replace ordinary trials for the enforcement of some mortgage loans. Such special proceedings give creditors ten days to inform the debtor the amounts owed to them and thereafter agree with the debtor on the amount and terms of payment. In case of failure by the parties to reach an agreement, payment conditions are to be determined by the judge. Also, this law established the suspension of the execution of judicial judgments, judicial and extrajudicial auctions, evictions and other proceedings related to the mortgage loans contemplated in such law.

We cannot assure you that laws and regulations relating to foreclosure on real estate will not continue to change in the future or that any changes will not adversely affect IRSA's business, financial condition or result of operations.

***Dividend restrictions in IRSA's subsidiaries' debt agreements may adversely affect IRSA.***

IRSA has subsidiaries and hence an important source of funds for IRSA is cash dividends and other permitted payments from our subsidiaries. The debt agreements of IRSA's subsidiaries contain covenants restricting their ability to pay dividends or make other distributions. If IRSA's subsidiaries are unable to make payments to IRSA, or are able to pay only limited amounts, IRSA may be unable to pay dividends or make payments on its indebtedness.

***IRSA is dependent on its chairman Eduardo Elsztain and certain other senior managers.***

IRSA's success depends on the continued employment of Eduardo S. Elsztain, IRSA's chief executive officer, president and chairman of the board of directors, who has significant expertise and knowledge of IRSA's business and industry. The loss of or interruption in his services for any reason could have a material adverse effect on its business. IRSA's future success also depends in part upon IRSA's ability to attract and retain other highly qualified personnel. We cannot assure you that IRSA will be successful in hiring or retaining qualified personnel. A failure to hire or retain qualified personnel may have a material adverse effect on IRSA's financial condition and results of operations.

***IRSA may face potential conflicts of interest relating to its principal shareholders.***

IRSA's largest beneficial owner is Mr. Eduardo S. Elsztain, through his indirect shareholding through us. As of November 30, 2008, such beneficial ownership consisted of: (i) 290,654,653 shares held by us, (ii) 1,503,602 shares held by IFISA, (iii) 661,000 shares held by Consultores Assets Management S.A., (iv)

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4,425,439 held by Dolphin Fund PLC, a limited liability company organized under the laws of Isle of Man, (v) 21,874,790 shares held by Agrology S.A., our subsidiary, and (vi) 342,197 shares held directly by Mr. Elsztain.

Conflicts of interest between IRSA's management, IRSA and IRSA's affiliates may arise in the performance of IRSA's respective business activities. As of November 30, 2008, Mr. Elsztain also beneficially owned (i) approximately 33.4% of Cresud's common shares and (ii) approximately 63.3% of the common shares of IRSA's subsidiary Alto Palermo. We cannot assure you that IRSA's principal shareholders and their affiliates will not limit or cause IRSA to forego business opportunities that their affiliates may pursue or that the pursuit of other opportunities will be in IRSA's interest.

***Due to the currency mismatches between its assets and liabilities, IRSA has significant currency exposure.***

As of June 30, 2008, the majority of IRSA's liabilities, such as IRSA's 8.5% notes due 2017, Alto Palermo's Series I Notes, the mortgage loan to IRSA's subsidiary Hoteles Argentinos S.A. and Alto Palermo's convertible notes are denominated in U.S. dollars while IRSA's revenues and most of its assets as of June 30, 2008, are denominated in Pesos. This currency gap exposes IRSA to a risk of exchange rate volatility, which would negatively affect its financial results if the dollar were to appreciate against the Peso. Any further depreciation of the Peso against the U.S. dollar will correspondingly increase the amount of IRSA's debt in Pesos, with further adverse effects on its results of operation and financial condition and may increase the collection risk of IRSA's leases and other receivables from its tenants and mortgage debtors, most of whom have Peso-denominated revenues.

***The shift of consumers to purchasing goods over the Internet may negatively affect sales in our shopping centers.***

During the last years, retail sales by means of the Internet have grown significantly in Argentina, even though the market share of Internet sales related to retail sales is still not significant. The Internet enables manufacturers and retailers to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and shopping centers. IRSA believes that its target consumers are increasingly using the Internet, from home, work or elsewhere, to shop electronically for retail goods, and this trend is likely to continue. If e-commerce and retail sales through the Internet continue to grow, consumers' reliance on traditional distribution channels such as IRSA's shopping centers could be materially diminished, having a material adverse effect on its financial condition, results of operations and business prospects.

**Risks Relating to IRSA's Investment in Banco Hipotecario**

***IRSA's investment in Banco Hipotecario is subject to risks affecting Argentina's financial system.***

As of June 30, 2008, IRSA owned 11.8% of Banco Hipotecario which represented 6.5% of IRSA's consolidated assets at such date. Banco Hipotecario recorded losses of Ps.59.6 million for the fiscal year ended June 30, 2008. Moreover, for the three months ended September 30, 2008, Banco Hipotecario recorded losses of Ps.47.2 million and Banco Hipotecario might record new losses for the rest of the fiscal year. Substantially all of Banco Hipotecario's operations, properties and customers are located in Argentina. Accordingly, the quality of its loan portfolio, its financial condition and results of operations depend to a significant extent on economic and political conditions prevailing in Argentina. The political and economic crisis in Argentina during 2002 and 2003 and the Argentine government's actions to address it have had and may continue to have a material adverse effect on Banco Hipotecario's business, financial condition and results of operations.

Financial institutions are subject to significant regulation relating to functions that historically have been mandated by the Central Bank and other regulatory authorities. Measures adopted by the Central Bank have had, and future regulations may have, a material adverse effect on Banco Hipotecario's financial condition and results of operations.

Laws and decrees implemented during the economic crisis in 2001 and 2002 have substantially altered contractual obligations affecting Argentina's financial sector. Recently, the Argentine Congress has considered



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various initiatives intended to reduce or eliminate a portion of the mortgage loan portfolio on the debt owed to Banco Hipotecario. Also, there have been certain initiatives intended to review the terms pursuant to which Banco Hipotecario was privatized. As a result, we cannot assure you that the Argentine legislature will not enact new laws that will have a significant adverse effect on Banco Hipotecario's shareholders' equity or that the Argentine government would compensate Banco Hipotecario for the resulting loss. These uncertainties could have a material adverse effect on the value of IRSA's investment in Banco Hipotecario.

Over the past few months, the financial markets in the most important countries in the world have been affected by volatility, lack of liquidity and credit, which entailed a significant drop in international stock indexes, and an economic slow-down started to become evident worldwide. Despite the actions taken by central countries, the international markets' future is still uncertain.

As regards Argentina, and after June 30, 2008, stock markets reflected significant drops in the prices of government and corporate securities, as well as an increase in interest rates, country risk and exchange rates, a situation that is still ongoing as of the date of issuance of this report. Banco Hipotecario considers that these situations did not exist as of June 30, 2008, but arose subsequent to that date.

As a result of the situation described above, the market value of the BODEN 2012, BOGAR and Discount bonds as of December 15, 2008, decreased approximately by Ps.806,451 compared to its market value as of June 30, 2008. The decrease in the prices of government securities plus the increase in the Argentine credit risk originated the necessity to increase the guarantees deposited for swap and repo transactions.

In addition, as a consequence of the financial situation described above, the decrease in the quotation of Banco Hipotecario's shares have caused a decrease in the fair value of the Total Return Swap approximately by Ps.37,328 as of December 15, 2008 compared to its fair value as of June 30, 2008.

The net position of the derivative financial instruments have experienced a decline of Ps.114,388 as of September 30, 2008 compared to June 30, 2008, as a consequence of the financial crisis described above. Subsequently, and as of the date of issuance of this report, the main variables that determine fair value (EURO/US Dollar/BADLAR/LIBOR/Country Risk), continue being affected by the market volatility mentioned before.

Banco Hipotecario's management is monitoring the effects derived from the above situation described in order to implement the necessary measures to mitigate its effect. This document must be analyzed taking into consideration the scenario described above.

***Banco Hipotecario relies heavily on mortgage lending and the value of IRSA's investment in it depends in part on its ability to implement successfully its new business diversification strategy.***

Historically, Banco Hipotecario has been engaged exclusively in mortgage lending and related activities. As a result, factors having an adverse effect on the mortgage market have a greater adverse impact on Banco Hipotecario than on its more diversified competitors. Due to its historic concentration in this recession-sensitive sector, Banco Hipotecario is particularly vulnerable to adverse changes in economic and market conditions in Argentina due to their adverse effect on (i) demand for new mortgage loans and (ii) the asset quality of outstanding mortgage loans. The last economic crisis had a material adverse effect on its liquidity, financial conditions and results of operations. In addition, a number of governmental measures that apply to the financial sector have had a material adverse effect particularly on Banco Hipotecario, impairing its financial condition.

In light of the economic conditions in Argentina for the foreseeable future, Banco Hipotecario cannot rely exclusively on mortgage lending and related services. Accordingly, Banco Hipotecario has adapted its business strategy to confront the challenges of these new market conditions. Banco Hipotecario's ability to diversify its operation will depend on how successfully it diversifies its product offerings and transforms itself into a financial institution that no longer relies solely on mortgage lending.

In the past years Banco Hipotecario has made several investments that are designed to enable it to develop retail banking activities. Banco Hipotecario must overcome significant challenges to achieve this goal including,

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among others, its lack of experience and client relationships outside the mortgage sector, the existence of large, well-positioned competitors and significant political, regulatory and economic uncertainties in Argentina. As a result, we cannot give you any assurance that Banco Hipotecario will be successful in developing significant retail banking activities in the foreseeable future, if at all. If Banco Hipotecario is unable to diversify its operations by developing its retail banking activities and other non-mortgage banking activities, the value of IRSA's substantial investment in Banco Hipotecario would likely be materially and adversely affected.

***Banco Hipotecario's mortgage loan portfolio is not adequately indexed for inflation and any significant increase in inflation could have a material adverse effect on its financial condition.***

In accordance with Emergency Decree No. 214/02 and its implementing regulations, pesified assets and liabilities were adjusted for inflation as of February 3, 2002 by application of the Coeficiente de Estabilización de Referencia, or CER, a consumer price inflation coefficient. On May 6, 2002, the Executive Branch issued a decree providing that mortgages originally denominated in U.S. dollars and converted into Pesos pursuant to Decree No. 214/2002 and mortgages on property constituting a borrower's sole family residence may be adjusted for inflation only pursuant to a coefficient based on salary variation, the CVS, which during 2002 was significantly less than inflation as measured by the wholesale price index, or WPI. Through December 31, 2002, the WPI and the CVS posted cumulative increases of 118.2% and 0.2%, respectively, and the CER increased 41.4%. During 2003, inflation rose by 4.3% as measured by the WPI, 3.7% as measured by the CER and 15.8% as measured by the CVS. As a result, only 10% of Banco Hipotecario's mortgage loans are adjusted for inflation in accordance with the CER, 30% are adjusted in accordance with the CVS and 60% remain entirely unindexed. Additionally, pursuant to Law No. 25,796, Section 1, repealed effective April 1, 2004, the CVS as an indexation mechanism applied to the relevant portion of Banco Hipotecario's mortgages loans. The CVS increased until it was repealed by 5.3%, whereas the increase in CER was 5.5% as of December 31, 2004 and the WPI increased by 7.9%. During 2005, the CER was 11.75% and the WPI 10.7%, while in 2006 the CER and WPI increased by 10.3% and 7.1%, respectively. In 2007, CER and WPI increased by 8.5% and 14.4%, respectively. For the six months period ended June 30, 2008, the CER increased 6%.

Argentina's history prior to the adoption of the Convertibility Law, which set the exchange rate of the Argentine Peso to the U.S. dollar at a Ps.1.00 = US\$1.00, raises serious doubts as to the ability of the Argentine government to maintain a strict monetary policy and control inflation. As a result of the high inflation in Argentina from 2002 onwards, Banco Hipotecario's mortgage loan portfolio experienced a significant decrease in value and if inflation continues increasing, it might continue to undergo a major decrease in value. Accordingly, an increase in Banco Hipotecario's funding and other costs due to inflation might not be offset by indexation, which could adversely affect its liquidity and results of operations.

***Legislation limiting Banco Hipotecario's ability to foreclose on mortgaged collateral may have an adverse effect on it.***

Like other mortgage lenders, the ability to foreclose on mortgaged collateral to recover on delinquent mortgage loans impacts the conduct of Banco Hipotecario's business. In February 2002, the Argentine government amended Argentina's Bankruptcy Law, suspending bankruptcies and foreclosures on real estate that constitutes the debtor's primary residence, initially for a six-month period and subsequently extended until November 14, 2002. Since 2003, the Argentine government has approved various laws that have suspended, in some cases, foreclosures for a period of time in accordance with Law No. 25,972 enacted on December 18, 2004, and, in some cases, temporarily suspended all judicial and non-judicial mortgage and pledge enforcement actions. Several laws and decrees extended this mortgage foreclosure suspension period. Most recently, on June 14, 2006, Argentine Law 26,103 was enacted which established a 180-day suspension period for mortgage foreclosure proceedings affecting debtors where the subject mortgage related to the debtor's sole residence and where the original loan was not greater than Ps.100,000.

Law No. 25,798, enacted November 5, 2003, and implemented by Decrees No. 1284/2003 and No. 352/2004, among others, sets forth a system to restructure delinquent mortgage payments to prevent foreclosures on a debtor's sole residence (the Mortgage Refinancing System). The Mortgage Refinancing System establishes a trust composed of assets contributed by the Argentine government and income from restructured mortgage

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loans. *Banco de la Nación Argentina*, in its capacity as trustee of said trust, enters into debt restructuring agreements with delinquent mortgage debtors establishing the following terms: (i) a grace period on the mortgage loan of one year and (ii) monthly installment payments on the mortgage loan not to exceed 30% of the aggregate income of the family living in the mortgaged property. *Banco de la Nación Argentina* then subrogates the mortgagee's rights against the debtor, by issuing notes delivered to the mortgagee to settle the amounts outstanding on the mortgage loan. The sum restructured under the Mortgage Refinancing System may not exceed the appraisal value of the property securing the mortgage after deducting any debts for taxes and maintenance. The Mortgage Refinancing System was established for a limited period of time, during which parties to mortgage loan agreements could opt to participate and was subsequently extended by a number of decrees and laws.

Law No. 26,167, enacted on November 29, 2006, suspended foreclosures and also established a special proceeding for the enforcement of certain mortgage loans. Such special proceedings give creditors a 10-day period to inform the court of the amounts owed under the mortgage loan. Soon thereafter, the judge will call the parties for a hearing in order to reach an agreement on the amount and terms of payment thereunder. In case of failure by the parties to reach such agreement, they will have a 30-day negotiation period, and if the negotiations do not result in an agreement, then, payment and conditions will be determined by the courts.

On November 29, 2006, Law No. 26,177 created the *Unidad de Reestructuración*, a government agency responsible for the revision of each of the mortgage loans granted by the state-owned Banco Hipotecario Nacional, the predecessor of Banco Hipotecario, before the enactment of the Convertibility Law in 1991. The *Unidad de Reestructuración* also makes non-binding recommendations to facilitate the restructuring of such mortgage loans. If no agreement is reached, the *Unidad de Reestructuración* will submit a proposal to the National Congress, which may recommend forgiveness or other write-off of such loans, extensions of their scheduled maturities or other subsidies that adversely affect Banco Hipotecario's ability to foreclose on such mortgage loans.

On December 7, 2007, Law No. 26,313 was enacted, establishing a mandatory restructuring of certain mortgage loans that were granted by the former Banco Hipotecario Nacional prior to April 1, 1991, for the purchase, improvement, construction and/or expansion of single family residences, or for the repayment of loans that were used for any of such purposes. On December 19, 2008, through Decree 2107/08, the government issued regulations explaining its scope of application. This law applies only to non-performing mortgage loans granted before April 1, 1991, and requires a new balance calculation for loans affected. Banco Hipotecario S.A., as legal successor to the former Banco Hipotecario Nacional, has estimated that it has enough loan allowances to face possible negative economic effects that could arise from this situation.

We cannot assure you that the Argentine government will not enact further new laws restricting Banco Hipotecario's ability to enforce its rights as creditors. Any such limitation on its ability to successfully implement foreclosures could have a material adverse effect on its financial condition and results of operations.

***Banco Hipotecario's non-mortgage loan portfolio has grown rapidly and is concentrated in the low- and middle-income segments.***

As a result of Banco Hipotecario's strategy to diversify its banking operations and develop retail and other non-mortgage banking activities, in recent years its portfolio of non-mortgage loans has grown rapidly. During the period between June 30, 2005 and June 30, 2008, Banco Hipotecario's portfolio of non-mortgage loans grew 150.9% from Ps.911.0 million to Ps.2,361.4 million. A substantial portion of its portfolio of non-mortgage loans consists of loans to low- and middle-income individuals and, to a lesser extent, middle-market companies. These individuals and companies are likely to be more seriously affected by adverse developments in the Argentine economy than high income individuals and large corporations. Consequently, in the future Banco Hipotecario may experience higher levels of past due non-mortgage loans that would likely result in increased provisions for loan losses. In addition, large-scale lending to low- and middle-income individuals and middle-market companies is a new business activity for Banco Hipotecario, and as a result its experience and loan-loss data for such loans are necessarily limited. Therefore, we cannot assure you that the levels of past due non-mortgage loans and resulting charge-offs will not increase materially in the future.

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*Given the current valuation criteria of the Central Bank for the recording of BODEN and other public securities on Banco Hipotecario's balance sheets, its most recent financial statements may not be indicative of its current financial condition.*

Banco Hipotecario prepares its financial statements in accordance with Central Bank accounting rules which differ in certain material respects from Argentine GAAP. During 2002, Central Bank accounting rules were modified in several respects that materially increased certain discrepancies between Central Bank accounting rules and Argentine GAAP. In accordance with Central Bank accounting rules, Banco Hipotecario's consolidated balance sheet as of June 30, 2008 includes US\$684.7 million of BODEN issued by the Argentine government as compensation for pesification, as well as an US\$84.4 million asset representing its right to acquire additional BODEN. Banco Hipotecario's consolidated balance sheet as of June 30, 2008 also includes Ps.239.1 million representing Central Bank borrowings which Banco Hipotecario incurred to finance its acquisition of the additional BODEN. Since September 30, 2005 Banco Hipotecario has subscribed additional BODEN 2012 in the amount of US\$773.5 million and reduced Central Bank borrowings in the amount of Ps.1,844.0 million. Additionally, its most recent consolidated annual income statements include the accrual of interest income to be received on BODEN not yet received and interest to be paid adjusted by CER on Central Bank borrowings.

In accordance with Central Bank accounting rules, the BODEN reflected on Banco Hipotecario's consolidated balance sheet as of June 30, 2008 have been recorded at 100% of face value. The fair value of the Boden 2012 as of June 30, 2008 decreases the shareholder's equity in Ps.212.6 million.

*Due to interest rate and currency mismatches of its assets and liabilities, Banco Hipotecario has significant currency exposure.*

As of June 30, 2008, Banco Hipotecario's foreign currency-denominated liabilities exceeded its foreign-currency-denominated assets by approximately US\$238.3 million. Substantially all of Banco Hipotecario's foreign currency assets consist of dollar-denominated BODEN, but Banco Hipotecario's liabilities in foreign currencies are denominated in both U.S. Dollars and Euros. This currency gap exposes Banco Hipotecario to risk of exchange rate volatility which would negatively affect Banco Hipotecario's financial results if the U.S. Dollar were to depreciate against the Peso and/or the Euro. We cannot assure you that the U.S. Dollar will not appreciate against the Peso, or that we will not be adversely affected by Banco Hipotecario's exposure to risks of exchange rate fluctuations.

*Because of its large holdings of BODEN and other government securities, Banco Hipotecario has significant exposure to the Argentine public sector.*

On December 23, 2001, the Argentine government declared the suspension of payments on most of its sovereign debt, which as of December 31, 2001, totaled approximately US\$144.5 billion, a substantial portion of which was restructured by the issuance of new bonds in the middle of 2005. Banco Hipotecario has a significant exposure to the Argentine government's solvency. As of June 30, 2008, the net exposure of Banco Hipotecario to the Argentine public sector, without considering liquid assets in accounts opened at the BCRA, amounts to Ps.2,526,723. The market value of Boden and other government securities as of December 15, 2008, decreased by approximately Ps.877.1 million compared to its market value as of June 30, 2008. Further, defaults by the Argentine government on its debt obligations, including Boden and other government securities held by Banco Hipotecario, would materially and adversely affect its financial condition which would in turn affect IRSA's investment.

The market value of lower-case and other government securities as of October 31, 2008, decreased by approximately Ps.1.029 million compared to its market value as of June 30, 2008.

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***Banco Hipotecario operates in a highly regulated environment, and its operations are subject to regulations adopted, and measures taken, by the Central Bank, the Comisión Nacional de Valores and other regulatory agencies.***

Financial institutions are subject to significant regulation relating to functions that historically have been mandated by the Central Bank and other regulatory authorities. Measures adopted by the Central Bank have had, and future regulations may have, a material adverse effect on Banco Hipotecario's financial condition and results of operations.

Similarly, the *Comisión Nacional de Valores*, which authorizes Banco Hipotecario's offerings of securities and regulates the public markets in Argentina, has the authority to impose sanctions on Banco Hipotecario and its board of directors for breaches of corporate governance. Under applicable law, the *Comisión Nacional de Valores* has the authority to impose penalties that range from minor regulatory enforcement sanctions to significant monetary fines, to disqualification of directors from performing board functions for a period of time, and (in an extreme case) prohibiting issuers from making public offerings, if they were to determine that there was wrongdoing or material violation of law. Although Banco Hipotecario is not currently party to any proceeding before the *Comisión Nacional de Valores*, we cannot assure you that the *Comisión Nacional de Valores* will not initiate new proceedings against Banco Hipotecario, its shareholder or directors or impose further sanctions.

Commencing in early 2002, laws and decrees have been implemented that have substantially altered the prevailing legal regime and obligations established in contract. In the recent past, various initiatives have been presented to Congress intended to reduce or eliminate the debt owed to Banco Hipotecario on a portion of its mortgage loan portfolio and there were initiatives intended to review the terms pursuant to which Banco Hipotecario Nacional was privatized. As a result, we cannot assure you that the legislative branch will not enact new laws that will have a significant adverse impact on Banco Hipotecario's shareholders' equity or that, if this were to occur, the Argentine government would compensate us for the resulting loss.

***The Argentine government may prevail in all matters to be decided at a Banco Hipotecario's general shareholders meeting.***

According to the Privatization Law and Banco Hipotecario's by-laws, holders of Class A and Class D Shares have special voting rights relating to certain corporate decisions. Whenever such special rights do not apply (with respect to the Class A Shares and the Class D Shares) and in all cases (with respect to the Class B Shares and the Class C Shares), each share of common shares entitles the holder to one vote. Pursuant to Argentine regulations, Banco Hipotecario may not issue new shares with multiple votes.

The holders of Class D Shares have the right to elect nine of Banco Hipotecario's board members and their respective alternates. In addition, for so long as Class A Shares represent more than 42.0% of Banco Hipotecario's capital, the Class D Shares shall be entitled to three votes per share, provided that holders of Class D Shares will be entitled to only one vote per share in the case of a vote on:

a fundamental change in Banco Hipotecario's corporate purpose;

a change in Banco Hipotecario's domicile outside of Argentina;

dissolution prior to the expiration of Banco Hipotecario's corporate existence;

a merger or spin-off after which Banco Hipotecario would not be the surviving corporation;

a total or partial recapitalization following a mandatory reduction of capital; and

approval of voluntary reserves, other than legally mandated reserves, when their amount exceeds Banco Hipotecario's capital stock and its legally mandated reserves.



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In addition, irrespective of what percentage of Banco Hipotecario's outstanding capital stock is represented by Class A Shares, the affirmative vote of the holders of Class A Shares is required to adopt certain decisions. Class D Shares will not be converted into Class A Shares, Class B Shares or Class C Shares by virtue of their reacquisition by the Argentine government, PPP or Programa de Propiedad Participada (or the Shared Property Program) participants or companies engaged in housing development or real estate activities.

According to the Privatization Law, there are no restrictions on the ability of the Argentine government to dispose of its Class A shares, and all but one of such shares could be sold to third parties in a public offering. If the Class A shares represent less than 42% of Banco Hipotecario's total voting stock as a result of the issuance of new shares other than Class A shares or otherwise, the Class D shares IRSA holds will automatically lose their triple voting rights. If this were to occur, IRSA would likely lose its current ability, together with IRSA's affiliates that also hold Class D shares of Banco Hipotecario, to exercise substantial influence over decisions submitted to the vote of Banco Hipotecario's shareholders.

### ***Banco Hipotecario will continue to consider acquisition opportunities which may not be successful.***

From time to time in recent years, Banco Hipotecario has considered certain possible acquisitions or business combinations, and Banco Hipotecario expects to continue considering acquisitions that it believes offer attractive opportunities and are consistent with its business strategy. We cannot assure you, however, that Banco Hipotecario will be able to identify suitable acquisition candidates or that Banco Hipotecario will be able to acquire promising target financial institutions on favorable terms. Additionally, its ability to obtain the desired effects of such acquisitions will depend in part on its ability to successfully complete the integration of those businesses. The integration of acquired businesses entails significant risks, including:

unforeseen difficulties in integrating operations and systems;

problems assimilating or retaining the employees of acquired businesses;

challenges retaining customers of acquired businesses;

unexpected liabilities or contingencies relating to the acquired businesses; and

the possibility that management may be distracted from day-to-day business concerns by integration activities and related problem solving.

### **Risks Related to Our ADSs and Common Shares**

#### ***Shares eligible for sale could adversely affect the price of our common shares and American Depositary Shares.***

The market prices of our common shares and American Depositary Shares ( ADS ) could decline as a result of sales by our existing shareholders of common shares or ADSs in the market, or the perception that these sales could occur. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

The ADSs are freely transferable under US securities laws, including shares sold to our affiliates. Inversiones Financieras del Sur S.A., which as of November 30, 2008, owned approximately 32.5% of our common shares (or approximately 163,184,378 common shares which may be exchanged for an aggregate of 16,318,438), is free to dispose of any or all of its common shares or ADSs at any time in its discretion. Sales of a large number of our common shares and/or ADSs would likely have an adverse effect on the market price of our common shares and the ADS.

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***We are subject to certain different corporate disclosure requirements and accounting standards than domestic issuers of listed securities in the United States.***

There is less publicly available information about the issuers of securities listed on the Buenos Aires Stock Exchange than information publicly available about domestic issuers of listed securities in the United States and certain other countries. In addition, all listed Argentine companies must prepare their financial statements in accordance with Argentine GAAP and the regulations of the *Comisión Nacional de Valores* which differ in certain significant respects from U.S. GAAP. For this and other reasons, the presentation of Argentine financial statements and reported earnings may differ from that of companies in other countries in this and other respects.

We are exempted from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempted from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

***Investors may not be able to effect service of process within the U.S., limiting their recovery of any foreign judgment.***

We are a publicly held corporation (*sociedad anónima*) organized under the laws of Argentina. Most of our directors and our senior managers, and most of our assets are located in Argentina. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against us or them, in United States courts, judgments obtained in such courts predicated upon the civil liability provisions of the United States federal securities laws. We have been advised by our Argentine counsel, Zang, Bergel & Viñes, that there is doubt as to whether the Argentine courts will enforce to the same extent and in as timely a manner as a US or foreign court, an action predicated solely upon the civil liability provisions of the United States federal securities laws or other foreign regulations brought against such persons or against us.

***If we are considered to be a passive foreign investment company for United States federal income tax purposes, U.S. holders of our equity securities would suffer negative consequences.***

Based on the current composition of our income and the valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company ( PFIC ) for United States federal income tax purposes for the taxable year ending June 30, 2008. The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may be a PFIC in the current or any future taxable year due to changes in our asset or income composition. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of our income and assets. Specifically, for any taxable year we will be classified as a PFIC for United States tax purposes if either (i) 75% or more of our gross income in that taxable year is passive income or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income is at least 50%. If we own at least 25% by value of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of that other corporation's assets and receiving our proportionate share of its income. If we become a PFIC, U.S. holders of our equity securities will be subject to certain United States federal income tax rules that have negative consequences for U.S. holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our equity securities at a gain, as well as additional reporting requirements. See *Taxation Certain United States Federal Income Tax Consequences Passive Foreign Investment Company* for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

***Under Argentine law, shareholder rights may be fewer or less well defined than in other jurisdictions.***

Our corporate affairs are governed by our by-laws and by Argentine corporate law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the States of Delaware or New York, or in other jurisdictions outside Argentina. In addition, your rights or the rights of holders of our common shares to protect your or their interests in connection with actions by our board of directors may be fewer and less well defined under Argentine corporate law than under the laws of those other jurisdictions. Although insider trading and price manipulation are illegal under Argentine law, the Argentine



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securities markets are not as highly regulated or supervised as the US securities markets or markets in some other jurisdictions. In addition, rules and policies against self dealing and regarding the preservation of shareholder interests may be less well defined and enforced in Argentina than in the United States, putting holders of our common shares and ADSs at a potential disadvantage.

*The protections afforded to minority shareholders in Argentina are different from and more limited than those in the United States and may be more difficult to enforce.*

Under Argentine law, the protections afforded to minority shareholders are different from, and much more limited than, those in the United States and some other Latin American countries. For example, the legal framework with respect to shareholder disputes, such as derivative lawsuits and class actions, is less developed under Argentine law than under U.S. law as a result of Argentina's short history with these types of claims and few successful cases. In addition, there are different procedural requirements for bringing these types of shareholder lawsuits. As a result, it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a US company.

*Holders of common shares may determine to not pay any dividends.*

In accordance with Argentine corporate law we may pay dividends to shareholders out of net and realized profits, if any, as set forth in our audited financial statements prepared in accordance with Argentine GAAP. The approval, amount and payment of dividends are subject to the approval by our shareholders at our annual ordinary shareholders meeting. The approval of dividends requires the affirmative vote of a majority of the shareholders entitled to vote at the meeting. As a result, we cannot assure you that we will be able to generate enough net and realized profits so as to pay dividends or that our shareholders will decide that dividends will be paid.

*Our ability to pay dividends is limited by law.*

In accordance with Argentine corporate law, we may pay dividends in Pesos only out of retained earnings, if any, to the extent set forth in our audited financial statements prepared in accordance with Argentine GAAP.

*Dividend restrictions in our subsidiaries debt agreements may adversely affect us.*

We have subsidiaries and hence an important source of funds for us is cash dividends and other permitted payments from our subsidiaries. The debt agreements of our subsidiaries contain covenants restricting their ability to pay dividends or make other distributions. If our subsidiaries are unable to make payments to us, or are able to pay only limited amounts, we may be unable to pay dividends or make payments on our indebtedness.

## **Risks Related to IRSA's Global Depositary Shares and the Shares**

*Shares eligible for sale could adversely affect the price of IRSA's common shares and Global Depositary Shares.*

The market prices of IRSA's common shares and GDS could decline as a result of sales by IRSA's existing shareholders of common shares or GDSs in the market, or the perception that these sales could occur. These sales also might make it difficult for IRSA to sell equity securities in the future at a time and at a price that IRSA deem appropriate.

The GDSs are freely transferable under US securities laws, including shares sold to IRSA's affiliates. Our company, which as of November 30, 2008, owned approximately 54.0% of IRSA's common shares (or approximately 312,529,443 common shares which may be exchanged for an aggregate of 31,252,944 GDSs), is free to dispose of any or all of our common shares or GDSs at any time in our discretion. Sales of a large number of IRSA's common shares and/or GDSs would likely have an adverse effect on the market price of IRSA's common shares and the GDS.

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***IRSA is subject to certain different corporate disclosure requirements and accounting standards than domestic issuers of listed securities in the United States.***

There is less publicly available information about the issuers of securities listed on the *Bolsa de Comercio de Buenos Aires* than information publicly available about domestic issuers of listed securities in the United States and certain other countries. In addition, all listed Argentine companies must prepare their financial statements in accordance with Argentine GAAP and the regulations of the *Comisión Nacional de Valores* which differ in certain significant respects from U.S. GAAP. For this and other reasons, the presentation of Argentine financial statements and reported earnings may differ from that of companies in other countries in this and other respects.

IRSA is exempted from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and IRSA's officers, directors and principal shareholders are exempted from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

***Investors may not be able to effect service of process within the U.S. limiting their recovery of any foreign judgment.***

IRSA is a publicly held corporation (*sociedad anónima*) organized under the laws of Argentina. Most of IRSA's directors and senior managers, and most of IRSA's assets are located in Argentina. As a result, it may not be possible for investors to effect service of process within the United States upon IRSA or such persons or to enforce against IRSA or them, in United States courts, judgments obtained in such courts predicated upon the civil liability provisions of the United States federal securities laws. IRSA has been advised by their Argentine counsel, Zang, Bergel & Viñes, that there is doubt as to whether the Argentine courts will enforce to the same extent and in as timely a manner as a US or foreign court, an action predicated solely upon the civil liability provisions of the United States federal securities laws or other foreign regulations brought against such persons or against IRSA.

***If IRSA is considered to be a passive foreign investment company for United States federal income tax purposes, U.S. holders of IRSA's equity securities would suffer negative consequences.***

Based on the current and projected composition of IRSA's income and the valuation of their assets, including goodwill, IRSA do not believe they were a passive foreign investment company (PFIC) for United States federal income tax purposes for the taxable year ending June 30, 2008, and IRSA do not currently expect to become a PFIC, although there can be no assurance in this regard. The determination of whether IRSA is a PFIC is made annually. Accordingly, it is possible that IRSA may be a PFIC in the current or any future taxable year due to changes in their asset or income composition or if their projections are not accurate. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of IRSA's income and assets and the accuracy of their projections. If IRSA becomes a PFIC, U.S. holders of IRSA's equity securities will be subject to certain United States federal income tax rules that have negative consequences for U.S. holders such as additional tax and an interest charge upon certain distributions by IRSA or upon a sale or other disposition of IRSA's equity securities at a gain, as well as additional reporting requirements.

***Under Argentine law, shareholder rights may be fewer or less well defined than in other jurisdictions.***

IRSA's corporate affairs are governed by their by-laws and by Argentine corporate law, which differ from the legal principles that would apply if they were incorporated in a jurisdiction in the United States, such as the States of Delaware or New York, or in other jurisdictions outside Argentina. In addition, your rights or the rights of holders of IRSA's common shares to protect your or their interests in connection with actions by IRSA's board of directors may be fewer and less well defined under Argentine corporate law than under the laws of those other jurisdictions. Although insider trading and price manipulation are illegal under Argentine law, the Argentine securities markets are not as highly regulated or supervised as the US securities markets or markets in some other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well defined and enforced in Argentina than in the United States, putting holders of IRSA's common shares and GDSs at a potential disadvantage.

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***The protections afforded to minority shareholders in Argentina are different from and more limited than those in the United States and may be more difficult to enforce.***

Under Argentine law, the protections afforded to minority shareholders are different from, and much more limited than, those in the United States and some other Latin American countries. For example, the legal framework with respect to shareholder disputes, such as derivative lawsuits and class actions, is less developed under Argentine law than under U.S. law as a result of Argentina's short history with these types of claims and few successful cases. In addition, there are different procedural requirements for bringing these types of shareholder lawsuits. As a result, it may be more difficult for IRSA's minority shareholders to enforce their rights against IRSA or IRSA's directors or controlling shareholder than it would be for shareholders of a US company.

***Holders of common shares may determine not to pay any dividends.***

In accordance with Argentine corporate law IRSA may pay dividends to shareholders out of net and realized profits, if any, as set forth in IRSA's audited financial statements prepared in accordance with Argentine GAAP. The approval, amount and payment of dividends are subject to the approval by IRSA's shareholders at their annual ordinary shareholders meeting. The approval of dividends requires the affirmative vote of a majority of the shareholders entitled to vote at the meeting. As a result, IRSA cannot assure you that they will be able to generate enough net and realized profits so as to pay dividends or that IRSA's shareholders will decide that dividends will be paid.

***IRSA's ability to pay dividends is limited by law, by their by-laws and by certain restrictive covenants in their debt instruments.***

In accordance with Argentine corporate law, IRSA may pay dividends in Pesos only out of retained earnings, if any, to the extent set forth in IRSA's audited financial statements prepared in accordance with Argentine GAAP. In addition, IRSA's ability to pay dividends on their common shares is limited by certain restrictive covenants in their debt instruments.

On February 2, 2007, IRSA issued 8.5% notes due 2017 in an aggregate principal amount of US\$150.0 million. These bonds contain a covenant limiting their ability to pay dividends which may not exceed the sum of:

50% of IRSA's cumulative consolidated net income; or

75% of IRSA's cumulative consolidated net income if their consolidated interest coverage ratio for their most recent four consecutive fiscal quarters is at least 3.0 to 1; or

100% of cumulative consolidated net income if IRSA's consolidated interest coverage ratio for their most recent four consecutive fiscal quarters is at least 4.0 to 1; or

100% of the aggregate net cash proceeds (with certain exceptions) and the fair market value of property other than cash received by IRSA or by their restricted subsidiaries from (a) any contribution to IRSA's equity capital or to the capital stock of their restricted subsidiaries or issuance and sale of IRSA's qualified capital stock or the qualified capital stock of their restricted subsidiaries subsequent to the issue of IRSA's notes due 2017, or (b) any issuance and sale subsequent to the issuance of IRSA's notes due 2017, of their indebtedness, or of the indebtedness of IRSA's restricted subsidiaries that has been converted into or exchanged for their qualified capital stock.

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As a result, IRSA cannot give you any assurance that in the future they will pay any dividends in respect of their common shares.

### **Item 4. Information on the Company**

#### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

##### **General Information**

Our legal name is Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria, and our commercial name is Cresud. We were incorporated and organized on December 31, 1936 under Argentine law as a stock corporation (sociedad anónima) and were registered with the Public Registry of Commerce of the City of Buenos Aires (*Inspección General de Justicia*), or IGJ on February 19, 1937 under number 26, on page 2, book 45 of National By-laws Volume. Pursuant to our bylaws, our term of duration expires on July 6, 2082. Our headquarters are located at Moreno 877, (C1091AAQ), Buenos Aires, Argentina. Our telephone is +54 (11) 4814-7800, and our website is [www.cresud.com.ar](http://www.cresud.com.ar).

Information contained in or accessible through our website is not a part of this annual report on Form 20-F. All references in this annual report on Form 20-F to this or other internet sites are inactive textual references to these URLs, or uniform resource locators and are for your information reference only. We assume no responsibility for the information contained on these sites.

##### **History**

We were incorporated in 1936 as a subsidiary of Credit Foncier, a Belgian company engaged in the business of providing rural and urban loans in Argentina. We were incorporated to administer real estate holdings foreclosed by Credit Foncier. Credit Foncier was liquidated in 1959, and as a part of such liquidation, our shares were distributed to Credit Foncier's shareholders and in 1960 were listed on the Buenos Aires Stock Exchange. During the 1960s and 1970s, our business shifted to exclusively agricultural activities.

During 1993 and 1994, Consultores Asset Management acquired on behalf of certain investors approximately 22% of our outstanding shares on the Buenos Aires Stock Exchange. In late 1994, an investor group led by Consultores Asset Management (and including Dolphin Fund plc.) purchased additional shares increasing their aggregate shareholding to approximately 51.4% of our outstanding shares. In 1995, we increased our capital through a rights offering and global public offering of ADRs representing our common shares and listed such ADRs on the NASDAQ. In March, 2008 we completed our capital increase of 180 million common shares. All of the shares offered were subscribed domestically and internationally.

As of June 30, 2008 we own approximately 42.13% of the common shares of IRSA, one of Argentina's largest real estate companies. IRSA is engaged in a range of diversified real estate activities including residential properties, office buildings, shopping centers, credit cards and luxury hotels in Argentina. A majority of our directors are also directors of IRSA. At June 30, 2008, our investment in IRSA represented approximately 35.1% of our total consolidated assets. During the fiscal year ended June 30, 2008, our gain from our investment in IRSA was Ps.31.5 million.

On September 25, 2007, we converted US\$12.0 million of IRSA's convertible notes into 22.0 million of IRSA's common shares. From July 30, 2007 to November 14, 2007 we exercised 33.0 million of warrants to acquire an additional 60.5 million common share of IRSA for a total cost of approximately US\$40.0 million. The term for the exercise of IRSA's outstanding warrants and the conversion of IRSA's outstanding convertible notes issued on November 21, 2002 expired on November 14, 2007.

From 2000 to June 30, 2008, we invested approximately Ps.622.6 million to acquire approximately 42.13% of the outstanding common shares of IRSA, one of Argentina's largest real estate companies.

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From July 1, 2008 to December 17, 2008 we acquired 68,712,005 additional shares of IRSA on the open market for US\$ 47,423,279. Thus, our direct and indirect interest in IRSA through our affiliates amounts to 54.01%. Therefore we consolidate IRSA as of that date.

### **Business acquisitions**

#### ***Year Ended June 30, 2008***

On June 30, 2008, we acquired Estancia Carmen farm, a 10,910 hectare property located in the Province of Santa Cruz, adjacent to our 8 de Julio farm, for an aggregate purchase price of US\$ 0.7 million. We made a down payment of US\$ 0.2 million in cash and did not take possession of the property at that time. In September 2008, we paid off the remaining balance and assumed possession of the property.

On April 22 and 23, 2008, we acquired an undivided 80% interest in La Esperanza farm, a 980 hectares property located in the Province of La Pampa, for an aggregate purchase price of US\$ 1.3 million. We believe the farm has attractive potential for agriculture.

On December 17, 2007, we acquired the remaining undivided 25% interest (18 hectares) of the 72 hectares expansion to the La Adela farm, located in the Province of Buenos Aires, for an aggregate purchase price of US\$ 0.1 million. After this acquisition, the La Adela farm has a total of 1,054 hectares.

#### ***Year Ended June 30, 2007***

On May 15, 2007, we acquired the 8 de Julio farm, a 90,000 hectare property located south of the Deseado River in the Province of Santa Cruz, for an aggregate purchase price of US\$2.4 million. Upon execution of the bill of purchase we made a payment of US\$1.2 million and took possession over the farm. On August 13, 2007, we paid US\$0.24 million and the balance of US\$0.96 million was paid on October 11, 2007, when the deed was executed. We believe this farm offers attractive potential for sheep production, both in terms of wool and mutton production, and may have potential as a tourist attraction.

#### ***Year Ended June 30, 2006***

On September 1, 2005, we acquired the San Pedro farm, a 6,022 hectare property located in the Department of Concepción del Uruguay, Province of Entre Ríos, for an aggregate purchase price of US\$16.0 million, of which US\$9.5 million was paid upon signing the deed, US\$4.0 million was paid on December 14, 2005, and US\$0.73 million was paid on September 1, 2006. The remaining balance of US\$1.7 million plus interest of US\$0.1 million is scheduled to be paid in September 2009.

### **Formation of Companies**

#### ***Year Ended June 30, 2008***

We, directly or indirectly through our subsidiaries, formed two companies in May 2008, Agrology S.A. and FyO Trading S.A.

Agrology is a new venture that invests in financial instruments and manages equity interests in other companies.

FyO Trading is a new venture that engages in agricultural production and commerce.

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***Year Ended June 30, 2007***

On January 11, 2007, Cactus acquired 100% of the Exportaciones Agroindustriales Argentinas S.A. ( EAASA ) shares for Ps.16.8 million. EAASA owns a meat packing plant in Santa Rosa, Province of La Pampa, with capacity to slaughter and process approximately 9,500 heads of cattle per month.

***Year Ended June 30, 2006***

On December 27, 2005, we acquired 100% of the shares of Agropecuaria Cervera S.A. ( Agropecuaria Cervera ), whose main asset is the concession for the start-up of production pertaining to a comprehensive biological, economic and social development project over various properties located in Anta, Province of Salta, and which is duly authorized to implement a large-scale project covering agricultural, cattle breeding and forestry activities. The concession agreement covers an area of 162,000 hectares for a 35-year period with an option to extend it for an additional 29-year period. However, an area of approximately 30,000 hectares are not usable for these purposes. In the framework of the concession, there is a development project aimed at applying 35,000 hectares to agricultural use, and 55,000 hectares to livestock activities. These projects have been approved by the Secretary of Environment and Sustainable Development of the Province of Salta. We surrendered 3.6 million convertible notes of IRSA and paid Ps.3.17 million in cash for the acquisition of the concession. During the fiscal year ended June 30, 2008, Agropecuaria Cervera commenced its land development activities, and it had 3,811 hectares devoted to its own production and 5,132 hectares leased to third parties as of June 30, 2008.

Land development is expected to continue in the form of a project consisting of a total of 35,000 hectares which has been approved by the Secretariat of Environment and Sustainable Development of the Province of Salta.

On July 2, 2008, Agropecuaria Cervera and the government of the Province of Salta executed a memorandum of understanding renegotiating the concession agreements for the northern and southern areas of the real estate property. The agreements establish that the concessionaire should pay as a concession fee the amount in US Dollars equivalent to a quintal of soybean per harvested hectare of any crop in the northern and southern areas per year. The concession fee is required to be paid on July 1 of each year starting in 2009. For the purposes of determining the concession fee, 2,000 hectares in the southern area rented out to Compañía Argentina de Granos are excluded. Additionally, Agropecuaria Cervera committed to return the 30,000 hectares originally considered as not usable for agricultural purposes under the concession. On August 29, 2008, the Memorandum of Understanding was approved by Decree No. 3,766 of the Executive Power of the Province of Salta.

In March 2006, we and other parties founded BrasilAgro for the purpose of expanding our business to Brazil. We contributed cash in the amount of Ps.63.1 million in exchange for shares and 104,902 warrants to purchase additional shares. Our equity interest in BrasilAgro was 7.3%. BrasilAgro's shares went public in the Brazilian Stock Exchange (Bovespa) in May 2006. Warrants vest in one-thirds starting May 2, 2007 and are exercisable for a period of up to 15 years at an exercise price equivalent to the initial public offering price adjusted by the Brazilian IPCA inflation index. As of June 30, 2008 we had increased our interest in BrasilAgro to 14.4%. Should we decide to exercise the warrants stated about, we might increase our equity interest to 19.7% of BrasilAgro's fully diluted capital stock. Also, an additional 104,902 warrants were issued which can only be exercised, at our option, in the event of a tender offer. These warrants are exercisable through the year 2021 at an exercise price equivalent to the purchase price of the tender offer by the acquirer of BrasilAgro.

**Farm Sales**

***Year Ended June 30, 2008***

On May 30, 2008, we sold 2,430 hectares of La Esmeralda farm for US\$ 6.2 million, which was paid on June 30, 2008.

On October 22, 2007, we sold 4,974 hectares of Los Pozos farm for US\$1.1 million, which was paid on June 30, 2008.

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### ***Year Ended June 30, 2007***

On June 6, 2007, we signed a sales deed for the 20,833 hectare Tapenagá farm, located in the Province of Chaco. This deal was consummated for US\$7.3 million. The property was valued in the Company's books at US\$97.5 per hectare. We have collected US\$3.7 million as of June 6, 2007. On May 28, 2008 we collected US\$1.2 million, while the remaining balance of US\$2.4 million will be collected in equal payments in May of each of 2009 and 2010.

On June 5, 2007, we signed a sales deed for a 14,516 hectare piece of the Los Pozos farm, located in Joaquín V. González, Province of Salta. The price of the transaction was US\$2.2 million, or US\$150 per hectare. The book value of the lot sold was US\$7 per hectare.

On January 19, 2007, we signed a sales deed for a 50 hectare piece of the El Recreo farm, located in Recreo, Province of Catamarca, for Ps.0.7 million.

On August 28, 2006, IGSA signed a preliminary sale contract of 1,829 hectares of the establishment called El Recreo of its property, in the amount of US\$0.36 million. On July 24, 2008, the sales deed was executed and we received US\$ 0.12 million and the balance of US\$ 0.24 million to be paid in two annual and consecutive installments plus interest equivalent to the Libor rate plus 3%.

### ***Year Ended June 30, 2006***

On July 25, 2005 we sold El Gualicho farm, covering 5,727 hectares, located in the Province of Córdoba, for a total sales price of US\$ 5.7 million. We collected US\$ 2.9 million and expect to collect the balance in five equal annual installments through July 2010.

## **Capital Expenditures**

Capital expenditures totaled Ps.28.0 million, Ps.29.3 million and Ps.55.8 million for the fiscal years ended June 2008, 2007 and 2006, respectively, including property and equipment acquired in business combinations. Our capital expenditures consisted of the acquisition and improvement of productive agricultural assets, as well as purchases of farms.

From July 1, 2008 to November 30, 2008, our main investments consisted of Ps.29.9 million in the acquisition of real estate (including Ps.27.4 million as payment for the preliminary purchase agreements involving an aggregate surface area of 12,166 hectares in the Republic of Bolivia, Ps.2.2 million as payment for the purchase of 10,910 hectares of Estancia Carmen farm and Ps.0.3 million as a preliminary purchase agreement for a 50% interest in 41,931 hectares in Paraguay owned by Carlos Casado S.A.), Ps.18.4 million for construction in progress (including Ps.13.4 million in development of land reserve, Ps.2.7 million in roads, improvement in the main house and dairy facilities, Ps.1.4 million in watering troughs and Ps.0.9 million in wire fences), Ps.1.0 million in new pastures, Ps.0.7 million in vehicles, Ps.0.5 million in machinery and Ps.0.1 million in improvements. Our future capital expenditures for the rest of fiscal year 2009 will depend on the prevailing prices of land for agriculture and cattle as well as the evolution of commodity prices. Regarding the Capital Expenditures for the rest of fiscal year 2009, they could vary according to the potential events described in our Risk Factor section.

For the fiscal year ended June 30, 2008, our main investments consisted of Ps.5.0 million in the acquisition of real estate (including Ps.4.3 million as payment for the purchase of 80% of La Esperanza farm and Ps.0.5 million as payment for the purchase of 25% of La Adela farm), Ps.2.3 million in improvements (including Ps.0.4 million in wire fences, Ps.1.2 million in watering troughs, Ps.0.3 million in roads, Ps.0.4 million in construction and Ps.0.1 million in corrals and leading lanes), Ps.1.7 million in facilities, Ps.1.3 million in vehicles, Ps.14.8 million for construction in progress (including Ps.11.0 million in development of land reserve, Ps.0.6 million in wire fences and Ps.3.2 million in new pastures, roads, improvement in the main house and water

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extractions), Ps.0.8 million in machinery, Ps.0.4 million in computer and communication accessories, Ps.1.5 million in construction, Ps.0.1 million in furniture and stationery and Ps.0.1 million in new pastures.

For the fiscal year ended June 30, 2007, our main investments consisted of Ps.9.7 million in the acquisition of real estate (including Ps.5.7 million in development of land reserve, Ps.3.9 million as partial payment for the purchase of 8 de Julio farm and Ps.0.1 million in forestry activities), Ps.1.5 million in improvements (including Ps.0.6 million in wire fences, Ps.0.3 million in watering troughs, Ps.0.2 million in roads, Ps.0.2 million in improvements in third parties buildings and Ps.0.2 million in corrals and leading lanes), Ps.0.9 million in facilities, Ps.0.3 million in vehicles, Ps.14.6 million for construction in progress (including Ps.10.8 million in development of land reserve, Ps.2.4 million in dairy farm and Ps.1.3 million in wire fences, new pastures, improvement in the main house and water extractions), Ps.0.8 million in machinery, Ps.0.6 million in computer and communication accessories, Ps.0.7 million in construction, Ps.0.1 million in forest products post and Ps.0.1 million in advances.

For the fiscal year ended June 30, 2006, our main investments consisted of Ps.49.2 million in the acquisition of real estate (including Ps.39.3 million as partial payment for the purchase of San Pedro farm, Ps.9.7 million in development of land reserve and Ps.0.2 million in forestry activities), Ps.0.6 million in improvements, Ps.0.1 million in furniture and equipment, Ps.1.2 million in facilities (including Ps.0.8 million in general machinery and Ps.0.4 million in milking facility), Ps.1.3 million in new pastures, Ps.0.9 million in vehicles, Ps.0.2 million in construction, Ps.1.13 million in machinery (including Ps.0.8 million in general machinery and Ps.0.3 million in milking machinery), Ps.0.3 million in computer and communication accessories, Ps.0.9 million in construction in progress, Ps.0.1 million in feed lot and Ps.0.7 million in advances.

## **Recent Developments**

***Impact of Recent Credit Crisis.*** During recent months, the world's principal financial markets have suffered the impact of volatility, lack of liquidity, and uncertainty. Consequently, stock market indexes showed a significant decline worldwide as a result of an evident economic slowdown. Although many countries took immediate action, the future of the international financial markets is uncertain, we do not yet know the direct effects of the crisis on the market value of major financial assets, particularly equity and debt instruments.

In Argentina, stock markets also showed a pronounced downward trend in the price of equity and debt instruments. We also saw increases in interest rates, country risk and foreign exchange rates and decreases in commodity prices. As of the date of this annual report, these effects persist. Management is closely evaluating and monitoring the effects of the current liquidity crisis and will take all corrective actions that are necessary.

In addition, we and our subsidiaries have experienced declines in our respective stock prices during the three months ended September 30, 2008 as compared to the prior quarter. Management believes that this decline is reflective of the current macro-economic conditions and is not related to our operating performance. Even though commodity prices have declined significantly, our operating performance has not been significantly affected by the current credit crisis as of the date of this annual report. Also, the market value of our farmland properties has not been significantly affected as of the date of this annual report. We believe that the stock prices have declined due to reasons unrelated to our business fundamentals. As of the date of this annual report, management believes that these declines in stock prices are temporary.

Furthermore, we had a 42.13% equity interest in IRSA as of June 30, 2008 and carried this investment under the equity method of accounting. In December 17, 2008, we increased our equity interest in IRSA to 54.01 % therefore we consolidate IRSA as from that date. IRSA, in turn, has an equity investment in BHSA, thus, our indirect investment in Banco Hipotecario is 4.95 % as of June 30, 2008 and 6.35% as of the date of this annual report. Banco Hipotecario recorded losses of Ps. 91.0 million for the year ended June 30, 2008. Moreover, for the three months ended September 30, 2008, BHSA recorded losses of Ps. 239.6 million and continued experiencing losses for the months of October and November of 2008. Such losses are primarily due to the decline in the market value of the Argentine government bonds Banco Hipotecario received as compensation and held in its portfolio. In spite of these losses, Banco Hipotecario remains well-capitalized in compliance with regulatory guidelines as of June 30, 2008 and thereafter.



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Banco Hipotecario also experienced a significant decline in its stock price during the year ended June 30, 2008 and the three months ended September 30, 2008. Management believes that this decline is not reflective of the current operating performance of Banco Hipotecario.

We considered several factors including, but not limited to, the following (1) the reasons for the decline in value (whether it is credit event, interest or market related); (2) our ability and intent to hold the equity investment for a sufficient period of time to allow for recovery of value; (3) whether the decline is substantial for us; (4) the historical and anticipated duration of the events causing the decline in value and (5) the major fundamentals underlying our business. The evaluation of other-than-temporary impairments is a quantitative and qualitative process, which is subject to various risks and uncertainties. As of the date of this annual report, management believes that these declines are temporary and will continue to monitor market conditions and determine if any impairment to the carrying value of the investment is necessary.

In addition, one of the business segments of IRSA has been affected by the current credit crisis. The Consumer Financing segment includes the origination of consumer loans and credit card receivables and securitization activities.

Consumer loan and credit card receivables arise primarily under open-end revolving credit accounts used to finance purchases of goods and services offered by shopping centers, hypermarkets and street stores, and financing and lending activities through IRSA's indirect subsidiary Tarshop. IRSA's investment in Tarshop is held through IRSA's investment in Alto Palermo. These accounts have various billing and payment structures, including varying minimum payment levels and finance charge rates. Tarshop provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns and management's judgment.

Due to the current credit crisis and other conditions, some customers experienced delays in payments and delinquency rates increased during the year ended June 30, 2008. Moreover, delinquency rates further increased as of September 30, 2008 and thereafter. Tarshop has increased the level of the allowance for doubtful accounts which amounts to Ps. 66.5 million as of June 30, 2008. The allowance for doubtful accounts was increased to Ps. 83.7 million as of September 30, 2008. Tarshop is closely monitoring the delays, delinquency and uncollectibility rates.

Tarshop's generated a net loss of Ps. 18.6 million for the year ended June 30, 2008. For the three months ended September 30, 2008, Tarshop generated an additional net loss of Ps. 57.1 million. After year-end, Alto Palermo contributed an additional Ps. 60.0 million and increased its interest from 80.0% to 93.4% as of November 30, 2008. Alto Palermo has committed to support Tarshop financially under a credit line up to a maximum amount of Ps. 120.0 million, including the Ps. 86.0 million already contributed. At present, we are evaluating the suitability of capitalizing this loan. Alto Palermo has taken several actions to enhance Tarshop's capital base, from streamlining operations to closing redundant stores, to revising and making credit criteria more stringent. The securitization market is still open and Tarshop completed securitization programs during the recent months with no disruptions. As of June 30, 2008, Tarshop's credit risk exposure is contractually limited to the subordinated retained interests representing Ps. 156.8 million and Ps. 19.4 million escrow reserves for losses. Due to the factors mentioned above, as of June 30, 2008, Tarshop has recorded an other-than-temporary impairment charge of Ps. 12.0 million to the retained interests to reflect current fair value. As of September 30, 2008, Tarshop's credit risk exposure is contractually limited to the subordinated retained interests representing Ps. 161.2 million and Ps. 17.9 million escrow reserves for losses. For the three months ended September 30, 2008, no additional impairment charge of related to the retained interests in securitized receivables was necessary.

We have a 14.39% equity investment in Brasilagro as of June 30, 2008 and carried this investment under the equity method of accounting. Brasilagro also experienced a significant decline in its stock price during the year ended June 30, 2008 and the three months ended September 30, 2008. Management believes that this decline is not reflective of the current operating performance of Brasilagro. In addition, the current market value of Brasilagro farmland properties has not been significantly affected. As indicated above, the evaluation for other-than-temporary impairments is a quantitative and qualitative process, which is subject to various risks and

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uncertainties. We considered similar factors, as discussed above, including, but not limited to, the following (1) the reasons for the decline in value (whether it is credit event, interest or market related); (2) our ability and intent to hold the equity investment for a sufficient period of time to allow for recovery of value; (3) whether the decline is substantial for us; (4) the historical and anticipated duration of the events causing the decline in value, and (5) the fundamentals underlying our business. At this point, management believes that these declines are temporary and will continue to monitor market conditions and determine if any impairment to the carrying value of the investment is necessary.

**Exercise of warrants.** During the first quarter of fiscal year 2009, certain holders of warrants exercised their right to purchase additional shares. Consequently, we issued an aggregate of 4,416 common shares of Ps.1.0 nominal value each, and 13,250 warrants were cancelled. We received Ps.23,002 as proceeds from these transactions. As of November 30, 2008, the amount of outstanding warrants was 177.7 million, whereas the capital stock consisted of 501,536,281 common shares.

**Repurchase of shares.** On August 26, 2008, our Board of Directors decided to establish the terms of the share repurchase plan under the provisions of Section 68 of Law 17,811 (added by Decree number 677/2001) and the Rules of the *Comisión Nacional de Valores*, in order to help reduce the price volatility of such shares. The terms and conditions of our repurchase plan were: (i) up to Ps.30,000,000, (ii) maximum of 10,000,000 shares to be acquired in the form of shares or ADS, (iii) a payable price between a minimum Ps.3 and up to Ps.3.5 per share, and (iv) a term of the acquisition for 70 days.

Subsequently, there were amendments to the terms and conditions as follows:

On October 8, 2008, we established a minimum payable price of Ps.2.40.

On October 10, 2008, we established a minimum payable price of Ps.2.13.

On October 23, 2008, we established a minimum payable price of Ps.1. On that same date, the *Comisión Nacional de Valores* resolved to temporarily suspend the validity of the cap established in subsection e) of Section 11, Chapter I Shares and other Negotiable Instruments, which provided that the treasury stock of a Company could not exceed 10% of its capital stock.

On October 24, 2008, we established a maximum of 30,000,000 shares to be acquired.

On November 4, 2008, we decided to extend the term of the acquisition for 70 additional days.

On November 25, 2008, we ratified that the total amount of investment is Ps.82,000,000.

As of December 17, 2008, we had acquired a total of 21,026,719 of our own shares, representing 4.19% of our own share capital on a fully diluted basis.

**Settlement of payable to *Crédit Suisse International*.** On October 24, 2008, we repaid the outstanding balance of US\$8.0 million to *Crédit Suisse International* for our loan dated May 2, 2006. At the same time, we received from *Crédit Suisse International* 1,834,860 GDR s of IRSA, which constituted the security for the previously mentioned transaction.

**International Expansion.** Following our international expansion strategy, we have entered into a series of agreements aimed at strengthening our position in the South American region. In July 2008, we executed various preliminary purchase agreements involving an aggregate surface area of 12,166 hectares in the Republic of Bolivia for a total of US\$ 28.9 million. These transactions include:

Preliminary purchase agreement for 4,566 hectares of the Las Londras farm located in the Province of Guarayos. The agreed price was US\$ 11.4 million.



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Preliminary purchase agreement for 883 and 2,969 hectares of the San Cayetano and San Rafael farms, respectively, located in the Province of Guarayos. The agreed price was US\$ 8.9 million.

Preliminary purchase agreement for 3,748 hectares of the La Fon Fon farm located in the Province of Obispo Santiesteban. The agreed price was US\$ 8.6 million.

On November 20, 2008, we agreed to buy approximately 7,600 hectares of the San Cayetano, San Rafael and La Fon Fon farms located in Santa Cruz, Bolivia. We paid a 43% first installment on the US\$ 17.5 million purchase price, and the remainder will be paid in two annual payments.

In September 2008, we entered into several agreements to carry out real estate and agricultural, livestock and forestry activities in the Republic of Paraguay. Under these agreements, a new corporation was organized with Carlos Casado S.A., in which we hold a 50% interest and act as adviser for the agricultural, livestock and forestry development of a rural property and of a potential area of up to 100,000 hectares located in Paraguay. In addition, we have executed a preliminary purchase agreement for a 50% interest in 41,931 hectares in Paraguay owned by Carlos Casado S.A. for US\$ 5.2 million.

**Agropecuaria Cervera S.A.** On July 2, 2008, Agropecuaria Cervera and the government of the Province of Salta executed a memorandum of understanding renegotiating the concession agreements for the northern and southern areas of the real estate property. The agreements establish that the concessionaire should pay as a concession fee the amount in US Dollars equivalent to a quintal of soybean per harvested hectare of any crop in the northern and southern areas per year. The concession fee is required to be paid on July 1 of each year starting in 2009. For the purposes of determining the concession fee, 2,000 hectares in the southern area rented out to Compañía Argentina de Granos are excluded. Additionally, Agropecuaria Cervera committed to return the 30,000 hectares originally considered as not usable for agricultural purposes under the concession. On August 29, 2008, the Memorandum of Understanding was approved by Decree No. 3,766 of the Executive Power of the Province of Salta.

**Acquisition of IRSA's shares and consolidation of financial statements.** From July 1, 2008 to December 17, 2008 we acquired 68,712,005 additional shares of IRSA on the open market for US\$ 47,423,279. Thus, our direct and indirect interest in IRSA through our affiliates amounts to 54.01%. Therefore we consolidate IRSA as of that date.

**Purchase of IRSA and APSA Notes.** As of November 25, 2008, we had acquired nominal value US\$25.21 million of IRSA's 8.500% Series No. 1 Notes due 2017, for an average weighted price of US\$0.4844952 per Note, totaling US\$12.21 million.

As of the same date, we also acquired nominal value US\$5.00 million of Alto Palermo S.A. (APSA)'s 7.875% Series No.1 Notes due 2017, for an average weighted price of US\$0.4185 per Note, totaling US\$2.09 million.

**Partial sale of El Recreo farm** In July 2008 we sold two parcels of land in El Recreo farm (1,829 hectares) located in the Province of Catamarca for a price of US\$0.36 million.

**Purchase of the Estancia Carmen farm.** In September 2008 we purchased 10,910 hectares of the Estancia Carmen farm, located in the Province of Santa Cruz, adjacent to our 8 de Julio farm for a price of US\$ 0.7 million.

**Partial sale of Los Pozos farm.** After the closing of the fiscal year ended June 30, 2008, we executed a preliminary sales agreement without transfer of possession for 1,658 hectares of the Los Pozos establishment located in the Province of Salta. The agreed sales price was US\$0.5 million, of which US\$ 0.3 million have been already paid. The balance is payable upon execution of the title deed, scheduled for April 1, 2009.

**Luján.** In May 2008, Cresud entered into a preliminary purchase contract with transfer of possession with Birafriends S.A. (an unrelated party) for the acquisition of a plot of land in Luján, Province of Buenos Aires, for a

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total purchase price of US\$ 3.0 million. Cresud paid US\$ 1.2 million and the remaining balance will be paid at the time of the signing of the deed. On December 2008, IRSA assigned us the preliminary purchase contract. We will pay the remaining balance at the time of the signing of the deed, and will also refund IRSA the amount IRSA paid at the time of the signing of the preliminary purchase.

**Acquisition of ownership interest.** On July 2, 2008, IRSA acquired a 30% interest in Metropolitan 885 Third Avenue LLC ( Metropolitan ), a limited liability company organized under the laws of Delaware, United States of America. The main asset of Metropolitan is a 34 story building known as the Lipstick Building located at third avenue between 53rd and 54th streets in Manhattan, New York City. In addition to this asset, the acquired company also includes the debt related to this building. The purchase price paid was US\$ 22.6 million. The property has approximately 59,000 square meters of leasable space. Also, IRSA acquired the right ( put right ) to sell the 50% of our stake in a period starting 6 months after this transaction until the third year anniversary of this transaction. Additionally, IRSA acquired the right of first offer for 60% of the 5% currently held by of one of the shareholders of Metropolitan.

**Coto Air Space Barter commitment between Alto Palermo and CYRSA.** In July, 2008 Alto Palermo entered into a barter agreement with CYRSA pursuant to which Alto Palermo, subject to certain closing conditions, would surrender to CYRSA its right to construct a tower over a preexisting structure (owned by a third party) in exchange for a small cash payment (US\$0.09 million) and 25% of the housing units in the future buildings. The total fair value of the transaction is US\$ 5.9 million.

**Dique IV, Puerto Madero.** IRSA s current portfolio of projects includes the addition of 11,000 square meters of leasable area in Dique IV in Puerto Madero, currently under construction and entailing a total projected investment of approximately Ps.50.5 million. Completion is scheduled for the beginning of calendar year 2009.

**Torres Renoir, Dock III.** On November 24, 2008, the Decree of Co-Ownership and Administration of the Renoir building developed on plot 1.c. was granted. The first lien mortgages established by DYPSA on plot 1.c and on plot 1.e were cancelled, and a new first lien mortgage was established on the functional units to be delivered to IRSA and on an additional functional unit. On the same date, DYPSA began the process of registration of the deeds of the units to be delivered to IRSA as consideration in kind for the sale of the plot. We believe the deeds will be granted to IRSA or its assignees within 45 days.

**Tarshop.** As a result of the current international financial scenario, a high volatility has been observed in interest rates and systemic delinquency has increased, affecting the performance and financing of the consumer finance business. The higher delinquency levels have led to an increase in the subordination of financial trusts which, added to the changes in their tax treatment, the higher interest rates resulting from higher risk and a slight deceleration in private consumption, have resulted in the need to review the general economic and the business specific prospects.

In order to face the growing volatility in the international financial markets and to provide Tarshop S.A. with a suitable capital base taking into account the current market conditions, in September 2008 Alto Palermo decided to take part in Tarshop S.A. s capital increase for up to Ps.60 million, and increased its equity interest in Tarshop S.A. from 80% to 93.4%.

In addition, Alto Palermo implemented several actions aimed at improving Tarshop S.A. s performance, including the revision of the point of sale structure, a 17% headcount reduction, the closing of 13 points of sale and a 10% reduction in leased centralized areas.

In line with the commercial actions, various other measures have been implemented, including:

(i) A new distribution channel structure.

(ii) Changes in cash lending plans and shops financing, which involved tightening its credit origination and credit limits in order to improve our delinquency rates.

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(iii) Renegotiation of conditions with shops.

In addition, the recent changes introduced in the tax treatment of financial trusts and other reforms made by the National Executive Branch result in the need to monitor Tarshop S.A. and fine-tune its positioning strategy to gear with the changing conditions.

On October 2008 in the light of the difficult market conditions and in compliance with the strategic plan devised and implemented by Alto Palermo, subordinated loans were granted to Tarshop S.A. for a total amount of Ps. 51 million to improve its financial position given the particular moment by which the financial trust segment is going through, that is a source in Tarshop's financing.

On November 25, 2008, Alto Palermo completed a disbursement of Ps. 35 million to Tarshop S.A. This disbursement was subject to the revision and verification of the debt portfolio of Tarshop S.A. by Alto Palermo's Management and the Board of Directors. The amount was part of a credit line of up to Ps. 120 million, Alto Palermo granted to Tarshop S.A. to strengthen it financially, to fund its operating costs and to reposition Tarshop S.A. given the complex situation existing temporarily in the Financial Trusts markets. Out of the credit line approved, as of November 25, 2008, Ps. 86 million were disbursed. At present, Alto Palermo is evaluating the suitability of capitalizing these loans.

**Repurchase of Alto Palermo's Notes.** On September 12, 2008 Alto Palermo announced the repurchase of its *Serie II Notes* for a face value of US\$ 4.8 million. As a result, the amount of Alto Palermo's Notes in its portfolio had a face value of US\$ 4.8 million. On November 25, 2008, Alto Palermo announced the repurchase of its *Fixed Rate Notes due 2017, Serie I* for a face value of US\$ 5.00 million.

**Irsa's purchases of Alto Palermo's Notes.** On November 25, 2008, IRSA announced the acquisition of nominal value US\$8.03 million of Alto Palermo's *Serie I Notes due 2017*, for an average weighted price of US\$0.39820 per Note and for a total amount of US\$ 3.2 million

**Torres Rosario Project.** On November 27, 2008, Alto Palermo executed the deed of barter transfer, resulting from the execution of the option granted to Condominios del Alto S.A. to purchase parcel 2-h. This parcel represents 11,686 square meters. As consideration for its acquisition Condominios del Alto S.A. agreed to deliver forty two housing units, with a total constructed surface area of 3,182 square meters, representing 22% of the apartment of the building and 47 parking spaces, representing 22% of the parking of the building.

## **B. BUSINESS OVERVIEW**

### **General**

We are a leading Argentine agricultural company engaged in the production of basic agricultural commodities with a growing presence in the Brazilian agricultural sector through our investment in BrasilAgro Companhia Brasileira de Propriedades Agrícolas ( BrasilAgro ), and in other Latin American countries. We are currently involved in a range of activities including crop production, beef cattle raising and milk production. Our business model, which we seek to roll out abroad, taking into account the specific conditions of each country, focuses on the acquisition, development and exploitation of properties having attractive prospects for agricultural production and/or value appreciation and the selective disposition of such properties where appreciation has been realized. Our shares are listed on the Buenos Aires Stock Exchange and our ADSs are listed on the NASDAQ Global Select Market.

As of June 30, 2008, we owned 18 farms with approximately 443,532 hectares. Approximately 24,305 hectares of the land we own are used for crop production, approximately 91,040 hectares are for beef cattle production, 4,320 hectares are for milk production and approximately 3,335 hectares are leased to third parties for crop and beef cattle production. The remaining 385,573 hectares of land reserve are primarily natural woodlands. This includes approximately 162,000 hectares through our interest in Agropecuaria Cervera S.A., which has a

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concession of land for a 35-year period that can be extended for another 29 years. Also, during fiscal year 2008, we leased 29,942 hectares from third parties for crop production and 32,895 hectares for beef cattle production.

During the fiscal years ended June 30, 2006, 2007 and 2008, we had consolidated sales of Ps.112.3 million, Ps.110.3 million and Ps.162.6 million, production income of Ps.65.4 million, Ps.102.8 million and Ps.159.8 million and consolidated net income of Ps.32.9 million, Ps.49.4 million and Ps.22.9 million, respectively. During the three-year period from June 30, 2006 to June 30, 2008, our total consolidated assets increased 137.7% from Ps.870.7 million to Ps.2,069.8 million, and our consolidated net worth increased 181.6% from Ps.625.9 million to Ps.1,762.3 million.

The following table sets forth, at the dates indicated, the amount of land used for each production activity (including owned and leased land):

	2006 <sup>(1)</sup> (4)	At June 30, 2007 <sup>(1)(4)(5)</sup> (in hectares)	2008 <sup>(1)(4)(5)</sup>
Crops <sup>(2)</sup>	41,283	53,579	63,900
Beef cattle	129,946	114,097	123,935
Milk	1,698	2,609	4,320
Sheep		90,000	90,000
Land reserves <sup>(3)</sup>	418,477	393,677	385,573
Owned farmlands leased to others	14,229	13,771	8,467
<b>Total</b>	<b>605,633</b>	<b>667,733</b>	<b>674,195</b>

(1) Includes 35.7% of approximately 8,299 hectares owned by Agro Uranga S.A., an affiliated Argentine company in which we own a non-controlling 35.7% interest. See Organizational Structure Subsidiaries and Affiliated Companies.

(2) Includes wheat, corn, sunflower, soybean, sorghum and others.

(3) We use part of our land reserves to produce fence posts and rods.

(4) Includes approximately 162,000 hectares through our 99.99% interest in Agropecuaria Cervera S.A. which holds, among other assets and rights, the concession for the start-up of production pertaining to a comprehensive development project. See Organizational Structure Subsidiaries and Affiliated Companies.

(5) Includes 24.0% of approximately 170 hectares owned by Cactus Argentina S.A., an affiliated Argentine company in which we have a non-controlling 24.0% interest. See Organizational Structure Subsidiaries and Affiliated Companies.

We are also indirectly engaged in the Argentine real estate business through our subsidiary IRSA, one of Argentina's largest real estate companies. IRSA is engaged in a range of diversified real estate activities including residential properties, office buildings, shopping centers, and luxury hotels in Argentina. A majority of our directors are also directors of IRSA. As of June 30, 2008, Cresud held an interest of 42.13% in IRSA. At the closing of the fiscal year ended June 30, 2008, our investment in IRSA represented approximately 35.1% of our total consolidated assets, and during fiscal year 2008 our gain from our investment in IRSA was Ps.31.5 million.

In September 2005, we, together with certain Brazilian partners, founded BrasilAgro, a startup company organized to exploit opportunities in the Brazilian agricultural sector. In April 2006, BrasilAgro increased its capital through a global and domestic offering of common shares, and as of June 30, 2008, we owned 14.39% of the outstanding common shares of BrasilAgro. As of June 30, 2008, our investment in BrasilAgro represented approximately 8.3% of our total consolidated assets.

**Strategy**

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We seek to maximize our return on assets and overall profitability by (i) identifying, acquiring and exploiting agricultural properties having attractive prospects for agricultural production and/or long-term value appreciation and selectively disposing of properties as appreciation is realized, (ii) optimizing the yields and productivity of our agricultural properties through the implementation of state-of-the-art technologies and agricultural techniques and (iii) preserving the value of our significant long-term investment in the urban real estate sector held through our affiliate IRSA.



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### ***Focus on maximizing value of our agricultural real estate assets***

We conduct our agricultural activities with a focus on maximizing the value of our real estate assets. We seek to rotate our portfolio of properties over time by purchasing large parcels of land which we believe have a high potential for appreciation and selling them selectively as opportunities arise to realize attractive capital gains. We believe that our ability to realize gains from appreciation of our farmlands is based on the following principles:

*Acquiring under-utilized properties and enhancing their land use:* We seek to purchase under-utilized properties at attractive prices and develop them to achieve more productive uses. We seek to do so by (i) transforming non-productive land into cattle feeding land, (ii) transforming cattle feeding land into land suitable for more productive agricultural uses, (iii) enhancing the value of agricultural lands by changing their use to more profitable agricultural activities; and (iv) reaching to the final stage of the real estate development cycle by transforming rural properties into urban areas as the boundaries of urban development continue to extend into rural areas. To do so, we generally focus on acquisitions of properties outside of highly developed agricultural regions and/or properties whose value we believe is likely to be enhanced by proximity to existing or expected infrastructure.

*Applying modern technologies to enhance operating yields and property values.* We believe that an opportunity exists to improve the productivity and long-term value of inexpensive and/or underdeveloped land by investing in modern technologies such as genetically modified and high yield seeds, direct sowing techniques, machinery, crop yield optimization through land rotation, irrigation and the use of fertilizers and agrochemicals. To enhance our cattle production, we use genetic technology and have a strict animal health plan controlled periodically through traceability systems. In addition, we have introduced a feedlot to optimize our beef cattle management and state-of-the-art milking technologies in our dairy business.

*Anticipating market trends.* We seek to anticipate market trends in the agribusiness sector by (i) identifying opportunities generated by economic development at local, regional and worldwide levels, (ii) detecting medium- and long-term increases or decreases in supply and demand caused by changes in the world's food consumption patterns and (iii) using land for the production of food and energy, in each case in anticipation of such market trends.

*International expansion.* Although most of our properties are located in different areas of Argentina, we are pursuing various expansion opportunities in other Latin American countries. We believe that an attractive opportunity exists to acquire and develop agricultural properties outside Argentina, and our objective is to replicate our business model in such other countries which include, among others, Brazil, Bolivia, Paraguay and Uruguay. For example, in 2005 we and several Brazilian partners founded BrasilAgro. As of June 30, 2008, BrasilAgro had 7 properties totaling 145,327 hectares, purchased at attractive prices compared to the average prices prevailing in the respective regions, all of which we believe have significant appreciation potential. In addition, after the closing of the fiscal year ended June 30, 2008, we entered into several agreements to carry out our agribusiness activities in the Republic of Bolivia and in the Republic of Paraguay.

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### ***Increase and optimize production yields***

We seek to increase and improve our production yields through the following initiatives:

*Implementation of technology.* We seek to continue using state-of-the-art technology to increase production yields. We plan to make further investments in machinery and the implementation of agricultural techniques such as direct sowing to improve cereal production. We believe that we may improve crop yields by using high-potential seeds (GMOs) and fertilizers and by introducing advanced land rotation techniques. In addition, we intend to continue installing irrigation equipment in some of our farms to achieve higher output levels.

We seek to continue improving beef cattle production through the use of advanced breeding techniques and technologies related to animal health. We plan to improve the use of pastures and expect to make further investments in infrastructure, including installation of watering troughs and electrical fencing.

We have implemented an individual animal identification system, using plastic tags for our beef cattle and RFID tags for our dairy cattle, to comply with national laws on traceability. Also, we acquired software from Westfalia Co. which enables us to store individual information about each of our dairy cows. In the beef cattle business, we initiated Argentina's first vertically integrated beef cattle processing operation by entering into a partnership with Cactus Feeders and Tyson Foods (through its controlled subsidiary Provemex Holdings LLC), hereinafter Tyson Foods, to set up Cactus Argentina S.A. (Cactus), a feedlot and slaughterhouse operator.

In connection with our milk production, we plan to continue developing our activities through the use of state-of-the-art technology and advanced feeding and techniques relating to animal health.

*Increased production.* We seek to increase our crop, beef cattle and milk production in order to achieve economies of scale by:

Increasing our owned land in various regions of Argentina by taking advantage of attractive land purchase opportunities as they arise.

Leasing productive properties to supplement our expansion strategy, using our liquidity to make productive investments in our principal agricultural activities. We believe that leasing enhances our ability to diversify our production and geographic focus, in particular in areas not offering attractive prospects for appreciation of land value.

Developing productive properties in areas where agricultural production is not developed to its full potential. As of June 30, 2008, we owned 230,532 hectares of land reserves and held 153,041 hectares under concession, located in under-utilized areas where agricultural production is not yet fully developed. We believe that technological tools are available to improve the productivity of such land and enhance its long-term value. However, existing or future environmental regulations may prevent us from completely developing our land reserves, requiring us to maintain a portion of such land as unproductive land reserves.

Diversifying market and weather risk by expanding our product and land portfolio. We seek to continue diversifying our operations to produce a range of different agricultural commodities in different markets, either directly or in association with third parties. We believe that a diversified product mix mitigates our exposure to seasonality, commodity price fluctuations, extreme weather conditions and other factors affecting the agricultural sector. To achieve this objective in Argentina, we expect to continue to own and lease farmlands in various regions with differing weather patterns and to continue to seed a range of diversified products.

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Moreover, we believe that continuing to expand our agricultural operations outside of Argentina will enhance our ability to produce new agricultural products, further diversifying our mix of products, and mitigate further our exposure to regional weather conditions and country-specific risks.

**Table of Contents****Preservation of long-term value of our investment in IRSA**

We seek to maintain the long-term value of our significant investment in the urban real estate sector through IRSA. We believe that IRSA is an ideal vehicle through which to participate in the urban real estate market due to its substantial and diversified portfolio of residential and commercial properties, the strength of its management and what we believe are its attractive prospects for future growth and profitability.

**Our Principal Business Activities**

During the fiscal year ended June 30, 2008, we conducted our operations on 18 owned farms and 46 leased farms. Some of the farms we own are engaged in more than one productive activity at the same time. The following table sets forth, for the periods indicated, our production volumes by principal product line:

	Year ended June 30,		
	2006 <sup>(1)</sup>	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>
Crops <sup>(2)</sup>	106,867	175,455	198,146
Beef cattle <sup>(3)</sup>	9,803	9,913	8,786
Milk <sup>(4)</sup>	14,588	16,663	20,825

(1) Does not include production from Agro-Uranga S.A.

(2) Production measured in tons.

(3) Production measured in tons of live weight. Production is the sum of the net increases (or decreases) during a given period in live weight of each head of beef cattle owned by us.

(4) Production measured in thousands of liters.

**Crop Production**

Our agriculture production is mainly based on crops and oilseeds. Our crop production includes mainly wheat, corn, soybean and sunflower. Other crops, as sorghum, are sown occasionally and only represent a small percentage of total sown land.

The following table shows, for the periods indicated, our crop production volumes:

	Crop Production		
	Year ended June 30,		
	2006 <sup>(1)</sup>	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>
	(in tons)		
Wheat	21,788	16,651	21,583
Corn	31,558	80,728	94,021
Sunflower	7,300	6,797	9,283
Soybeans	42,797	61,283	59,479
Other	3,424	9,996	13,781
Total	106,867	175,455	198,146

- (1) Does not include production from Agro-Uranga S.A.

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The following table sets forth, for the periods indicated below, our owned and leased sown land for crop production:

	Sown Land for Crop Production <sup>(1)</sup>		
	Year ended June 30,		
	2006 <sup>(2)</sup>	2007 <sup>(2)</sup>	2008 <sup>(2)</sup>
	(in hectares)		
Owned	24,279	27,047	29,640
Leased	17,004	25,307	30,449
Under Concession		1,225	3,811
Total	41,283	53,579	63,900

(1) Sown land may differ from Uses of Land, since some hectares are sown twice and therefore are counted twice.

(2) Includes hectares from Agro-Uranga S.A. See Organizational Structure Subsidiaries and Affiliated Companies.

As of June 30, 2008, our crop stocks consisted in 14,017 tons of wheat, 43,678 tons of corn, 44,566 tons of soybean, 4,839 tons of sorghum and 4,162 tons of sunflower; whereas as of June 30, 2007 such stocks consisted in 6,705 tons of wheat, 34,172 tons of corn, 27,890 tons of soybean, 2,203 tons of sorghum and 3,580 tons of sunflower. As of June 30, 2008, the surface of leased land was 48% of the total sown land.

We seek to diversify our mix of products and the geographic location of our farmlands to achieve an adequate balance between the two principal risks associated with our activities: weather conditions and the fluctuations in the prices of commodities. In order to reduce such risks, we own and lease land in several areas of Argentina with different climate conditions to permit us to be able to sow a diversified range of products. Our leased land for crops is located in Pampa region, a favorable area for crop production. The leased farms are previously studied by technicians who analyze future production expectations based on the historic use of the land. The initial duration of lease agreements is typically one or three seasons. Leases of farms for production of crops generally consist of lease agreements with payments based on a fixed amount of Pesos per hectare or crop sharing agreements ( *aparcería* ) with payments in kind based on a percentage of the crops obtained or a fixed amount of tons of grains obtained or their equivalent value in Pesos. The principal advantage of leasing farms is that leases do not require us to commit large amounts of capital to the acquisition of lands but permit us to obtain results similar to those generated by our owned farms.

Also, this strategy allows us to increase our scale in the short term and reduce the risk of inclement weather. The disadvantage of this strategy is that the cost of leasing can increase over time, in part, because increased demand for leased land increases leased land prices.

In order to increase our production yields, we use labor control methods for the supervision of seeding quality (density, fertilization, distribution, and depth), crop monitoring (determination of natural losses and losses caused by harvester) and verification of bagged crop quality.

Wheat seeding takes place from June to September, and harvesting takes place from December to January. Corn, soybean and sunflower are sown from September to December and are harvested from February to June. Grains are available to be sold as commodities after the harvest from December to June and we usually store part of our production until prices recover after the drop that normally takes place during the harvesting campaign. A major part of production, especially wheat and sunflower seeds, corn and sorghum is sold and delivered to buyers pursuant to agreements in which price conditions are fixed by reference to the market price at a specific time in the future that we determine. The rest of the production is either sold at current market prices or delivered to cover any futures contract that we may have entered into.

During fiscal year 2008, we invested approximately Ps 4.9 million in irrigation equipment, machinery and technology application through no till sowing.

**Table of Contents****Beef Cattle Production**

Our beef cattle production involves the breeding and fattening of our own animals. In some cases, if market conditions are favorable, we also purchase and fatten cattle which we sell to slaughterhouses and supermarkets. As part of our strategy to expand our activities within the beef cattle production chain, during 2003 we started to slaughter our own cattle after obtaining the needed licenses. As of June 2008, our beef cattle aggregated 80,358 heads, and we had a total surface area of 90,999 hectares dedicated to this business activity.

During the fiscal year ended June 30, 2008, our beef cattle activities generated sales of Ps.32.4 million, representing 19.9% of our consolidated sales, and our production was 8,786 tons, a decrease of 11.4% compared to the previous fiscal year. The decrease in production and sales volume was primarily due to the sale of the Tapenagá farm in June 2007 and the deconsolidation of Cactus Argentina S.A. due to the reduction in our interest in this company from 50% down to 24% during the fiscal year ended June 30, 2007.

In addition, the scarce rainfall in certain areas forced us to relocate livestock in some cases, which resulted in alterations to the cattle fattening process. In other cases, we had to sell cattle before the completion of the fattening process.

The following table sets forth, for the periods indicated below, the beef cattle production volumes:

	<b>Year ended June 30,</b>		
	<b>2006<sup>(1)</sup></b>	<b>2007<sup>(1)</sup></b>	<b>2008<sup>(1)</sup></b>
Beef cattle production (in tons) <sup>(2)</sup>	9,803	9,913	8,786

(1) Does not include production from *Agro Uranga S.A.*

(2) Production measured in tons of live weight. Production is the sum of the net increases (or decreases) during a given period in live weight of each head of beef cattle owned by us.

Management by lot in our pastures is aided by electrical fencing which may be easily relocated to supplement our land-rotation cycles. Our cattle herd is subject to a 160 kg to 360 kg fattening cycle by grazing in pastures located in our north farmlands where conditions are adequate for initial fattening. For fattening above 360 kg cattle are fattened until they reach 430 kg in our San Luis feedlot. The feedlot fattening system leads to homogeneity in production and beef of higher quality and tenderness because of the younger age at which animals are slaughtered.

Our cattle breeding activities are carried out with breeding cows and bulls and its fattening activities apply to steer, heifers and calves. Breeding cows calve approximately once a year and their productive lifespan is from six to seven years. Six months after birth, calves are weaned and transferred to fattening pastures. Acquired cattle are directly submitted to the fattening process. Upon starting this process, cattle have been grazing for approximately one year to one and a half year in order to be fattened for sale. Steer and heifers are sold when they have achieved a weight of 380 430 kilograms and 280 295 kilograms, respectively, depending on the breed.

Pregnancy levels, which have been improving over the years, showed satisfactory levels of efficiency notwithstanding the adverse weather conditions. Genetics and herd management is expected to further improve pregnancy levels in the coming years. The implementation of technologies improved the reproductive indicators such as cattle still on technique, females artificial insemination with cattle genetic especially selected to the stock which is purchased from specialized companies in meat quality semen elaboration. Although it was implemented a strict sanitation calendar, adapted to each zone, animal category and month of the year. We use veterinarians products of the principal nationals and internationals laboratories. It is important to emphasize the work of a veterinarians advisers committee, who are external to us and they visit each establishment monthly to control and agreed tasks.

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Currently, the cattle raising farms are officially registered as export farmlands pursuant to the identification and traceability rules in force in Argentina. Animals are individually identified, thus allowing for the development of special businesses in this area. Although the cattle farms have been qualified with the EurepGap N, which allows us to sell animals for consumption in Europe.

Within the process of de-commoditization and technological innovation, we implemented a self-developed identification and tracing system in compliance with European and the National Service of the Sanitation and Quality for Agricultural Food Products (*Servicio Nacional de Sanidad y Calidad Agroalimentaria*, or SENASA ) standards. With the purpose of distinguishing our production and obtaining higher prices in production sales, we plan to extend the use of the tracing system to our whole herd.

Our beef cattle stock is organized into breeding and fattening activities. The following table indicates, for the periods indicated, the number of head of beef cattle for each activity:

	Year ended June 30,		
	2006 <sup>(2)</sup>	2007 <sup>(2)</sup>	2008 <sup>(2)</sup>
Breeding <sup>(1)</sup>	63,015	62,181	57,999
Fattening	17,654	21,546	22,359
<b>Total</b>	<b>80,669</b>	<b>83,727</b>	<b>80,358</b>

(1) For classification purposes, upon birth, all calves are considered to be in the breeding process.

(2) Does not include head of beef cattle from Agro-Uranga S.A. and Cactus. See Organizational Structure Subsidiaries and Affiliated Companies.

We seek to improve beef cattle production and quality in order to obtain a higher price through advanced breeding techniques. We cross breed our stock of Indicus, British (Angus and Hereford) and Continental breeds to obtain herds with characteristics better suited to the pastures in which they graze. To enhance the quality of our herds even further, we plan to continue improvement of our pastures through permanent investment in seeds and fertilizers, an increase in the watering troughs available in pastures, and the acquisition of round bailers to cut and roll grass for storage purposes.

Our emphasis on improving the quality of our herd also includes the use of animal health-related technologies. We comply with national animal health standards that include laboratory analyses and vaccination aimed at controlling and preventing disease in our herd, particularly FMD (Foot and mouth disease).

Direct costs of beef production consist primarily of seeds for pasture (for instance, gatton panic, oats and barley) and crops for feeding and supplementation purposes and animal health costs, among others.

During the fiscal year 2008 we invested approximately Ps.6.8 million in equipment, machinery, pastures and genetic improvement in relation to cattle production.

**Milk Production**

We conduct our milk business in three dairy facilities in two farms, La Juanita and El Tigre. We have a total capacity of 3,300 cows in milking per day and seek to increase total production through the application of last generation technologies including genetic improve management for milk production, feeding strategic planification based on cattle specific requirement and the use of individual traceability to know the productivity history of each animal. Also we use computer science in milk business to make more efficient the manual labor by developing the information created from the farms.

Our milk production is based on a herd of Holando Argentina dairy cows, genetically selected through the use of imported frozen semen of North American Holando bulls. Male calves are sold, at calving, for a given amount per head, whereas female calves are weaned after 24 hours, spend approximately 60 days in raising and approximately 100 being days fed on the basis of grass, grains and supplements. Young heifers then graze for an additional 12 to 15 month period, prior to artificial insemination at the age of 18 to 20 months and they calve nine





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months later. Heifers are subsequently milked for an average of 300 days. Milking dairy cows are once again inseminated during the 60 to 90 day period following. This process is repeated once a year during six or seven years. The pregnancy rate for our dairy cows is 80-90%. Our dairy herd is milked mechanically twice a day. The milk obtained is cooled to less than five degrees centigrade and is then stored in a tank for delivery once a day to trucks sent by buyers. Dairy cows are fed mainly with grass, supplemented as needed with grains, hay and silage. For winter grazing, corn stubbles are also used.

We have invested in certain technologies that focus on genetic improvement, animal health and feeding in order to improve our milk production. These investments include imports of top quality frozen semen from genetically improved North American Holstein bulls, agricultural machinery and devices such as feed-mixer trucks, use of dietary supplements and the installation of modern equipment to control milk cooling. We are currently acquiring dietary supplements for our dairy cows and have made investments with the aim of increasing the quantity and quality of forage (pasture, alfalfa and corn silage) in order to reduce feeding costs.

During fiscal year ended June 30, 2008, milk production was 25.0% higher than in the prior fiscal year because of an increase in the quantity of dairy cows and their individual production. In our farm named El Tigre we milk 2,000 cows per day, with a merry-go-round structure, which required a significant investment of Ps.3.9 million. We believe this is one of the largest dairy farms in Argentina.

The following table sets forth, for the periods indicated, the total number of our milking cows, average daily production per cow and our total milk production:

	Year Ended June 30,		
	2006 <sup>(1) (2)</sup>	2007 <sup>(1) (2)</sup>	2008 <sup>(1) (2)</sup>
Average milking cows	2,410	2,677	3,174
Daily production (liters per cow)	16.5	17.1	18.0
Total production (thousands of liters)	14,588	16,663	20,825

(1) Does not include production from Agro-Uranga S.A. See Organizational Structure Subsidiaries and Affiliated Companies.

(2) Includes production of new dairy farm El Tigre, as from March 1, 2005.

During fiscal year 2006, we had 6,214 total heads of cattle on 1,505 hectares involved in the production of milk. During fiscal year 2007, we had 6,507 total heads of cattle on 2,376 hectares involved in the production of milk. As of June 30, 2008 we applied 7,866 total heads of cattle on 4,092 hectares to milk production.

During fiscal year 2008, we invested an approximate amount of Ps.0.6 million in equipment, machinery and survey, pastures and development for our milk rodeo.

**Land Acquisitions**

We intend to increase our farmland portfolio by acquiring large surfaces of land with high appreciation potential. We also intend to transform the land acquired from non-productive to cattle breeding, from cattle breeding to farming, or applying last generation technology to improve farming yields so as to generate higher appreciation.

In our view, the sector's potential lies in developing marginal areas and/or underutilized areas. As a result of current technology, we may achieve similar yields with higher profitability than core areas; this may result in the appreciation of land values.

At present, prices of farmlands used in agricultural production have increased in the southern hemisphere (mainly South America) but continue to be relatively low compared to the northern hemisphere (U.S. and Europe). Our financial strength relative to other Argentine producers enables us to increase our land holdings at attractive prices, increase our production scale and create potential for capital appreciation.



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Several important intermediaries, with whom we usually work, bring farmlands available for sale to our attention. The decision to acquire farmlands is based on the assessment of a number of factors. In addition to the land's location, we normally carry out an analysis of soil and water, including the quality of the soil and its suitability for our intended use (crops, beef cattle, or milk production), classify the various sectors of the lot and the prior use of the farmland; analyze the improvements in the property, any easements, rights of way or other variables in relation to the property title; examine satellite photographs of the property (useful in the survey of soil drainage characteristics during the different rain cycles) and detailed comparative data regarding to neighboring farms (generally covering a 50-km area). Based on the foregoing factors, we assess the farmland in terms of the sales price compared against the production potential of the land and the appreciation potential of the capital. We consider that competition for the acquisition of farmlands is, in general, limited to small farmers for the acquisition of smaller lots, and that there is scarce competition for the acquisition of bigger lots.

In addition, we may consider the acquisition of farmlands in marginal zones and their improvement by irrigation in non-productive areas as well as the installation of irrigation devices in order to obtain attractive production yields and to create potential for capital appreciation.

On December 17, 2007, we acquired the remaining undivided 25% interest (18 hectares) of the 72 hectares expansion to the La Adela farm, located in the Province of Buenos Aires, for an aggregate purchase price of US\$ 0.1 million. After this acquisition, the La Adela farm has a total of 1,054 hectares.

On April 22 and 23, 2008, we acquired an undivided 80% interest in La Esperanza farm, a 980 hectares property located in the Province of La Pampa, for an aggregate purchase price of US\$ 1.3 million. We believe the farm has attractive potential for agriculture.

On June 30, 2008, we acquired Estancia Carmen farm, a 10,910 hectare property located in the Province of Santa Cruz, adjacent to our 8 de Julio farm, for an aggregate purchase price of US\$ 0.7 million. We made a down payment of US\$ 0.2 million in cash and did not take possession of the property at that time. In September 2008, we paid off the remaining balance and assumed possession of the property.

The following chart shows, for the periods indicated below, certain information concerning our land acquisitions:

Fiscal year ended June 30	Number of farmlands acquired	Amount of acquisitions (Ps. millions)
1997 (1)	2	10.2
1998 (2)	8	31.5
1999		
2000		
2001		
2002		
2003(3)	1	25.0
2004		
2005 (4)	2	9.3
2006 (5)	1	45.9
2007 (6)	1	7.3
2008 (7)	2	4.5

(1) Includes the acquisition of San Luis and La Sofia farms of 706 hectares and 4,926 hectares, respectively.

(2) Includes the acquisition of Ñacurutú, Tapenagá, Santa Bárbara and La Gramilla, La Sofia, La Suiza, La Esmeralda and Tourné 30,350 hectares, 27,312 hectares, 7,052 hectares, 1,223 hectares, 41,993 hectares, 11,841 hectares and 19,614 hectares, respectively. It also includes the acquisition of Las Vertientes which is a silo plant.

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- (3) Includes the acquisition of El Tigre farm of 8,360 hectares.
- (4) Includes the acquisition of La Adela and El Invierno farms of 72 hectares and 1,946 hectares, respectively.
- (5) Includes the acquisition of San Pedro farm of 6,022 hectares.
- (6) Includes the acquisition of 8 de Julio farm of 90,000 hectares.
- (7) Includes the acquisition of the remaining 25% of La Adela farm of 18 hectares and 80% of La Esperanza farm of 980 hectares.

**Land Sales**

We periodically sell properties that have reached a considerable appraisal to reinvest in new farms with higher appreciation potential. We analyze the possibility of selling based on a number of factors, including the expected future yield of the farmland for continued agricultural and livestock exploitation, the availability of other investment opportunities and cyclical factors that have a bearing on the global values of farmlands.

The following chart shows, for the periods indicated below, certain information concerning our land sales:

Fiscal year	Number of farmlands	Gross proceeds from sales (Ps. million)	Profit/(Loss) <sup>(1)</sup> (Ps. million)
1997(2)	1	2.6	1.0
1998(3)	1	6.8	4.1
1999(4)	2	27.8	9.4
2000			
2001(5)	2	9.0	3.0
2002(6)	3	40.6	14.8
2003(7)	2	12.0	4.9
2004(8)	2	4.1	1.7
2005(9)	2	29.8	20.0
2006(10)	1	16.1	9.9
2007(11)	3	29.9	22.3
2008(12)	2	23.1	20.0

- (1) Includes the difference between the gross proceeds from sales (net of all taxes and commissions) and the book value of the assets sold.
- (2) Includes the sale of the Siete Arboles farm of 7,975 hectares.
- (3) Includes the sale of 7,878 hectares of the Moroti and Santa Rita farms.
- (4) Includes the sale of the El Meridiano and Runciman farms of 6,302 and 3,128 hectares, respectively.

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- (5) Includes the sale of the El Bañadito and Tourne farms of 1,789 and 19,614 hectares, respectively.
- (6) Includes the sale of the El Silencio, La Sofia and El Coro farms of 397 hectares, 6,149 hectares and 10,321 hectares, respectively.
- (7) Includes the sale of the Los Maizales and San Luis farms of 618 and 706 hectares, respectively.
- (8) Includes the sale of the 41-42 farm of 6,478 hectares and 5,997 hectares of IGSA's land reserves.
- (9) Includes the sale of the Ñacurutú and San Enrique farms, of 30,350 and 977 hectares, respectively. It also includes the results of the sale of a two-hectare parcel owned by IGSA.
- (10) Includes the sale of the El Gualicho farm, of 5,727 hectares.
- (11) Includes the sale of 20,833 hectares of the Tapenagá farm and the partial sale of 14,516 hectares of Los Pozos farm and 50 hectares of the El Recreo farm.
- (12) Includes the partial sale of 4,974 hectares of the Los Pozos farm and the partial sale of 2,430 hectares of the La Esmeralda farm. On May 30, 2008, we agreed to sell to Estancias San Bruno S.A. and Estancias El Algarrobo S.A. a 2,430 hectare parcel of the La Esmeralda farm in the Province of Santa Fe. Although we granted possession of the property on the date of execution of the sale agreement, the sale excludes rights to the production of the currently sown land which we retained. The aggregate sale price was US\$ 6.2 million, which has been fully collected.  
  
On October 22, 2007, we signed the deed of sale for 4,974 hectares of the Los Pozos farm located in the Province of Salta, for a price of US\$ 1.1 million, which has been fully collected.  
  
On June 6, 2007, we signed a sales deed for the 20,833 hectare Tapenagá farm, located in the Province of Chaco. This deal was consummated for US\$7.3 million. The property was valued in the Company's books at US\$97.5 per hectare. We have collected US\$3.7 million as of June 6, 2007. On May 28, 2008 we collected US\$1.2 million, while the remaining balance of US\$2.4 million will be collected in equal payments in May of each of 2009 and 2010.

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On June 5, 2007, we signed a sales deed for a 14,516 hectare piece of the Los Pozos farm, located in Joaquín V. González, Province of Salta. The price of the transaction was US\$2.2 million, or US\$150 per hectare. The book value of the lot sold was US\$7 per hectare.

On January 19, 2007, we signed a sales deed for a 50 hectare piece of the El Recreo farm, located in Recreo, Province of Catamarca, for Ps.0.7 million.

On August 28, 2006, IGSA signed a preliminary sale contract of 1,829 hectares of the establishment called El Recreo of its property, in the amount of US\$0.36 million. On July 24, 2008, the sales deed was executed and this time we received US\$ 0.12 million and the balance of US\$ 0.24 million to be paid in two annual installments plus interest equivalent to the Libor rate plus 3%.

**Farms**

As of June 30, 2008, we owned, together with our subsidiaries, 18 farms, with a total surface area of 443,532 hectares.

The following table sets forth our farm portfolio as of June 30, 2008:

<b>Owned Farms at June 30, 2008</b>				
	<b>Province</b>	<b>Gross Size (in hectares)</b>	<b>Date of Acquisition</b>	<b>Primary Current Use</b>
La Adela	Buenos Aires	1,054	Original	Crops
La Juanita	Buenos Aires	4,302	Jan. 96	Crops/Milk
San Pedro	Entre Ríos	6,022	Sep. 05	Crops/Beef Cattle
Las Vertientes	Córdoba	4		Silo
La Esmeralda	Santa Fe	9,370	Jun. 98	Crops/Beef Cattle
La Suiza	Chaco	41,993	Jun. 98	Beef Cattle
Santa Bárbara/Gramilla				Crops under
	San Luis	7,052	Nov. 97	irrigation
Cactu <sup>(1)</sup>	San Luis	41	Dec. 97	Feed lot
Tali Sumaj / El Recreo <sup>(2)</sup>				Beef Cattle/Natural
	Catamarca	26,922	May. 95	Woodlands
Los Pozos				Beef Cattle/Crops/
	Salta	242,516	May 95	Natural Woodlands
El Invierno	La Pampa	1,946	Jun. 05	Crops
San Nicolás / Las Playas <sup>(3)</sup>	Sta.Fe/Cba	2,965	May. 97	Crops/Beef Cattle
El Tigre	La Pampa	8,365	Apr. 03	Crops/Milk
8 de Julio	Santa Cruz	90,000	May. 07	Sheep
La Esperanza	La Pampa	980	Mar. 08	Crops
<b>Total</b>		<b>443,532</b>		

(1) Hectares in proportion to our 24.0% interests in Cactus Argentina S.A.

(2) Hectares in proportion to our 99.99% interest in Inversiones Ganaderas S.A.

(3) Hectares in proportion to our 35.723% interest in Agro Uranga S.A.

La Adela. Located 60 kilometers northwest of Buenos Aires, La Adela is one of our original farms. In December 2001, La Adela's dairy facility was closed down. Its total surface area is used for agricultural purposes. During the fiscal year ended June 30, 2008, 1,026 hectares were used for wheat, corn and soybean crops for high-yielding grain production. Between March 2005 and December 2007 we bought an additional 72 hectares which were added to the existing 982 hectares.

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*La Juanita.* La Juanita, located 440 kilometers southwest of Buenos Aires, was acquired in January 1996. As of June 30, 2008, 3,682 heads of cattle were grazing in 2,000 hectares of sown and natural pastures, and 1,926 hectares were used for crop production. This farm produced 10.0 million liters of milk during the fiscal year ended June 30, 2008, with an average of 1,627 dairy cows being milked and 17.0 liters per cow per day.



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*El Recreo.* Weather conditions in the El Recreo farm, located 970 kilometers northwest of Buenos Aires, in the province of Catamarca, and acquired in May 1995, are similar to the Tali Sumaj farm, with semi-arid climate and annual rainfall not in excess of 400 mm. This farm is maintained as a productive reserve.

On August 28, 2006, IGSA signed a preliminary sale contract of 1,829 hectares of the establishment called El Recreo of its property, in the amount of US\$0.36 million. On July 24, 2008, the sales deed was executed and this time we received US\$ 0.12 million and the balance of US\$ 0.24 million to be paid in two annual installments plus interest equivalent to the Libor rate plus 3%.

On January 19, 2007 we entered into a preliminary sales contract for 50 hectares of El Recreo farm owned by us and Arcor Sociedad Anónima Industrial y Comercial in the amount of Ps.0.7 million. The purchase price has been fully paid to us. This sale has been recognized as the possession of the plot of land was effected at the time of signing the preliminary sales contract.

*Tali Sumaj.* The Tali Sumaj farm, located 1,000 kilometers northwest of Buenos Aires, in the province of Catamarca, was acquired in May 1995 and it is located in a semi-arid area. As of June 30, 2008, Tali Sumaj had 4,330 cattle head in approximately 10,280 hectares of natural pastures. The farm is divided into 16 lots with peripheral fencing and watering troughs with a reserve of 1,000,000 liters of water.

*Los Pozos.* The Los Pozos farm, located 1,600 kilometers northwest of Buenos Aires, in the Province of Salta, was acquired in May 1995. This property is located in a semi-arid area with average annual rainfall of 500 mm. The area is naturally suited to cattle raising and forestry activities (poles and charcoal), and it has agricultural potential for summer crops such as sorghum and corn, among others. For the fiscal year ended June 30, 2008, we used 1,506 hectares in agricultural production. We completed the development of tropical pastures in approximately 33,541 hectares. As of June 30, 2008, there were 48,216 heads of cattle in this farm. This farm has shown major growth through a complete cycle in the production of beef by succeeding in raising, re-raising and fattening steer to be sold at an average weight of 392 kg. On June 5, 2007 we signed the deed of sale of an area of 14,516 hectares of the Los Pozos farm. The agreed sale price was US\$ 2.2 million, which we have received. On October 22, 2007, we signed a deed for the transfer of an additional 4,974 hectares of our Los Pozos farm. The aggregate sale price was US\$ 1.1 million, which has been fully collected.

*San Nicolás.* The San Nicolás farm is a 4,005 hectares farm owned by Agro-Uranga S.A., and is located in the Province of Santa Fe, approximately 45 kilometers from the Port of Rosario. As of June 30, 2008, approximately 6,212 hectares were in use for agricultural production, including double crops. The farm has two plants of silos with storage capacity of 14,950 tons.

*Las Playas.* The Las Playas farm has a surface area of 4,294 hectares and is owned by Agro-Uranga S.A. Located in the Province of Córdoba, it is used for agricultural and milk production purposes. As of June 30, 2008, the farm had 638 hectares of pasture used for milk production and a sown surface area, including double crops, of 5,716 hectares for grain production.

*La Gramilla and Santa Bárbara.* These farms have a surface area of 7,052 hectares in Valle del Conlara, in the Province of San Luis. Unlike other areas in the Province of San Luis, this valley has a high quality underground aquifer which makes these farms well suited for agricultural production after investments were made in the development of lands, pits and irrigation equipment. In the course of 2007/2008, a total of 1,806 hectares were sown, 587 hectares of which were sown under contractual arrangements with seed producers. We leased, in turn, 2,100 hectares to third parties. The remaining hectares are used as land reserves.

*La Suiza.* La Suiza has a surface area of 41,993 hectares and is located in Villa Ángela in the Province of Chaco. It is used for raising cattle. As of June 30, 2008, La Suiza had a stock of approximately 11,396 heads of cattle. The cattle stock dropped by 47% from the previous year due to a drought that intensified during the last months of the year, which led to the relocation of part of the cattle to the Los Pozos farm.

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*La Esmeralda.* La Esmeralda has a surface area of 9,370 hectares and is located in Ceres in the Province of Santa Fe. This farm, acquired in June 1998, has potential for both agricultural production and cattle raising. During the 2007/2008 farm season, we used a total area of 3,779 hectares, including double crops, for production of corn, sunflower and sorghum. As of June 30, 2008, La Esmeralda had 6,138 heads of cattle on 6,292 hectares. Our objective is to enhance its cattle raising efficiency, the bull breeding business, and increase its surface area assigned to agriculture. On May 30, 2008, we agreed to sell to Estancias San Bruno S.A. and Estancias El Algarrobo S.A. a 2,430 hectare parcel of this farm. The aggregate sale price was US\$ 6.2 million which has been collected in full.

*El Tigre.* El Tigre was acquired on April 30, 2003 and has a surface area of 8,365 hectares. It is located in Trenel in the Province of La Pampa. As of June 30, 2008, 5,938 hectares were assigned to crop production. This farm produced 10.7 million liters of milk in the fiscal year ended June 30, 2008, with an average of 1,547 cows being milked and an average daily production of 19.0 liters per cow.

*El Invierno.* El Invierno was acquired on June 24, 2005 and has a surface area of 1,946 hectares. It is located in Rancul in the Province of La Pampa, 621 kilometers to the west of Buenos Aires. During the fiscal year ended June 30, 2008, we used the land exclusively for agricultural production.

*San Pedro.* The farm in San Pedro was purchased on September 1, 2005. It has a surface area of 6,022 hectares and is located in Concepción del Uruguay, Province of Entre Ríos, which is 305 kilometers north of the province of Buenos Aires. In the course of 2007/2008, 5,502 hectares were used for agricultural production, including double crops, and 1,245 hectares were leased to third parties for livestock activities.

*8 de Julio.* The 8 de Julio farm was acquired on May 15, 2007 and has a surface area of 90,000 hectares. It is located in the department of Deseado in the Province of Santa Cruz. Due to its large surface area, we believe this farm has significant potential for sheep production. In addition, we believe the land has potential for future tourism and recreational activities, as the southeast border of the farm stretches over 20 kilometers of coast. As of June 30, 2008, this farm had a stock of 11,725 sheep.

*Cactus.* The Cactus farm is a 170-hectare farm owned by Cactus and is located in Villa Mercedes, province of San Luis. Cactus is a joint venture between us, Cactus Feeders Inc., one of the largest feed lot companies in the United States, and Tyson Foods, a leading beef and poultry meat processing company. The feed lot began to operate in September 1999.

*Las Vertientes.* Las Vertientes farm is our largest storage facility with a surface area of 4 hectares and 10,000 tons capacity, located in Las Vertientes, Río Cuarto in the Province of Cordoba.

*La Esperanza.* On April 22 and 23, 2008, we signed deeds for the purchase of 80% of the 980 hectares of the La Esperanza farm located in the Province of La Pampa. The transaction was agreed for a price of US\$ 1.3 million that has been paid in full. During the year ended June 30, 2008, we used this farm solely for crop production.

## **Lease of Farms**

We conduct our business on owned and leased land. Rental payments increase our production costs, as the amounts paid as rent are accounted for as operating expenses. As a result, production costs per hectare of leased land are higher than for the land owned by us.

Our land leasing policy is designed to supplement our expansion strategy, using our liquidity to make productive investments in our principal agricultural activities. On the other hand, our leasing strategy provides us with an added level of flexibility in the share of each of our products in total production, providing for greater

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diversification. The initial duration of lease agreements is typically one campaign. Leases of farms for production of grains consist in lease agreements with payments based on a fixed amount of Pesos per hectare or crop sharing agreements ( *aparcería* ) with payments in kind based on a percentage of the crops obtained or a fixed amount of tons of grains obtained or their equivalent value in Pesos. Leases of farmlands for cattle breeding consist in lease agreements with fixed payments based on a fixed amount of Pesos per hectare or steer kilograms or capitalization agreements with payments in kind or in cash based on the weight gain in kilograms.

During fiscal year 2008, we leased from third parties a total of 46 fields, covering 63,344 hectares, of which 30,449 hectares were assigned to farming production, including the double harvest, and 32,895 hectares to cattle. The properties for agricultural production were leased, primarily, at a fixed price prior to harvest and only a small percentage consisted of crop sharing agreements.

The following table shows the breakdown of the amount of hectares owned and leased land used for each of our principal production activities:

	Year ended June 30,					
	2006 <sup>(1)(2)</sup>		2007 <sup>(1)(2)</sup>		2008 <sup>(1)(2)</sup>	
	Owned <sup>(3)</sup>	Leased	Owned <sup>(3)</sup>	Leased	Owned <sup>(3)</sup>	Leased
Crops	20,018	17,004	22,712	25,307	25,379	30,449
Cattle	97,299	3,425	84,848	29,208	90,999	32,895
Milk	1,505		2,376		4,092	

(1) Does not include the hectares of Agro Uranga S.A.

(2) Does not include the hectares of Agropecuaria Cervera.

(3) The land assigned to crops may differ from sown land, as some hectares are sown twice and therefore are counted twice as sown land. During the fiscal year 2008, a total 30,449 hectares were leased from third parties for agricultural production, primarily at a fixed price prior to harvest. Only small percentages were crop sharing agreements.

Due to the rise in the price of land, we adopted a policy of not validating such prices and only leasing land at values that would ensure appropriate margins. For the 2008/2009 season, we leased 63,387 hectares of agricultural production.

**Storage Facilities**

As of June 30, 2008, we had an approximate storage capacity of 15,341 tons (including 35.72% of the 14,950 tons available at Agro Uranga S.A.).

The following table sets forth, as of the dates below, the capacity of our storage facilities:

	Storage Capacity		
	At June 30,		
	2006	2007	2008
Las Vertientes	10,000	10,000	10,000
San Nicolás (1)	5,341	5,341	5,341
Total	15,341	15,341	15,341

- (1) Owned through Agro-Uranga S.A. (representing 35.723% of the capacity).

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### **Land Management**

In contrast to traditional Argentine farms, run by a families, we centralize policy making in an executive committee that meets on a weekly basis in Buenos Aires. Individual farm management is delegated to farm managers who are responsible for farm operations. The executive committee lays down commercial and production rules based on sales, market expectations and risk allocation.

We rotate the use of our pasture lands between agricultural production and cattle feeding and the frequency depends on the location and characteristics of the farmland. The use of land rotates in four-year periods of cattle feeding and four to twelve years of agricultural production, according to the region. The use of preservation techniques (including exploitation by no till sowing) frequently allows us to extend agricultural exploitation periods.

Subsequent to the acquisition of the properties, we make investments in technology in order to improve productivity and to increase the value of the property. It may be the case that upon acquisition, a given extension of the property is sub-utilized or the infrastructure may be in need of improvement. We have invested in traditional fencing and in electrical fencing, watering troughs for cattle herds, irrigation equipment and machinery, among other things.

### **Principal Markets**

#### ***Crops***

Our grains production is entirely sold in the local market. The prices of our grains are based on the market prices quoted in Argentine grains exchanges such as the Bolsa de Cereales de Buenos Aires and the Bolsa de Cereales de Rosario that take as a reference the prices in international grains exchanges. The largest part of this production is sold to exporters who offer and ship this production to the international market. Prices are quoted in relation to the month of delivery and the port in which the product is to be delivered. Different conditions in price, such as terms of storage and shipment, are negotiated between the end buyer and ourselves.

#### ***Beef Cattle***

Our beef cattle production is sold in the local market. The main buyers are slaughterhouses and supermarkets.

Prices in the cattle market in Argentina are fixed in the *Mercado de Liniers* (or *Liniers Market* ) (on the outskirts of the province of Buenos Aires) where live animals are sold by auction on a daily basis. At *Mercado de Liniers*, prices are negotiated by kilogram of live weight and are mainly determined by local supply and demand. Prices tend to be lower than in industrialized countries. Some supermarkets and meat packers establish their prices by kilogram of processed meat; in these cases, the final price is influenced by processing yields.

#### ***Milk***

During the fiscal years 2007 and 2008 we sold our entire milk production to the largest Argentine dairy company, Mastellone S.A., which in turn manufactures a range of mass consumption dairy products sold in Argentina and abroad. We negotiated with this company the prices of raw milk on a monthly basis in accordance with domestic supply and demand. We understand that other major dairy companies in Argentina would be willing and in a position to buy our milk production, in whole or in part, if we decided to diversify our sales of milk. The price of the milk we sell is mainly based on the percentage of fat and protein that it contains and the temperature at which it is cooled. The price we obtain from our milk also rises or drops based on the content of bacteria and somatic cells.

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### **Customers**

For the fiscal year ended June 30, 2008 our sales were Ps.145.3 million and were made to approximately 139 customers. Sales to our ten largest customers represented approximately 71% of our net sales during the fiscal year 2007 and approximately 61% for the fiscal year ended June 30, 2008. Of these customers, our biggest three customers, Cargill S.A., Mastellone Hnos. S.A. and Arre Beef S.A., represented, in the aggregate, approximately 37% of our net sales, while the remaining seven customers in the aggregate represented approximately 24% of our net sales in fiscal year 2008. We have signed non-binding letters of intent with some of our largest customers that allow us to estimate the volume of the demand for certain products and to plan production accordingly. We generally enter into short-term agreements with a term of less than a year.

### **Marketing Channels and Sales Methods**

#### ***Crops***

We normally work with grains brokers and other intermediaries to trade in the exchanges. We sell part of our production in advance through futures contracts and buy and sell options for protection against a drop in prices. Approximately 30% of the futures and options contracts are closed through the Bolsa de Granos de Buenos Aires (Buenos Aires Grains Exchange) and 70% in the Chicago Board of Trade.

Our storage capabilities allow us to condition and store grains with no third-party involvement and thus to capitalize the fluctuations in the price of commodities. Our largest storage facilities, with capacity for 10,000 tons are located in Las Vertientes, close to Río Cuarto, Province of Córdoba. In addition, we store grains in silo bags.

#### ***Beef cattle***

We sell directly to local meat processors and supermarkets, such as Arre Beef S.A., Quickfood S.A., Finexcór S.A., Frigorífico La Pellegrinense S.A., Friar S.A., Madelan S.A., Exportaciones Agroindustriales S.A., Jumbo Retail Argentina S.A., Frigorífico Bermejo S.A. and Frigorífico Amancay S.A., at prices based on the price at the *Mercado de Liniers*.

We usually are responsible for the costs of the freight to the market and, in general, we do not pay commissions on our transactions.

### **Raw Materials**

The current direct cost of our production of grains varies in relation to each crop and normally includes the following costs: tillage, seeds, agrochemicals and fertilizers. We buy in bulk and store seeds, agrochemicals and fertilizers to benefit from discounts offered during off-campaign sales.

### **Competition**

The agricultural and livestock sector is highly competitive with a huge number of producers. Cresud is one of Argentina's leading producers. However, if we compare the percentage of Cresud's production to the country's total figures, Cresud's production would appear as extremely low. Our leading position improves our bargaining power with suppliers and customers. In general, we obtain discounts in the region in the acquisition of supplies and an excess price in our seeds and cattle.

Historically, there have been few companies competing for the acquisition and leases of farmlands for the purpose of benefiting from land appreciation and optimization of yields in the different commercial activities. However, we anticipate the possibility that new companies, some of them international, may become active players in the acquisition of farmlands and the leases of sown land, which would add players to the market in coming years.

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### **Seasonality**

As is the case with any company in the agro-industrial sector, our business activities are inherently seasonal. Harvest and sales of grains (corn, soybean and sunflower) in general take place from February to June. Wheat is harvested from December to January. Other segments of our activities, such as our sales of cattle and milk and our forestry activities tend to be more of a successive character than of a seasonal character. However, the production of beef and milk is generally higher during the second quarter, when pasture conditions are more favorable. In consequence, there may be significant variations in results from one quarter to the other.

### **Our Investments**

#### ***BrasilAgro Companhia Brasileira de Propriedades Agrícolas***

BrasilAgro was created in September 2005 in order to replicate our business in Brazil. BrasilAgro is engaged mainly in four business segments: (i) sugar cane, (ii) grains and cotton, (iii) forestry activities (iv) livestock.

We created BrasilAgro together with our founding partners, Cape Town Llc, Tarpon Investimentos S.A., Tarpon Agro Llc, Agro Investimentos S.A. and Agro Managers S.A.

Cape Town Llc is a limited company incorporated under the laws of the State of Delaware, wholly owned by Mr. Elie Horn, the controlling shareholder and chief executive officer of Cyrela Brazil Realty S.A. Empreendimentos e Participações. Tarpon Investimentos S.A. is an independent Brazilian asset manager engaged in the management of mutual funds focusing primarily on Brazilian equities. Tarpon Agro Llc is a company incorporated in the United States of America under the laws of the State of Delaware, and is owned by Tarpon Investimentos S.A.'s shareholders and certain of its affiliates.

Part of the knowledge and experience required to implement BrasilAgro's proposed business plan will be initially provided pursuant to a consulting agreement with Paraná Consultora do Investimentos S.A., a special purpose advisory company, 50% owned by Tarpon BR, 37.5% owned by Consultores Asset Management, a company controlled by Mr. Eduardo Elsztain, and 12.5% owned by Mr. Alejandro Elsztain. Tarpon BR is a joint venture between Tarpon and Mr. Elie Horn.

We entered into a shareholder agreement with Tarpon Investimentos S.A. and Tarpon Agro Llc stipulating, among other things, that both parties will have a joint vote at shareholders' meetings and that both parties will have a preemptive right to acquire shares of the other party.

BrasilAgro's board of directors is composed of nine members. We, as founder of BrasilAgro, appointed three members. Tarpon and Cape Town appointed three more members and, in addition, BrasilAgro has three independent directors.

On May 2, 2006, BrasilAgro's shares were listed in the Novo Mercado of the Brazilian Stock Exchange (BOVESPA) with the symbol AGRO3. BrasilAgro's shares were placed jointly with Banco de Investimentos Credit Suisse (Brazil) S.A. in the Brazilian market through investment mechanisms regulated by controlling authorities and with sales efforts pursuant to an exception from registration under the US Securities Act of 1933. The amount originally offered was Reais 532 million, equivalent to 532,000 book-entry common shares at a price of Reais 1,000 per share of BrasilAgro.

In addition, as is customary in the Brazilian market, BrasilAgro had an option to increase the size of the issue by 20% and Banco de Investimentos Credit Suisse (Brazil) S.A. had another option to increase it by 15% (*Green shoe*). Given the high demand shown by the placement, both BrasilAgro and Banco de Investimentos Credit Suisse (Brazil) S.A. exercised such options increasing the placement up to 583,200 shares equivalent to Reais 583.2 million, which were fully placed and paid in.

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In addition to the funds we originally contributed, we purchased shares in the offering for Reais 42.4 million (approximately US\$ 20.6 million). Following such contribution we held a total amount of 42,705 shares, equivalent to 7.4% of BrasilAgro's capital stock.

On October 31, 2007, BrasilAgro carried out a 1-for-100 share split approved at the Special Shareholders Meeting held on March 15, 2007 and ratified at the Annual Shareholders Meeting held on October 29, 2007. Following this split, BrasilAgro's capital stock was composed of 58,422,400 common shares.

During the fiscal year ended June 30, 2008, the Company acquired 4,136,800 shares of BrasilAgro. Due to this acquisition, we owned a 14.39% interest as of June 30, 2008.

When we founded BrasilAgro, we contributed Ps.63.1 million in cash in exchange for shares and 10,490,200 warrants to purchase additional BrasilAgro shares for 15 years and at the same price as was established in the initial public offering, Reais 10.00, adjusted by the Consumer Price Index Amplified, or IPCA. Should we decide to exercise such warrants, we may acquire, following the share split, 5,984,987 additional shares, thereby holding 19.7% of BrasilAgro's diluted capital stock. Two thirds of these warrants may already be exercised, and the balance may be exercised as of the third anniversary of the placement.

In addition, we received, at no cost, a second series of warrants for a total of 10,490,200, which may only be exercised at our discretion in the event of a tender offer. The exercise price of these warrants shall be the same price as the price offered in any such tender offer by the acquirer of BrasilAgro. The second series of warrants matures in the year 2021.

As of June 30, 2008, BrasilAgro had 7 properties, with an aggregate surface area of 145,327 hectares. We believe these properties were acquired at attractive prices compared to the average in the respective regions, and that they offer high appreciation potential.

Property	Province	Date of acquisition	Surface area (in hectares)	Main activity (Project)	Value R\$ / Ha. (thousands of R\$ )
Sao Pedro	Chapado do Sul (MS)	Sep-06	2,443	Sugar cane	R\$ 4.1
Cremaq	Baixa Grande do Ribeiro (PI)	Oct-06	32,375	Grains	R\$ 1.3
Jatobá <sup>(1)</sup>	Jaborandi (BA)	Mar-07	31,602	Grains and cotton	R\$ 1.0
Alto Taquari	Alto Taquari (MT)	Aug-07/Under analysis <sup>(2)</sup>	5,266	Sugar cane	R\$ 6.5
Araucaria <sup>(1)</sup>	Mineiros (GO)	Apr-07	11,657	Sugar cane	R\$ 5.8
Chaparral	Correntina (BA)	Nov-07	37,799	Livestock/Grains	R\$ 1.2
Nova Buriti	Januária (MG)	Dec-07	24,185	Forestry	R\$ 0.9

(1) Hectares and value in proportion to BrasilAgro's interest.

(2) 3,673 hectares are subject to the sellers' agreement in respect of certain conditions precedent.

*Sao Pedro* is a farm in Chapadao do Sul (MS). With a surface area of 2,443 hectares, Sao Pedro was bought for R\$ 9.9 million. Located 1,000 km. from a major port, this farm was acquired at a price significantly lower than the average in the region. Its potential production area is 1,700 hectares. BrasilAgro has harvested soybean crops in a surface area of 1,556 hectares while 857 hectares have been sown with corn for the winter harvest and 30 hectares with sugar cane. In our opinion, this land offers high potential for appreciation as a result of the sugar cane premises scheduled to be installed in the region.

*Cremaq* is a farm in Baixa Grande do Ribeiro (Piaui). We acquired this 32,375 hectare property for R\$ 42.2 million and estimate that the total production area will be 23,000 hectares. There are approximately 1,500 hectares leased to third parties. BrasilAgro has harvested 3,517 hectares of soybean crops and 115 hectares of rice crops in this property. The farm is close to the Itaqui Port and to the Norte-Sul railway. Weather and topographic conditions in the area are suited to soybean, corn and cotton crops. This property was also bought for a value lower than the average in the region. We believe it offers significant appreciation potential.





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*Jatobá* is a farm in the Jaborandi district, in the State of Bahia. The acquisition price was R\$ 35.4 million and it has 31,603 hectares. BrasilAgro has harvested soybean crops in an area of 1,000 hectares.

*Alto Taquarí* is a farm with a total area of 5,266 hectares and located in the municipality of Alto Taquarí, Mato Grosso. This property was purchased for R\$ 34 million of which R\$18.4 million have been paid. The payment of the balance due is subject to the fulfillment of certain conditions by the seller. This property has an estimated production area of 3,720 hectares. Soybean crops have been harvested in an area of 2,996 hectares while 986 hectares have been sown with corn for the winter harvest. An additional 1,700 hectares have been sown with sugar cane.

*Araucaria* farm is located in the municipality of Mineiros, Goiás and it has a total area of 15,543 hectares. The 75% stake (11,657 hectares) was acquired by BrasilAgro on April 27, 2007. The production area is estimated at 8,435 hectares. BrasilAgro has harvested soybean crops in an area of 4,547 hectares while 3,326 hectares have been sown with corn and sorghum for the winter harvest. An additional 1,430 hectares have been sown with sugar cane.

*Chaparral* is a farm of 37,799 hectares located in Correntina, Bahia, purchased for R\$ 47.1 million. Its potential production area is 28,000 hectares. The land will be used for cattle fattening and grain crops.

*Nova Buriti* is a farm with a total surface area of 24,185 hectares, located in the municipality of Januaria, Minas Gerais. The farm has a production area of 19,935 hectares and will be used for forestry activities.

In June 2008, BrasilAgro announced the first sale of a property, *Engenho*, a farm located in Maracaju, in the State of Mato Grosso do Sul. The 2,022 hectares farm was acquired for R\$ 10.1 million. As of March 31, 2008, this farm was subject to a lease agreement and yielded approximately 8 tons of sugar cane per year per hectare. On June 17, 2008, the 2,022 hectares of this farm were sold for R\$ 21.8 million.

At the end of fiscal year ended June 30, 2008, BrasilAgro presented its first results of operations. The total exploited surface area of the farms amounted to 22.1 thousand hectares. The first harvest of soybean crops had a total production of 37.1 thousand tons. In addition, 367 tons of rice crops and 81.2 thousand tons of sugar cane sprouts were harvested.

After the closing of the fiscal year ended June 30, 2008, BrasilAgro purchased 16,830 hectares of the *Preferência* farm, located in the district of Barreiras, Bahia, at a price of R\$ 600.0 per hectare totaling approximately R\$10.1 million. We believe the property has good conditions for cattle breeding and crop production.

BrasilAgro will continue to focus its activities on agricultural real estate and on the development of its four main business lines: sugar cane; crops and cotton; forestry and cattle breeding.

### ***Futuros y Opciones.Com S.A.***

In May 2000, we acquired 70% of the shares of Futuros y Opciones.Com S.A. ( Futuros y Opciones.Com ) for Ps.3.5 million. During the fiscal years 2001 and 2002, we made capital contributions for Ps.3.0 million. The site was launched in November 1999 and is aimed at becoming the most important agriculture business online community in Latin America. Futuros y Opciones.Com launched its e-commerce strategy in March 2001, in order to sell products, buy inputs, ask for loans, and obtain insurance, among other things. Currently, the main activity of Futuros y Opciones.Com is grain brokerage.

The areas with the greatest potential for growth are: input commercialization, grain businesses and beef cattle operations. Regarding input commercialization, the business volume was concentrated in a small number of suppliers, the agreements with the suppliers were improved in order to increase the margin of the business, and contracts of direct distribution were achieved. In terms of grains, the brokerage department was created, with the purpose of participating directly in the business by trading and offering services. In beef cattle, Futuros y Opciones.Com has created an alliance with a leading broker in the sector, which will allow it to obtain use of its clients' database and technological knowledge.

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On May 31, 2005, the Ordinary Shareholders Meeting of Futuros y Opciones.Com decided that its capital stock should be increased by Ps.0.2 million with no additional paid-in capital and Ps.0.04 million with an additional paid-in premium of Ps.0.9 million, thus raising Futuros y Opciones.Com's capital stock from Ps.0.01 million to Ps.0.3 million. The capital stock was further increased by Ps.0.1 million through the issue of 100,000 preferred shares.

This capitalization was conducted after absorbing unappropriated losses of Ps.4.3 million against the Irrevocable Contributions account for a total amount of Ps.2.1 million and the Adjustment to Irrevocable Contributions account for an amount of Ps.2.2 million. The corporate bylaws have thus been amended to incorporate the resolution adopted by the Shareholders Meeting, which delegated its implementation on the board of directors.

As a result of such capital increase, our investment has increased by Ps.0.6 million. This effect has been recognized in the additional paid-in capital account, pursuant to section 33 of the Argentine Corporation Law No. 19,550 under the Shareholders Equity section. As of June 30, 2008, our interest in Futuros y Opciones.Com S.A. was 68.10%.

As of June 30, 2008, Futuros y Opciones.Com total revenues increased by 161.5% compared to the previous fiscal year, with 59.6% growth in the revenues yielded by its main business, grains brokerage. In addition, the business consisting of sales of inputs grew by 308.7%, while revenues from commissions and technology services increased by 229.9% and 27.6%, respectively.

During the previous fiscal year ended June 30, 2007, Futuros y Opciones.Com started to trade futures and options, it acquired a share in the Buenos Aires futures and options exchange market (*Mercado a Término de Buenos Aires*) and has also become a dealer. Trading volumes have surpassed expectations and the service consisting in hedging with futures has turned into an essential tool for our customers to manage their price risks.

The portal keeps consolidating as the leading site for the agricultural and beef cattle sector and various private polls have agreed that it is the most visited site by farmers engaged in both agricultural and beef cattle activities. The site presently has an average of 15,000 visitors per day and it is strengthening its position as a leading supplier of market information for the sector.

Futuros y Opciones.Com's goal is to become a leading company in the supply of financial and commercial services. To attain such objective, we will continue to enhance the range of products we offer to the sector in the coming fiscal years.

### ***Cactus Argentina S.A.***

Cactus was initially a joint venture between us and Cactus Feeders Inc., one of the largest feedlot companies in the United States. The site of the venture's operations is a 170 hectare farm in Villa Mercedes, in the Province of San Luis. The feedlot began operations in September 1999.

During fiscal year 2007, Cactus entered into a joint venture with Tyson Foods, Inc, a leading meat processing company, pursuant to which Tyson, through Provemex Holdings LLC, acquired a 52% equity interest in Cactus to establish the first integrated cattle operation in Argentina. As a result, the stock holdings of Cactus Feeders, Inc. and Cresud in Cactus were reduced to 24% each. Since December 31, 2006, we no longer use the proportional consolidation method to account for our investment in Cactus due to the reduction of our equity interest in Cactus from 50% to 24%.

On January 11, 2007, Cactus and us acquired 100% of the Exportaciones Agroindustriales Argentinas S.A. ( EAASA ) shares for Ps.16.8 million. EAASA owns a meat packing plant in Santa Rosa, Province of La Pampa, with capacity to slaughter and process approximately 9,500 cattle heads per month. Cactus' goal is to expand in the future the slaughter capacity to 15,000 heads per month.

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Argentina's beef production is going through a change in which the best quality beef is produced in the central part of the country while the marginal areas are generating beef produced by animals adjusted to more difficult geographic and environmental situations. We believe that the location of the packing plant is unique, surrounded by an important beef production area and close to the feedlot that Cactus owns in Villa Mercedes, San Luis. Cattle beef produced at Cactus' feedlot is being processed at EAASA's packing plant for the domestic and the foreign markets.

Cactus is a pioneer in feedlot services in Argentina, with a 25,000 heads of cattle capacity, depending on the size of the cattle. Cactus' customer base changed during fiscal year 2008, as many companies related to the beef sector bought calves to be fed at the feedlot. To assure themselves a constant supply of high quality beef, these companies keep an inventory of cattle on feed.

During the fiscal year ended June 30, 2008, Cactus recorded income as a result of the services supplied to farmers and investors and the profits generated by its own fattened cattle.

Cactus continues to receive cattle from farmers that repeat their productive process whereby they breed and re-breed their animals in their own farms and slaughter them at Cactus.

On October 12, 2007, the administrative authority of Villa Mercedes, Province of San Luis, where Cactus' feedlot is located, ordered its partial closure due to the emission of odors related to the animals. It also ordered Cactus to file a mitigation plan with respect to the odors. On December 5, 2007, the administrative authority permitted the feedlot to resume operations and authorized it to accommodate up to 18,500 heads of cattle.

***Agropecuaria Cervera S.A.***

On December 27, 2005, we acquired 100% of the shares of Agropecuaria Cervera S.A. ( Agropecuaria Cervera ), whose main asset is the concession for the start-up of production pertaining to a comprehensive biological, economic and social development project over various properties located in Anta, Province of Salta, and which is duly authorized to implement a large-scale project covering agricultural, cattle breeding and forestry activities. The concession agreement covers an area of 162,000 hectares for a 35-year period with an option to extend it for an additional 29-year period. However, an area of approximately 30,000 hectares are not usable for these purposes. In the framework of the concession, there is a development project aimed at applying 35,000 hectares to agricultural use, and 55,000 hectares to livestock activities. These projects have been approved by the Secretary of Environment and Sustainable Development of the Province of Salta. We surrendered 3.6 million convertible notes of IRSA and paid Ps.3.17 million in cash for the acquisition of the concession. During the fiscal year ended June 30, 2008, Agropecuaria Cervera commenced its land development activities, and it had 3,811 hectares devoted to its own production and 5,132 hectares leased to third parties as of June 30, 2008.

Land development is expected to continue in the form of a project consisting of a total of 35,000 hectares which has been approved by the Secretariat of Environment and Sustainable Development of the Province of Salta.

On July 2, 2008, Agropecuaria Cervera and the government of the Province of Salta executed a memorandum of understanding renegotiating the concession agreements for the northern and southern areas of the real estate property. The agreements establish that the concessionaire should pay as a concession fee the amount in US Dollars equivalent to a quintal of soybean per harvested hectare of any crop in the northern and southern areas per year. The concession fee is required to be paid on July 1 of each year starting in 2009. For the purposes of determining the concession fee, 2,000 hectares in the southern area rented out to Compañía Argentina de Granos are excluded. Additionally, Agropecuaria Cervera committed to return the 30,000 hectares originally considered as not usable for agricultural purposes under the concession. On August 29, 2008, the Memorandum of Understanding was approved by Decree No. 3,766 of the Executive Power of the Province of Salta.

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### ***Agrology S.A.***

Agrology S.A. was incorporated on May 8, 2008, with Cresud holding a 97% stake and Inversiones Ganaderas S.A. holding the remaining 3% stake. The capital stock of Ps.50,000 was fully subscribed and paid. On May 28, 2008, Agrology S.A. acquired the interest held by Inversiones Ganaderas S.A. in IRSA, 2,187,479 GDRs, at a price of Ps.96.0 million. In consideration thereof, Agrology S.A. substituted Inversiones Ganaderas S.A. as borrower in the line of credit agreement entered into between the latter and Cresud.

As a result of this sale, the loan agreement which granted 790,631 GDRs between Inversiones Ganaderas S.A. and Inversiones Financieras del Sur S.A. was also assigned to Agrology S.A. On August 6, 2008, Agrology S.A. entered into a securities loan agreement with Inversiones Financieras del Sur S.A. granting 1,275,022 GDRs of IRSA under the same conditions as the previous agreement. Agrology S.A. is a new venture that invests in financial instruments and manage equity interests in other companies.

## **REGULATION AND GOVERNMENT SUPERVISION**

### ***Farming and Animal Husbandry Agreements***

Agreements relating to farming and animal husbandry activities are regulated by Argentine law, the Argentine Civil Code and local customs.

According to the Law No. 13,246, as amended, all lease agreements related to rural properties and land are required to have a minimum duration of 3 years. Upon death of the tenant farmer, the agreement may continue with his successors. Upon misuse of the land by the tenant farmer or default on payment of the rent, the land owner may initiate an eviction proceeding.

Law No. 13,246, as amended, also regulates agreements for crop sharing pursuant to which one of the parties furnishes the other with farm animals or land with the purpose to share benefits between tenant farmer and land owner. These agreements are required to have a minimum term of duration of 3 years. The tenant farmer must perform himself the obligations under the agreement and may not, assign it under any circumstances. Upon the death, incapacity or impossibility of the tenant farmer, the agreement will be terminated.

### ***Quality control of Grains and Cattle***

The quality of the grains and the health measures of the cattle are regulated and controlled by the *Servicio Nacional de Sanidad y Calidad Agroalimentaria*, which is an entity within the Ministry of Economy and Production that oversees the farming and animal sanitary activities.

Argentine law establishes that the brands should be registered with each provincial registry and that there cannot be brands alike within the same province.

### ***Sale and Transportation of Cattle***

Even though the sale of cattle is not specifically regulated, general contract provisions are applicable. Further, every province has its own rural code regulating the sale of cattle.

Argentine law establishes that the transportation of cattle is lawful only when it is done with the respective certificate that specifies the relevant information about the cattle. The required information for the certificate is established by the different provincial regulations, the inter-provinces treaties and the regulations issued by the *Servicio Nacional de Sanidad y Calidad Agroalimentaria*.

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### ***Export Restriction of Beef***

The Argentine Agriculture department ( Secretaria de Agricultura Ganadería, Pesca y Alimentos ), an entity within the Ministry of Economy and Production, oversees the farming and animal sanitary activities.

In addition the Secretaria de Agricultura Ganadería, Pesca y Alimentos is in charge of the distribution in Argentina of the annual regular quota of top quality chilled beef without bones, the Cuota Hilton. The destination of the Cuota Hilton is the European Union.

In June 2007, pursuant to Resolution No 269/2007 the Secretaria de Agricultura Ganadería, Pesca y Alimentos granted to our subsidiary Exportaciones Agroindustriales Argentinas S.A. to export up to 423.6 tons of beef under the authorized export quotas to Europe, known as *Cuota Hilton*, for the commercial year 2007/2008.

### ***Environment***

The development of our agribusiness depends on a number of federal, state and municipal laws and regulations related to environmental protection.

We may be subject to criminal and administrative penalties, including taking action to reverse the adverse impact of our activities on the environment and to reimburse third parties for damages resulting from contraventions of environmental laws and regulations. Based on the Argentine Criminal Code, persons (including directors, officers and legal entity managers) who commit crimes against public health, such as poisoning or dangerously altering water, food or medicine used for public consumption and selling products that are dangerous to health, without the necessary warnings, may be subject to fines, imprisonment or both. Some courts have utilized these provisions in the Argentine Criminal Code to sanction the discharge of substances which are hazardous to human health. At the administrative level, the penalties vary from notices and fines to the full or partial suspension of the activities, which may include the revocation or annulment of tax benefits, cancellation or interruption of credit lines granted by state banks and a restriction on entering into contracts with public entities.

The Forestry Legislation of Argentina prohibits the devastation of forest and forest land, as well as the irrational use of forest products. Landowners, tenants and holders of natural forests require an authorization from the Forestry Competent Authority for the cultivation of forest land. The legislation also promotes the formation and conservation of natural forests in properties used for agriculture and farming purposes.

As of June 30, 2008, we owned land reserves in excess of 230,532 hectares, which are located in under-utilized areas where agricultural production is not yet fully developed. We believe that technological tools are available to improve the productivity of such land and enhance its long-term value. However, existing or future environmental regulations may prevent us from completely developing our land reserves, requiring us to maintain a portion of such land as unproductive land reserves.

In accordance with legislative requirements, we have applied for approval to develop certain parts of our land reserves, to the extent allowed. We cannot assure you that current or future development applications will be approved, and if so, to what extent we will be allowed to develop our land reserves. We intend to use genetically modified organisms in our agricultural activities. In Argentina, the cultivation of genetically modified organisms is subject to special laws and regulations and specific authorizations.

### ***Property and Transfer Taxes***

*Value Added Tax.* Under Argentine law, the sale of cattle and grains are taxable at a rate equal to 10.5% of the sale price. The sale of milk is taxable at a rate equal to 21%. The sale of land is not taxable.

*Gross Sales Tax.* A local transfer tax is imposed on the sale price of cattle, grains and milk at a general rate of 1%. In some provinces the sale of primary goods is not taxable.

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*Stamp Tax.* This is a local tax that 23 provinces and the City of Buenos Aires collect based on similar rules regarding subject matter, tax base and rates. In general, this tax is levied on acts validated by documents, (e.g. acts related to the constitution, transmission, or expiration of rights, contracts, contracts for sales of stock and company shares, public deeds relating to real property, etc.).

In the City of Buenos Aires (federal district) the stamp tax only applies to public deeds for the transfer of real estate, or for any other contract whereby the ownership of real property is transferred and commercial leases. The purchase and sale of real estate through public deed is not taxable if the real estate will be used for housing. In the City of Buenos Aires the tax rate is 2.5%. In the Province of Buenos Aires, the tax rate is 3% for public deeds of transfer of real property.

**IRSA's Business****Overview**

IRSA is one of Argentina's leading real estate companies in terms of total assets. IRSA is engaged, directly and indirectly through subsidiaries and joint ventures, in a range of diversified real estate related activities in Argentina, including:

the acquisition, development and operation of shopping centers,

the origination of consumer loans and the securitization of corresponding receivables,

the acquisition and development of residential properties and undeveloped land reserves for future development and sale,

the acquisition, development and operation of office and other non-shopping center properties primarily for rental purposes, and

the acquisition and operation of luxury hotels.

As of June 30, 2008, IRSA had total assets of Ps.4,472.0 million and shareholders' equity of Ps.1,924.2 million. IRSA's net income for the fiscal years ended June 30, 2006, 2007, and 2008 was Ps.96.6 million, Ps.107.1 million, Ps.54.9 million, respectively. IRSA is the only Argentine real estate company whose shares are listed on the Buenos Aires Stock Exchange and whose GDSs are listed on the New York Stock Exchange.

**Consolidated Revenues by Geographic Area**

	Revenues for fiscal years ended June 30, (1) (2)		
	2006	2007	2008
	(in thousands of Pesos)		
<b>Offices and other non-shopping center leased properties:</b>			
City of Buenos Aires	29,918	55,032	100,384
Buenos Aires Province	647	651	605
<b>Shopping Centers and Consumer Financing Operations:</b>			
City of Buenos Aires	281,119	407,294	532,020
Buenos Aires Province	25,151	31,249	39,958
Salta Province	5,243	6,635	9,598
Santa Fe Province	11,823	15,464	20,040
Mendoza Province	14,636	18,779	24,232
Córdoba Province		3,810	10,577
<b>Sales and Developments:</b>			
City of Buenos Aires	99,949	74,536	189,296

Buenos Aires Province	3,942	1,124	4,030
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	Revenues for fiscal years ended June 30, (1) (2)		
	2006	2007	2008
	(in thousands of Pesos)		
<b>Córdoba Province</b>	75	91	57
Salta Province			3,428
<b>Hotels:</b>			
The City of Buenos Aires	64,607	74,601	92,043
Rio Negro Province	39,156	48,080	56,804
Mendoza Province			
Total The City of Buenos Aires	475,593	611,463	913,743
Total Buenos Aires Province	29,740	33,024	44,593
Total Rio Negro Province	39,156	48,080	56,804
Total Santa Fe Province	11,823	15,464	23,468
Total Salta Province	5,243	6,635	9,598
Total Córdoba Province	75	3,901	10,634
Total Mendoza Province	14,636	18,779	24,232
<b>Total</b>	<b>576,266</b>	<b>737,346</b>	<b>1,083,072</b>

(1) Shopping centers do not include income for sales and developments.

(2) Revenues do not include IRSA's income from Financial operations and others segment.

*Shopping Centers.* IRSA is engaged in purchasing, developing and managing shopping centers through IRSA's subsidiary Alto Palermo. Alto Palermo operates and owns majority interests in ten shopping centers, six of which are located in the Buenos Aires metropolitan area, and the other four of which are located in the Provinces of Mendoza, Rosario, Córdoba and Salta. IRSA's Shopping Center segment had assets of Ps.1,705.0 million as of June 30, 2008, representing 38.1% of its consolidated assets at such date, and generated operating income of Ps.182.3 million during IRSA's 2008 fiscal year, representing 71.5% of its consolidated operating income for such year.

*Consumer Financing.* IRSA operates a consumer financing business through IRSA's majority-owned subsidiary, Tarshop S.A. Tarshop originates consumer loans and credit card accounts and generally securitizes a portion of its portfolio of receivables. Tarshop's consumer financing operations consist primarily of lending and servicing activities relating to the credit card products it offers to consumers at shopping centers, hypermarkets and street stores. IRSA finances a substantial majority of its credit card activities through securitization of the receivables underlying the accounts it originates. IRSA's revenues from credit card operations are derived from interest income generated by financing and lending activities, merchants' fees, insurance charges for life and disability insurance, and fees for data processing and other services. IRSA's consumer financing segment had assets of Ps. 134.1 million as of June 30, 2008, representing 3.0% of IRSA's consolidated assets and generated an operating loss of Ps. 17.7 million during IRSA's fiscal year ended June 30, 2008 representing (6.9%) of IRSA's consolidated operating income.

*Residential Properties.* The acquisition and development of residential apartment complexes and residential communities for sale is another of IRSA's core activities. IRSA's development of residential apartment complexes consists of the construction of high-rise towers or the conversion and renovation of existing structures, such as factories and warehouses. In residential communities, IRSA acquires vacant land, develop infrastructure such as roads, utilities and common areas, and sell plots of land for construction of single-family homes. IRSA's Development and Sale of Properties segment had assets of Ps.462.9 million as of June 30, 2008, representing 10.4% of IRSA's consolidated assets at such date, and generated operating income of Ps.19.3 million during IRSA's 2008 fiscal year ended June 30, 2008, representing 7.6% of IRSA's consolidated operating income for such year.

*Office Buildings.* In December 1994, IRSA launched its office rental business by acquiring three prime office towers in Buenos Aires: Libertador 498, Maipú 1300 and Madero 1020. As of June 30, 2008, IRSA, directly and indirectly, owned interests in 28 office buildings and other non-shopping center rental properties in Argentina that in the aggregate represented 260,866 square meters of gross leasable area. IRSA's Offices and

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Other Non-Shopping Center Rental Properties segment had assets of Ps.1.056,5 million as of June 30, 2008, representing 23.6% of IRSA's consolidated assets at such date, and generated operating income of Ps.52,3 million during IRSA's 2008 fiscal year, representing 20.5% of its consolidated operating income for such year.

*Hotels.* In 1997, IRSA acquired the Hotel Llao Llao and an indirect controlling interest in the Hotel Intercontinental in Buenos Aires. In March 1998, IRSA acquired the Hotel Sheraton Libertador in Buenos Aires. During fiscal year 1999, IRSA sold a 20% interest in the Hotel Libertador to Hoteles Sheraton de Argentina S.A., and during the fiscal year 2000, IRSA sold 50% of IRSA's interest in the Hotel Llao Llao to the Sutton Group. IRSA's Hotels segment, which consists of these three hotels, had assets of Ps. 252.0 million as of June 30, 2008, representing 5.6% of its consolidated assets at such date, and generated income of Ps.18.0 million during IRSA's 2008 fiscal year, representing 7.1% of its consolidated operating income for such year.

*Banco Hipotecario.* IRSA currently owns 11.8% of Banco Hipotecario, Argentina's leading mortgage lender in terms of outstanding mortgage loans. IRSA acquired 2.9% of Banco Hipotecario for Ps.30.2 million when it was privatized in 1999. During 2003 and 2004, IRSA increased its investment in Banco Hipotecario to 11.8% by acquiring additional shares, and by acquiring and exercising warrants, for an aggregate purchase price of Ps.33.4 million. In May 2004, IRSA sold Class D shares representing 1.9% of Banco Hipotecario to IFISA, one of IRSA's controlling shareholders, for Ps.6.0 million, generating a loss of Ps.1.6 million. IRSA's 11.8% investment in Banco Hipotecario is held in the form of Class D shares, which are currently entitled to three votes per share, affording it the right to vote approximately 18.36% of the total votes that can be cast at Banco Hipotecario's shareholders' meetings. As of June 30, 2008, IRSA's investment in Banco Hipotecario represented 6.5% of its consolidated assets, and during its fiscal years ended June 30, 2006, 2007 and 2008, this investment generated gains of Ps.47.0 million and Ps.41.4 million and a loss of Ps.12.4 million, respectively.

**Business Strategy**

IRSA seeks to take advantage of its position as a leading company in Argentina dedicated to owning, developing and managing real estate. IRSA's business strategy seeks to (i) generate stable cash flows through the operation of its real estate rental assets (shopping centers, office buildings, hotels), (ii) achieve long-term appreciation of its asset portfolio by selectively acquiring strategically located properties by taking advantage of development opportunities, and (iii) enhance the margins of IRSA's sales and developments segment through timely transformation of its land reserves into developed residential and commercial properties.

*Shopping centers.* In recent years, the Argentine shopping center industry has benefited from improved macroeconomic conditions and a significant expansion in consumer credit. IRSA believes that the Argentine shopping center sector offers attractive prospects for long-term growth due to, among other factors, (i) a continuing evolution of consumer preferences in favor of shopping malls (away from small neighborhood shops) and (ii) a level of shopping center penetration that IRSA considers low compared to many developed countries. IRSA seeks to improve its leading position in the shopping center industry in Argentina by taking advantage of economies of scale to improve the operating margins of its diversified portfolio of existing shopping centers and by developing new properties at strategic locations in Buenos Aires and other important urban areas, including in Argentine provinces and elsewhere in Latin America. The shopping center business is at present the strongest source of cash generation of IRSA's business segments.

*Consumer financing.* IRSA operates a consumer financing business through Tarshop S.A., its controlled subsidiary. Tarshop's operations consist primarily of lending and servicing activities relating to the consumer financing products IRSA offers to consumers at shopping centers, supermarkets and street stores. IRSA seeks to consolidate the operations of its consumer financing business and intend to maintain low levels of credit exposure through the securitization of its credit card loans. From time to time IRSA considers strategic alternatives to maximize the value of its investment in Tarshop including its possible merger with, or sale to, another financial institution actively engaged in the Argentine credit card industry. Although IRSA is actively considering a range of such strategic alternatives, we cannot give you any assurance if or when any of them will be in fact be implemented.

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*Residential properties.* During the economic crisis in Argentina in 2001 and 2002, a scarcity of mortgage financing restrained growth in middle class home purchases. As a result, in recent years, IRSA focused on projects for affluent individuals who did not need to finance their home purchases, by concentrating on the development of residential properties for medium- and high-income individuals. In urban areas, IRSA seeks to purchase undeveloped properties in densely-populated areas and build apartment complexes offering greenspace for recreational activities. In suburban areas, IRSA seeks to develop residential communities by acquiring undeveloped properties with convenient access to Buenos Aires, developing roads and other basic infrastructure such as power and water, and then selling lots for the construction of residential units. During fiscal year 2008, IRSA entered into a partnership with Cyrela Brazil Realty S.A. Empreendimentos e Participações, a leading Brazilian residential real estate developer, to penetrate new market segments. IRSA-CYRELA will develop residential real estate projects in Argentina and increase its presence in this business by offering financing to its customers.

*Office buildings.* During the Argentine economic crisis in 2001 and 2002, little new investment was made in high-quality office buildings in Buenos Aires and, as a result, IRSA believes there is currently substantial demand for desirable office space in Buenos Aires. IRSA seeks to purchase, develop and operate premium office buildings in strategically-located business districts in the City of Buenos Aires and other locations that IRSA believes offer potential for rental income and long-term capital gain. IRSA expects to continue its focus on attracting premium corporate tenants to its office buildings and will consider opportunities to acquire existing properties or construct new buildings depending on the location and circumstances.

*Hotel operations.* IRSA believes its portfolio of three luxury hotels is positioned to take advantage of future growth in tourism and business travel in Argentina. IRSA's strategy has been investing in high-quality properties which are operated by leading international hotel companies to capitalize on IRSA's operating experience and international reputation. IRSA is currently remodeling the Hotel Sheraton Libertador and the Hotel Intercontinental. In December, 2007, IRSA inaugurated 43 new suites in the Hotel Llao Llao in Bariloche, Argentina.

*Banco Hipotecario.* Banco Hipotecario is a full-service commercial bank offering a wide variety of banking activities and related financial services to individuals, small- and medium-sized companies and large corporations. Banco Hipotecario is a leader in this segment in Argentina. Since 1999, Banco Hipotecario's shares have been listed on the Buenos Aires Stock Exchange, and since 2006 it has participated in the Level 1 ADR program of the Bank of New York. IRSA believes that its 11.8% investment in Banco Hipotecario has attractive prospects for long-term appreciation. Unlike certain other countries in Latin America, Argentina has a low level of mortgages outstanding, particularly if measured in terms of GDP; accordingly, a significant potential growth is expected for this sector in the future. Finally, IRSA believes that the mortgage origination business and its real estate development business (which IRSA expects to be bolstered through its recent partnership with Cyrela mentioned above) may potentially benefit from synergies that enhancing operational efficiencies and cross selling opportunities that may promote the development of its projects.

*Land reserves.* IRSA continuously seeks to acquire undeveloped land at locations IRSA considers attractive inside and outside Buenos Aires. In all cases, its intention is to purchase land with significant development or appreciation potential for subsequent sale. IRSA believes that holding a portfolio of desirable undeveloped parcels of land enhances its ability to make strategic long-term investments and affords IRSA a valuable pipeline of new development projects for upcoming years.

*International.* In the past, IRSA has made significant real estate investments outside of Argentina, including investments in Brazil Realty S.A. in Brazil and Fondo de Valores Inmobiliarios in Venezuela which IRSA disposed of in 2002 and 2001, respectively. Although we cannot assure you that IRSA will make further investments outside of Argentina, IRSA believes that Brazil and certain other Latin American countries offer certain interesting real estate opportunities. IRSA expects to continue to evaluate actively such regional opportunities as they arise.

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### **Shopping Centers**

#### ***Overview***

IRSA is engaged in the ownership, acquisition, development, leasing, management and operation of shopping centers through its subsidiary Alto Palermo, and is one of the largest owners and managers of shopping centers in Argentina in terms of gross leasable area and number of shopping centers. As of June 30, 2008, Alto Palermo owned a majority interest in, and operated, a portfolio of ten shopping centers in Argentina, of which five are located in the City of Buenos Aires (Abasto, Paseo Alcorta, Alto Palermo, Patio Bullrich and Buenos Aires Design), one is located in the greater Buenos Aires area (Alto Avellaneda), and the rest are located in different provinces (Alto Noa in the City of Salta, Alto Rosario in the City of Rosario, Mendoza Plaza in the City of Mendoza and Córdoba Shopping Villa Cabrera in the City of Córdoba).

As of June 30, 2008, IRSA owned approximately 63.3% of Alto Palermo, and Parque Arauco S.A. ( Parque Arauco ) owned 29.6%. The remaining shares are held by the public and traded on the Bolsa de Comercio de Buenos Aires and on the Nasdaq National Market (USA) under the symbol APSA. In addition, as of June 30, 2008, IRSA owned US\$31.7 million of Alto Palermo's convertible notes due 2014. If IRSA and all other holders of such convertible Notes were to exercise its option to convert the convertible notes into shares of Alto Palermo's common stock, IRSA's shareholding in Alto Palermo would increase to 65.9% of its fully diluted capital.

Alto Palermo's shopping centers comprise a total of 232,659 square meters of gross leasable area (excluding certain space occupied by hypermarkets which are not Alto Palermo's tenants and the surface area of its subsidiary Panamerican Mall that includes several projects one of which is the construction of a shopping center). Total tenant sales in Alto Palermo's shopping centers, excluding Córdoba Shopping, as reported by retailers, were approximately Ps. 3,581.5 million for the fiscal year ended June 30, 2008 and Ps. 2,825.8 million for the fiscal year ended June 30, 2007 (with Córdoba Shopping Villa Cabrera, the total sales to June 30, 2008 were of Ps. 3,702.3 millions). Tenant sales at Alto Palermo's shopping centers are relevant to its revenues and profitability because they are one of the factors that determine the amount of rent that Alto Palermo charge its tenants. They also affect the tenants' overall occupancy costs as a percentage of the tenant's sales.

During the fiscal year ended June 30, 2008, the income from Alto Palermo's largest tenants who are the biggest tenants of each shopping center, was 4.8% of consolidated sales from revenues and services.

As of June 30, 2008, Alto Palermo owned and/or operated the following ten shopping centers in Argentina:

<b>Shopping Center</b>	<b>Interest owned <sup>(4)</sup></b>	<b>Location</b>
Paseo Alcorta	100%	City of Buenos Aires, Argentina
Patio Bullrich	100%	City of Buenos Aires, Argentina
Abasto	100%	City of Buenos Aires, Argentina
Alto Palermo <sup>(1)</sup>	100%	City of Buenos Aires, Argentina
Buenos Aires Design <sup>(2)</sup>	54%	City of Buenos Aires, Argentina
Alto Avellaneda	100%	Buenos Aires, Argentina
Alto Noa	100%	Salta, Argentina
Alto Rosario	100%	Santa Fe, Argentina
Mendoza Plaza	100%	Mendoza, Argentina
Córdoba Shopping Villa Cabrera <sup>(3)</sup>	100%	Córdoba, Argentina

(1) Alto Palermo have a 99.99% interest in Alto Palermo through a 99.99% interest in our subsidiary Shopping Alto Palermo S.A. ( SAPSA ).

(2) Alto Palermo have a 54% equity interest of Emprendimiento Recoleta S.A. ( ERSA ), which holds the concession to operate the Buenos Aires Design Shopping Center.

(3) Alto Palermo have a 100% interest in Córdoba Shopping Villa Cabrera through a 100% interest in our subsidiary Empalme S.A.I.C.F.A.G. y A.

(4) Percentage of equity interest owned has been rounded

**Table of Contents****Tenant Retail Sales**

The following table sets forth the total approximate tenant retail sales in Pesos at the shopping centers in which Alto Palermo had an interest for the fiscal years ended June 30, 2006, 2007 and 2008:

	Fiscal year ended June 30, (1)		
	2006 Ps	2007 Ps	2008 Ps
Abasto	453,871,445	573,814,588	720,398,373
Alto Palermo	436,244,953	502,220,444	631,821,667
Alto Avellaneda	308,900,404	418,349,117	560,693,754
Paseo Alcorta	264,060,375	321,948,304	385,515,939
Patio Bullrich	195,877,528	226,200,714	271,411,516
Alto Noa	104,529,187	130,318,508	173,998,891
Buenos Aires Design	91,921,046	110,722,931	132,952,563
Mendoza Plaza	275,864,008	337,757,597	433,394,266
Alto Rosario	143,806,266	204,430,069	271,331,827
Córdoba Shopping - Villa Cabrera			120,827,838
<b>Total sales (2)</b>	<b>2,275,075,212</b>	<b>2,825,762,272</b>	<b>3,702,346,634</b>

(1) Retail sales based upon information provided to Alto Palermo by retailers and prior owners. The amounts shown reflect 100% of the retail sales of each shopping center, although in certain cases Alto Palermo owns less than 100% of such shopping centers.

(2) Excludes sales from stands and spaces used for special exhibitions.

The following table shows certain information on shopping centers in which Alto Palermo held an interest as of June 30, 2008:

	Acquisition date	Gross leaseable area (1) (m <sup>2</sup> )	Number of stores	Occupation percentage (2) (%)	Interest percentage (%)	Book value as of June 30, 2008(3) (thousands of Ps)
Abasto (4)	7/94	39,642	171	99.6	100	174,725.3
Alto Palermo (5)	11/97	18,551	143	100	100	170,512.9
Alto Avellaneda (6)	11/97	37,030	142	99.8	100	95,905.2
Paseo Alcorta	6/97	14,465	111	99.5	100	56,006.9
Patio Bullrich	10/98	11,685	80	100.0	100	98,063.3
Alto Noa (7)	3/95	18,851	89	100.0	100	25,039.3
Buenos Aires Design (8)	11/97	14,069	63	100.0	54	13,568.4
Mendoza Plaza (9)	12/94	39,688	152	97.7	100	88,363.2
Alto Rosario (10)	11/04	28,561	145	99.2	100	83,146.8
Córdoba Shopping - Villa Cabrera- (11) (12)	12/06	10,117	104	97.2	100	71,186.1
<b>Total</b>		<b>232,659</b>	<b>1,200</b>	<b>99.3</b>		<b>876,517.5</b>

(1) Excludes the gross leaseable area occupied by hypermarkets that are not Alto Palermo's tenants.

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- (2) Calculated by dividing square meters leased under leases in effect by gross leasable area as of June 30, 2008.
- (3) Book value equals cost of acquisition of fixed assets or development plus improvements, (adjusted for inflation until February 28, 2003), less accumulated depreciation and impairment charges / recovery.
- (4) Excludes approximately 3,800 square meters of space occupied by Museo de los Niños, Abasto
- (5) On November 18, 1997, Alto Palermo acquired a 75% interest in the property and on December 23, 1997, Alto Palermo acquired the remaining 25%.
- (6) On November 18, 1997, Alto Palermo acquired a 50% interest in the property and on December 23, 1997, Alto Palermo acquired the remaining 50%.
- (7) In March 1995, September 1996 and January 2000, Alto Palermo acquired a 50%, 30% and 20% interest in the property, respectively.
- (8) Alto Palermo owns a 54% interest in the company which holds the concession to operate this property. Alto Palermo consolidate sales of this shopping center. The amounts shown reflect 100% of the gross leasable area, the total number of stores and of the percentage leased. During May 2006, Alto Palermo acquired an additional 3% interest, increasing its interest from 51% to 54%.
- (9) During the fiscal year ended June 30, 2008, Alto Palermo increased its interest in Mendoza Plaza Shopping S.A. from 85.4% to 100%.
- (10) Excludes approximately 1,260 square meters of space occupied by Museo de los Niños, Rosario.
- (11) Excludes 12,371 square meters of space occupied by movie theaters and a supermarket.
- (12) On December 27, 2006, Alto Palermo acquired a 100% interest in the property.

**Table of Contents****Occupancy Rate**

The following table sets forth the occupancy rate expressed as a percentage of the gross leasable area for the fiscal years ended June 30, 2006, 2007 and 2008:

	As of June 30		
	2006	2007	2008
	%		
Abasto	99.9	97.0	99.6
Alto Palermo	100.0	99.6	100.0
Alto Avellaneda	96.6	95.0	99.8
Paseo Alcorta	99.2	99.0	99.5
Patio Bullrich	100.0	100.0	100.0
Alto Noa	100.0	100.0	100.0
Buenos Aires Design	100.0	100.0	100.0
Mendoza Plaza	97.8	95.9	97.7
Alto Rosario	100.0	93.4	99.2
Córdoba Shopping Villa Cabrera			97.2
<b>Overall Average</b>	<b>99.3</b>	<b>97.8</b>	<b>99.3</b>

**Rental Price**

The following table shows the annual average rental price per square meter for the fiscal years ended June 30, 2006, 2007 and 2008:

	Fiscal year ended June 30,		
	(1)		
	2006	2007	2008
	(Ps)	(Ps)	(Ps)
Abasto	1,021.5	1,273.2	1,436.8
Alto Palermo	2,432.2	2,925.0	3,058.5
Alto Avellaneda <sup>(2)</sup>	899.7	1,099.8	972.4
Buenos Aires Design	501.4	633.7	672.8
Paseo Alcorta	1,628.7	2,074.2	2,313.8
Patio Bullrich	1,791.6	2,051.1	2,095.6
Alto Noa	280.0	343.9	461.2
Alto Rosario	376.0	484.2	608.6
Mendoza Plaza	353.8	455.6	537.0
Córdoba Shopping Villa Cabrera			870.6

(1) Annual rental price per gross leasable square meter reflects the sum of base rent, percentage rent, stands and revenues from admission rights (excluding any applicable tax on sales) divided by gross leasable square meters.

(2) Alto Avellaneda's revenue fall per square meter in fiscal year 2008, is due to the inclusion of 11.600 m<sup>2</sup> belonging to Falabella.

**Lease Expirations**

The following table sets forth the schedule of estimated lease expirations for Alto Palermo's shopping centers for leases in effect as of June 30, 2008, assuming that none of the tenants exercise renewal options or terminate their leases early:



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Lease Expiration as of June 30, <sup>(3)</sup>	Number of Leases Expiring <sup>(1)</sup>	Square Meters Subject to Expiring Leases (m2)	Percentage of Total Square Meters Subject to Expiration (%)	Annual Base Rent Under Expiring Leases <sup>(2)</sup> (Ps. )	Percentage of Total Base Rent Under Expiring Leases (%)
2009	554	103,092	44	64,177,684	40
2010	291	39,340	17	40,347,812	25
2011	288	37,885	16	41,529,159	26
2012 and subsequent years	67	52,342	23	13,216,865	9
Total <sup>(2)</sup>	1,200	232,659	100	159,271,520	100

(1) Including the vacant stores as of June 30, 2008. A lease may be associated to one or more stores.

(2) Including the base rent and does not reflect Alto Palermo's ownership interest in each property.

(3) Even though the leases are cancelable by law, Alto Palermo considers them to be non-cancelable for these purposes. See note 19.I.s) to Alto Palermo's consolidated financial statements for more information as to how Alto Palermo considered this definition.

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### ***Depreciation***

The net book value of the properties has been determined using the straight-line method of depreciation calculated over the useful life of the property. For more information, see Alto Palermo's consolidated financial statements.

### **Detailed Information About Each of Alto Palermo's Shopping Centers**

Set forth below is information regarding Alto Palermo's shopping center portfolio, including tables with the names of the five largest tenants of each shopping center and certain lease provisions agreed with such tenants.

#### ***Abasto, City of Buenos Aires.***

Abasto is a 171-store shopping center property located in the center of the City of Buenos Aires with direct access from the *Carlos Gardel* subway station, six blocks from the Once railway terminal and near the highway to Ezeiza International Airport. Abasto opened on November 10, 1998. Alto Palermo invested approximately US\$111.6 million in Abasto. The main building is a landmark building that, between 1889 and 1984 was the primary fresh produce market for Buenos Aires. Alto Palermo converted the property into an 116,646 square meter shopping center with approximately 39,642 square meters of gross leasable area. Abasto is the fourth largest shopping center in Argentina in terms of gross leasable area. This shopping center is close to Torres de Abasto, Alto Palermo's developed residential apartment complex, and to Coto supermarket.

Abasto includes a food court with 24 restaurants, a multiplex cinema with 12 movie theaters and seating for approximately 3,100 people covering an area of 9,890 square meters, entertainment facilities and a 3,800 square meter children's museum that is not included in the gross leasable area. The shopping center is spread out over five levels and has a 1,200-car parking lot consisting of 40,169 square meters (excluding the supermarket).

Abasto's target clientele consists of middle-income individuals between the ages of 25 and 45 which Alto Palermo believes represent a significant portion of the population in this area of Buenos Aires.

During the fiscal year ended June 30, 2008, visitors to the shopping center generated total retail sales of approximately Ps. 720,4 million, representing sales per square meter of approximately Ps. 18,172.6. Revenues from leases increased from approximately Ps. 56,4 million for the fiscal year 2007 to Ps. 70.3 million for the fiscal year 2008 which represent monthly revenues per gross leasable square meter of Ps. 118.4 in 2007 and Ps. 147.8 in 2008. As of June 30, 2008, the occupancy rate in Abasto was 99.6%.

Abasto's five largest tenants (in terms of sales in this shopping center) accounted for approximately 11.8% of Abasto's gross leasable area as of June 30, 2008 and approximately 8.7% of the annual base rent for the fiscal year ended on such date.

#### ***Alto Palermo, City of Buenos Aires***

Alto Palermo is a 143-store shopping center which opened in 1990 in a well-known middle class and densely populated neighborhood named Palermo in the City of Buenos Aires. Alto Palermo is located at the intersection of Santa Fe and Coronel Díaz avenues, only a few minutes from downtown Buenos Aires with nearby access from the Bulnes subway station. Alto Palermo has a total constructed area of 65,029 square meters that consists of 18,551 square meters of gross leasable area. The shopping center has an entertainment center and a food court with 19 restaurants. Alto Palermo is spread out over four levels and has a 654-car parking lot of 32,405 square meters. In 1992 Alto Palermo was awarded a prize from the International Council of Shopping Centers for its overall design and appearance. Alto Palermo's targeted clientele consists of middle-income individuals between the ages of 28 and 40. In January 2007 Alto Palermo started a substantial renovation of this shopping center that was partially finished in May, 2008. This renovation includes the modification of Coronel Díaz's front, the low bridge Arenales street, the access on Santa Fe, the food court, and general renovations inside the mall.

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During fiscal year ended June 30, 2008, visitors to the shopping center generated total retail sales in nominal value of approximately Ps. 631,8 million, which represented sales per square meter of approximately Ps. 34,058.6. Revenues from leases increased from approximately Ps.57.7 million for the fiscal year 2007 to Ps.70.3 million for the fiscal year 2008, which represented monthly revenues per gross leasable square meter of Ps. 264.2 in 2007 and Ps.315.9 in 2008. As of June 30, 2008, the occupancy rate in Alto Palermo was 100%.

Alto Palermo's five largest tenants (in terms of sales in this shopping center) accounted for approximately 17.4% of its gross leasable area at June 30, 2008 and approximately 9.2% of its annual base rent for the fiscal year ended on such date.

***Alto Avellaneda, greater Buenos Aires area***

Alto Avellaneda is a 142-store suburban shopping center that opened in October 1995 and is located in the City of Avellaneda, which is on the southern border of the City of Buenos Aires. This shopping center is next to a railway terminal and is close to downtown Buenos Aires. Alto Avellaneda has a total constructed area of 108,598.8 square meters which consists of 37,030 square meters of gross leasable area and common areas covering 23,712 square meters. The shopping center has a multiplex cinema with six movie theatres, the first Wal-Mart superstore in Argentina, a bowling center, an entertainment center, a food court with 17 restaurants and an anchor store, Falabella, that opened April 28, 2008. Wal-Mart (not included in gross leasable area) purchased the space it occupies, but it pays for its pro rata share of the common expenses of Alto Avellaneda. The shopping center is contained mostly on one floor, with the cinema located on the second floor, and has a 2,700-car free parking lot consisting of 47,856 square meters. Alto Avellaneda Shopping's targeted clientele consists of middle-income individuals between the ages of 16 and 30.

During the fiscal year ended June 30, 2008, visitors to the shopping center generated total retail value of approximately Ps.560.7 million which represents sales per square meter of approximately Ps.15, 141.6. Revenues from leases increased from approximately Ps.31.2 million for the fiscal year 2007 to Ps.40.5 million for the fiscal year 2008 which represent monthly revenues per gross leasable square meter of Ps.95.3 in 2007 and Ps.91.2 in 2008. As of June 30, 2008, the occupancy rate in Alto Avellaneda was 99.8%.

Alto Avellaneda's five largest tenants (in terms of sales in this shopping center) accounted for approximately 34.7% of its gross leasable area as of June 30, 2008 and approximately 12.2% of its annual base rent for the fiscal year ended on such date.

***Buenos Aires Design, City of Buenos Aires***

Buenos Aires Design is a shopping center with 63 stores specialized in interior and home decoration stores which opened in 1993. Alto Palermo owns a 54% interest in Emprendimiento Recoleta S.A. ( ERSA ), the company which has the concession to operate Buenos Aires Design. The other shareholder of ERSA is o Grupo Bapro S.A.with a 44% interest.

As a result of a public auction, in February 1991, the City of Buenos Aires granted to ERSA a 20-year concession to use a plot of land in the Centro Cultural Recoleta. There can be no assurance that the City of Buenos Aires will extend the term of this concession upon its expiration. The concession agreement provides for ERSA to pay the City of Buenos Aires a monthly amount of Ps. 20,168. It establishes that the concession may be terminated for any of the following reasons, among others:

material breach of the obligations of the parties, which with regard to ERSA include: (i) breach of applicable law, (ii) change of the purpose of the area under concession; (iii) non payment of the monthly fee for two consecutive periods;

destruction or abandonment of the area under concession;

bankruptcy or liquidation;

restitution of the plot of land under concession, which shall only take place for public interest reasons.

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In June 1991, Alto Palermo entered into an agreement with the shareholders of ERSA providing Alto Palermo's administration of Buenos Aires Design for a monthly administration fee of approximately Ps. 12,000 plus VAT.

Buenos Aires Design is in a high-income neighborhood named Recoleta in the City of Buenos Aires, near Libertador Avenue and downtown Buenos Aires. Buenos Aires Design is located in one of Buenos Aires' most popular tourist attraction areas. Many exclusive hotels and restaurants are located in this area, and the shopping center is close to the National Museum of Fine Arts, the Museum of Modern Art and other popular cultural institutions.

Buenos Aires Design has a total constructed area of 26,131.5 square meters that consists of 14,069 gross meters of leasable area. The shopping center has five restaurants anchored by the Hard Rock Café and a terrace that covers 3,700 square meters. The shopping center is divided into two floors and has a 174-car pay parking lot. Buenos Aires Design's targeted clientele consists of upper-middle income individuals between the ages of 25 and 45.

During the fiscal year ended June 30, 2008, visitors to the shopping center generated total retail sales in nominal value of approximately Ps. 132.9 million which represents sales per square meter of approximately Ps. 9,450. Revenues from leases increased from approximately Ps. 10.4 million for the fiscal year 2007 to Ps. 12 million for the fiscal year 2008 which represent monthly revenues per gross leasable square meter of Ps. 61.7 in 2007 and Ps. 71.2 in 2008. As of June 30, 2008, the occupancy rate in Buenos Aires Design was 100%.

Buenos Aires Design's five largest tenants (in terms of sales in this shopping center) accounted for approximately 22.9% of Buenos Aires Design's gross leasable area on June 30, 2008 and approximately 20.1% of its annual base rent for the fiscal year ended on such date.

***Paseo Alcorta, City of Buenos Aires***

Paseo Alcorta is a 111-store shopping center which opened in 1992, located in the residential area of Palermo Chico, one of the most exclusive areas in the City of Buenos Aires, and a short drive from downtown Buenos Aires, has a total constructed area of approximately 87,553.8 square meters that consists of 14,465 square meters of gross leasable area. Paseo Alcorta has a food court with 17 restaurants and a Carrefour hypermarket on the ground floor. Carrefour purchased the space it occupies but pays for its pro rata share of the common expenses of the shopping center. Paseo Alcorta is spread out over three shopping center levels and has a parking lot for approximately 1,300 cars. Paseo Alcorta's targeted clientele consists of high-income individuals between the ages of 34 and 54.

During the fiscal year ended June 30, 2008, visitors to the shopping center generated total retail sales in nominal value of approximately Ps.385.5 million which represents sales per square meter of approximately Ps.26,652. Revenues from leases increased from approximately Ps 31.2 million for the fiscal year 2007 to Ps.37.4 million for the fiscal year 2008, which represent monthly revenues per gross leasable square meter of Ps.180.8 in 2007 and Ps.215.5 in 2008. As of June 30, 2008, the occupancy rate in Paseo Alcorta was 99.5%.

Paseo Alcorta's five largest tenants (in terms of sales in this shopping center) accounted for approximately 14.2% of Paseo Alcorta's gross leasable area at June 30, 2008 and approximately 9.2% of its annual base rent for the fiscal year ended on such date.

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***Patio Bullrich, City of Buenos Aires***

Patio Bullrich is an 80-store shopping center which opened in 1988 and the first shopping center to start operations in the City of Buenos Aires. Alto Palermo acquired Patio Bullrich on October 1, 1998 for US\$ 72.3 million.

Patio Bullrich is in the neighborhood of Recoleta, one of the most prosperous areas of the City of Buenos Aires. This district is a residential, cultural and tourist center that includes distinguished private homes, historical sites, museums, theatres and embassies. The shopping center is located within walking distance of prestigious hotels and the subway, bus and train systems. Additionally, the shopping center is only 10 minutes by car from the downtown area of the City of Buenos Aires.

Patio Bullrich has a total constructed area of 29,982 square meters that consist of 11,685 square meters of gross leasable area and common areas covering 12,472 square meters. The shopping center has a multiplex cinema with four- movie theatres complex with 1,381 seats, an entertainment area of 3,066 square meters and a food court of 14 restaurants. The center is spread out over four levels and has a pay parking lot for 215 cars in an area consisting of 4,825 square meters.

Patio Bullrich is one of the most successful shopping centers in Argentina in terms of sales per square meter. Its targeted clientele consists of high-income individuals aged 45 and above.

During the fiscal year ended June 30, 2008, visitors to the shopping center generated total retail sales of approximately Ps. 271.4 million that represent sales per square meter of approximately Ps. 23,227. Revenues from leases increased from approximately Ps. 25.4 million for the fiscal year 2007 to Ps. 28.9 million for the fiscal year 2008, which represent monthly revenues per gross leasable square meter of Ps. 192.6 in 2007 and Ps. 205.9 in 2008. As of June 30, 2008, the occupancy rate in Patio Bullrich was 100%.

Patio Bullrich's five largest tenants (in terms of sales in the shopping center) accounted for approximately 18.3% of Patio Bullrich's gross leasable area at June 30, 2008 and approximately 12.7% of its annual base rent for the fiscal year ended on such date.

***Alto Noa, City of Salta***

Alto Noa is an 89-store shopping center that opened in 1994. Alto Noa is located in the City of Salta, the capital of the Province of Salta, in the northwestern region of Argentina. The province of Salta has a population of approximately 1.2 million inhabitants with approximately 0.6 million inhabitants in the City of Salta. The shopping center has a total constructed area of approximately 30,876 square meters which consists of 18,851 square meters of gross leasable area. Alto Noa has a food court with 14 restaurants, a large entertainment center, a supermarket and a multiplex cinema with eight movie theatres. The shopping center is contained on one floor and has a free parking lot for 551 cars. Alto Noa's targeted clientele consists of middle-income individuals between the ages of 28 and 40.

On May 29, 1998, Alto Palermo entered into a lending facility agreement with Hoyts which established the terms of the construction and for the lease of space to operate a cinema complex in Alto Noa. Pursuant to this agreement, Hoyts agreed to finance up to US\$ 4.0 million of the cost of the construction of the part of the building where the cinema complex would be located. Construction was completed in August 2000, at which time Hoyts started leasing the space for a period of ten years with options for Hoyts to renew the lease for two additional consecutive ten-year periods. As of October 2000, borrowings under the facility totaled US\$ 4.0 million. These borrowings accrue interest at the six-month LIBOR plus 2.25%. Under the agreement, borrowings are being repaid by offsetting against the rent payable by Hoyts Cinema. The amount outstanding under this loan as of June 30, 2008 was Ps 3.7 million. If after 30 years of lease, the loan has not been repaid in its entirety, the remaining balance shall become due. Pursuant to Decree No. 214/02, the loan and the lease agreements, which were originally denominated in U.S. Dollars, were mandatorily converted into Pesos.

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During the fiscal year ended June 30, 2008, visitors to the shopping center generated total retail sales in nominal value of approximately Ps. 173.9 million, which represents sales per square meter of approximately Ps. 9,230. Revenues from leases increased from approximately Ps. 6.6 million for the fiscal year 2007 to Ps. 9.6 million for the fiscal year 2008 which represent monthly revenues per gross leasable square meter of Ps. 29.4 in 2007 and Ps. 42.5 in 2008. As of June 30, 2008, the occupancy rate in Alto Noa was 100%.

Alto Noa's five largest tenants (in terms of sales in this shopping center) accounted for approximately 33% of Alto Noa's gross leasable area at June 30, 2008 and approximately 16.4% of its annual base rent for the fiscal year ended on such date.

***Mendoza Plaza, City of Mendoza***

Mendoza Plaza is a 152-store shopping center which opened in 1992 and is in the City of Mendoza, the capital of the Province of Mendoza. As of June 30, 2008 Alto Palermo own a 100% interest in Mendoza Plaza Shopping S.A. The city of Mendoza has a population of approximately 1.0 million inhabitants, making it the fourth largest city in Argentina. Mendoza Plaza consists of 39,688 square meters of gross leasable area. Mendoza Plaza has a multiplex cinema covering an area of approximately 3,659 square meters with ten movie theatres, the Chilean department store Falabella, a food court with 20 restaurants, an entertainment center and a supermarket which is also a tenant. The shopping center has two levels and has a free parking lot for 2,600 cars. Mendoza Plaza's targeted clientele consists of middle-income individuals between the ages of 28 and 40.

During the fiscal year ended June 30, 2008, shopping center visitors generated total retail sales in nominal value of approximately Ps.433.4 million, which represents sales per square meter of approximately Ps.10,920. Revenues from leases increased from approximately Ps. 18.8 million for the fiscal year 2007 to Ps.24.2 million for the fiscal year 2008 which represent monthly revenues per gross leasable square meter of Ps.39.7 in 2007 and Ps.50.9 in 2008. As of June 30, 2008, the occupancy rate in Mendoza Plaza Shopping was approximately 97.7%.

Mendoza Plaza's five largest tenants (in terms of sales in this shopping center) accounted for approximately 33.5% of Mendoza Plaza's gross leasable area at June 30, 2008 and approximately 21% of its annual base rent for the fiscal year ended on such date.

***Alto Rosario, City of Rosario***

Alto Rosario is a 145-store shopping center located in the city of Rosario, the third largest city in Argentina in terms of population. It has a total constructed area of approximately 100,750 square meters, which consists of 28,561 square meters of gross leasable area. Alto Rosario has a food court with 15 restaurants, a large entertainment center, a supermarket and a Showcase cinema with 14 state-of-the-art movie theatres. The shopping center occupies on one floor and has a free parking lot for 1,736 cars. Alto Rosarios's targeted clientele consists of middle-income individuals between the ages of 28 and 40.

During the fiscal year ended June 30, 2008, visitors to the shopping center generated total retail sales in nominal value of approximately Ps. 271.3 million, which represents sales per square meter of approximately Ps. 9,500. Revenues from leases increased from approximately Ps. 15.5 million for the fiscal year 2007 to Ps. 20.0 million for the fiscal year 2008, which represent monthly revenues per gross leasable square meter of Ps. 42.6 in 2007 and Ps. 58.5 in 2008. As of June 30, 2008, the occupancy rate in Alto Rosario was 99.2%.

Alto Rosario's five largest tenants (in terms of sales in this shopping center) accounted for approximately 37.4% of Alto Rosario's gross leasable area at June 30, 2008 and approximately 10.3% of its annual base rent for the fiscal year ended on such date.

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***Córdoba Shopping Villa Cabrera.***

On July 7, 2006, Alto Palermo executed a share purchase agreement jointly with Alto Palermo's subsidiary Shopping Alto Palermo S.A. for the acquisition of all the shares held by Empalme S.A.I.C.F.A. y G., owner of Córdoba Shopping Villa Cabrera. The price agreed upon for such transaction was set at a gross amount of US\$12.0 million plus a variable amount (originally established in the contract), that was determined at Ps.4 million. The Company's incorporation was effective on December 31, 2006. To date, Alto Palermo and its subsidiary Shopping Alto Palermo S.A. paid over US\$10 million and the amount related to the year-end adjustment. As of June 30, 2008, one US\$2.0 million installment is pending payment; such installment will become due and payable semi-annually as from December 2008, accruing interest at 6.0% p.a. To secure the unpaid payment price, Alto Palermo has pledged in favor of the sellers 100% of Alto Palermo's equity interests in Empalme. Upon repaying each of the remaining installments, the encumbrance will be partially lifted.

As of December 16, 2008 the fourth installment was cancelled and the encumbrance was lifted.

Córdoba Shopping Villa Cabrera is a shopping center covering 35,000 square meters of surface area, which consists of 10,117 square meters of gross leasable area. Córdoba Shopping has 104 commercial stores, 12 cinemas and parking lot for 1,500 vehicles, located in Villa Cabrera, City of Córdoba. This investment represents for us a growing opportunity in the commercial centers segment in line with the expansion strategy and presence in the principal markets inside the country.

During the fiscal year ended June 30, 2008, visitors to the shopping center generated total retail sales in nominal value of approximately Ps. 120.8 million, which represents sales per square meter of approximately Ps. 11,943. Revenues from leases for the fiscal year 2008 were Ps. 10.6 million, which represent monthly revenues per gross leasable square meter of Ps. 87.1. As of June 30, 2008, the occupancy rate was 97.2%.

Córdoba Shopping's five largest tenants (in terms of sales in this shopping center) accounted for approximately 13.7% of Córdoba Shopping's gross leasable area at June 30, 2008 and approximately 7.6% of its annual base rent for the fiscal year ended on such date.

**New Projects and Undeveloped Properties.**

***Renovation works at existing shopping centers.***

During the fiscal year ended June 30, 2008, Alto Palermo completed several renovation projects in its shopping centers. Alto Palermo continued the construction of parking spaces in Paseo Alcorta shopping center which is expected to open shortly. The anchor store, Falabella was opened in Alto Avellaneda shopping center.

In Patio Bullrich, Alto Palermo finished the Yenny store during the first days after the closing of the quarter, and made progress in the construction of the buildings adjacent to the Shopping center. Alto Palermo also renovated the Coronel Díaz avenue facade, the Santa Fe avenue access, and the food court of the Alto Palermo shopping center and as of June 30, 2008, Alto Palermo was close to finishing the under-bridge in Arenales Street and improvements to the shopping centers' interiors. Alto Palermo Shopping Center's re-launching was accompanied by the addition of new tenants, which has generated a higher number of customers and, enhanced the sales of the other tenants.

***Panamerican Mall Project, City of Buenos Aires.***

In December 2006, Alto Palermo entered into several agreements for the construction, commercialization, and administration of a new shopping center to be developed in the Saavedra neighborhood, in the City of Buenos Aires, by Panamerican Mall S.A. This project includes the construction of a shopping center, a hypermarket, cinemas, and an office building and/or a residential building. The completed project will cover an area of over 50,000 m<sup>2</sup> of gross leasable area. This is one of the most important project in Alto Palermo's pipeline. In the first half of March 2007, Alto Palermo started the construction of the shopping center, and Alto Palermo believes that it will be open in the first half of 2009.

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### *Barter transaction agreement.*

In October 2007, Alto Palermo entered into a barter agreement with Condominios del Alto S.A. pursuant to which Alto Palermo bartered a plot of land located in Rosario, Province of Santa Fe for 15 apartments and 15 parking spaces of the total units to be constructed on the land. Under this agreement, Alto Palermo will have a 14.85% and 15% of the total square meters covered by the apartments and garages, respectively. The total value of the transaction is US\$ 1.1 million. Upon signing the agreement, Condominios del Alto S.A. paid Alto Palermo US\$ 15,300 and assumed certain obligations. Condominios del Alto S.A. (i) guaranteed the transaction by mortgaging the land in favor of Alto Palermo for US\$ 1.1 million; (ii) established a security insurance of US\$ 1.6 million in Alto Palermo's favor; and (iii) made the shareholders of Condominios del Alto S.A. guarantors of its obligations up to the amount of US\$ 0.8 million.

Alto Palermo also, entered into another barter agreement with Condominios del Alto S.A. pursuant to which Alto Palermo bartered another plot of land for 42 apartments and 47 parking spaces of the total units to be constructed on the land. Under this agreement, Alto Palermo will have 22% of the total square meters covered by the apartments and garages, respectively. The total value of the transaction is US\$ 2.3 million.

### *Torres Rosario, City of Rosario.*

Alto Palermo owns a plot of land of about 50,000 m<sup>2</sup> in the City of Rosario, in the same place where Alto Palermo's shopping center Alto Rosario Shopping. On October 11, 2007, entered into a barter agreement with Condominios del Alto S.A. whereby Alto Palermo exchanged a fraction of lot 2-g, with a total area of 7,901.30 m<sup>2</sup>, for 15 units to be built with an area of 1,504.45 m<sup>2</sup> and 15 parking spaces. During the fiscal year ended, there has been work progress in the site, its completion being estimated for the first months of the calendar year 2009.

### *Acquisition of Patio Olmos.*

In November 2006, Alto Palermo acquired from the Provincial Government of Cordoba a property known as Edificio Ex Escuela Gobernador Vicente de Olmos (Olmos) located in Cordoba, Argentina for an aggregate purchase price of Ps. 32.5 million, of which Alto Palermo made a down payment of Ps. 9.7 million as of that date. The property, which is located in the City of Cordoba, is a 5,147 square meter four-story building. The property is leased to an unrelated party who exploits the building as a shopping center. Alto Palermo did not acquire any rights to the shopping center business. The transaction was pending certain approvals which were obtained in September 2007 when the deed was signed and the remaining balance paid.

### *Caballito Project.*

Alto Palermo is the owners of a plot of land with an area of approximately 25,539 m<sup>2</sup> in the City of Buenos Aires, in the Caballito neighborhood. This land could be allocated to the construction of a shopping center. Alto Palermo has not yet obtained the authorization from the Government of the City of Buenos Aires to develop the shopping center in this site, and Alto Palermo cannot assure you that Alto Palermo will obtain it.

### *Exercise of option.*

In August 2007, Alto Palermo exercised the option to purchase a 75% interest in a company engaged in the development of a cultural, recreational and entertainment complex in the Palermo neighborhood in Buenos Aires. Alto Palermo paid US\$ 0.6 million for the option which is accounted for under non current investments. The purchase is subject to certain approvals by the regulatory authorities which have not been obtained as of the date of these financial statements. Should the approvals be obtained, Alto Palermo has committed to invest approximately US\$ 24.4 million.

### *Coto Residential Project.*

Alto Palermo is the owners of an air space of about 24,000 m<sup>2</sup> above Coto Hypermarket, close to Alto Palermo's Abasto Shopping Center, in downtown Buenos Aires. Alto Palermo S.A and Coto Centro Integral de Comercialización S.A. (Coto) executed a public deed on September 24, 1997, whereby Alto Palermo acquired the rights to receive parking units and the rights to construct above the building located between Agüero, Lavalle, Guardia Vieja and Gallo Streets, in the Abasto neighborhood of Buenos Aires.



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In July, 2008 Alto Palermo entered into a barter agreement with CYRSA pursuant to which Alto Palermo is subject to certain closing conditions, would surrender to CYRSA its right to construct a tower over a preexisting structure (owned by a third party) in exchange for de minimis cash (US\$ 0.1 million) and 25% of the housing units in the future buildings. The total fair value of the transaction is US\$ 5.9 million.

*Acquisition of Soleil Factory, Province of Buenos Aires.*

On December 28, 2007, Alto Palermo entered into an agreement with INCSA, an unrelated party, for the acquisition of the Soleil Factory shopping center business for an aggregate purchase price of US\$ 20.7 million, of which US\$ 8.1 million were paid and recorded as supplier advances. The transaction is subject to certain conditions. Upon fulfillment of the conditions and transfer of the business, the remaining balance of the purchase price amounting to US\$12.6 million will accrue fixed interest at 5% per year. This balance will be paid in seven annual and consecutive installments starting on the first anniversary of the signing of the contract. As part of the same agreement, Alto Palermo entered into an offer to acquire, construct and operate a shopping center on land belonging to INCSA located in San Miguel de Tucuman, Province of Tucuman, in the northwest of Argentina. This transaction is also subject to the completion of the Soleil Factory transaction among other conditions. The parties determined the value of this transaction to be US\$ 1.3 million.

*Acquisition of Beruti Plot of Land.*

In fiscal year 2008, Alto Palermo S.A. acquired a plot of land located at Beruti 3351/9, in the Palermo neighborhood, of the City of Buenos Aires. The property is 3,207 m<sup>2</sup> and was acquired for US\$ 17.8 million. The significance of this acquisition lies on the strategic location of the property, close to Alto Palermo, its main shopping center.

*Neuquén Project.*

The main asset of Shopping Neuquén S.A. is a 50,000 m<sup>2</sup> undeveloped parcel of land located in Neuquén, Argentina, where Alto Palermo intends to develop a commercial project including the construction of a shopping center, and a hypermarket.

On December 13, 2006, Shopping Neuquén S.A. entered into an agreement with the Municipality of Neuquén and with the Province of Neuquén which rescheduled the terms of the commercial and residential venture and authorized Shopping Neuquén S.A. to transfer to third parties the title to the plots of land, provided that it is not the one on which the Shopping Center will be built. This agreement was conditional on the ratification of the agreement by means of an ordinance of the legislative body of the Municipality of Neuquén, and on the approval of the architectonic project and the extension of the environmental impact research study by the Municipality.

After registering the blueprints for the project, Shopping Neuquén S.A. has to start the works within a term of 90 days. The first stage of the work (a minimum of 21,000 square meters of the Shopping Center and 10,000 square meters of the hypermarket) should be concluded in a maximum of 22 months from the construction starting date. In case of default in any of the covenants established in the agreement, the Municipality of Neuquén is entitled to terminate the agreement.

This agreement put an end to the lawsuit *Shopping Neuquén S.A. against Municipalidad de Neuquén on Administrative Action* before the High Court of Neuquén.

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***Principal Terms of Alto Palermo's Leases***

Under Argentine Law, terms of commercial leases must be between three to ten years, with most leases in the shopping center business having terms of no more than five years. Alto Palermo's lease agreements are generally denominated in Pesos.

Decree No. 214/2002 and Decree No. 762/2002, which modify Public Emergency Law No. 25,561, determine that duties to turn over sums of money which are denominated in U.S. dollars and which are not related to the financial system as of January 7, 2002 are subject to the following:

obligations will have to be paid in Pesos at a rate of Ps.1.00 = US\$1.00. Additionally, these obligations are subject to inflation adjustment through the CER index;

if, as a consequence of this adjustment, the agreement is unfair to any of the parties, as long as the party that has the obligation to pay is not overdue and the adjustment is applicable, either may ask the other for a fairness adjustment. If they do not reach an agreement, a court will make the decision in order to preserve the continuity of the contract relation in a fair way; and

new lease agreements may be freely entered into between parties, even U.S. dollar denominated lease agreements.

Leasable space in Alto Palermo's shopping centers is marketed through an exclusive arrangement with Alto Palermo's real estate brokers Fibesa S.A. and Comercializadora Los Altos S.A. Alto Palermo has a standard lease agreement, the terms and conditions of which are described below, which Alto Palermo uses for most tenants. However, Alto Palermo's largest tenants generally negotiate better terms for their respective leases. No assurance can be given that lease terms will be as set forth in the standard lease agreement.

Alto Palermo charges its tenants a rent which consists of the higher of (i) a monthly base rent (the *Base Rent*) and (ii) a specified percentage of the tenant's monthly gross sales in the store (the *Percentage Rent*) (which generally ranges between 4% and 10% of tenant's gross sales). Furthermore, pursuant to the rent escalation clause in most leases, a tenant's Base Rent generally increases between 4% and 12% each year during the term of the lease. Although many of Alto Palermo's lease agreements contain readjustment clauses, these are not based on an official index nor do they reflect the inflation index. In the event of litigation, there can be no assurance that Alto Palermo may be able to enforce such clauses contained in Alto Palermo's lease agreements.

In addition to rent, Alto Palermo charges most of its tenants an admission right, which is required to be paid upon entering into a lease agreement and upon a lease agreement renewal. The admission right is normally paid in one lump sum or in a small number of monthly installments. If the tenant pays this fee in installments, it is the tenant's responsibility to pay for the balance of any such amount unpaid in the event the tenant terminates its lease prior to its expiration. In the event of unilateral termination and/or resolution for breach of duties by the tenant, a tenant will not be refunded its admission right without Alto Palermo's consent.

Alto Palermo is responsible for supplying each shopping center with the electrical power connection and provision, a main telephone switchboard, central air conditioning connection and a connection to a general fire detection system. Each rental unit is connected to these systems. Alto Palermo also provides the food court tenants with sanitation and with gas systems connections. Each tenant is responsible for completing all the necessary installations within its own rental unit, in addition to the direct expenses generated by these items within each rental unit. These direct expenses generally include: electricity, water, gas, telephone and air conditioning. Tenants must also pay for a percentage of total charges and general taxes related to the maintenance of the common areas. Alto Palermo determines this percentage based on the tenant's gross leasable area and the location of its store. The common area expenses include, among others, administration, security, operations, maintenance, cleaning and taxes.

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Alto Palermo carries out promotional and marketing activities to increase attendance to Alto Palermo's shopping centers. These activities are paid for with the tenants' contributions to the Common Promotional Fund ( CPF ), which is administered by us. Every month tenants contribute to the CPF an amount equal to approximately 15% of their rent (Base Rent plus Percentage Rent), in addition to rent and expense payments. Alto Palermo may increase the percentage that tenants must contribute to the CPF, but the increase cannot exceed 25% of the original amount set forth in the corresponding lease agreement for the contributions to the CPF. Alto Palermo may also require tenants to make extraordinary contributions to the CPF to fund special promotional and marketing campaigns or to cover the costs of special promotional events that benefit all tenants. Alto Palermo may require tenants to make these extraordinary contributions up to four times a year provided that each such extraordinary contribution may not exceed 25% of the preceding monthly rental payment of the tenant.

Each tenant leases its rental unit as a shell without any fixtures. Each tenant is responsible for the interior design of its rental unit. Any modifications and additions to the rental units must be pre-approved by us. Alto Palermo has the option to decide tenants' responsibility for all costs incurred in remodeling the rental units and for removing any additions made to the rental unit when the lease expires. Furthermore, tenants are responsible for obtaining adequate insurance for their rental units, which must include, among other things, coverage for fire, glass breakage, theft, flood, civil liability and workers' compensation.

### ***Control Systems***

Alto Palermo has computer systems to monitor tenants' sales in all of its shopping centers. Alto Palermo also conducts regular manual audits of its tenants' accounting sales records in all of our shopping centers. Almost every store in those shopping centers has a computerized cash register that is linked to a main computer server in the administrative office of such shopping center. Alto Palermo uses the information generated from the computer monitoring system for auditing the Percentage Rent to be charged to each tenant and use the statistics regarding total sales, average sales, peak sale hours, etc., for marketing purposes. The lease contracts for tenants in Alto Avellaneda, Alto Palermo, Paseo Alcorta, Patio Bullrich, Buenos Aires Design (only with respect to agreements signed after its acquisition), Abasto, Alto Rosario Shopping, Alto Noa, Empalme and Mendoza Plaza Shopping contain a clause requiring tenants to be linked to the computer monitoring system.

### **Related Business**

#### **Consumer Financing Segment**

Alto Palermo participates in the consumer financing business through its subsidiary Tarshop, in which it holds a 93.4% interest as of November 30, 2008. Tarshop is a non-regulated entity, operating in the issue, processing and marketing of its own non-banking credit card called *Tarjeta Shopping*, and grants loans and personal credits.

Tarshop competes in the two key businesses of the consumer financing market: purchase and credit cards and personal loans. In addition, Tarshop competes in the personal loans segment on the basis of two clearly differentiated product lines: cash loans and direct financing at stores.

As a result of a new commercial strategy implemented by Tarshop based on its positioning as one of the leading companies in the consumer financing market, and in view of the progress in personal loans reflected in the total sales of Tarshop, Alto Palermo has decided to change the name of its *Credit Card* segment to *Consumer financing*, to more accurately reflect Tarshop's business.

As of June 30, 2008, Tarshop had 894,000 customer accounts of which 640,000 had unpaid balances, an average indebtedness of Ps. 1,630 per account. The total loan portfolio amounted to Ps. 1,044.6 million, 78% of which was securitized through the *Tarjeta Shopping* Financial Trusts Program.

Alto Palermo derives major sales from the credit card line, which in the fiscal year ended on June 30, 2008, accounted for 74% of total sales, amounting to Ps. 1,413.8 million (an average monthly amount of Ps. 117.8 million). As of this filing Tarshop has issued 958,000 cards including main holders and additional holders, and since 2005, it has issued, an average of over 11,000 cards for main holders each year.

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During the same period, the personal loans business line generated 26% of average monthly sales. In recent years, personal loans granted have increased, amounting to Ps. 502 million for the fiscal year ended on June 30, 2008.

As of June 30, 2008, Tarshop had a commercial network that comprised 29 points of sale, spread in the City of Buenos Aires, Greater Buenos Aires, Córdoba, Tucumán, Salta, and Jujuy. As at June 30, 2008, there were over 45,000 stores accepting its credit cards, 46% of which regularly made transactions and generated over 7.5 million transactions during the year.

Tarshop also owns 50% of the capital stock of Metroshop S.A.; the remaining 50% is owned by Metronec S.A., a subsidiary of Roggio S.A. This company is engaged in marketing credit cards by the addition of a chip that grants automatic access to the main means of transport and by making personal loans through an independent distribution network. Tarshop processes the products marketed by Metroshop.

The table below contains information about of Alto Palermo s consumer financing business for the relevant fiscal years:

	Fiscal year ended on June 30,		
	2005	2006	2007
(In constant million Ps.)			
Revenue:			
Interest collected	14.8	29.9	52
Commissions to merchants	14.7	22.7	35.8
Other fees and commissions	0.0	0.1	4.8
Interest, default interest, and other interest	3.1	5.9	14.8
Charges for account maintenance	12.7	22.2	33.2
Charges for life and disability insurance	19.4	41.6	73.2
Income of metroshop	0.1	0.4	1.7
Other services	0.0	0.1	2.4
Reissued credit cards	0.0	0.1	1.5
Total	64.8	123	219.4
Total credits <sup>(1)</sup>	209.2	384.6	723.5
Issued credit cards	0.4	0.5	0.6
Branches <sup>(2)</sup>	19	20	25
Adhered stores <sup>(2)</sup>	21,500	25,900	38,100

(1) Including securitized fraction

(2) Figures expressed in amounts

The table below contains information about Alto Palermo s consumer financing business for fiscal year ended on June 30, 2008, according to income statement of Tarshop:

	Fiscal year ended on June 30, 2008 (In constant million Ps.)
Tariffs to stores and loans	41.5
Income from services	163.8
Interest	74.6
Other income from services	6.3
Account statements	3.9
Income from Metroshop services	2.8
Less: Revenues discounts	-2.0

**Total Revenues**

**291.0**

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### ***Purchase and credit card***

Tarshop operates in this business not only as an issuing and financing company as processor of its own card trademark, and as payer to the network of stores accepting the product. These characteristics are typical of a closed purchase and credit card system.

Tarjeta Shopping is accepted in over 45,000 affiliated stores, as of June 30, 2008, including the main supermarket, household appliances chains, and shopping centers.

Tarshop provides a wide variety of benefits, such as exclusive discounts and promotions, financing plans in installments, cash advances through Banelco and Link networks all over the country, balance financing through minimum payments, payment through automatic teller machine networks Banelco and Link; through the Internet using the *Pago mis cuentas* service; or through direct debit payment, and, through Alto Palermo owns network of branches.

A differentiating element of Tarshop's competitive strategy is its ability to establish the eligibility of customers, and grant them their credit card immediately, which allows the customers to have immediately use of the product.

The main channels for attracting customers are Alto Palermo's branch offices, and by stands and points of sale in its shopping centers and retail stores.

### ***Cash loans and consumer financing at stores***

Tarshop's loans business operates through two distinct modalities:

Personal loans granting cash amounts without a fixed use, called *Préstamos Tarshop*.

Consumer financing at stores, granting loans to individuals intending to purchase a specific good, for a fixed amount in a store, called *Créditos Tarshop*.

Cash loans are granted in fixed installments in pesos and the terms offered vary according to market conditions.

Credit is granted immediately, upon the customer's submittal of the relevant documents. The store submits this documentation to its processing center where, after the relevant analysis of the documents, Alto Palermo decides whether the credit is granted. Alto Palermo is developing a new software tool which will allow affiliated stores to determine eligibility at once in its centralized databases.

*Crédito Tarshop* is a powerful product since it turns each affiliated store into a small branch office to attract more customers.

### ***Distribution Network***

As of June 30, 2008, Tarshop had 29 branches, including Alto Palermo's shopping centers Alto Avellaneda, Alto Palermo and Abasto, as well as storefronts in major commercial centers located in the District of Avellaneda, downtown Buenos Aires and in the cities of Lomas de Zamora, Morón, Quilmes, Liniers, Florencio Varela, San Justo, Moreno, Merlo, among others. It also has branches in the Provinces of Córdoba, Tucumán, Catamarca, Salta and San Salvador de Jujuy.

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Alto Palermo has promotion stands, and account representatives at Wal-Mart Avellaneda, Supermercados Coto in the cities of Lanús, Sarandi, Temperley and Supermercado Hyper Libertar located in the city of Salta. Alto Palermo has strategic alliances with certain major household appliances and motorcycle stores, where credit can be granted on the spot.

Each branch is organized as the independent business unit, responsible for achieving its commercial goals, such as invoicing and account opening. Tarshop also has its own ATM structure in branches that allow for the collection of payables and for granting of cash loans to customers.

### *Assessment*

Applications for issue of credit products are subject to a credit assessment process. The steps followed for assessment are classified per activity as follows: verification and control of documents submitted, confirmation through an automated and sequential software that consults credit information supplied to the company by different providers, and finally, and whenever required, the data reported by the customer is validated via telephone verification. Upon completion of all data verification, and analysis a determination of the account credit limit is made.

### *Credit Limit Allocation*

The allocation of a credit limit consists, as of June 30, 2008, in the assessment of the amount to be granted according to the level of indebtedness, income and risk score. Calculation of income may take into account income of one or more members of the applicant's family group, who are required to submit evidence of the documents as a guarantee. The limit, under the current credit policy shall not exceed the sum of Ps 30,000. Any credit exceeding this amount must be duly authorized. Based on the information submitted by the applicant, and the verifications performed and the corresponding credit limit is allocated. The credit limit allocated to an account is established by using a limit simulator, a program that calculates credit limits according to predefined variables per area, channel and product.

Tarshop assess applications based on the applicant's seniority and payment history. Tarshop regularly updates the credit limit of an account, according to the analysis performed by the Portfolio Analysis and Maintenance Group.

### *Invoicing Cycle*

Tarshop handles an invoicing cycle which ends on the 20<sup>th</sup> day of each month and fixes a first maturity date between the 7<sup>th</sup> and the 11<sup>th</sup> day of the month to be closed. The statement fixes a second maturity date accruing interest on the 20<sup>th</sup> day each month. Amounts due appearing on account statements may be paid in any branch or in any payment outlet belonging to the mass collection agents contracted by Tarshop for that purpose. On the 20<sup>th</sup> day of the month, unpaid amounts are considered in default and accounts are blocked for use until the customer makes a payment.

### *Collection Process*

Tarshop's collection process is carried out according to the strategy defined by its Risk Management group. It is divided into different tranches of default and, preventive action is taken through a system of automatic calls to accounts deemed by the Company as prospectively risky. The internal management process starts on the 23<sup>rd</sup> day each month through a telephone call by the Collection Group Call Center, which is simultaneously supplemented by letters and automatic messages. This process is enhanced as account default moves forward. When internal management is unsuccessful, collection management is referred in a pre-litigation instance to external law firms hired for that purpose. Upon expiration of the term for external pre-litigation Alto Palermo perform, a portfolio analysis and the accounts that may be subject to judicial proceedings are grouped together. Any accounts not fulfilling the requirements to bring legal action are referred to Collection Agents who visit the defaulting customers personally at their home address. Throughout the process the use of mitigation tools is assessed, ranging from, refinancing to payment reduction settlements.

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The policies for allowances for bad debts as of June 30, 2008, are similar to those established by the Banco Central de la República Argentina (Central Bank of the Republic of Argentina)<sup>1</sup>.

The table below shows the percentages of allowance calculated by Tarshop, as of June 30, 2008, based on the rules issued by the Banco Central:

Delay	Allowance (days)	%
Regular Compliance	0 to 31	1
Inadequate Compliance	32 to 90	5
Deficient Compliance	91 to 180	25
Difficult Recovery	181 to 365	50
Unrecoverable	Over 365	100

The table below provides information about Alto Palermo's credit card loans (including securitized fraction):

Portfolio Condition	As of June 30, 2008			
	2007 (1)		2008 (1)	
Regular Compliance <sup>(2)</sup>	627.4	86.71%	779.3	83.36%
Matured:				
31-89 days	26.2	3.62%	33.2	3.55%
90-180 days	37.8	5.22%	55.5	5.94%
181-365 days	32.2	4.45%	66.9	7.16%
<b>Total</b>	<b>723.6</b>	<b>100.00%</b>	<b>934.9</b>	<b>100.00%</b>
Over 365 days and under legal proceedings <sup>(3)</sup>	55		109.7	
Allowance for Bad Debts of Portfolio Effective as Percentage of Defaulting Portfolio		34.5%		36.5%
Allowance for Bad Debts of Portfolio Effective as Percentage of Effective Portfolio		4.6%		6.1%

(1) In millions of Pesos

(2) Loans under regular conditions, with delay not exceeding 30 days.

(3) These credits are subject to a 100% allowance for bad debts.

**Funding and Securitization Activities**

Tarshop's main liquidity needs and capital uses include: payment of sales made by retail stores, working capital needs, investment in new technology, the opening and improvement of branches and holding of cash to take advantage of investment opportunities that may arise. Tarshop has significantly expanded its business by securitizing its credit card receivables pursuant to the Tarjeta Shopping Trust Program. By resorting to this innovative financial tool, Tarjeta Shopping has led one of the largest issues in the market and successfully placed 48 series for more than Ps.2.0 billion. Tarjeta Shopping was assigned the highest rating by Standard & Poor's.

<sup>1</sup> Allowance for bad debts was estimated based on credit classification performed according to criteria related to debtors' obligation default levels, and according to this classification the minimum allowance criteria arising from Communication A 2729 and amendments of the Banco Central de la República Argentina have been applied.



Further, the Company verifies coverage capabilities of the allowance resulting from the application of the procedure indicated in the previous paragraph, by evaluating the default risk portfolio according to its behavior.

Even if the Company uses the information available to carry out assessments, some future adjustments to allowance may be necessary if economic conditions substantially differ from the hypotheses used to perform the assessments. The Company has considered all the facts and/or operations subject to reasonable and normal assessment methods, which are reflected in the basic financial statements.

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Tarshop has historically incurred liabilities mainly in local currency and to a lesser extent in foreign currency, and has leveraged twice the coverage for its commitments incurred in foreign currency.

### *Receivables Portfolio Securitization*

Tarshop has its own Ps.900 million Trust Securitization Program. As of June 30, 2008, 43 series have been issued aggregating Ps.1,670 million in bonds and certificates of participation. During the first semester of 2008, 6 series were issued for Ps. 386 million, while in the same period in 2007, 4 series were issued for Ps.261 million. Total terms under each issue range from 20 to 30 months. The applicable nominal interest rates for Class A and B Bonds are approximately 15.3% and 21.7%, respectively. Interest rates were higher as compared to the previous year as a result of the prevailing financial local market conditions. The interest accrued on both Bonds is subject to floor and ceiling rates. Class A Bonds in both the revolving and non-revolving structures have an AAA rating granted by S&P. Due to the current financial crisis and the increase in delinquency rates, ratings agency have increased the financial trust's requirements of subordination. Resulting in an increase of the percentage of certificates respect to Class A and B bonds, such increase was lower than 10%.

Regarding the receivables transferred in connection with Tarshop's Trust Securitization Program that qualified for sale treatment, neither Tarshop nor the trustee have responsibility over any shortfall or failure in collecting the receivables which are the source of cash payment for the bond holders. Due to the legal structure of securitization process set forth by Law No. 24,441 the agreements related to the securitization stipulate that the rights of beneficiaries (TDF holders) will not be affected by any financial or liquidity failure of either the trustee or Tarshop. The agreements also state that the transfer qualifies as a non-recourse transfer of receivables since if receivables are not collected in full, neither Tarshop nor the trustee is obliged to use their own cash flows to cover any potential shortfall or collection failure.

### *Liquidity Policy*

Tarshop's policy is to maintain cash and bank account balances for an average of approximately Ps.2.0 million. All balances and reserves are stated in local currency.

### *Technology*

Information systems are an essential element for credit card companies, as the processing of a large number of transactions and the management of unusual transaction volumes in certain key sales dates is required. This has prompted Tarjeta Shopping to procure state-of-the art technology, and for this reason the current data and transaction processing systems maintain all branches linked through its local intranet, allowing expediency and confidentiality in the handling and transmission of data. In addition, the participating stores may carry out transactions on-line 24 hours a day via POS networks operating in Argentina.

The expansion of the call center, Alto Palermo's credit department and number of branches required a significant investment in technology and communications, resulting in an aggressive growth in the number of transactions and inquiries answered, granting of accounts and increases in transaction processing speed.

The technology group's resources are divided into four sectors: Systems Development, Technology, Server Management and IT Security. Business growth has enabled us to incorporate highly trained professionals, training programs and, better practice methods.

Tarjeta Shopping operates with proprietary information systems, developed and suited to the company's business. Its main systems are developed in 4GL language and Java with Informix 10 Data Base Engine, migrating to a new system developed on visual technologies under Oracle 10G Data Base. The main system platform is composed of SUN Spark servers, with Solaris 10 operating systems.

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All business processes, from origination to account opening, issue of cards, transaction validation, loan management, customer management, generation and printing of bills, payments, collections, delinquency management and processing, are supported by these systems.

The systems allows the on-line capturing and validation of on-line purchases, receiving transactions through POS networks (mainly Posnet and LaPos), as well as cash withdrawal transactions through Banelco and Link ATMs.

Tarjeta Shopping s equipment and IT systems are comparable to those used by large-scale credit card companies, which will allow it to maintain its current cost structure while maintaining the growth of accounts it has been showing so far.

**Summary Financial and Other Data**

The following table sets forth certain balance sheet and other data for Tarshop as of June 30, 2006, 2007 and 2008:

	2006	As of June 30, 2007	2008
	(in million Ps., except percentages)		
<b>Income Statement Data</b>			
Revenues	122.97	212.97	291.03
Costs	(45.53)	(77.42)	(131.86)
<i>Gross profit</i>	77.44	135.55	159.17
Selling expenses	(30.90)	(61.97)	(111.42)
Administrative expenses	(26.35)	(46.23)	(68.55)
Net (loss) income from retained interest in securitized receivables	2.62	3.25	(1.26)
<i>Operating income</i>	22.81	30.60	(22.06)
Financial results, net	0.11	0.83	1.22
Other income (expenses), net	(0.13)	3.03	3.81
<i>Income before taxes and minority interest</i>	22.79	34.46	(17.03)
Income tax expense	(8.24)	(15.45)	(1.52)
<i>Net income</i>	14.55	19.01	(18.55)
Financial results, net	0.11	0.83	1.22
Other income (expenses), net	(0.13)	3.03	3.81
<b>Balance Sheet Data</b>			
<i>Current assets:</i>			
Cash and banks	4.65	8.83	11.33
Investments	10.79	35.29	54.12
Accounts receivable	46.57	70.83	56.31
Other receivables	6.16	13.06	36.19
Inventory	0.03	0.0	0.0
Total current assets	68.19	128.01	157.95
<i>Non-current assets:</i>			
Other receivables	7.43	24.31	21.57
Property, plant and equipment	4.88	9.68	12.32
Investments	39.81	55.68	111.10
Accounts receivable	19.74	40.58	7.72
Intangible Assets net	0.03	0.02	0.01
Total non-current assets	71.89	130.27	152.72
Total assets	140.08	258.28	310.67
<i>Current liabilities:</i>			
Accounts payable	88.53	157.62	173.09
Customer advances	2.20	4.40	0.00
Short-term debt	5.89	12.90	61.57
Related parties	5.92	2.47	24.11
Salaries and social security payable	1.65	4.41	5.23
Taxes payable	6.44	21.78	13.52
Other liabilities	0.51	0.72	0.43

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Total current liabilities	111.14	204.30	277.95
<i>Non-current liabilities:</i>			
Accounts payable	0.00	0.00	3.24
Long-term debt	0.10	6.13	0.19
Other liabilities	0.00	0.00	0.00
Total non-current liabilities	0.10	6.13	3.44
Total liabilities	111.24	210.43	281.39
Shareholders' equity	28.84	47.85	29.29
Total liabilities and shareholders' equity	140.08	258.28	310.68
<b>Other Financial Data</b>			
Return on assets	10.4%	7.4%	(6.0)%
Return on shareholders' equity	101.8%	65.9%	(38.8)%
Net interest margin	62.84%	64.72%	55.01%
Non-performing loans as a percentage of total loans	25.20%	24.48%	46.31%
Reserve for loan losses as a percentage of total loans	16.80%	15.17%	47.97%
Reserve for loan losses as a percentage of non-performing loans	66.65%	61.98%	103.60%

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### **Development and Sale of Properties**

The acquisition and development of residential apartment complexes and residential communities for sale is one of IRSA's core activities. Its development of residential apartment complexes consists of the new construction of high-rise towers or the conversion and renovation of existing structures such as factories and warehouses. In connection with IRSA's development of residential communities, it frequently acquires vacant land, develop infrastructure such as roads, utilities and common areas, and sell plots of land for construction of single-family homes. IRSA may also develop or sell portions of land for others to develop complementary facilities such as shopping areas within residential developments.

In IRSA's fiscal year ended June 30, 2008, revenues from its Development and Sale of Properties segment were Ps.196.8 million, compared to Ps.75.8 million in fiscal year 2007. The local currency remained stable throughout the 2007 fiscal year; the real estate market was promoted by the increase in the demand for all types of properties, whether office buildings, housings, retail premises or other. Likewise, the current framework provides incentives for the development of projects linked to its real estate activity. Therefore, during the 2009 fiscal year IRSA expects to complete the projects under development, as well as to analyze new undertakings.

Construction and renovation works on its residential development properties is currently performed, under IRSA's supervision, by independent Argentine construction companies that are selected through a bidding process. IRSA enters into turnkey contracts with the selected company for the construction of residential development properties pursuant to which the selected company agrees to build and deliver the development for a fixed price and at a fixed date. IRSA is generally not responsible for any additional costs based upon the turnkey contract. All other aspects of the construction including architectural design are performed by third parties.

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Another modality for the development of residential undertakings is the exchange of land for constructed square meters. In this way, IRSA delivers undeveloped pieces of land and another firm is in charge of building the project. Eventually, IRSA receives finished square meters for commercialization, without taking part in the construction works.

In the first quarter of the fiscal year ended June 30, 2008, in order to strengthen our presence in the development properties segment, IRSA, together with CYRELA, a Brazilian developer, created a venture that operates under the name IRSA-CYRELA (CYRSA) to develop high end residential units in Argentina.

IRSA-CYRELA's first project, located on two adjacent blocks in the Vicente López neighborhood, was launched in March under the name Horizons. This development will entail a new concept in residential complexes given its emphasis on the use of common spaces. This project includes two complexes with a total of six buildings, totaling 59,000 sqm of construction distributed in 467 units. Horizons has 32 amenities, including a meeting room; a work zone; indoor swimming pools; club house and spa, sauna, gym, children room, teen room; theme-park areas and an aerobic trail. As of June 30, 2008, IRSA had executed preliminary sales agreements for 96% of the available units, and the clients have made advance payments. IRSA expects that the units will be completed and delivered in early 2011. IRSA consolidates the results of this venture in our financial statements, with revenues accruing as work is completed.

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The following table shows certain information and gives an overview regarding IRSA's sales and development properties:

**Sales and Development Properties**

	Date of acquisition	Estimated Cost /Real Cost (Ps. thousand) <sup>(1)</sup>	Area intended for sale (sqm) <sup>(2)</sup>	Total Units or Lots <sup>(3)</sup>	IRSA's Effective Interest	Percentage constructed	Percentage sold <sup>(4)</sup>	Accumulated Sales (Ps. thousand) <sup>(5)</sup>	Sales for the year ended June, 30, 2008	2007	2006
	18/07/96	56,579	32,339	490	100.00%	100.00%	99.80%	70,626	577		
to <sup>(8)</sup>	17/07/94	74,810	35,630	545	63.33%	100.00%	100.00%	109,561	295		
eros	22/07/03	5,740	3,633	40	100.00%	100.00%	100.00%	19,676	1,262	8,383	10,031
	03/2003	12,171	2,891	20	100.00%	100.00%	77.20%	10,916	2,359	8,557	
	20/12/96	15,069	6,913	70	100.00%	100.00%	98.89%	11,675	49		
Park <sup>(9)</sup>	18/11/97	35,956	10,488	72	100.00%	100.00%	100.00%	47,920		390	63
<sup>(5)</sup>	09/09/99	22,861	5,383	28	100.00%	94.00%	96.00%				
I <sup>(15)</sup>	03/11/97	41,808	6,294	37	100.00%	N/A	100.00%	56,591	56,591		
rio <sup>(8)</sup>	30/04/99		1,504	15	63.33%	0.00%	0.00%				
	03/11/97		9,784	1	50.00%	0.00%	0.00%				
er											
reno											
ca) <sup>(15)</sup>	03/11/97		7,451	0	100.00%	0.00%	0.00%				
er											
reno											
	03/11/97	22,815	6,833	118	100.00%	50.00%	100.00%	22,815			22,815
3 y											
	16/01/07		59,000	467	50.00%	0.53%	98.00%				
al											
	N/A	31,101	18,061	162	100.00%	100.00%	100.00%	36,110			
		<b>318,910</b>	<b>206,204</b>	<b>2,065</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>385,890</b>	<b>61,133</b>	<b>17,330</b>	<b>32,909</b>
os <sup>(11)</sup>	03/01/95	130,955	1,408,905	1273	100.00%	100.00%	95.90%	222,091	4,030	1,124	3,942
	18/11/97	20,544	127,717	110	100.00%	97.00%	100.00%	11,830			
II y											
	26/05/92	4,742	75,970	219	100.00%	100.00%	98.95%	13,952			
		<b>156,241</b>	<b>1,612,592</b>	<b>1,602</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>247,873</b>	<b>4,030</b>	<b>1,124</b>	<b>3,942</b>
g											
)	18/05/97		82,051		50.00%	0.00%	0.00%				
l											
	10/07/97		675,952		90.00%	0.00%	10.00%	31,000		31,000	
	16/12/96		1,299,630		100.00%	0.00%	0.00%				
ta <sup>(8)</sup>	07/07/98		1,925		63.33%	0.00%	100.00%	22,969			22,969
o <sup>(8)</sup>	30/04/99		42,620		63.33%	0.00%	19.85%	3,428	3,428		
5	03/11/97		9,784		100.00%	0.00%	100.00%	19,152	19,152		
	27/07/05		4,320,000		50.00%	0.00%	0.00%	223	57	91	75
	30/05/08		1,160,000		100.00%	0.00%	0.00%				
<sup>(8)</sup>	24/06/08		3,238		63.33%	0.00%	0.00%				
	29/05/97		740,237		100.00%	0.00%	0.00%				
	21/07/97		125		100.00%	0.00%	0.00%				
<sup>(8)</sup>	24/09/97		19,755		63.33%	0.00%	0.00%				

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V	18/07/96		3,201		100.00%	0.00%	0.00%				
ito <sup>(8)</sup>	03/11/97		23,389		63.33%	0.00%	0.00%				
	25/09/07	22,700	5,147		100.00%	100.00%	100.00%				
	N/A		13,537,620		81.67%	0.00%	0.00%				
		<b>22,700</b>	<b>21,924,674</b>		<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>76,772</b>	<b>22,637</b>	<b>31,091</b>	<b>23,044</b>
	20/08/92	705	3,750	1	100.00%	100.00%	100.00%	11,745			1,833
	15/03/07	244,148	9,946	N/A	100.00%	100.00%	100.00%	108,423	108,423		
	21/12/95	16,008	5,056	8	100.00%	100.00%	100.00%	16,947	476		
	09/09/99	25,836	10,474	3	100.00%	0.00%	100.00%	91,638		26,206	41,808
es <sup>(13)</sup>	N/A	14,418	7,017	33	100.00%	100.00%	99.22%	21,468	112		430
		<b>301,115</b>	<b>36,243</b>	<b>45</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>250,221</b>	<b>109,011</b>	<b>26,206</b>	<b>44,071</b>
		<b>798,966</b>	<b>23,779,713</b>	<b>3,712</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>960,756</b>	<b>196,811</b>	<b>75,751</b>	<b>103,966</b>

Notes:

- (1) Cost of acquisition plus total investment made and/or planned if the project has not been completed, adjusted for inflation until 02/28/03.



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- (2) Total area devoted to sales upon completion of the development or acquisition and before the sale of any of the units (including parking and storage spaces, but excluding common areas). In the case of Land Reserves the land area was considered.
- (3) Represents the total units or plots upon completion of the development or acquisition (excluding parking and storage spaces).
- (4) The percentage sold is calculated dividing the square meters sold by the total saleable square meters.
- (5) Includes only the cumulative sales consolidated by the RT21 method adjusted for inflation until 02.28.03.
- (6) Corresponds to our total sales consolidated by the RT4 method adjusted for inflation until 02.28.03. Excludes turnover tax deduction.
- (7) Cost of acquisition plus improvement, plus activated interest of properties consolidated in portfolio at June 30, 2008, adjusted for inflation at 02/28/03.
- (8) Indirectly owned through Alto Palermo.
- (9) Indirectly owned through Inversora Bolivar.
- (10) Includes the following properties: Dorrego 1916 through IRSA.
- (11) Directly through IRSA and indirectly through Inversora Bolivar. Includes sale of Abril shares.
- (12) Includes the following land reserves: Isla Sirgadero, Pontevedra, Mariano Acosta, Merlo, Intercontinental Plaza II, advance purchase of San Luis (through Inversora Bolivar) and C.Gardel 3134, C.Gardel 3128, Agüero 596, Zelaya 3102, Conil and others APSA (through Alto Palermo).
- (13) Includes the following properties: Puerto Madero Dock XIII (through IRSA).
- (14) Corresponds to the Sales and Developments business unit mentioned in Note 4 to our consolidated financial statements.
- (15) Corresponds to receivables from swaps disclosed as Inventories in the consolidated financial statements.
- (16) Indirectly owned through CYRSA S.A.

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### ***Residential Apartments***

In the apartment building market, IRSA acquires undeveloped properties strategically located in densely populated areas of the City of Buenos Aires, particularly properties located next to shopping centers and hypermarkets or those to be constructed. IRSA then develops multi-building high-rise complexes targeting the middle-income market. These are equipped with modern comforts and services, such as open green areas, swimming pools, sports and recreation facilities and 24-hour security. In the loft buildings market, IRSA's strategy is to acquire old buildings no longer in use located in areas with a significant middle and upper-income population. The properties are then renovated into unfinished lofts allowing buyers the opportunity to design and decorate them according to their preferences.

### ***Apartment Projects Under Development***

***Torre Caballito, City of Buenos Aires.*** This undeveloped 2.1 hectare property is situated in the northern area of Caballito's residential neighborhood in the City of Buenos Aires. On May 4, 2006, IRSA and Koad S.A. ( Koad ), an Argentine developer, entered into an asset exchange agreement valued at US\$7.5 million pursuant to which IRSA sold to Koad plot number 36 of Terrenos de Caballito in exchange for Koad's agreement to construct, at its sole expense, a residential complex to be named Caballito Nuevo. Koad has agreed to develop a residential complex consisting of two 34-story towers containing 220 apartments each, consisting of one, two and three bedroom residential units with surface areas ranging from 40 to 85 square meters. The proposed apartment complex is currently expected to offer a wide variety of amenities and services. The total area of this apartment complex that will be for sale is estimated to be approximately 28,000 square meters. On August 2009, IRSA will be entitled to ownership of 26.7% of the total square meters and 25% of the parking lots of the entire complex, representing 118 apartments and 55 parking lots located in Tower 1. As a result of an incentive scheme agreed to with Koad, the number of square meters IRSA will receive could vary according to the project's date of completion. As a result of this transaction, Koad granted to IRSA a first lien mortgage on the property to secure up to US\$7.4 million of its obligations to IRSA and posted a surety bond in IRSA's favor supporting an additional US\$2.0 million of Koad's obligations to IRSA.

***Torres Renoir, Dock III.*** In September 2004, IRSA and Desarrollos y Proyectos Sociedad Anónima ( DYPSA ) signed a barter contract whereby IRSA delivered DYPSA plot 1c) of Dique III in exchange for receiving, within a maximum term of 36 months, housing units, parking lots and parking spaces, representing in the aggregate 28.50% of the square meters built in the building constructed by DYPSA. The transaction amounted to US\$8.0 million. As a security for the transaction, DYPSA set up a first degree mortgage for US\$ 8.0 million in favor of IRSA. During the fiscal year ended June 30, 2008, DYPSA transferred to IRSA the possession of all of the individual storage spaces and parking lots totaling amount of US\$ 0.5 million. IRSA signed preliminary sales agreements for certain units to be received which were valued at their net realizable value. The increase for this method of valuation amounted to Ps.21.0 million; of which Ps. 2.6 million and Ps. 18.4 million were recorded as of June 30, 2008 and 2007, respectively.

In June 2006, IRSA signed a barter contract with DYPSA whereby IRSA delivered DYPSA plot 1e) of Dique III in exchange for receiving, within a maximum term of 36 months, house units, parking and storages spaces representing in the aggregate 31.50% of the square meters built in the building to be constructed by DYPSA. The value of the transaction amounts to US\$ 13.5 million. In November 2007, IRSA and DYPSA resolved the substitution of the mentioned barter exchange for a payment of US\$ 18.3 million, which was fully collected as of June 30, 2008. The gain on the substitution was Ps. 14.8 million.

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***Vicente López, Olivos, Provincia de Buenos Aires.*** On January 16, 2007, IRSA acquired the total shares of Rummaala S.A. ( Rummaala ), the main asset of which is a plot of land located in Vicente Lopez, Province of Buenos Aires. The purchase price was US\$21.17 million, payable as follows: (i) US\$4.25 million in cash and (ii) by delivering certain units of the building to be constructed in the land owned by Rummaala in the amount of US\$16.92 million, within a 4 year term as from the approval date of the plans by the related authorities or when the facilities be vacated, whichever occurs last. As security for compliance with the construction of the building and transfer of the future units, the shares acquired were pledged.

Simultaneously with the above mentioned transaction, Rummaala acquired a plot of land adjacent to its own property for a total consideration of US\$15.00 million, payable as follows: (i) US\$0.50 million in cash; (ii) by delivering certain units of buildings Cruceros I and II in the amount of US\$1.25 million and (iii) by delivering certain units of the building to be constructed in the land acquired for a total consideration of US\$13.25 million, within a 40-month term starting from the approval date of the plans by the related authorities or when the facilities be vacated, whichever occurs last. As security for compliance with the construction of the building and transfer of the units, the property located at Suipacha 652 was mortgaged.

In April 2007, IRSA constituted CYRSA S.A. in order to develop high-end residential units in Argentina. To that end, IRSA contributed 100% of the capital stock in Rummaala S.A. and the debt in kind associated to the acquisition of the land to CYRSA for a net amount of \$ 21.5 million, whereas CYRELA contributed \$ 21.5 million (an amount equivalent to the value of the shares that IRSA contributed).

IRSA also entered into an agreement with Cyrela Brazil Realty S.A. Empreendimentos e Participações for the development of residential projects in Argentina through CYRSA S.A., which will operate under the name of IRSA - CYRELA.

Cyrsa is presently developing this plot of land. As of June 30, 2008 IRSA had executed preliminary sales agreements representing 96% of the units to be sold.

The sale prices set forth in these preliminary sales contracts consist of a fixed part and a variable part to be determined in line with future construction expenses.

The client can choose from these purchase plans:

The price determined will be paid on installments and be fully paid at the time of transfer / signature of deeds.

Partial payment installments payable up to the time of transfer / signatures of deeds, and the remaining balance is finance for 90 months, with the units mortgaged in IRSA s favor as guarantees.

IRSA is committed to transfer the functional units by February 2011.

***Torres Rosario Project, City of Rosario, Province of Santa Fe.*** IRSA s subsidiary Alto Palermo owns a plot of land of approximately 42,620 square meters (without parcel 7 already permutated) square meters in the city of Rosario, near the Alto Rosario Shopping Center. On

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October 11, 2007, IRSA entered into a barter agreement with Condominios del Alto S.A. pursuant to which its subsidiary Alto Palermo S.A. bartered a fraction of parcel 2-g representing a total of 7,901.30 square meters for the construction of a residential complex. As consideration for this parcel, Condominios de Alto S.A. will deliver fifteen housing units, with a total constructed surface area of 1,504.45 square meters and fifteen parking spaces. In addition, Alto Palermo granted to Condominios an option to purchase through barter parcel 2-h.

***Terreno Caballito, CYRSA.*** In June 2008 IRSA entered into a barter agreement with CYRSA (the 50-50 joint venture with Cyrela) in which IRSA bartered a 9,784 square meter property in the Caballito neighborhood in the city of Buenos Aires.

CYRSA agreed to develop a residential project comprised of a first stage of two towers and a third tower to be developed in a second stage at the option of CYRSA. In exchange for the transfer of the property, CYRSA paid to IRSA US\$ 0.12 million and agreed to transfer to IRSA certain home units in the buildings to be built which will represent 25% of the area constructed. Furthermore, as security for the performance of its obligations, CYRSA has created a security interest over the property by mortgaging it in favor of IRSA in the amount of US\$ 12.6 million. If CYRSA does not construct the third building by June 2010, then IRSA will receive the functional units and have the right to construct the third building in the future.

***Completed Apartment Projects***

***Torres Jardín, City of Buenos Aires.*** Torres Jardín is a high-rise residential complex located in the Buenos Aires neighborhood of Villa Crespo, approximately five minutes from Abasto Shopping. Torres Jardín I, II and III have been completed and consist of 490 one, two and three-bedroom residential apartments. The complex also includes 295 spaces of underground parking. As of June 30, 2008 there are 20 parking spaces pending sale. The project originally included four 23-story towers targeting the middle-income market, but IRSA decided not to construct Torres Jardín IV and may consider a barter transaction with a third party for its construction.

***Torres de Abasto, City of Buenos Aires.*** In May 1999, IRSA completed the construction of Torres de Abasto, a 545-apartment high-rise residential complex located one block away from Abasto in the center of the City of Buenos Aires. The complex had a construction cost of US\$34.3 million and consists of three 28-story buildings and one 10-story building, all of which target the middle-income market. The complex has a swimming pool, a terrace, 24-hour security, approximately 310 underground parking spaces and four retail stores on the ground floor of one of the buildings. As of June 30, 2008, 100% of the units in the complex had been sold.

***Edificios Cruceros, City of Buenos Aires.*** Edificios Cruceros is a project located in the Puerto Madero area. This building covers 6,400 square meters of surface area of which 3,633 belong to IRSA, and it is close to the Edificios Costeros office building. This project targets the high-income segment of the population and all its common areas have views of the river. This development was partially financed through the advance sale of its apartments. As of June 30, 2008, the project was completed and 100% of the units had been sold.

***Barrio Chico, City of Buenos Aires.*** In March 2003 IRSA purchased a plot of land on San Martin de Tours Street in the district of Barrio Parque, an exclusive residential zone in the City of Buenos Aires. At the time the sales contract was signed, US\$0.08 million were prepaid. In June 2003 at the time the deed of title was transferred, US\$0.23 million were paid. At that time, the property was mortgaged to Providence for US\$0.75 million, to guarantee 25% of the housing

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units IRSA was obligated to deliver upon the building's completion. IRSA financed the construction of this luxury residential complex designed for high-income customers with its own working capital. This is a unique Project located in Barrio Parque, an exclusive residential zone in the City of Buenos Aires. During May 2006 the successful marketing of this project was launched. As of June 30, 2008 the project was completed and only 2 units and 8 parking spaces remain to be sold.

***Palacio Alcorta, City of Buenos Aires.*** Palacio Alcorta is a 191-loft units residential property that IRSA converted from a former Chrysler factory in the residential neighborhood of Palermo Chico, one of the most exclusive areas of the City of Buenos Aires, located just a ten-minute drive from downtown Buenos Aires. The loft units range from 60 to 271 square meters. This development project targets the upper-income market. Palacio Alcorta also has seven retail units and 165 parking spaces. As of June 30, 2008, all of the loft units in the complex had been sold.

***Minetti D., City of Buenos Aires.*** Minetti D. is a 70-loft residential property located in the north-central area of the City of Buenos Aires. Each loft unit has a salable area of 86 square meters and a parking space. Lofts in this building are targeted towards the middle-income market. As of June 30, 2008, 98.9% of the units had been sold.

***Alto Palermo Park and Plaza, City of Buenos Aires.*** Alto Palermo Park is one of two 34-story apartment buildings located two blocks from Alto Palermo Shopping in the exclusive neighborhood of Palermo. Apartments in this building are targeted primarily towards the upper-income market. Alto Palermo Park is located next to Alto Palermo Plaza. Both buildings are comprised of three- and four-bedroom apartments with an average area of 158 square meters in the case of Alto Palermo Park and of 294.5 square meters, in the case of Alto Palermo Plaza. Each unit includes an average of 18 and 29 square meter parking/storage space, respectively. These buildings were included in the assets IRSA acquired in November 1997 from Pérez Compans S.A. As of June 30, 2008, all of the units in Alto Palermo Plaza were sold and there was only one unit to be sold in the Alto Palermo Park.

## ***Residential Communities***

In the residential communities market, IRSA acquires undeveloped properties located in suburban areas or neighborhoods near the large cities to develop private neighborhoods and country clubs in which to sell vacant lots for the construction of single family homes. In these properties IRSA builds streets and roads and arrange for the provision of basic municipal services and amenities such as open spaces, sports facilities and security. IRSA seeks to capitalize on improvements in transportation and communication around the City of Buenos Aires, the growing suburbanization of the region and the shift of the population moving to countryside-type residential communities.

An important factor in the trend towards living in suburban areas has been the improvements and additions to the Autopista Panamericana, Avenida General Paz and Acceso Oeste highways, which significantly reduce traveling time, encouraging a significant number of families to move to the new residential neighborhoods. Furthermore, improvements in public train, subway and bus transportation since their privatization has also influenced the trend to adopt this lifestyle.

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***Abril, Hudson, Greater Buenos Aires.*** Abril is a 312-hectare private residential community located near Hudson City, approximately 34 kilometers south of the City of Buenos Aires. IRSA has developed this property into a private residential community for the construction of single family homes targeting the upper-middle income market. The project includes 20 neighborhoods subdivided into 1,273 lots of approximately 1,107 square meters each. Abril also includes an 18-hole golf course, 130 hectares of woodlands, a 4,000 square meter mansion and entertainment facilities. A bilingual school, horse stables and sports centers and the construction of the shopping center were concluded in 1999. The neighborhoods have been completed, and as of June 30, 2008, 95.9% of the property had been sold for an aggregate of Ps.222.1 million, with 53,628 square meters left to be sold.

***El Encuentro, Benavidez, Tigre.*** In the district of Benavidez, Municipality of Tigre, 35 km north from downtown Buenos Aires, IRSA is developing a 99.8 hectare gated residential complex known as El Encuentro, which will have a privileged front access to Highway No. 9, allowing an easy way to and from the city. On May 21, 2004 an exchange deed was signed whereby DEESA agreed to pay US\$3.98 million to Inversora Bolívar, of which US\$0.98 million were paid and the balance of US\$3.0 million will be paid through the exchange of 110 residential plots already chosen and identified in the option contract signed on December 3, 2003. Furthermore, through the same act, DEESA set up a first mortgage in favor of Inversora Bolívar on real property amounting to US\$3.0 million in guarantee of compliance with the operation. As of June 30, 2008, the neighborhood was equipped with all the utilities: power supply, water, sewage, effluent treatment plant, public lighting, finished driveways and accesses, buildings, sports facilities, etc. However, the underground tunnel and the Bancalari/Benavidez road are still pending completion. In mid-fiscal year 2008, the preliminary marketing of the complex started.

***Villa Celina, Greater Buenos Aires.*** Villa Celina is a 400-plot residential community for the construction of single family homes located in the residential neighborhood of Villa Celina on the southwestern edge of the City of Buenos Aires. IRSA has been developing this property in several stages since 1994. The first three stages involved 219 lots, each measuring on average 347 square meters and the last two stages involve 181 lots. As of June 30, 2008, only one plot had not been sold.

***Land Reserves***

IRSA has acquired large undeveloped properties as land reserves located in strategic areas for the future development of office and apartment buildings, shopping centers and single family housing. IRSA has acquired what it believes to be two of the largest and most important undeveloped river front plots in Buenos Aires, Puerto Retiro and Santa María del Plata, for the future development of residential and office spaces. In addition, IRSA has benefited from the improvement of land values during periods of economic growth. As of June 30, 2008, IRSA's land reserves totaled 27 properties consisting of approximately 2,195 hectares (including Rosario, Terreno Beruti, Caballito, and Coto C.I.C.S.A. (Coto) air space owned by Alto Palermo).

***Land Reserves in the City of Buenos Aires***

***Solares de Santa María, City of Buenos Aires, (formerly Santa María del Plata).*** Solares de Santa María is a 70-hectare property facing the Río de la Plata in the south of Puerto Madero, 10 minutes from downtown Buenos Aires. This is an urbanization project developed through IRSA's subsidiary Solares de Santa María S.A. (Solares de Santa María). This project is currently expected to have residential complexes as well as offices, stores, hotels, sports, water areas, services areas with schools, supermarkets and parking lots.

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As part of the project, IRSA sold 10% of the capital stock of Solares de Santa María capital stock for US\$10.6 million to Mr. Israel Sutton Dabbah, who is part of the Sutton Group. An initial payment of US\$1.5 million was made and the balance of US\$9.1 million is payable on December 23, 2009.

### *Background*

A rule passed by the Legislative Branch of the City of Buenos Aires in 1992 (Ordinance 45,665/92), provided general urban standards for the site, and call for a proposal to be submitted for approval of the Environmental Urban Plan Council (Consejo de Planificación Urbana - COPUA). In 1997 IRSA acquired the site which the National Executive Branch had assigned to be the athlete residence of the Olympic Games (Olympic Village) in case Buenos Aires was chosen as host city to hold the Olympic Games (former Boca Juniors Football Club sports town). This property is currently owned by our subsidiary Solares de Santa María S.A. From that date forward, IRSA has sought the approval of a mixed-use development project to be built on the site before the governmental authorities of the City of Buenos Aires.

### *Evolution of Approval Instances*

In 2000, IRSA filed a master plan for the Santa María del Plata site, which was assessed by COPUA and submitted to the City Treasurer's Office, for approval.

In 2002, by Decree 405/02, the Government called for a public hearing to be held in June 2002, which was attended by professional and private entities and assessed by all competent agencies.

In July 2006, the COPUA made its recommendations about the project. On December 13, 2006, IRSA filed an amendment to the project to adjust it to the recommendations made by COPUA, that included the following:

The project met the Guidelines of the Environmental Urban Plan.

The project was included in the proposals for the strategic development of the City's Southern Area.

A pedestrian lane was designed along the perimeter of the entire site on the Río de la Plata bank.

Integration with the city was prioritized respecting the surrounding urban landscape, designing a waterfront along the Río de la Plata bank, and providing vehicular integration with the avenues surrounding the site.

IRSA proposed the donation of 50% of the site to the City of Buenos Aires which is the maximum amount set forth in the Planning Code.

The specific ruling within the scope of Ordinance N° 45,665/92, Law 23,738/89 and Decree 5783/92 was proposed. On March 29, 2007, COPUAM (formerly COPUA) passed the 145-COPUAM-07 REPORT which stated that it had no objections to the company's proposal and requested that the General Attorney render a decision concerning the ruling proposed.

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In May 2007, the Traffic Bureau requested a new traffic study for the area. This new study was carried out and the report and traffic simulation were discussed with the authorities.

Prior to its execution, the Decree was approved by the Minister of Planning and Public Works, the Traffic and Transport Bureau, the General Attorney and the General Technical Administrative and Legal Bureau of the Ministry of Planning and Public Works. On November 9, 2007, 11 years after the dossier was opened and 15 years after the general ruling on the site was issued by the City Council, the Government chief of the City of Buenos Aires executed Decree No. 1584/07. On December 1, 2007 Decree No. 1584 was published in the City Official Gazette No. 2815. The assignment of space for public use and convenience is the maximum provided for in the Planning Code: 50% of the site will be donated for public use (357,975 sqm).

Notwithstanding this approval, several operational and legal issues remain in the implementation of this project. The Decree has been challenged by an appeal for legal protection (*acción de amparo*) and as a result, IRSA cannot give you any assurances as to when IRSA will be able to kick off this project.

As of October 30, 2008, our internal team completed the Urban Development project draft for Solares de Santa María. Feasibility studies have been filed with the service companies and IRSA has held multiple informative meetings with several governmental agencies aimed at defining the development of the draft project.

***Puerto Retiro.*** Puerto Retiro is an 8.3 hectare undeveloped riverside property bounded by the Catalinas and Puerto Madero office zones to the west, the transportation hub Retiro to the north and the Río de la Plata to the south and east. One of the only two significant privately owned waterfront properties in The City of Buenos Aires, Puerto Retiro may currently be utilized only for port activities. IRSA has initiated negotiations with municipal authorities in order to rezone the area. IRSA's plan is to develop a 360,000 square meter financial center. The launching date has not been settled and consequently, the estimated cost and financing method are not decided. IRSA owns a 50% interest in Puerto Retiro through its wholly-owned subsidiary Inversora Bolívar S.A. ( Inversora Bolívar ). See Legal Proceedings Puerto Retiro.

***Caballito, Ferro Project.*** This is a property of approximately 23,389 square meters in the City of Buenos Aires, neighborhood of Caballito, one of the most densely populated of the city, purchased by Alto Palermo in November, 1997. This plot would allow developing a shopping center having 30,000 square meters, a hypermarket, a cinema complex, and several recreation and entertainment activity areas. IRSA is currently working to define the commercial project. The authorization of the government of the City of Buenos Aires for the development of a shopping center, an office building and a private hospital in this plot has not been granted yet, and IRSA cannot give assurance that it will be granted.

***Terreno Figueroa Alcorta.*** On December 22, 2005, IRSA's subsidiary Alto Palermo sold the plot of land denominated Alcorta Plaza for a total price of US\$7.7 million to RAGHSA S.A. The agreed terms and conditions of payment were determined in four installments of US\$ 1.9 million and 7.5% annual interest on the balance. The four installments had been collected as of the fiscal year ended June 30, 2008.

***Terreno Beruti.*** On June 24, 2008, Alto Palermo acquired a plot of land situated at Beruti 3351/3359, in Palermo, a neighborhood in the City of Buenos Aires quite close to our Shopping Center Shopping Alto Palermo . The transaction involved a surface area of 3,238 square meters for a price of US\$ 17.8 million. This is a significant acquisition because of the strategic location of the property, in the immediate vicinity of our main shopping center.



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***Coto Air Space.*** Alto Palermo is the owners of an air space of about 19,755 m2 above Coto Hypermarket, close to its Abasto Shopping Center, in downtown Buenos Aires. Alto Palermo S.A and Coto Centro Integral de Comercialización S.A. (Coto) executed a public deed on September 24, 1997, whereby Alto Palermo acquired the rights to receive parking units and the rights to construct above the building located between Agüero, Lavalle, Guardia Vieja and Gallo Streets, in the Abasto neighborhood of Buenos Aires.

In July, 2008 Alto Palermo entered into a barter agreement with CYRSA pursuant to which Alto Palermo, subject to certain closing conditions, would surrender to CYRSA its right to construct a tower over a preexisting structure (owned by a third party) in exchange for deminimis cash (US\$ 0.9 million) and 25% of the housing units in the future buildings. The total fair value of the transaction is US\$ 5.9 million.

### ***Land Reserves in the Province of Buenos Aires***

***Pereiraola, Hudson.*** Through Inversora Bolivar, IRSA owns a 100.0% interest in Pereiraola S.A., a company whose principal asset is a 130 hectare undeveloped property adjacent to IRSA's Abril community. IRSA intends to use this property to develop a private community for the construction of single family homes targeted at the middle-income market. IRSA has not yet established the costs and financing method for this proposed project, but IRSA has already obtained the necessary municipal permits. The plot's book value is estimated to be Ps.21.7 million as of June 30, 2008.

***Pilar.*** Pilar is a 74 hectare undeveloped land reserve property located close to Pilar City, 55 kilometers northwest of the City of Buenos Aires. The property is easily accessible due to its proximity to the Autopista del Norte. The Pilar area is one of the most rapidly developing areas of the country. IRSA is considering several alternatives for this property including the development of a residential community or the sale of this property as it is and, therefore, IRSA does not have a cost estimate or a financing plan. The plot's book value is estimated to be Ps. 3.4 million as of June 30, 2008.

***Luján.*** In May 2008, Cresud entered into a preliminary purchase contract with transfer of possession with Birafriends S.A. (an unrelated party) for the acquisition of a plot of land in Luján, Province of Buenos Aires, for a total purchase price of US\$ 3 million. Cresud paid US\$ 1.2 million and the remaining balance will be paid at the time of the signing of the deed. On December 2008, IRSA assigned us the preliminary purchase contract. We will pay the remaining balance at the time of the signing of the deed, and will also refund IRSA the amount IRSA paid at the time of the signing of the preliminary purchase.

***Other Undeveloped Parcels in the City and Province of Buenos Aires.*** IRSA's land reserve portfolio also includes nine land reserve properties located in Buenos Aires and its surrounding areas. These properties are projected for future developments of offices, shopping centers, apartment buildings and residential communities. The main properties under this category include Merlo, Mariano Acosta and Ponce de Leon. IRSA also owns a property in the outskirts of the City of Santa Fe called Isla Sirgadero.

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***Land Reserves in Other Provinces***

***Ex Escuela Gobernador Vicente de Olmos, Córdoba, Province of Córdoba.*** In November, 2006 we participated in a public bidding process called by Corporación Inmobiliaria Córdoba S.A. for the sale of the building known as Ex Escuela Gobernador Vicente de Olmos, located in the City of Córdoba. The building has 5,147 square meters of surface area. The building contains a portion of the Patio Olmos shopping center, which operates in four commercial plants and has two underground parking lots. This shopping center also includes two neighboring buildings with cinemas and a commercial annex, legally related through easement contracts. The building is under a concession contract effective for a 40-year term, expiring in February 2032, in which we act as grantor. This contract establishes a monthly rent payment and increases of Ps.2,513 every 47 months. On September 25, 2007, Alto Palermo signed with the Government of the Province of Córdoba the title deed of the property where the Patio Olmos Shopping Center is currently operating and the concession agreement was also transferred. The agreed purchase price balance of Ps.22.7 million was paid. As of June 30, 2008, the concession is in its 196<sup>th</sup> month with a monthly payment of Ps.12,565.

***Canteras Natal Crespo, Province of Córdoba.*** The initial guidelines for the development of this project are in process on the basis of the master plan of the Chilean architect firm URBE. Preliminary presentations have been submitted to the Municipality of La Calera and to the Provincial Government of Córdoba.

This project consists of a mix of residential and commercial buildings and will be located in an attractive natural setting in the mountains of Córdoba. Canteras Natal Crespo S.A. is a company located in the Province of Córdoba that will have as its main activity the development of this project

**Office and Other Non-shopping Center Rental Properties**

***Overview***

IRSA is engaged in the acquisition, development and management of offices and other non-shopping center rental properties in Argentina. As of June 30, 2008, IRSA directly and indirectly, owned interests in 28 office and other rental properties in Argentina which comprised 260,866 square meters of gross leaseable area. Of these properties, 19 were office properties which comprised 163,724 square meters of gross leaseable area. For the fiscal year ended June 30, 2008, IRSA had revenues from office and non- shopping center rental properties of Ps.101,0 million.

All of IRSA's office rental property in Argentina is located in the City of Buenos Aires. All of these properties are rented to various different premium tenants. For the year ended June 30, 2008 the average occupancy rate for all IRSA's properties in the Offices and Other Rental Property segment was approximately 93.55%. Nine different tenants accounted for approximately 27.0% of its total revenues for the fiscal year ended June 30, 2008. IRSA's seven main office rental tenants are: Grupo Total Austral, Price Waterhouse, Apache Energía, Exxon Mobile Business Center, Sibille S.C. (KPMG), Microsoft de Argentina S.A., and Unilever Argentina.

***Management.*** IRSA generally acts as the managing agent of the office properties in which IRSA owns an interest. These interests consist primarily of the ownership of entire buildings or a substantial number of floors in a building. The buildings in which IRSA owns floors are generally managed pursuant to the terms of a condominium agreement that typically provides for control by

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a simple majority of the interests (based on the area owned) in the building. As the managing agent of operations, IRSA is responsible for handling services, such as security, maintenance and housekeeping. These services are generally contracted to third party providers. The cost of the services are passed-through and paid for by the tenants, except in the case of its units that are not rented, in which case IRSA absorbs the cost. IRSA leasable space is marketed through commissioned brokers, the media and directly by IRSA.

*Leases.* IRSA leases its offices and other properties pursuant to contracts with an average term of three years, with the exception of a few contracts with terms of five years. These contracts are renewable for two or three additional years at the tenant's option. Contracts for the rental of property not located in shopping malls are generally stated in U.S. dollars, and in accordance with Argentine law they are not subject to inflation adjustment. Rental rates for renewed periods are negotiated at market value.

**Properties**

The following table sets forth certain information regarding IRSA's direct and indirect ownership interest in offices and other non-shopping center leased properties.

	Date of Acquisition	Leaseable Area sqm <sup>(1)</sup>	Occupancy Rate <sup>(2)</sup>	IRSA'S Effective Interest	Monthly Rental Income Ps./000 <sup>(3)</sup>	Annual Rental Income for fiscal years Ps./000(4)			Book Value (in thousands pesos) <sup>(5)</sup>
						2008	2007	2006	
<b>Offices</b>									
Intercontinental Plaza <sup>(6)</sup>	11/18/97	22,535	100%	100%	1,368	12,496	10,977	5,436	90,526
Dock Del Plata	11/15/06	7,921	100%	100%	533	6,945	3,103	N/A	25,654
Libertador 498	12/20/95	10,533	100%	100%	782	8,551	6,307	3,872	39,632
Maipú 1300	09/28/95	10,280	100%	100%	701	8,107	6,006	3,515	41,029
Laminar Plaza	03/25/99	6,521	100%	100%	499	5,607	4,631	3,059	28,342
Reconquista 823/41	11/12/93	5,016	100%	100%	185	2,256	1,139	N/A	18,445
Suipacha 652/64	11/22/91	11,453	100%	100%	357	2,480	1,398	1,055	11,840
Edificios Costeros	03/20/97	6,389	89%	100%	325	3,896	3,124	1,760	17,922
Costeros Dique IV	08/29/01	5,437	100%	100%	394	4,603	1,987	1,736	20,287
Bouchard 710	06/01/05	15,014	100%	100%	1,184	12,931	8,900	5,813	67,305
Bouchard 551	03/15/07	23,378	100%	100%	1,674	12,678	3,925	N/A	155,226
Madero 1020	12/21/95	215	100%	100%	7	89	97	78	696
Della Paolera 265	08/27/07	15,822	100%	100%	1,303	15,688	N/A	N/A	165,463
Edificio República	04/28/08	19,533	19%	100%	203	203	N/A	N/A	228,767
Other Offices <sup>(7)</sup>	N/A	3,677	100%	N/A	140	1,385	1,289	1,040	10,606
<b>Subtotal Offices</b>		<b>163,724</b>	<b>90%</b>		<b>9,655</b>	<b>97,915</b>	<b>52,883</b>	<b>27,364</b>	<b>921,740</b>
<b>Other rental properties</b>									
Other rental properties <sup>(8)</sup>	N/A	504	56%	N/A	17	188	242	175	4,150
Works in Progress Dique IV <sup>(11)</sup>	12/02/97	N/A	N/A	100%	N/A		N/A	N/A	36,387
Museo Renault	12/06/07	1,275	100%	100%	30	204			4,970
Thames <sup>(6)</sup>	11/01/97	33,191	100%	100%	51	607	607	607	3,899
Santa María del Plata S.A.	07/10/97	60,100	100%	90%	67	958	1,043	1,234	12,494
Other Properties <sup>(9)</sup>	N/A	2,072	100%	N/A	16	220	168	106	6,142
<b>Subtotal</b>		<b>97,142</b>	<b>100%</b>	<b>N/A</b>	<b>181</b>	<b>2,177</b>	<b>2,060</b>	<b>2,122</b>	<b>68,042</b>
Related fees <sup>(12)</sup>	N/A	N/A	N/A	N/A	N/A	897	740	1,079	
<b>Total offices and other<sup>(10)</sup></b>	<b>N/A</b>	<b>260,866</b>	<b>94%</b>	<b>N/A</b>	<b>9,836</b>	<b>100,989</b>	<b>55,683</b>	<b>30,565</b>	<b>989,782</b>

Notes:

- (1) Total leaseable area for each property. Excludes common areas and parking.
- (2) Calculated dividing occupied square meters by leaseable area.
- (3) Agreements in force as of June 30, 2008 for each property were computed.

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- (4) Total consolidated leases, according to the RT21 method.
- (5) Cost of acquisition, plus improvements, less accumulated depreciation, plus adjustment for inflation, less allowance for impairment.
- (6) Indirectly owned through Inversora Bolivar S.A.
- (7) Includes the following properties: Madero 942, Av. de Mayo 595, Av. Libertador 602, Rivadavia 2768, and Sarmiento 517.
- (8) Includes the following properties: Constitución 1111, Alsina 934/44 (fully sold), Crucero I; Retail stores in Abril (wholly assigned to Abril S.A.) and Casona in Abril (through IRSA and Inversora Bolivar).
- (9) Includes the following properties: one unit in Alto Palermo Park (through IBSA) and Constitución 1159 (through IRSA).
- (10) Corresponds to the Offices and Other Rental Properties business unit mentioned in Note 4 to IRSA's audited consolidated financial statements included elsewhere in this annual report.
- (11) Work in progress of an AAA office building in Puerto Madero.
- (12) Income from building management fees.

The following table shows a schedule of the lease expirations of IRSA's office and other properties for leases outstanding as of June 30, 2008, assuming that none of the tenants exercise renewal options or terminate their lease early. Most tenants have renewal clauses in their leases.

**Fiscal year of**

lease expiration	Number of leases expiring <sup>(1)</sup>	Square meters subject to expiring leases <sup>(2)(3)</sup>	Percentage of total square meters subject to expiration	Annual rental income under expiring leases	Percentage of total rental income under expiring leases
2009	52	47,890	52%	21,713,170	19%
2010	56	52,583	22%	40,081,509	35%
2011	54	55,537	23%	46,227,909	40%
2012+	9	7,652	3%	6,626,334	6%
<b>Total</b>	<b>171</b>	<b>163,662</b>	<b>100%</b>	<b>114,648,922</b>	<b>100%</b>

(1) Includes Offices which contract has not been renewed and vacant stores as of June 30, 2008.

(2) Does not include vacant leased square meters.

(3) Does not include square meters or revenues from parking spaces.

The following table shows IRSA's office occupancy percentage during fiscal years ended June 30, 2006, 2007 and 2008:

Offices	Occupancy Percentage		
	Fiscal year ended June 30, <sup>(1)</sup>		
	2006	2007	2008
	(in percentage)		
Intercontinental Plaza	100	100	100
Bouchard 710	100	100	100
Bouchard 557	N/A	100	100
Dock del Plata	N/A	100	100
Libertador 498	100	100	100
Maipu 1300	95	100	100
Laminar Plaza	100	100	100
Madero 1020	100	100	100
Reconquista 823/41		100	100
Suipacha 652/64	100	100	100
Edificios Costeros	95	96	89
Costeros Dock IV	100	96	100
Della Paolera 265	N/A	N/A	100
Edificio República	N/A	N/A	19
Others <sup>(2)</sup>	100	100	100

- (1) Leased square meters in accordance with lease agreements in effect as of June 30, 2008, 2007 and 2006 considering the total leaseable office area for each year.
- (2) Includes the following buildings: Madero 942, Av. De Mayo 595, Av. Libertador 602, Sarmiento 517 and Rivadavia 2768.

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The following table sets forth the annual average income per square meter for IRSA's offices during fiscal years ended June 30, 2006, 2007 and 2008:

	Fiscal year ended June 30, <sup>(1)</sup>		
	2006	2007	2008
	(Ps. per square meter)		
<b>Offices</b>			
Intercontinental Plaza	299	487	555
Bouchard 710	387	623	861
Bouchard 557 <sup>(2)</sup>	N/A	118	458
Dock del Plata	N/A	392	877
Libertador 498	374	634	812
Maipu 1300	373	597	789
Laminar Plaza	479	710	860
Madero 1020	362	450	414
Suipacha 652/64	119	123	217
Reconquista 823/41		236	450
Edificios Costeros	278	504	610
Costeros Dock IV	259	387	847
Della Paolera 265 <sup>(3)</sup>	N/A	N/A	992
Edificio República <sup>(4)</sup>	N/A	N/A	55
Others <sup>(4)</sup>	285	429	448

- (1) Calculated considering Annual Leases to total leaseable office area, in accordance with IRSA's percentage of ownership in each building.
- (2) Lease agreement beginning in the third quarter of fiscal year ended June 30, 2007, consequently income is for only three months of that fiscal year. In the third quarter of fiscal year 2008, 9,946 sqm were sold.
- (3) The property was acquired on August 27, 2008, consequently income is for only ten months of fiscal year ended June 30, 2008.
- (4) The property was acquired on April 28, 2008 and construction works were in progress, consequently income is for only 1 month of the fiscal year ended June 30, 2008.
- (5) Includes the following buildings: Madero 942, Av. de Mayo 595, Av. Libertador 602, Sarmiento 517 and Rivadavia 2768.

**Properties**

Set forth below you will find information regarding IRSA's principal currently owned office properties, including the names of the tenants occupying 5% or more of the gross leasable area of each property.

**Intercontinental Plaza, City of Buenos Aires.** Intercontinental Plaza is a modern 24-story building located next to the Intercontinental Hotel in the historic neighborhood of Monserrat in downtown City of Buenos Aires. IRSA owns the entire building which has floors averaging 900 square meters with 324 parking spaces. The principal tenants currently include Total Austral S.A., Danone Argentina S.A., IRSA, Alto Palermo and Cresud.

**Bouchard 710, City of Buenos Aires.** Bouchard 710 is an office building acquired by IRSA in June 2005, located in the Retiro area. The building is a 12-story tower, with an average area per floor of 1,251 square meters, with 180 units for car parking. Tenants are Unilever de Argentina S.A., Finterbusch Pickenhayn Sibille S.C. (KPMG), and Microsoft de Argentina S.A.

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***Bouchar 551, City of Buenos Aires.*** Bouchar 551 is a Class A office building IRSA acquired in March 2007, for a total price of US\$84.1 million, located in the Retiro area close to the intersection of the Leandro N. Alem and Córdoba avenues and the Plaza Roma. The building is a 23-story tower covering a surface area of 2,900 square meters in the low floors that becomes smaller as it goes higher up to 900 square meters approximately, and parking for 177 units. On January 9, 2008, IRSA sold a 29.9% stake in the building, which represented an attractive opportunity for IRSA to realize the appreciation of IRSA's portfolio assets. The transaction included a surface area of 9,946 sqm plus 133 parking spaces and amounted to US\$ 34.4 million. Principal lessees include La Nación S.A. and Price Waterhouse & Co. and AS. EM. S.R.L.



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***Dock del Plata, City of Buenos Aires.*** Dock del Plata is a Class A office building IRSA acquired in November 2006, for a total purchase price of US\$8.8 million, located in the Puerto Madero area at Alicia Moreau de Justo 400. The building is 4-story high, with an average surface per plant of 1,500 square meters and parking lot for 309 units. The principal lessees are Veco S.A., Davila 380 S.A., Farmacity S.A., Rosso Alba, Francia y Ruiz Romero, Converse Argentina S.A., AT & T Communications Serv. S.R.L., MCO LEX S.R.L., Garfin Agropecuaria S.A., CA Argentina S.A. and Dell América Latina Corp.

***Della Paolera 265, BankBoston Tower.*** In August 2007, IRSA acquired a 50% interest in the Bank Boston Tower , a 31,670 square meter property located in Buenos Aires, for total consideration of US\$ 54 million. As of June 30, 2008, the occupancy rate of the BankBoston Tower was 100%. The principal tenants include Standard Bank, Exxon Mobile, Kimberly Clark de Argentina, Hope, Duggan & Silva S.C. and Apache Energía.

***Libertador 498, City of Buenos Aires.*** Libertador 498 is a 27-story office tower located at the intersection of three of the most important fares thorough of the City of Buenos Aires, making it accessible from the north, west and south of the city. IRSA owns 17 floors with an average area per floor of 620 square meters and 281 parking spaces. The building has a singular cylindrical design and a highly visible circular neon billboard that makes it a landmark in the Buenos Aires skyline. The principal tenants in this building currently include MTV Networks Argentina S.R.L., Epson Argentina S.A., Yara Argentina S.A., Alfaro Abogados S.C., Julius Baer Financial Consultancy S.A., LG Electronics Argentina S.A., Allergan Productos Farmaceuticos S.A. and IRSA s subsidiary CYRSA S.A.

***Maipú 1300, City of Buenos Aires.*** Maipú 1300 is a 23-story office tower located on the San Martín Plaza, a prime office zone. The building is also located within walking distance of the Retiro commuter train station, Buenos Aires most important public transportation hub, connecting rail, subway and bus transit. IRSA owns the entire building which has an average area per floor of 440 square meters. The building s principal tenants currently include Allende & Brea, Carlson Wagonlint Travel Argentina S.A. and PPD Argentina S.A.

***Laminar Plaza, City of Buenos Aires.*** Laminar Plaza is a 20-story office building located in Catalinas, the City of Buenos Aires most exclusive office district. Each floor has an average area of 1,453 square meters, including common areas. IRSA owns 5 floors and 66 parking spaces. The main tenants, among others, are as follows: Cisco Systems, Telefónica Mviles de Argentina S.A., Chubb Argentina de Seguros S.A., Hewitt Associates S.A., Apache Petrolera Argentina S.A., Natural Energy S.A. and Fertiva Latinoamérica S.A.

***Suipacha 652/64, City of Buenos Aires.*** Suipacha 652/64 is a 7-story office building located in the office district of the City of Buenos Aires. IRSA owns the entire building and 70 parking spaces. The building has unusually large floor, most measuring 1,580 square meters. This property underwent substantial renovations shortly after IRSA acquired the deed in 1991 to prepare the building for rental. The building s principal tenants currently include Gameloft Argentina S.A., Monitor de Medios Publicitarios S.A, Organización de Servicios Director Empresarios (OSDE) and Alto Palermo s subsidiary, Tarshop S.A.

***Reconquista 823/41, City of Buenos Aires.*** Reconquista 823/41 is a 15-story office tower located in the Catalinas area. IRSA owns the entire building which is made up of three basements,

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space for 52 cars in the car parks, the ground floor and 15 floors of office space. The building has floors with an average area of 540 square meters. As of June 30, 2008, IRSA has an occupancy rate of 100.0%. The building's principal tenants include Marval & O Farrel and Tracker S.R.L.

***Edificios Costeros, Dique II, City of Buenos Aires.*** Costeros A and B are two four-story buildings developed by us and located in the Puerto Madero area. IRSA owns the two buildings which have a gross leasable area of 6,319 square meters. In September 1999 IRSA completed their construction and in April 2000 began to market the office spaces and 147 parking spaces. The main tenants of these properties are as follows: Leo Burnett Worldwide Invest. Inc., Reckitt Benchiser Argentina S.A., Martina Di Trento S.A., Italcred S.A., Minera Agua Rica L.L.C. and Somos Tres S.R.L.

***Edificios Costeros, Dique IV, City of Buenos Aires.*** On August 29, 2001, IRSA signed the deed of purchase of Section C of the office complex known as Puerto del Centro that includes buildings 5 and 6. The property is located in the Puerto Madero area and has approximately 5,500 square meters of gross leasable area and 50 parking spaces. The building's principal tenants currently include Nextel Argentina S.A., Consultora de Estudios Bonaerense S.R.L., London Supply S.A.C.I.F.I., Techint Cía. Técnica Internacional S.A.C.I. and Trafigura Argentina S.A.

***Edificio República.*** In April 2008, IRSA acquired and paid US\$ 70.2 million for the property. The acquisition was partially financed by a mortgage loan from Banco Macro of US\$33.5 million accruing interest at a fixed rate of 12% per annum and payable in five installments beginning in April 2009. This property, which was designed by the renowned architect César Pelli (who also designed the World Financial Center in New York and the Petronas Towers in Kuala Lumpur) is a unique premium office building in downtown Buenos Aires and adds 19,533 gross leaseable square meters to our portfolio. The building has 20 floors, 16 of which were vacated at the time of acquisition. As of June 30, 2008, IRSA executed agreements for 9,000 sqm with several important tenants, including Apache Energía, Deutsche Bank, Estudio Becar Varela and Banco Itaú, at values of US\$37 and US\$39 per square meter.

***Dock IV, City of Buenos Aires.*** This luxury office building has a total surface area of approximately 20,668 square meters, and will offer 11,000 square meters of large and versatile office space for lease. The building's layout welcomes both companies requiring smaller office space, averaging 200 square meters, and corporations in need of an entire floor. The total projected investment amounts to approximately Ps.50.5 million. As of October 31, 2008, approximately 82% of the project had been completed.

***Other office properties.*** IRSA also has interests in three smaller office properties, all of which are located in the City of Buenos Aires. These properties are either entire buildings or portions of buildings, none of which contributed more than Ps.1.4 million in annual rental income for fiscal year 2008. Among these properties are Madero 942, Libertador 602, Av. de Mayo 595, Rivadavia 2768 and Sarmiento 517.

***Retail and other properties.*** IRSA's portfolio of non-shopping center leased properties includes ten non-shopping center leased properties that are leased as street retail, a warehouse, two leased undeveloped parcels of land and various other uses. Most of these properties are located in the City of Buenos Aires, although some are located in other cities in Argentina. These properties include Constitución 1111, Museo Renault, Edificio Crucero I, Thames and Santa María del Plata.

**Table of Contents****Hotels**

At the end of the 1997 fiscal year, IRSA acquired the Hotel Llao Llao, its first luxury hotel. Some months later, as part of the acquisition from Pérez Companc of the Old Alto Palermo, IRSA acquired an indirect 50% interest in the Hotel Intercontinental in Buenos Aires which IRSA owns through its subsidiary Inversora Bolívar. In March 1998, IRSA acquired the Hotel Libertador. During fiscal year 1999, IRSA sold a 20% interest in the Hotel Libertador to Hoteles Sheraton de Argentina S.A., ( Hoteles Sheraton de Argentina ) and during the fiscal year 2000, IRSA sold 50% of its interest in the Hotel Llao Llao to the Sutton Group. During fiscal year 2007 IRSA increased IRSA's share in Inversora Bolivar by 100% and obtained an indirect share in the Hotel Intercontinental of 76.34%.

The following chart shows certain information regarding IRSA's hotels:

Hotel	Date of Acquisition	IRSA's effective interest	Number of rooms	Average Occupancy % <sup>(1)</sup>	Average price per room Ps. <sup>(2)</sup>	Sales in Ps.000 as of June 30 of fiscal <sup>(3)</sup>			Book value as of 06/30/08
						(in thousands Ps.)			
						2008	2007	2006	
Intercontinental <sup>(3)</sup>	11/97	76.34%	309	76.1%	486	57,517	45,263	39,305	59,402
Sheraton Libertador <sup>(4)</sup>	3/98	80.00%	200	89.3%	400	34,526	29,338	25,302	46,501
Llao Llao <sup>(5)</sup>	6/97	50.00%	201	62.4%	933	56,804	48,080	39,156	92,868
Plots in Bariloche <sup>(5)</sup>	12/06	50.00%	N/A	N/A	N/A	N/A	N/A	N/A	21,900
Total			710	76%	557	148,847	122,681	103,763	220,671

(1) Accumulated average in the twelve-month period.

(2) Accumulated average in the twelve-month period.

(3) Indirectly owned through Nuevas Fronteras S.A.(Subsidiary of Inversora Bolívar S.A.).

(4) Indirectly owned through Hoteles Argentinos S.A.

(5) Indirectly owned through Llao Llao Resorts S.A.

**Hotel Llao Llao, San Carlos de Bariloche, Province of Rio Negro.** In June 1997 IRSA acquired the Hotel Llao Llao from Llao Llao Holding S.A. The Sutton Group currently owns a 50% stake in the hotel. The Hotel Llao Llao is located on the Llao Llao peninsula, 25 kilometers from San Carlos de Bariloche and is one of the most important tourist hotels in Argentina. Surrounded by mountains and lakes, this hotel was designed and built by the famous architect Bustillo in a traditional alpine style and first opened in 1938. The hotel was renovated between 1990 and 1993 and has a total constructed surface area of 15,000 square meters and 158 rooms. The hotel-resort also includes an 18-hole golf course, tennis courts, health club, spa, game room and swimming pool. The hotel is a member of The Leading Hotels of the World, Ltd., a prestigious luxury hospitality organization representing 430 of the world's finest hotels, resorts and spas. The Hotel Llao Llao is currently being managed by Compañía de Servicios Hoteleros S.A. which manages the Alvear Palace Hotel, a luxury hotel located in the Recoleta neighborhood of Buenos Aires.

During 2007, the hotel was expanded at a cost of approximately US\$12.7 million. The number of suites in the hotel increased to 201 rooms, improvements were made in the kitchen and laundry room, and a high technology water purifying plant was constructed. As of June 30, 2008, the works were completed and 43 additional rooms were being offered to the public.

**Hotel Intercontinental, City of Buenos Aires.** In November 1997, IRSA acquired 51% of the Hotel Intercontinental from Pérez Companc S.A. The Hotel Intercontinental is located in the



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downtown City of Buenos Aires neighborhood of Monserrat, adjacent to the Intercontinental Plaza office building. Intercontinental Hotels Corporation, a United States corporation, currently owns 25% of the Hotel Intercontinental. The hotel's meeting facilities include eight meeting rooms, a convention center and a divisible 588 square meter ballroom. Other amenities include a restaurant, a business center, a spa and a fitness facility with swimming pool. The hotel was completed in December 1994 and has 309 rooms. The hotel is managed by the Intercontinental Hotels Corporation.

During the fiscal year ended June 30, 2008, IRSA invested US\$1.5 million in improvements to the rooms (standard and junior suites), corridors and floors of the Club Continental sector. These improvements were aimed at providing greater comfort for hotel guests, according to the standards of Intercontinental Hotels worldwide.

***Hotel Sheraton Libertador, City of Buenos Aires.*** In March 1998 IRSA acquired 100% of the Hotel Sheraton Libertador from Citicorp Equity Investment for an aggregate purchase price of US\$23 million. This hotel is located in downtown Buenos Aires. The hotel contains 193 rooms and 7 suites, eight meeting rooms, a restaurant, a business center, a spa and fitness facilities with a swimming pool. In March 1999, IRSA sold 20% of IRSA's interest in the Sheraton Libertador Hotel for US\$4.7 million to Hoteles Sheraton de Argentina. The hotel is currently managed by Sheraton Overseas Management Corporation, a United States corporation.

***Terreno Bariloche, El Rancho, San Carlos de Bariloche, Province of Río Negro.*** On December 14, 2006, through IRSA's hotel operator subsidiary, Llao Llao Resorts S.A., IRSA acquired a land covering 129,533 square meters of surface area in the City of San Carlos de Bariloche in the Province of Río Negro. The total price of the transaction was US\$7.0 million, of which US\$4.2 million were paid cash and the balance of US\$2.8 million was financed by means of a mortgage to be paid in 36 monthly, equal and consecutive installments of US\$0.086 million each. The land is in the border of the Lago Gutiérrez, close to the Hotel Llao Llao in an outstanding natural setting and it has a large cottage covering 1,000 square meters of surface area designed by the architect Ezequiel Bustillo.

**IRSA's Investment in Banco Hipotecario**

IRSA's has a significant investment in Banco Hipotecario which represented 6.5% of its consolidated assets as of June 30, 2008. Established in 1886 by the Argentine government and privatized in 1999, Banco Hipotecario has historically been Argentina's leading mortgage lender, provider of mortgage-related insurance and mortgage loan services. All of its operations and customers are located in Argentina where it operates a nationwide network of 41 branches and 50 sales offices.

Banco Hipotecario is a full-service commercial bank offering a wide variety of banking activities and related financial services to individuals, small- and medium-sized companies and large corporations. As of June 30, 2008, Banco Hipotecario ranked third in the Argentine financial system in terms of shareholders' equity and tenth in terms of total assets. As of June 30, 2008, Banco Hipotecario's shareholders' equity was Ps.2,651.7 million, its assets were Ps.10,572.3 million, and its net income for the first six months of 2008 was Ps.9.5 million. Since 1999, Banco Hipotecario's shares have been listed on the Buenos Aires Stock Exchange in Argentina, and since 2006 it has had a Level I GDR program.

Banco Hipotecario's business strategy is focused on leveraging its financial position and developing a diversified banking business built on its existing mortgage franchise. Since its debt

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restructuring in 2004, it began to make progress in this diversification strategy, growing its lending business and developing new business lines, implementing integrated technological solutions to enable its entry into retail banking, extending its marketing network and creating back-office services to support its new operations.

In 2004, as part of its business diversification strategy, Banco Hipotecario expanded its product offerings and began offering personal loans, resumed mortgage lending and launched asset-backed loans. It expanded its corporate loan product offerings and implemented certain customer loyalty strategies. In response to demand for retail and wholesale time deposits and savings accounts, Banco Hipotecario started offering personal checking accounts and launched the Visa Banco Hipotecario credit card which has steadily grown in terms of market penetration and transaction size. Banco Hipotecario also continued its strategy of expanding the offering of non-mortgage related insurance products it offers, including combined family, life, unemployment, health, personal accident and ATM theft insurance.

As of June 2008, it continued expanding these business lines, as non-financial private sector loans increased to Ps.669.6 million, principally as a result of retail and consumer loan originations which represent a 70.5% increase over the amount at June 2007. Commercial loans to the private sector decreased 17.5% during the same period.

Banco Hipotecario seeks to achieve a balanced portfolio of mortgage loans, consumer financing and corporate credit lines, while maintaining an adequate risk management policy. As of June 30, 2008, its portfolio of non-mortgage loans increased to 51.7% of its total loan portfolio compared to 51.2% as of June 30, 2007

During 2007 and the six-month period ended June 30, 2008, Banco Hipotecario also experienced continued growth in deposits, including savings accounts and time deposits.

The following table sets forth Banco Hipotecario's sources of funding as of the dates indicated.

	<b>As of December 31,</b>		<b>As of June 30</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>
Checking accounts	Ps. 18.7	Ps. 35.5	Ps. 40.3
Saving accounts	165.6	190.9	178.1
Time deposits	428.6	1,069.0	1,657.3
Other deposit accounts	23.4	29.3	32.4
Accrued interest payable	3.6	10.1	18.2
<b>Total</b>	<b>Ps. 639.9</b>	<b>Ps. 1,334.8</b>	<b>Ps. 1,926.3</b>

**Seasonality**

IRSA's shopping centers business unit is subject to strong seasonality. During the summer holiday season (January and February) IRSA's tenants experience their minimum sales levels, compared to the winter holiday season (July) and December (Christmas) when IRSA's tenants tend to reach their peak sales figures. Clothing and footwear tenants tend to change their collections in the spring and fall. This has a positive effect on the sales of stores. Discount sales at the end of each season also have a major impact on IRSA's business.

**Competition**

**Table of Contents****Shopping centers**

IRSA competes in the shopping center sector through its subsidiary Alto Palermo. Because most of IRSA's shopping centers are located in developed and highly populated areas, there are competing shopping centers within, or in close proximity to, IRSA's targeted areas. The number of shopping centers in a particular area could have a material effect on IRSA's ability to lease space in its shopping centers and on the amount of rent that IRSA is able to charge. IRSA believes that due to the limited availability of large plots of land and zoning restrictions in the City of Buenos Aires, it will be difficult for other companies to compete with IRSA in areas through the development of new shopping center properties. IRSA's principal competitor is Cencosud S.A. which owns and operates Unicenter shopping center and the Jumbo hypermarket chain, among others.

The following chart shows certain information relating to the most important owners and operators of shopping centers in Argentina:

Company	Shopping Center	Location <sup>(1)</sup>	Leasable gross area	Shops	% Overall national leasable area <sup>(2)</sup>	% Shop <sup>(2)</sup>
<b>Alto Palermo</b>						
	Alto Avellaneda(4)	CBA	49,604	142	3.73%	2.98%
	Abasto de Buenos Aires	BA	39,642	171	2.98%	3.58%
	Mendoza Plaza Shopping(4)	Mendoza	39,421	152	2.96%	3.19%
	Paseo Alcorta(4)	BA	48,893	111	3.68%	2.33%
	Alto Palermo Shopping	BA	18,551	143	1.39%	3.00%
	Buenos Aires Design(3)	BA	14,069	63	1.06%	1.32%
	Patio Bullrich	BA	11,685	80	0.88%	1.68%
	Alto Noa(4)	Salta	18,851	89	1.42%	1.87%
	Córdoba Shopping(4)	Córdoba	23,428	104	1.76%	2.18%
	Alto Rosario (4)	Rosario	40,415	145	3.04%	3.04%
	Subtotal		304,559	1200	22.89%	25.16%
<b>Cencosud</b>						
	Unicenter Shopping(4)	GBA	95,204	287	7.16%	6.02%
	Plaza Oeste Shopping(4)	GBA	42,083	146	3.16%	3.06%
	Quilmes Factory(4)	GBA	43,228	48	3.25%	1.01%
	Portal Lomas(4)	GBA	34,188	50	2.57%	1.05%
	San Martín Factory(4)	GBA	35,183	31	2.64%	0.65%
	Parque Brown Factory(4)	GBA	31,227	91	2.35%	1.91%
	Las Palmas del Pilar Shopping(4)	GBA	51,862	106	3.90%	2.22%
	Portal de Palermo(4)	BA	33,023	9	2.48%	0.19%
	Portal de la Patagonia(4)	Neuquén	34,279	50	2.58%	1.05%
	Portal de Escobar(4)	GBA	31,937	24	2.40%	0.50%
	Portal de los Andes (4)	Mendoza	31,380	40	2.36%	0.84%
	Portal de Madryn	Chubut	4,100	26	0.31%	0.55%
	Portal de Tucumán(4)	Tucumán	30,679	94	2.31%	1.97%
	Portal de Rosario(4)	Rosario	66,361	182	4.99%	3.82%
	Subtotal		564,734	1184	42.45%	24.82%
<b>Other Operators</b>						
	Subtotal		461,031	2386	34.66%	50.02%
<b>Total</b>			<b>1,330,324</b>	<b>4770</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Argentine Chamber of Shopping Centers.

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- (1) GBA means Gran Buenos Aires, the Buenos Aires metropolitan area, and BA means the city of Buenos Aires.
- (2) Percentage over total shopping centers in Argentina. Figures may not sum due to rounding.



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(3) Alto Palermo has an effective interest of 53,7% in ERSA, a company that operates the concession of this building.

(4) Includes total leaseable area occupied by supermarkets and hypermarkets.

Source: Argentine Chamber of Shopping Centers.

### ***Consumer Financing***

The credit card market in Argentina is highly competitive due to (i) the active participation in this market of significantly all international and domestic banks conducting business in Argentina, most of which have significantly greater financial resources than IRSA does and (ii) the strong market position of both Visa and Mastercard in Argentina. IRSA's principal competitors in various segments of the credit card market include:

*International and domestic Cards:* Visa, Master, AMEX, Cabal and Diners.

*Regional cards:* Naranja, Provencred, Efectivo Sí and Credilogros.

*Zonal cards:* Italcred, Carta Sur, Crédito Actual and Credial.

*Closed cards:* Falabella, Garbarino, Frávega, Musimundo, Carrefour and Johnson's.

*Banks:* Columbia, Itaú, Comafi, Privado, Hipotecario, Macro, StandardBank

*International financial companies:* GE Money, Cetelem and AIG (Efectivo Sí).

### ***Development and Sale of Properties***

A large number of companies are currently competing with IRSA in the development and sale of properties in Argentina. This segment is highly fragmented, and an increasing number of companies have been taking advantage of low construction costs and attractive property values, making this segment highly competitive. In addition, there is a large supply of comparable properties in the vicinity of IRSA's developed properties. This may adversely affect its ability to sell IRSA's developed properties at prices that generate a positive return on its investment.

### ***Office and Other Non-Shopping Center Rental Properties***

Substantially all of IRSA's office and other non-shopping center rentals are located in developed urban areas. There are many office buildings, shopping malls, retail and residential premises in the areas where IRSA's properties are located. This is a highly fragmented market, and the abundance of comparable properties in its vicinity may adversely affect IRSA's ability to rent or sell office space and other real estate and may affect the sale and lease price of its premises.

In the future, both national and foreign companies may participate in Argentina's real estate development market, competing with IRSA for business opportunities. Moreover, in the future IRSA may participate in the development of real estate in foreign markets, potentially encountering well established competitors.

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### ***Hotels***

IRSA owns three luxury hotels in Argentina which are managed through strategic alliances by international operators including Sheraton Overseas Management Corporation, Intercontinental Hotels Corporation and the local operator Compañía de Servicios Hoteleros S.A. which manages the Hotel Alvear. The Hotel Llao Llao is unique for its landscape and beauty, and its other two hotels, Hotel Intercontinental and Hotel Sheraton Libertador, are located in the City of Buenos Aires. IRSA competes with many other leading luxury hotels in the City of Buenos Aires including, among others: Abasto Plaza, Alvear Palace, Caesar Park, Claridge, Emperador, Feir s Park, Four Seasons, Hilton, Loi Suites, Marriot Plaza, Meliá, NH City, Panamericano, Sheraton, Sofitel, Madero, MayFlower, Etoile, Faena, and Regal Pacific.

### **IRSA s Regulation and Government Supervision**

The laws and regulations governing the acquisition and transfer of real estate, as well as municipal zoning ordinances, are applicable to the development and operation of IRSA s properties.

Currently, Argentine law does not specifically regulate shopping center lease agreements. Since IRSA s shopping center leases generally differ from ordinary commercial leases, IRSA has created standard provisions that govern the relationship with its shopping center tenants.

### ***Leases***

Argentine law imposes certain restrictions on landlords, including:

a prohibition to include price adjustment clauses based on inflation increases in lease agreements; and

the imposition of a three-year minimum lease term for retail property, except in the case of stands and/or spaces in markets and fairs. Although IRSA s lease agreements were U.S. dollar-denominated, Decree No. 214/2002, Decree No. 762/2002 and Law N° 25,820 that amended the Public Emergency Law, provided that monetary obligations in force as of January 7, 2002 arising from agreements governed by private law and which provided for payments in U.S. dollars were subject to the following rules:

financial obligations were to be paid in Pesos at the exchange rate of Ps.1.00 = US\$1.00 plus the CER for commercial leases;

from October 1, 2002 and until March 31, 2004 for residential leases, the obligations where the tenant is an individual and the dwelling is used as the family residence of permanent use were to be paid in Pesos at the exchange rate of Ps.1.00 = US\$1.00 plus the CVS;

if because of the application of these provisions, the amount of the installment were higher or lower than the amount at the moment of the payment, any of the parties could require an equitable adjustment of the price. If the parties did not reach an agreement, the judicial courts could decide about the difference in each particular case; and

pursuant to Decree No. 117/2004 and Law No. 25,796 that amends Law No. 25,713, the CVS became unenforceable since April 1, 2004.

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Under the Argentine Civil Code and the Lease Law No. 23,091, lease terms may not exceed ten years, except for leases regulated by Law No. 25,248 (which provides that real estate leases containing purchase options *leasing inmobiliario*- are not subject to term limitations). Generally, terms in IRSA's lease agreements go from 3 to 10 years.

Despite this restriction, in November 2007, the judicial courts authorized Alto Palermo to enter into a lease agreement with Wal Mart Argentina SRL for a term of 30 years. This exception was authorized taking into consideration the size of the investment required and the amount of time that was necessary to recoup this investment. In June 2008, Alto Palermo requested the judicial courts a new authorization to enter into a lease agreement with Falabella for a term of 30 years. In August 2008, the judicial courts rejected the request and in November 2008 Alto Palermo appealed this decision. As of the date of this fiscal, the court's decision is still pending.

Lease Law No. 23,091, as amended by Law No. 24,808 provides that tenants may rescind commercial lease agreements after the first six months by sending a written notice at least 60 days before the termination of the contract. Such rescission is subject to penalties which range from one to one and a half months of rent. If the tenant rescinds during the first year of the lease the penalty is one and a half month's rent and if the rescission occurs after the first year of lease the penalty is one month's rent.

While current Argentine government policy discourages government regulation of lease agreements, there can be no assurance that additional regulations will not be imposed in the future by the Argentine Congress, including regulations similar to those previously in place. Furthermore, most of IRSA's leases provide that the tenants pay all costs and taxes related to the property in proportion to their respective leasable areas. In the event of a significant increase in the amount of such costs and taxes, the Argentine government may respond to political pressure to intervene by regulating this practice, thereby negatively affecting IRSA's rental income. On August 16, 2006, former economy minister Felisa Miceli announced a loosening of requirements on mortgage loans up to Ps.300,000. Banks were enabled to finance 100 percent of house purchases on property valued at up to Ps.200,000 and 90 percent of purchases of property worth up to Ps.300,000. The duration of these loans will be up to 30 years. These measures were taken in response to the escalating cost of leases and the difficulties in accessing the mortgage loan market. These measures became effective in September, 2006.

The Argentine Civil and Commercial Procedure Code enables the lessor to pursue what is known as an *executory proceeding* where lessees fail to pay rent. In executory proceedings debtors have fewer defenses available to prevent foreclosure, making these proceedings substantially shorter than ordinary ones. In executory proceedings the origin of the debt is not under discussion; the trial focuses on the instrument of the debt itself. The aforementioned code also permits special eviction proceedings, which are carried out in the same way as ordinary proceedings. The Argentine Civil Code enables judges to summon tenants who fall two months in arrears to vacate the property they are renting within 10 days of having received notice to such effect. However, historically, large court dockets and numerous procedural hurdles have resulted in significant delays to evictions proceedings, which generally last from six months to two years from the date of filing of the suit to the time of actual eviction.

On February 4, 2003, the Argentine government enacted Decree No. 204/2003 establishing a mediation procedure for a limited period of 90 days. On May 2003, the Argentine Congress enacted Law No. 25,737 which suspended foreclosures for an additional period of 90 days, which ended in May 2003. On September 2003, several financial institutions voluntarily agreed not to foreclose on their mortgage loans. On November 2005, the Argentine congress enacted Law No.

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26,062 that extended the foreclosures suspension for an additional 120 days period, which was extended for 90 days more by Law No. 26,084 and for 180 days more by Law No. 26,103. Pursuant to these successive extensions, foreclosure on mortgaged property was suspended until December 2006.

On November 6, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule debts resulting from unpaid mortgages, by creating a trust by means of which the Executive Branch will refinance the mortgage debts and reschedule the maturity date. Financial institutions were given until a period of 60 business days from the enactment of the law to accept said terms. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included various conditions referring to the incorporation into this system of the mortgage loans that were in judicial or private execution proceedings. The parties to secured loan agreements were given a term to express their adhesion System. The term for financial institutions to accept the mechanism was extended in several occasions by Decree No. 352/2004, Law No. 26,062, Law No. 26,084 and Law No. 26,103.

On November 8, 2006, Law No. 26,167 was enacted. It established a special proceeding to replace ordinary trials for the enforcement of some mortgage loans. Such special proceedings give creditors ten days to inform to the debtor of the amounts owed to them and thereafter agree with the debtor on the amount and terms of payment. In case of failure by the parties to reach an agreement, payment conditions are to be determined by the judge. Also, this law established the suspension of the execution of judicial judgments, judicial and extrajudicial auctions, evictions and other proceedings related to the mortgage loans contemplated in this law.

### ***Development and Land Use***

*Buenos Aires Urban Planning Code.* IRSA's real estate activities are subject to several municipal zoning, building and environmental regulations. In the city of Buenos Aires, where the vast majority of IRSA's real estate properties are located, the Buenos Aires Urban Planning Code (*Código de Planeamiento Urbano de la Ciudad de Buenos Aires*) generally restricts the density and use of property and controls physical features of improvements on property, such as height, design, set-back and overhang, consistent with the city's urban landscape policy. The administrative agency in charge of the Urban Planning Code is the Secretary of Urban Planning of the City of Buenos Aires.

*Buenos Aires Building Code.* The Buenos Aires Building Code (*Código de la Edificación de la Ciudad de Buenos Aires*) complements the Buenos Aires Urban Planning Code and regulates the structural use and development of property in the city of Buenos Aires. The Buenos Aires Building Code requires builders and developers to file applications for building permits, including the submission to the Secretary of Work and Public Services (*Secretaría de Obras y Servicios Públicos*) of architectural plans for review, to assure compliance therewith.

IRSA believes that all of its real estate properties are in material compliance with all relevant laws, ordinances and regulations.

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***Sales and Ownership***

*Real Estate Installment Sales Law.* The Real Estate Installment Sales Law No. 14,005, as amended by Law No. 23,266 and Decree No. 2015/1985, imposes a series of requirements on contracts for the sale of subdivided plots of land regarding, for example, the sale price which is paid in installments and the deed, which is not conveyed until final payment. The provisions of this law require, among other things:

the registration of the intention to sell the property in subdivided plots in the Real Estate Registry (*Registro de la Propiedad Inmueble*) corresponding to the jurisdiction of the property. Registration will only be possible with regards to unencumbered property. Mortgaged property may only be registered where creditors agree to divide the debt in accordance with the subdivided plots. However, creditors may be judicially compelled to agree to the division;

the preliminary registration with the Real Estate Registry of the purchase instrument within 30 days of execution of the agreements. Once the property is registered, the installment sale may not occur in a manner inconsistent with the Real Estate Installment Sales Act, unless seller registers his decision to desist from the sale in installments with the Real Estate Registry. In the event of a dispute over the title between the purchaser and third-party creditors of the seller, the installment purchaser who has duly registered the purchase instrument will obtain the deed to the plot. Further, the purchaser can demand conveyance of title after at least 25% of the purchase price has been paid, although the seller may demand a mortgage to secure payment of the balance of the purchase price.

After payment of 25% of the purchase price or the construction of improvements on the property equal to at least 50% of the property value, the Real Estate Installment Sales Act prohibits the rescission of the sales contract for failure by the purchaser to pay the balance of the purchase price. However, in such event the seller may take action under any mortgage on the property.

*Consumer Protection Law.* Consumer Protection Law No. 24,240, as amended, regulates several issues concerning the protection of consumers in the arrangement and execution of contracts. The Consumer Protection Law purports to prevent potential abuses deriving from the strong bargaining position of sellers of goods and services in a mass-market economy where standard form contracts are widespread. As a result, the Consumer Protection Law deems void and unenforceable certain contractual provisions in consumer contracts, including those which:

warranty and liability disclaimers;

waiver of consumer rights;

extension of seller rights; and

shifting of the burden of proof against consumers.

In addition, the Consumer Protection Law imposes penalties ranging from fines to closing down of establishments in order to induce compliance from sellers.

The Consumer Protection Law defines consumers or users, as the individuals or legal entities that acquire or use goods or services free of charge or for a price for final use for of their own benefit or that of their family or social group. It also includes the acquisition of rights on a time-share leasing, country club, private cemetery, among others.

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In addition, the Consumer Protection Law defines the suppliers of goods and services as the individuals or legal entities, either public or private that in a professional way, even occasionally, produce, import, distribute or commercialize goods or supply services to consumers or users.

The Consumer Protection Law excludes the services supplied by professionals that require a college degree and registration in officially recognized professional organizations or by a governmental authority. However, this law regulates the advertisements that promotes the services of such professionals.

The Consumer Protection Law determines that the information contained in the offer addressed to undetermined prospective consumers, binds the offeror during the period in which the offer takes place and until its public revocation. Further, it determines that specifications included in advertisements, announcements, prospectuses, circulars or other media bind the offeror and are considered part of the contract entered into by the consumer. On June 2005, Resolution No. 104/05, which complements the Consumer Protection Law, adopted MERCOSUR's Resolution on which requires that those who engage in commerce over the Internet (E-Business) to disclose in a precise and clear manner the characteristics of the products and/or services offered and the sale terms.

*Buildings Law.* Buildings Law No. 19,724, as amended, sets forth a regime for the construction of buildings for later subdivision into condominium (*Propiedad Horizontal*). Under this law, developers must inform potential purchasers of their intention to sell the building as a condominium, as well as of all sale conditions, and the size of each unit in relation to the whole building. The sale of these units is subject to subdivision approval and in order to be included in Buildings Law regime must be registered with the Real Estate Registry (*Registro de la Propiedad Inmueble*). This law also states that, in the event that construction is not completed, all amounts already deposited must be repaid to the purchasers.

*Mortgage Regulation.* The Argentine Civil Code regulates mortgages both as a contract and as a right over property. There are no special provisions in the Civil Code aimed at protecting mortgagors. Any agreement entered into by a mortgagor and a mortgagee at time of execution of the mortgage or prior to the default of the mortgagor allowing the mortgagee to recover the property without a public auction of the property will not be enforced by the courts as contrary to Argentine public policy.

Until the enactment of Trust Law No. 24,441, the only procedure available to collect unpaid amounts secured by a mortgage was a proceeding regulated by the Civil and Commercial Procedure Code. The heavy caseload on the courts that hear such matters usually delays the proceeding, which currently takes 1 to 2 years to complete.

Chapter V of Trust Law No. 24,441 institutes a new procedure which may expedite collection of unpaid amounts secured by a mortgage. To be applicable, the new rules, which allow an out-of-court auction, need to be expressly agreed to by the parties in the mortgage contract.

Currently, IRSA includes in its mortgages a clause enabling the enforcement of Law No. 24,441. However, there can be no assurance that such collection provisions will accelerate the recovery of unpaid amounts under mortgage guarantees.

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The Argentine Government has tried to avoid the massive foreclosure of mortgages since the 2001 crisis. The Public Emergency Law, as amended, established the suspension for the term of 270 days from the enactment of that law, of all the judicial or non-judicial enforcement procedures, including the enforcement of mortgages and pledges, regardless of their origin. On February 14, 2002, Law No. 25,563 amending the Bankruptcy Law (the New Bankruptcy Law) was enacted. Under the New Bankruptcy Law, certain bankruptcies and foreclosures (including foreclosures on mortgage loans) were suspended for a period of 180 days from the law's effective date. Such period was extended for 90 days more by Law No. 25,640 dated September 2002, expiring on February, 2003.

On February 4, 2003, the Executive Branch enacted Decree No. 204/2003 creating a mediation proceeding, for a limited period of 90 days, to be conducted through the Legal Emergency Units (*Unidades de Emergencias Legales*) depending from the Ministry of Labor, Employment and Social Security and the Ministry of Production.

On May 2003, the Argentine Congress enacted Law No. 25,737 which suspended foreclosures for an additional period of 90 days, which ended in May 2003. On September 2003, several financial institutions voluntarily agreed not to foreclose on their mortgage loans. On November 2005, the Argentine congress enacted Law No. 26,062 that extended the foreclosures suspension for an additional 120 days period, which was extended for 90 days more by Law No. 26,084 and for 180 days more by Law No. 26,103. Pursuant to these successive extensions, foreclosure on mortgaged property was suspended until December 2006.

On November 8, 2006, Law No. 26,167 was enacted. It established a special proceeding to replace ordinary trials for the enforcement of some mortgage loans. These special proceedings give creditors ten days to inform the debtor of the amounts owed to them and agree with the debtor on the amount and terms of payment. In case the parties fail to reach an agreement, payment conditions are to be determined by the judge. Also, this law established the suspension of the execution of judicial judgments, judicial and extrajudicial auctions, evictions and other proceedings related to the mortgage loans contemplated in this law.

Most mortgages executed by IRSA provide that it is empowered to declare the anticipated expiration of the loan upon non-payment of an installment. This enables IRSA to recover the unpaid amounts through the sale of the relevant property pursuant to the Civil and Commercial Procedure Code and Law No. 24,441.

Pursuant to Argentine law, fees and expenses related to collection procedures must be borne by the debtor, and the proceeds from any auction of the property may be used for the settlement of such obligation.

Although IRSA's mortgages are U.S. dollar-denominated, Decree No. 214/2002 and Decree No. 762/2002 that amend the Public Emergency Law provide that monetary obligations in force as of January 7, 2002, resulting from agreements governed by private law and which provide for payments in U.S. dollars are subject to the following rules:

financial obligations were to be paid in Pesos at the exchange rate of Ps.1.00 = US\$1.00 plus the CER for commercial leases;

from October 1, 2002 and until March 31, 2004 for residential leases, the obligations where the tenant is an individual and the dwelling is used as the family residence of permanent use were to be paid in Pesos at the exchange rate of Ps.1.00 = US\$1.00 plus the CVS;

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if because of the application of these provisions, the amount of the installment were higher or lower than the amount at the moment of the payment, any of the parties could require an equitable adjustment of the price. If the parties did not reach an agreement, the judicial courts could decide about the difference in each particular case; and

pursuant to Decree No. 117/2004 and Law No. 25,796 that amends Law No. 25,713, the CVS became unenforceable since April 1, 2004.

*Protection for the Disabled Law.* The Protection for the Disabled Law No. 22,431, enacted on March 20, 1981, as amended, provides that in connection with the construction and renovation of buildings, obstructions to access must be eliminated in order to enable access by handicapped individuals. In the construction of public buildings, entrances, transit pathways and adequate facilities for mobility impaired individuals must be provided.

Buildings constructed before the enforcement of the Protection for the Disabled Law must be adapted to provide accesses, transit pathways and adequate facilities for mobility-impaired individuals. Those pre-existing buildings, which due to their architectural design may not be adapted to the use by mobility-impaired individuals, are exempted from the fulfillment of these requirements. The Protection for the Disabled Law provides that residential buildings must ensure access by mobility impaired individuals to elevators and aisles.

*Credit Cards Law.* Law No. 25,065, amended by Law No. 26,010 and Law No. 26,361, regulates different aspects of the business known as credit card system. The regulations impose minimum contractual contents and the approval thereof by the Industry, Commerce and Mining Secretary (*Secretaría de Industria, Comercio y Minería de la Nación*), as well as the limitations on the interest to be collected by users and the commissions to the stores adhering to the system. The Credit Card Law applies to banking and non-banking cards, such as Tarjeta Shopping, issued by Tarshop S.A.

*Antitrust Law.* Law No. 25,156, as amended, prevents trust practices and requires administrative authorization for transactions that according to the Antitrust Law constitute an economic concentration. According to this law, mergers, transfers of goodwill, acquisitions of property or rights over shares, capital or other convertible securities, or similar operations by which the acquirer controls or substantially influences a company, are considered as an economic concentration. Whenever an economic concentration involves a company or companies which exceed the accumulated sales volume by approximately Ps.200.0 million in Argentina; then the respective concentration should be submitted for approval to the *Comisión Nacional de Defensa de la Competencia*, or Antitrust Authority. The request for approval may be filed, either prior to the transaction or within a week after its completion.

When a request for approval is filed, the Antitrust Authority may (i) authorize the transaction, (ii) subordinate the transaction to the accomplishment of certain conditions, or (iii) reject the authorization.

The Antitrust Law provides that economic concentrations in which the transaction amount and the value of the assets absorbed, acquired, transferred or controlled in Argentina, do not exceed Ps.20.0 million are exempted from the administrative authorization. Notwithstanding the foregoing, when the transactions effected during the prior 12-month period exceed in total Ps.20.0 million or Ps.60.0 million in the last 36 months, these transactions must be notified to the Antitrust Authority.



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As the consolidated annual sales volume of Alto Palermo and IRSA exceed Ps.200.0 million, IRSA should give notice to the Antitrust Authority of any concentration provided for by the Antitrust Law.

After IRSA's acquisition of Bouchard 557, IRSA asked the Argentine Antitrust Authority whether it was necessary to notify it of such acquisition. The Antitrust Authority advised IRSA that it was in fact required to so notify it, and the pertinent court ratified such decision. Consequently, on April 22, 2008, the notice of the operation was filed with the Antitrust Authority. As of the date of this annual report, this matter is still to be resolved.

After IRSA sold 29.85% interest in Bouchard 557, to Techint Compañía Técnica Internacional Sociedad Anónima Comercial e Industrial IRSA asked the Antitrust Authority if it was necessary to notify this operation. On July 4, 2008, the Antitrust Authority informed IRSA that it was not necessary to report this sale.

IRSA filed a new request for the Antitrust Authority's opinion regarding its acquisition of Bank Boston Tower on August 30, 2007. The Antitrust Authority advised IRSA that it was in fact required to so notify it, and IRSA challenged this opinion in the local courts.

On May 6, 2008, IRSA filed with the Antitrust Authority a request for its opinion as to the need to notify the Antitrust Authority the acquisition of Edificio República. The Antitrust Authority advised IRSA that it was in fact required to so notify it. IRSA challenged this opinion in the local courts.

On January 15, 2007 IRSA was notified of two claims filed against us before the Antitrust Authority, one by a private individual and the other one by the licensee of the shopping center, both opposing the acquisition from the province of Córdoba of a property known as Ex-Escuela Gobernador Vicente de Olmos. On February 1, 2007 IRSA responded the claims. On June 26, 2007, the Antitrust Authority notified IRSA that it has initiated a summary proceeding to determine whether the completion of the transaction breaches the Antitrust Law. As of the date of this annual report the result of this proceeding has not been determined.

On January 22, 2008, Alto Palermo requested the Antitrust Authority's clearance for the transfer of the Soleil Factory shopping center. As of the date of this annual report, the Antitrust Authority has not reached a decision.

For more information see Item 3 *Risk Factors* *Risk related to IRSA's Business - IRSA's business is subject to extensive regulation and additional regulations may be imposed in the future.*

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**Organizational Structure**

The following is IRSA's organizational chart and its principal subsidiaries as of June 30, 2008:

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The following table presents information relating to IRSA's ownership interest and the percentage of its consolidated total net revenues represented by its subsidiaries as of June 30, 2008.

Subsidiary	Activity	Country of Incorporation	Ownership percentage <sup>(1)</sup>	Voting power percentage <sup>(1)</sup>	Total revenues percentage
Ritelco S.A.	Investment	Uruguay	100%	100%	0.00%
Patagonian Investment S.A.	Investment	Argentina	100%	100%	0.00%
Palermo Invest S.A.	Investment	Argentina	100%	100%	0.00%
Solares de Santa María S.A.	Real estate	Argentina	90%	90%	0.09%
CYRSA S.A. <sup>(4)</sup>	Real estate	Argentina	50%	50%	0.00%
Pereiraola S.A.I.C.I.F.y A	Real estate	Argentina	100%	100%	0.00%
Inversora Bolivar S.A. <sup>(3)</sup>	Real estate	Argentina	100%	100%	6.76%
Hoteles Argentinos S.A.	Hotel	Argentina	80%	80%	3.18%
Llao Llao Resorts S.A.	Hotel	Argentina	50%	50%	5.24%
Rummaala S.A.	Real Estate	Argentina	50%	50%	50%
Alto Palermo S.A. <sup>(2)</sup>	Shopping Centers	Argentina	63.34%	63.34%	59.04%
Quality Invest S.A.	Real estate	Argentina	100%	100%	0.00%
E-Commerce Latina S.A.	Investment	Argentina	100%	100%	0.00%
Financel Communications S.A.	Electronic Payments of goods and services	Argentina	80%	80%	0.00%
Canteras Natal Crespo S.A. <sup>(2)</sup>	Real estate	Argentina	50%	50%	0.01%

(1) It does not contemplate irrevocable contributions.

(2) IRSA has joint control of Canteras Natal Crespo S.A., a land reserve for a future development, with ECIPSA. See Note 2.f. to our audited consolidated financial statements.

(3) Percentage of total revenues based upon Inversora Bolivar's consolidated results which include those of Nuevas Fronteras S.A.

(4) We have joint control with Cyrela Brazil Realty S.A. Empreendimentos y Participações.

IRSA has a significant interest in Banco Hipotecario, an Argentine company organized under Argentine Law engaged in banking activity. As of June 30, 2008, IRSA owned 11.76% of Banco Hipotecario, and 6.76% of such ownership was through its subsidiaries Inversora Bolívar S.A. and Ritelco S.A. Also, as of June 30, 2008, the voting power held by IRSA, Inversora Bolívar S.A. and Ritelco S.A. in Banco Hipotecario was 18.36%.

**Employees**

As of June 30, 2008, IRSA had 3,349 employees. IRSA's employees corresponding to Argentine real estate are represented by the Commerce Union (almost 15%) -*SEC: Sindicato de Empleados de Comercio*- by Horizontal Property Union -*SUTERH*- (near 3% of workers) and the Administrative Construction Union -*UECARA*- (near 5%). Shopping Centers and Consumer financing employees are also represented by the Commerce Union; approximately 66% of total workers are under commerce collective labor agreements. Hotel workers are represented by the *Unión de Trabajadores del Turismo, Hoteleros y Gastronómicos de la República Argentina* (UTHGRA).

IRSA has not experienced a strike or significant work stoppage in the last ten years and believes that its relations with its employees are good.

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The following table sets forth the number of employees in IRSA's various businesses at the dates indicated:

	<b>Argentine Real Estate(1)</b>	<b>Shopping Centers(2)</b>	<b>Hotels(3)</b>	<b>Telecommunication(4)</b>	<b>Credit Cards(5)</b>	<b>Total</b>
As of June 30, 2004	129	681	688	51	390	1,939
As of June 30, 2005	154	872	861	75	556	2,518
As of June 30, 2006	185	966	1,024	0	979	3,154
As of June 30, 2007	228	983	785	0	1,302	3,298
As of June 30, 2008	243	1,043	764	0	1,298	3,349

(1) Argentine Real Estate includes IRSA, Inversora Bolívar, Baldovinos, Madero, Libertador 498.

(2) Starting June 2000, Shopping Centers includes Altocity (e-commerce) and does not include Mendoza Plaza prior to fiscal year 2005.

(3) Hotels include Intercontinental, Sheraton Libertador and Llao Llao.

(4) Telecommunications include Red Alternativa and Alternativa Gratis.

(5) Credit cards include Tarshop.

**Property**

As of June 30, 2008, all of IRSA's property (consisting of rental properties in the office and retail real estate sectors, development properties primarily in the residential real estate sector, and shopping centers) was located in Argentina. IRSA leases its headquarters, located at Bolívar 108, C1066AAD and Moreno 877, piso 22, C1091AAQ Buenos Aires, Argentina, pursuant to two lease agreements that expire on February 28, 2014 and November 30, 2008, respectively. IRSA does not currently lease any material properties other than its headquarters.

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The following table sets forth certain information about IRSA's properties:

Property <sup>(10)</sup>	Date of Acquisition	Leaseable/ Salem <sup>2(1)</sup>	Location	Net Book Value Ps./000 <sup>(2)</sup>	Encumbrance	Outstanding principal amount Ps./000	Maturity Date	Balance due at maturity	Rate	Use	Occupancy rate <sup>(11)</sup>
Intercontinental Plaza <sup>(3)</sup>	11/18/97	22,535	City of Buenos Aires	90,526						Office Rental	100.0%
Dock del Plata	11/15/06	7,921	City of Buenos Aires	25,654						Office Rental	100.0%
Bouchard 710	06/01/05	15,014	City of Buenos Aires	67,305						Office Rental	100.0%
Bouchard 551	03/15/07	23,378	City of Buenos Aires	155,226						Office Rental	100.0%
Libertador 498	12/20/95	10,533	City of Buenos Aires	39,632						Office Rental	100.0%
Maipú 1300	09/28/95	10,280	City of Buenos Aires	41,029						Office Rental	100.0%
Laminar Plaza	03/25/99	6,521	City of Buenos Aires	28,342						Office Rental	100.0%
Madero 1020	12/21/95	215	City of Buenos Aires	696						Office Rental	100.0%
Reconquista 823/41	11/12/93	5,016	City of Buenos Aires	18,445						Office Rental	100.0%
Suipacha 652/64	11/22/91	11,453	City of Buenos Aires	11,840	Mortgage <sup>(7)</sup>					Office Rental	100.0%
Edificios Costeros	03/20/97	6,389	City of Buenos Aires	17,922						Office Rental	88.7%
Costeros Dique IV	08/29/01	5,437	City of Buenos Aires	20,287						Office Rental	100.0%
Edificio República	4/28/08	19,533	City of Buenos Aires	228,767	Mortgage	101,5	Abr-13	20,3	annual nominal 12% over balances	Office Rental	19.0%
Works in progress Dique IV	12/02/97	N/A	City of Buenos Aires	36,387						Office Rental	N/A
Madero 942	08/31/94	768	City of Buenos Aires	2,285						Office Rental	100.0%
Av. De Mayo 595/99	08/19/92	1,958	City of Buenos Aires	4,957						Office Rental	100.0%
Av. Libertador 602	01/05/96	638	City of Buenos Aires	2,732						Office Rental	100.0%
Rivadavia 2768	09/19/91	274	City of Buenos Aires	269						Office Rental	100.0%
Sarmiento 517	01/12/94	39	City of Buenos Aires	363						Office Rental	100.0%

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Constitución 1111	06/16/94	312	City of Buenos Aires	983	Commercial Rental	11.8%
Della Paolera 265	8/27/07	15,822	City of Buenos Aires	165,463	Office Rental	100.0%

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Property <sup>(10)</sup>	Date of Acquisition	Leaseable/ Salem <sup>2(1)</sup>	Location	Net Book Value Ps./000 <sup>(2)</sup>	Encumbrance	Outstanding principal amount Ps./000	Maturity Date	Balance due at maturity	Rate	Use	Occupancy rate <sup>(11)</sup>
Museo Renault	12/6/07	1,275	City of Buenos Aires	4,970						Commercial Rental	100.0%
Local comercial Cruceros	3/20/97	192	City of Buenos Aires	277						Commercial Rental	100.0%
Santa María del Plata	07/10/97	60,100	City of Buenos Aires	12,494						Others Rentals	100.0%
Thames <sup>(3)</sup>	11/01/97	33,191	Province of Buenos Aires	3,899						Others Rentals	100.0%
Constitución 1159	06/16/94	2,072	City of Buenos Aires	4,100			-	-		Others Rentals	100.0%
Other Properties <sup>(8)</sup>	N/A	N/A	City and Province of Bs. As.	4,932						Office Rental	N/A
Alto Palermo Shopping <sup>(4)</sup>	12/23/97	18,551	City of Buenos Aires	178,622						Shopping Center	100.0%
Abasto <sup>(4)</sup>	07/17/94	39,641	City of Buenos Aires	180,972						Shopping Center	99.6%
Alto Avellaneda <sup>(4)</sup>	12/23/97	37,030	City of Avellaneda	96,271						Shopping Center	99.8%
Paseo Alcorta <sup>(4)</sup>	06/06/97	14,465	City of Buenos Aires	72,144						Shopping Center	99.5%
Patio Bullrich <sup>(4)</sup>	10/01/98	11,685	City of Buenos Aires	101,291						Shopping Center	100.0%
Alto Noa <sup>(4)</sup>	03/29/95	18,851	City of Salta	25,039						Shopping Center	100.0%
Buenos Aires Design <sup>(4)</sup>	11/18/97	14,069	City of Buenos Aires	13,617						Shopping Center	100.0%
Alto Rosario <sup>(4)</sup>	11/09/04	28,562	City of Rosario	81,630						Shopping Center	99.2%
Mendoza Plaza <sup>(4)</sup>	12/02/94	39,688	City of Mendoza	88,363						Shopping Center	97.7%
Córdoba Shopping <sup>(4)</sup>	12/31/06	10,117	City of Córdoba	72,464	Mortgage	6,1	Dic-08	6,1	Fix Rate 6%	Shopping Center	97.2%
Panamerican Mall <sup>(4)</sup>	12/01/06	37,404	City of Buenos Aires	283,361						Shopping Center (in construction)	N/A
Neuquén <sup>(4)</sup>	07/06/99	N/A	Province of Neuquén	12,912						Shopping Center (in construction)	N/A
Puerto Retiro <sup>(3)</sup>	05/18/97	82,051	City of Buenos Aires	54,498						Land Reserve	N/A
Santa María del Plata	07/10/97	675,952	City of Buenos Aires	135,785						Land Reserve	N/A
Pereiraola <sup>(5)</sup>	12/16/96	1,299,630	Province of Buenos Aires	21,717						Land Reserve	N/A





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Property <sup>(10)</sup>	Date of Acquisition	Leaseable/ Salem <sup>2(1)</sup>	Location	Net Book Value Ps./000 <sup>(2)</sup>	Encumbrance	Outstanding principal amount Ps./000	Maturity Date	Balance due at maturity	Rate	Use	Occupancy rate <sup>(11)</sup>
Terreno Torres de Rosario <sup>(4)</sup>	4/30/99	42,620	City of Rosario	17,093						Land Reserve	N/D
Canteras Natal Crespo	07/27/05	4,320,000	Province of Córdoba	5,555						Land Reserve	N/A
Luján	5/30/08	1,160,000	Province of Buenos Aires	9,510						Land Reserve	N/A
Terreno Beruti <sup>(4)</sup>	6/24/08	3,238	City of Buenos Aires	52,030	Mortgage	27	40.210	14	not accrues interests	Land Reserve	N/A
Patio Olmos <sup>(4)</sup>	9/25/07	5,147	Province of Córdoba	32,944						Land Reserve	N/A
Others Reserves of Land <sup>(6)</sup>	N/A	14,324,327	Ciudad y Provincia de Buenos Aires	67,817						Land Reserve	N/A
Residential apartments, communities and others <sup>(9)</sup>	N/A	N/A	City and Province of Bs.As.	178,845						Residential apartments and others	N/A
Hotel Llao Llao	06/01/97	15,000	City of Bariloche	92,868						Hotel	62.4%
Hotel Intercontinental <sup>(3)</sup>	11/01/97	37,742	City of Buenos Aires	59,402						Hotel	76.1%
Hotel Libertador	03/01/98	17,463	City of Buenos Aires	46,501	Mortgage	17,5	Mar-10	15,3	Libor 6M + 700 pb	Hotel	89.3%
Terrenos Bariloche	12/01/06	N/A	Province of Rio Negro	21,900	Mortgage	4,5	Dic-09	0,3	Fix Rate 7%	Hotel	N/A

- (1) Total leaseable area for each property. Excludes common areas and parking spaces.
- (2) Cost of acquisition or development (adjusted as discussed in Note 2.c to the consolidated financial statements), plus improvements, less accumulated depreciation, less allowances.
- (3) Through IBSA.
- (4) Through Alto Palermo.
- (5) Directly through IRSA and indirectly through IBSA.
- (6) Includes the following land reserves: Terrenos Pilar, Padilla 902 and Terreno Torre Jardín IV (through IRSA), Terreno Pontevedra; Isla Sirgadero; Mariano Acosta, Intercontinental Plaza II, advance purchase San Luis and Merlo (through IBSA), and Terreno Caballito, the Coto project, C. Gardel 3128/34, Agiero 596, Zelaya 3102 and Conil (through Alto Palermo).

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- (7) As security for compliance with the construction of the future building to be constructed in a plot of land in Vicente Lopez, Province of Buenos Aires and transfer of the future units, the company's property located at Suipacha 652 was mortgaged.
- (8) Includes the following properties: Abril and Alto Palermo Park (through and Inversora Bolivar) and Torre Renoir I (through IRSA).
- (9) Includes the following properties: Torres Jardín, Torres Abasto, Edificios Cruceros; Barrio Chico, Concepción Arenal, Torres Renoir II, Swap receivables Terreno Caballito (Cyrsa), Swap receivables Terreno Caballito (KOAD) Torre Caballito, Horizons, Dorrego 916, Abril/Baldovinos, Benavidez, V. Celina and Dock 13 (through IRSA).
- (10) All assets are owned by IRSA or through any of its subsidiary.
- (11) Percentage of occupation of each property. The land reserves are assets that the company remains in the portfolio for future development.

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On October 29, 2007 IRSA paid US\$ 24.3 million of principal and US\$ 0.35 million of accrued interest of its secured floating rate notes due November 2009 and US\$ 14.95 million of principal and US\$ 0.21 million of accrued interest of IRSA's unsecured loan agreement. The payment of such debt produced the cancellation of the mortgages that IRSA had in connection with the issuance of the collateralized notes (13 functional units at Libertador 498, 71 complementary units in Laminar Plaza and 19 complementary units in Dique IV).

**Insurance.**

IRSA carry insurance policies with insurance companies that IRSA consider to be financially sound.

In its Development and Sale of Properties segment, IRSA only maintains insurance when IRSA retains ownership of the land under development or when IRSA develops the property ourselves.

IRSA's liability and fire insurance policies cover potential risks such as property damage, negligence liability, fire, falls, collapse, lightning and gas explosion, electrical and water damages, theft, and business interruption. Such insurance policies have specifications, limits and deductibles which IRSA believes are customary.

IRSA maintain insurance policies for our properties after the end of construction only if IRSA retain ownership, primarily in the Offices and Other Non-Shopping Center Rental Properties segment.

IRSA carries directors and officer's insurance covering management's civil liability, as well as legally mandated insurance, including employee personal injury.

IRSA also provide life or disability insurance for our employees as benefits.

IRSA believe our insurance policies are adequate to protect us against the risks for which IRSA are covered. Nevertheless, some potential losses are not covered by insurance and certain kinds of insurance coverage may become prohibitively expensive. See Risk Factors Risks Related to our Business Some potential losses are not covered by insurance, and certain kinds of insurance coverage may become prohibitively expensive.

**Table of Contents****C. ORGANIZATIONAL STRUCTURE****Subsidiaries and Affiliated Companies**

The following table includes a description of our subsidiaries and principal non-subsidiary investments, all of which are organized under the laws of Argentina, as of June 30, 2008:

<b>Subsidiaries</b>	<b>Effective Ownership and Voting Power Percentage</b>	<b>Property/Activity</b>
Inversiones Ganaderas S.A.	99.99%	This company owns two farms located in the Province of Catamarca: Tali Sumaj and El Recreo .
Agropecuaria Cervera S.A.	99.99%	This company has the concession for the start-up of production pertaining to a comprehensive biological, economic and social development project in various properties located in the Department of Anta, in the Province of Salta, and it is duly authorized to implement a large-scale project covering agricultural, cattle breeding and forestry activities.
Cactus Argentina S.A.	24.00%	This company represents our strategic alliance with Cactus Feeders Inc. and Tyson Foods Inc. for feed lot production. It owns a 170-hectare farm located in the district of Villa Mercedes in the Province of San Luis. It will have the capacity to support 75,000 head of beef cattle per year, in cycles of approximately 28,000 head each.
Agro-Uranga S.A.	35.72%	An agriculture, dairy and beef cattle company which owns two farms ( Las Playas and San Nicolás ) covering 8,299 hectares in the provinces of Santa Fe and Córdoba, and approximately 1,642 beef cattle head.
Futuros y Opciones.Com S.A.	68.10%	A leading agricultural web site which provides information about markets and services of economic and financial consulting through the Internet. The company has begun to expand the range of commercial services offered to the agricultural sector by developing direct sales of supplies, grain brokerage services and beef cattle operations.
IRSA Inversiones y Representaciones Sociedad Anónima	42.13%	It is a leading Argentine company devoted to the development and management of real estate.
BrasilAgro Companhia Brasileira de Propiedades Agrícolas	14.39%	BrasilAgro is mainly involved in four areas: sugar cane, grains and cotton, forestry activities, and livestock.
Exportaciones Agroindustriales Argentinas S.A.	0.36%	Exportaciones Agroindustriales Argentinas S.A. (EAASA) a company that owns a cold storage plant in Santa Rosa, Province of La Pampa, with capacity to slaughter and process approximately 9,500 cattle head per month.
Agrology S.A.	99.99% <sup>(1)</sup>	Agrology S.A. is a new venture that invests in financial instruments and manages equity interests in other companies.
FyO Trading S.A.	69.26% <sup>(2)</sup>	FyO Trading S.A. is a new venture that engages in agricultural production and commerce.

(1) Includes Inversiones Ganaderas S.A.'s interest.

(2) Includes Futuros y Opciones.Com S.A.'s interest.



**Table of Contents****D. PROPERTY, PLANTS AND EQUIPMENT****Overview of Properties**

The following table sets forth our properties size (in hectares), primary current use and book value. The market value of farmland is generally higher the closer a farm is located to Buenos Aires:

Owned Farms as of June 30, 2008						
	Province	Gross Size (in hectares)	Date of Acquisition	Primary Current Use	Net carrying value (Ps. millions) <sup>(1)</sup>	Encumbrances (Ps. million)
La Adela	Buenos Aires	1,054	Original	Crops	9.1	
La Juanita	Buenos Aires	4,302	Jan. 96	Crops/Milk	16.1	
San Pedro	Entre Ríos	6,022	Sep. 05	Crops/Beef Cattle	47.2	Mortgage 5.0
Las Vertientes	Córdoba	4		Silo	0.7	
La Esmeralda	Santa Fe	9,370	Jun. 98	Crops/Beef Cattle	10.7	
La Suiza	Chaco	41,993	Jun. 98	Beef Cattle	29.6	
Santa Bárbara / Gramilla	San Luis	7,052	Nov. 97	Crops under irrigation	19.1	
Cactus <sup>(2)</sup>	San Luis	41	Dec. 97	Feed lot	0.9	
Tali Sumaj / El Reñeño	Catamarca	26,922	May. 95	Beef Cattle/ Natural Woodlands	5.8	
Los Pozos	Salta	242,516	May 95	Beef Cattle/Crops/Natural Woodlands	43.9	
El Invierno	La Pampa	1,946	Jun. 05	Crops	9.2	
San Nicolás / Las Playas	Sta.Fe/ Cba.	2,965	May. 97	Crops/Beef Cattle	12.9	
El Tigre	La Pampa	8,365	Apr. 03	Crops/Milk	34.9	
8 de Julio	Santa Cruz	90,000	May. 07	Natural Woodlands/ Sheep production	8.2	
La Esperanza	La Pampa	980	Mar. 08	Crops	4.3	
Total		443,532			252.6	

(1) Acquisition costs plus improvements and furniture necessary for the production, less depreciation.

(2) Hectares and carrying amount in proportion to our 24.0% interest in Cactus Argentina S.A.

(3) Hectares and carrying amount in proportion to our 99.99% interest in Inversiones Ganaderas S.A.

(4) Hectares and carrying amount in proportion to our 35.723% interest in Agro-Uranga S.A.

**Insurance**

We carry insurance policies with insurance companies that we consider to be financially sound.

We employ multi-risk insurance for our farming facilities and industrial properties, which covers property damage, negligence liability, fire, falls, collapse, lightning and gas explosion, electrical and water damages, theft, and business interruption.

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Such insurance policies have specifications, limits and deductibles which we believe are customary. Nevertheless, they do not cover damages to our crops.

We carry directors and officer's insurance covering management's civil liability, as well as legally mandated insurance, including employee personal injury.

We also provide life or disability insurance for our employees as benefits.

We believe our insurance policies are adequate to protect us against the risks for which we are covered. Nevertheless, some potential losses are not covered by insurance and certain kinds of insurance coverage may become prohibitively expensive.

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The types of insurance used by the company are the following:

<b>Insured property</b>	<b>Risk covered</b>	<b>Amount insured Pesos</b>	<b>Book value Pesos</b>
Buildings, machinery, silos and furniture	Theft, fire and technical insurance	73,113,993	35,618,183
Vehicles	Theft, fire and civil and third parties liability	2,321,686	849,545

**Item 4A. Unresolved Staff Comments.**

None.

**Item 5. Operating financial review and prospects****A. CONSOLIDATED OPERATING RESULTS**

The following management's discussion and analysis of our financial condition and results of operations should be read together with Selected Consolidated Financial Data and our consolidated financial statements and related notes appearing elsewhere in this annual report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. These forward-looking statements include such words as, expects, anticipates, intends, believes and similar language. Our actual results may differ materially and adversely from those anticipated in these forward-looking statements as a result of many factors, including without limitation those set forth elsewhere in this annual report. See Item 3 Risk Factors for a more complete discussion of the economic and industry-wide factors relevant to us and the opportunities and challenges as a result of the global economic crisis, and risks on which we are focused.

For purposes of the following discussion, unless otherwise specified, references to fiscal years 2008, 2007 and 2006 relate to the fiscal years ended June 30, 2008, 2007 and 2006, respectively.

We maintain our financial books and records in Pesos. We prepare our consolidated financial statements in conformity with Argentine GAAP and the regulations of the *Comisión Nacional de Valores* which differ in significant respects from U.S. GAAP. These differences involve methods of measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 20 to our audited consolidated financial statements included elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of our net income and shareholders' equity.

**Effects of the economic crisis since 2001**

Our historical financial results have been, and are expected to continue to be, materially affected by the general level of economic activity and growth of per capita disposable income in Argentina, where all of our assets are located and our operations are performed. From December 2001 through most of 2002, Argentina experienced a crisis that virtually paralyzed its economy and led to radical changes in government policies. Argentina's trade and fiscal deficits and the rigidity of its fixed exchange rate system (known as the convertibility regime), combined with the country's excessive reliance on foreign capital and with its mounting external debt, resulted in a deep contraction of the economy and in banking and fiscal crises when capital started to leave the country.



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In response to the political and economic crisis, the Argentine government undertook a number of far-reaching initiatives that significantly changed the monetary and foreign exchange regime and the regulatory framework for conducting business in Argentina. Between December 2001 and January 2002, Argentina abolished the fixed parity between the Peso and the U.S. dollar, rescheduled bank deposits, converted dollar denominated debts into pesos, and suspended payment on a significant portion of its public debt.

Most sectors of the Argentine economy were severely affected by the crisis and regulatory changes. In April 2002, the economy started its path to stabilization and realized a clear improvement of economic variables during the second half of the year, mainly as a result of expanding exports and decreasing imports. While the devaluation of the Peso had significant adverse consequences, it resulted in a positive balance for Argentina's current account, which fostered a reactivation of domestic production. The sharp decline in the Peso's value against foreign currencies, together with a decline in production costs in U.S. dollar terms, made Argentine products relatively inexpensive in the export markets. At the same time, the costs of imported goods increased significantly due to the devaluation of the Peso, forcing Argentine consumers to substitute their purchase of foreign goods with domestic products, substantially boosting domestic demand for domestic products.

During the second half of 2002, Argentina's Gross Domestic Product (GDP) increased 4.4%, and the consumer price index inflation was 8.0% for the six-month period ended December 31, 2002, compared to 30.5% for the six-month period ended June 30, 2002. The improving economic conditions, particularly the reduction of capital outflows from the Argentine economy and the banking system, allowed the government to begin lifting restrictions on bank withdrawals in November 2002.

Despite the improvement in economic conditions during the second half of 2002, Argentina's overall GDP contracted 10.9% for the full year, receding to 1993 values, investment collapsed (with, for example, negative growth of 43% in the second quarter compared to the second quarter of 2001), and inflation increased sharply. The main impact of the crisis was the tremendous social hardship. Unemployment rose from 12.9% to 19.7% between 1998 and 2002, real wages declined 24% in 2002, and the poverty index increased from 29% of the population in 2000 to 52% in 2002.

In May 2003, Argentina's political environment was reorganized when Néstor Kirchner took office as president. The economy continued to show indications of recovery, as GDP grew 8.8% in 2003. A combination of sound fiscal and monetary policies kept consumer price inflation under control at 3.5% in 2003. During 2003, Argentina moved towards normalizing its relationship with the IMF, withdrew all the national and provincial governments' quasi-money securities from circulation (amounting to Ps.7.8 billion), and eliminated all deposit restrictions. The trade balance experienced a sustained surplus, aided by the rise in commodity prices and export volumes. Social indicators also improved. The unemployment rate decreased to 17.3% in 2003 and real wages began to recover.

During 2004 and 2005, the Argentine economy continued to grow. GDP grew 9.0% in 2004 and 9.0% in 2005 according to the Central Bank's survey of independent forecasting firms. Inflation remained relatively low in 2004 although it almost doubled to 6.1% from 2003, and it increased to 12.3% during 2005, 9.8% during 2006, 8.5% during 2007 and 4.7% as of the first semester of 2008.

In June 2005, the Argentine government completed a restructuring of a substantial portion of the federal government's public debt, which had been in default since December 2001. Argentina reduced the outstanding principal amount of its public debt from US\$191.3 billion to US\$126.6 billion and negotiated lower interest rates and extended payment terms. Approximately US\$19.5 billion of defaulted bonds held by creditors who did not participate in the exchange offer remain outstanding.

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During 2008, the global economy has deteriorated significantly as a consequence of the subprime mortgage crisis. Therefore, Argentina faces a global economic slow-down that may significantly impair economic growth. However, Argentina can continue to generate positive export balances through the export of primary commodities and industrial manufactures.

Although Argentina's economy has recovered significantly from the crisis of 2002, the effects of the global economic slow-down on Argentina can not be predicted. We cannot assure you that the favorable economic conditions that Argentina has experienced in recent years will continue. See Risk Factors Risks Related to Argentina.

**Effects of inflation**

From 1997 until the end of year 2001, the Argentine government's policies substantially reduced the level of inflation. Therefore, during that period inflation did not significantly affect our financial condition and results of operations. The following are annual inflation rates since 2002 published by the Argentine Ministry of Economy and Production:

Year ended June 30,	Consumer Price Index	Wholesale Price Index
2002	28.4%	88.2%
2003	10.2%	8.1%
2004	4.9%	8.6%
2005	9.0%	7.7%
2006	11.0%	12.1%
2007	8.8%	9.4%
2008	9.3%	13.8%

The increase in inflationary risk may erode our present macroeconomic stability, causing a negative impact on our operations.

During 2006 and 2007 retail prices increased significantly, making inflation one of the main economic issues. In order to hold back inflation, the government signed trade agreements, primarily within the food and textile sectors. The Wholesale Price Index ( IPIM ) increased by 9.1% in the first eleven months of 2008. This shows that inflation is one of the most important problems facing Argentina today.

**Effects of interest rate fluctuations**

Most of our U.S.dollar denominated debt accrues interest at a fixed rate. An increase in interest rates will not necessarily result in a significant increase in our financial costs and may not materially affect our financial condition and our results of operations.

**Effects of foreign currency fluctuations**

A significant portion of our financial debt is denominated in U.S.dollars. Therefore, a devaluation of the Argentine Peso against the U.S.dollar would increase our indebtedness measured in Pesos and materially affect our results of operations. Foreign currency exchange rate fluctuations significantly increase the risk of default on our mortgages and lease receivables. Due to the fact that many of our customers have their cash flows in Pesos, a fluctuation of exchange rate may increase their U.S.dollar-denominated liabilities. Foreign currency exchange restrictions that may be imposed by the Argentine Government could prevent or restrict our access to U.S.dollars, affecting our ability to service our U.S. dollar denominated liabilities.

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### **Factors Affecting Comparability**

#### ***Purchase and Sales of Farms***

Our strategy includes the identification, acquisition, exploitation and selective disposition of rural properties that have attractive prospects for long-term value appreciation. As a part of this strategy, from time to time we purchase and sell farms. The acquisition or disposition of farms in any given period may make the production results of that period difficult to compare to those of other periods.

#### ***Seasonality***

Our business activities are inherently seasonal. Harvest and sales of grains (corn, soybean and sunflower) in general take place from February to June. Wheat is harvested from December to January. Other segments of our activities, such as our sales of cattle and milk and our forestry activities, tend to be more of a successive character than of a seasonal character. However, the production of beef and milk is generally higher during the second quarter, when pasture conditions are more favorable. Therefore, there may be significant variations in results from one quarter to the other.

### **Revenue Recognition**

We derive our revenues primarily from (i) the sale of crops, milk and live beef cattle, (ii) cattle feed lot operations, (iii) leasing of our farms to third parties and (iv) commodity brokerage activities.

*Sales.* We recognize revenue on sales of crops, milk and beef cattle when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. We recognize revenue from cattle feeding operations, primarily comprised of feeding, animal health and yardage, and revenue from operating leases and brokerage activities as services are performed.

From time to time we sell properties which we consider not essential to our core operations in order to profit from real estate appreciation opportunities. We record farmland sales under the accrual method of accounting and do not recognize such sales until (i) the sale is consummated, (a sale is not considered consummated until (a) the parties are bound by the terms of a contract, (b) all consideration has been exchanged, (c) any permanent financing for which the seller is responsible has been arranged and (d) all conditions precedent to closing have been performed); (ii) we determine that the buyer's initial and continuing investments in the property being sold are adequate to demonstrate its commitment to pay for the property (the adequacy of a buyer's initial investment is measured by (a) its composition and (b) its size compared with the sale value of the property); (iii) the corresponding receivable is not subject to future subordination (our receivable will not be placed in or occupy a lower rank, class or position with respect to other obligations of the buyer) and (iv) we have transferred to the buyer the usual risks and rewards of ownership and have no continuing substantial involvement in the property.

### **Critical Accounting Policies**

In connection with the preparation of our consolidated financial statements included in this annual report, we have relied on variables and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Although we review these estimates and assumptions in the ordinary course of business, the presentation of our financial condition and

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results of operations often requires our management to make judgments regarding the effects of matters that are inherently uncertain on the carrying value of our assets and liabilities. Actual results may differ significantly from those estimated under different variables, assumptions or conditions. We have described each of the following critical accounting policies and estimates in order to provide an understanding about how our management forms judgments and views with respect to such policies and estimates, as well as the sensitivity of such policies and estimates:

investments in affiliates;

impairment of long-lived assets;

intangible assets concession rights;

derivative instruments; and

deferred income tax.

***Investments in affiliates***

We use the equity method of accounting for investments in related companies in which we have significant influence. Critical accounting policies of these related companies include provisions on allowances and contingencies, impairment of long-lived assets, accounting for debt restructuring and accounting for deferred income taxes and tax assets.

As of June 30, 2008, investments in subsidiaries and affiliates amounted to Ps.925.6 million, representing 44.7% of our total consolidated assets.

***Acquisition of equity investees***

Companies purchased by us were recorded in line with the acquisition method set forth in Technical Resolution (RT) No. 18. All assets and liabilities acquired from independent third parties were adjusted to show their fair value. We identified the assets and liabilities acquired, including intangible assets such as: lease contracts acquired for values higher or lower than market value; costs incurred in entering into current lease contracts (the latter being the market cost that we avoid paying for acquiring lease contracts in operation), the value of brands acquired, the value of deposits associated with the investment in Banco Hipotecario, and the intangible value of relationships with customers.

The process of identification and the related determination of fair values requires complex judgments and significant estimates.

We used the information contained in valuations estimated by independent appraisers as the primary basis for assigning the price paid to the land, buildings, shopping centers, inventories, and hotels from the companies acquired. The amounts assigned to all the other assets and liabilities were based on independent valuations or on our own analysis of comparable assets and liabilities. The fair value of tangible assets acquired considers the property value as if it were unfurnished.

Under the terms of RT No. 21, if the fair value of the tangible and intangible assets and liabilities identified exceeds the price paid, the intangible assets acquired are not recognized as they would give rise to an increase in negative goodwill at the time of acquisition. If the price paid exceeds the fair value of tangible and intangible assets and liabilities identified, the excess is considered as positive goodwill.

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*Goodwill*

Negative goodwill and goodwill

Goodwill represents the difference between the purchase price paid and the fair market value of net assets acquired. Goodwill is not amortized as it has an undefined useful life.

When the sum of the individual fair values of the identifiable tangible and intangible assets exceeds the purchase price paid, negative goodwill exists. Under Argentine GAAP, when negative goodwill exists after an acquiring entity initially assigns values to all assets acquired and liabilities assumed, RT No. 18 states that the entity must first reassess whether all acquired assets and assumed liabilities have been identified and properly valued. If an amount of negative goodwill still results after this reassessment, intangible assets acquired (including above and below market leases, in-place leases, trademarks, tenant relationships and core deposits, as applicable), are subject to reduction. If after all of these intangible assets are reduced to zero and an amount of negative goodwill still remains, the remaining unallocated negative goodwill is amortized under the straight-line method over the weighted average useful life of the main tangible assets acquired, which ranges from 20 to 29 years, or accelerated as long as the acquired entity disposes its identifiable assets.

The carrying amount does not exceed their respective estimated recoverable value at the end of this year

*IRSA*

As of June 30, 2008 we own 42.13% of the common shares of IRSA, one of Argentina's largest real estate companies.

IRSA is engaged in a range of diversified real estate activities including residential properties, office buildings, shopping centers, consumer financing, and luxury hotels in Argentina. A majority of our directors are also directors of IRSA. At the end of fiscal year 2008, our investment in IRSA represented approximately 35.1% of our total consolidated assets, and during fiscal year 2008, our gain from our investment in IRSA was Ps.31.5 million.

On September 25, 2007, we converted US\$12.0 million of IRSA's convertible notes into 22.0 million common shares of IRSA. From July 30, 2007 to November 14, 2007 we exercised 33.0 million warrants to acquire an additional 60.5 million common shares of IRSA for approximately US\$40.0 million. The term for the exercise of IRSA's outstanding warrants and the conversion of IRSA's outstanding convertible notes issued on November 21, 2002 expired on November 14, 2007. Additionally, as of June 30, 2008, we acquired 45,019,910 additional shares of IRSA on the open market for US\$ 62,714,823.

From July 1, 2008 to December 17, 2008 we acquired 68,712,005 additional shares of IRSA on the open market for US\$ 47,423,279. Thus, our direct and indirect interest in IRSA through our affiliates amounts to 54.01%. Therefore we consolidate IRSA as of that date.

**Table of Contents***BrasilAgro*

As of June 30, 2008, we owned 14.39% of BrasilAgro and had the ability to exercise significant influence over this company. We value our investment in BrasilAgro under the equity method of accounting because of: (a) our capacity to affect the operational and financial decisions due to the fact that (i) in accordance with BrasilAgro's by-laws, we are entitled to appoint three of BrasilAgro's nine directors (including the chairman of its board of directors every other two years), (ii) three directors are designated by BrasilAgro's other shareholders and (iii) the remaining three are independent directors appointed jointly by all shareholders, and (b) our rights under the shareholders' agreement among us, Tarpon Agro LLC, and Tarpon Invermentos S.A. Under the terms of this shareholders' agreement, the signatories have agreed to vote together at shareholders meetings with respect to matters related to proposals to change directors' and administrators' fees, increases of capital stock and declaration of dividends, among other issues. During fiscal year 2008, we acquired 4,086,800 shares issued by BrasilAgro. As a result of this acquisition, we owned a 14.39% interest as of June 30, 2008.

*Impairment of long-lived assets*

We periodically evaluate the carrying value of our long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We consider the carrying value of a long-lived asset to be impaired when its value in use or its net realizable value, whichever is greater, is less than its carrying value. Value in use is determined by the expected cash flows from the assets discounted at a rate commensurate with the risk involved. Net realizable value is determined by the selling price of the assets less costs to sell.

A previously recognized impairment loss is reversed when there is a subsequent change in estimates used to compute the fair market value of the asset. In that event, the new carrying amount of the asset is the lower of its fair market value or the net carrying amount the asset would have had if no impairment had been recognized. Both the impairment and the impairment reversal are recognized in earnings.

We believe that the accounting policy concerning the impairment of long-lived assets is a critical accounting policy, because considerable judgment is necessary to estimate future cash flows and this may differ from actual results. For example, farms are non-depreciable assets, and their value could be calculated as a perpetuity (i.e. dividing the expected return of each farm by a discount rate commensurate with the market risk involved). As farming is a low-risk business we used a 6% discount rate for the purposes of the perpetuity value calculation. Even if there had been a 20% reduction in the expected return, it would not have been necessary to recognize any loss for impairment of our farm assets.

*Intangible assets - concession rights*

We recorded the concession from the Province of Salta, in northern Argentina, received upon our acquisition of Agropecuaria Cervera S.A. ( Agropecuaria Cervera ) as an amortizable intangible asset at its fair value. Concession rights will be amortized over the life of the concession, which was set at 35 years, with an option to extend it for an additional 29-year period. Amortization began at the time of the start-up of operations, which occurred during the fiscal year ended June 30, 2008.

This intangible asset will be tested for impairment whenever events or circumstances indicate that impairment may have occurred. If the carrying amount of an intangible asset exceeds its fair value based on future undiscounted cash flows, an impairment loss will be recognized. The amount of the impairment loss to be recorded would be based on the excess of the carrying amount of the intangible asset over its future discounted cash flows. Judgment is used in assessing whether the carrying amount of intangible assets is not expected to be recoverable over their remaining useful

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lives. The determination of the fair value requires significant management judgment including estimating future sales volumes, selling prices and costs, changes in working capital, investments in property and equipment and the selection of an appropriate discount rate. Sensitivities of these fair value estimates to changes in assumptions for sales volumes, selling prices and costs are also tested.

### ***Derivative instruments***

We record all derivative instruments as assets or liabilities on our balance sheet at fair value. We record changes in the fair value of derivatives either in income or other comprehensive income, as appropriate. The gain or loss on derivatives designated as fair value hedges and the offsetting loss or gain on the hedged item attributable to the hedged risk are included in current income in the period that changes in fair value occur. The gain or loss on derivatives designated as cash flow hedges is included in other comprehensive income in the period that changes in fair value occur and is reclassified to income in the same period that the hedged item affects income.

### ***Deferred income tax***

We record income taxes using the deferred tax liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We have treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes.

At year-end there are temporary net liabilities (tax liabilities) mainly originated in the beef cattle valuation and the sale and replacement of fixed assets. Management has made estimates that allow us to recognize this deferred tax.

We believe that the accounting estimate related to deferred income tax is a critical accounting estimate because:

it is highly susceptible to change from period to period because it requires management to make assumptions, such as future revenues and expenses, exchange rates and inflation, among others; and

the impact that calculating income tax using this method would have on assets or liabilities reported on our consolidated balance sheet as well as on the income tax expense reported in our consolidated statement of income could be material.

### **Adoption by the *Comisión Nacional de Valores* of CPCECABA standards.**

The *Comisión Nacional de Valores* issued General Resolutions 485 and 487 on December 29, 2005 and January 26, 2006, respectively, adopting, with certain modifications, the new accounting standards previously issued by CPCECABA through its Resolution CD 93/2005. These standards became effective for our fiscal year ended June 30, 2007. The most significant changes included in the accounting standards adopted by the *Comisión Nacional de Valores* relate to:

changes in the impairment test of long-lived assets; and

changes to deferred income tax accounting.

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Under the new standards, the carrying value of a long-lived asset is considered by a company to be impaired when the expected cash flows from such asset are separately identifiable and less than its carrying value. Expected cash flows are determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. The new standards also provide for the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements. The new accounting standard mandates companies to treat these differences as temporary differences but allows a one-time accommodation to continue treating the differences between the tax basis and indexed book basis of non-monetary items as permanent at the time of adoption of the standard. As a result, we elected to continue treating differences as permanent. In addition, the new standards provide for the recognition of deferred income taxes on a non-discounted basis.

### **Principal differences between Argentine GAAP and U.S. GAAP**

The principal differences, other than inflation accounting, between Argentine GAAP and U.S. GAAP are related to the following:

Effect of U.S. GAAP adjustments on equity investees;

Valuation of inventories;

Deferred income tax;

Elimination of gain on acquisition of minority interest;

Available-for-sale securities;

Accounting for convertible notes;

Effect of U.S. GAAP adjustments on management fee;

Reversal of gain recognized for assets held for sale;

Accounting for Warrants; and

Accounting for uncertainty in income taxes.

In addition, certain other disclosures required under U.S. GAAP have been included in the U.S. GAAP reconciliation. See Note 20 to our audited consolidated financial statements included elsewhere in this annual report.

Net income under Argentine GAAP for the years ended June 30, 2008, 2007 and 2006 was approximately Ps.22.9 million, Ps.49.4 million and Ps.32.9 million, respectively, compared to approximately Ps.16.4 million, Ps.49.3 million and Ps.27.5 million, respectively, under U.S. GAAP. Shareholders' equity under Argentine GAAP as of June 30, 2008 and 2007, was Ps.1,762.3 million and Ps.825.0 million, respectively, compared to Ps.1,515.6 million and Ps.925.1 million, respectively, under U.S. GAAP.





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### **Segment Information**

We are required to disclose segment information in accordance with RT No. 18. RT No. 18 establishes standards for reporting information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) (CODM) in deciding how to allocate resources and assess performance. The statement also establishes standards for related disclosures about a company's products and services, geographical areas and major customers.

We are primarily engaged in agricultural operations, which are subject to risk, including market prices, weather conditions and environmental concerns. However, from time to time, we sell properties to profit from real estate appreciation opportunities and which, in the judgment of management, are surplus to the Company's primary operations. Gain on the sale of properties is presented in a separate line within operating income in the consolidated statement of income.

For the fiscal years ended June 30, 2008, 2007 and 2006, our principal operations were carried out in Argentina, our country of domicile. As discussed in Note 2.g) to our audited financial statements, in March 2006, we formed BrasilAgro to replicate our business strategy in Brazil.

The results of equity investees are included in our Non Operating segment excluding the gains or losses on Cactus as further explained below.

We conduct business in five business segments, organized primarily on a product-line basis, with each segment offering a variety of different but interrelated products:

Our Crops segment includes the planting and harvesting and sale of fine and course grains and oilseeds, including wheat, corn, soybean and sunflower.

Our Beef Cattle segment consists of (i) the raising and fattening of beef cattle from our owned cattle stock and (ii) the purchase and fattening of beef cattle for sale to meat processors.

Our Milk segment consists of the production of milk for sale to dairy companies.

Our Feed lot segment includes our cattle feeding operation.

Our Others segment consists of services and leasing of our farms to third parties, and commodity brokerage activities.

Through December 31, 2006, our Feed Lot Segment included the proportionate share of the cattle feedlot operations through its joint venture in Cactus. The performance of the Feed Lot Segment was evaluated based on gross profit less selling expenses plus unrealized gains or losses on inventories. As from January 1, 2007, our equity interest in Cactus decreased to 24% and was deconsolidated. Thus, gains or losses from feed lot operations are shown as gains or losses from equity investees. The CODM still evaluates the results from feed lot operations separately from the other gains or losses from equity investees included in the Non-Operating Segment. However the performance is now measured as for the other equity investees of the Company by the gain or loss from the equity investee. Our Non Operating segment includes gains or losses from equity investees (excluding gain or loss from Cactus) and depreciation for corporate assets.

We evaluate the performance of its business segments based on gross profit less selling expenses plus gains or losses on inventories. The column titled "Total" represents the addition of the segment gains or losses from the Crops, Beef Cattle, Milk and Others Segments plus the gain or

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loss from the equity investee in Cactus. Excluded from the total are the gains or losses from the other equity investees of the Company included in the Non-Operating Segment. Accounting policies of the five reportable segments are the same as those described in the summary of significant accounting policies. Intercompany transactions between segments, if any, are eliminated.

Financial information for each segment follows:

**Year ended June 30, 2008**

	<b>Crops</b>	<b>Beef Cattle</b>	<b>Milk</b>	<b>Feed lot</b>	<b>Others</b>	<b>Non Operating<sup>(i)</sup></b>	<b>Total</b>
<b>Income Statement Data</b>							
Sale income	Ps. 117,473,605	Ps. 23,926,925	Ps. 18,420,338	Ps.	Ps.	Ps.	Ps. 159,820,868
Cost of production	(82,150,711)	(19,316,000)	(14,283,089)				(115,749,800)
Sales.	86,870,493	32,431,928	17,492,552		25,785,987		162,580,960
Cost of sales	(75,948,518)	(30,038,217)	(17,629,859)		(17,379,224)		(140,995,818)
Unrealized (loss) / gain on inventories	(10,877,719)	6,721,830	1,813,324				(2,342,565)
Selling expenses	(11,241,239)	(1,378,986)	(163,275)		(1,713,623)		(14,497,123)
Gain on equity investees				(473,934)		38,891,141	(473,934)
Segment gain	24,125,911	12,347,480	5,649,991	(473,934)	6,693,140		48,342,588
Operating margin <sup>(ii)</sup>	11.8%	21.9%	15.7%		26.0%		15.0%
Depreciation	(3,421,031)	(1,268,270)	(164,885)		(1,002,205)	(617,456)	(6,473,847)
<b>Balance Sheet Data</b>							
Assets <sup>(iii)</sup>	Ps. 299,705,535	Ps. 173,433,405	Ps. 37,320,801	Ps. 10,995,209	Ps. 5,633,894	Ps. 1,542,671,345	Ps. 2,069,760,189

(i) Not included in the segment gain.

(ii) Segment gain divided by the sum of production income and sales.

(iii) Includes Ps.925,618,251 related to our equity interests in IRSA and Agro Uranga. Remaining assets comprise cash and banks, current investments, trade account receivables and other receivables.

**Year ended June 30, 2007**

	<b>Crops</b>	<b>Beef Cattle</b>	<b>Milk</b>	<b>Feed lot</b>	<b>Others</b>	<b>Non Operating<sup>(i)</sup></b>	<b>Total</b>
<b>Income Statement Data</b>							
Production income	Ps. 72,426,012	Ps. 19,462,410	Ps. 10,911,397	Ps.	Ps.	Ps.	Ps. 102,799,819

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Cost of production	(51,538,292)	(15,050,438)	(8,476,391)				(75,065,121)
Sales	53,401,376	31,966,582	9,730,929	3,102,229	12,116,372		110,317,488
Cost of sales	(47,350,203)	(30,272,710)	(9,730,929)	(2,784,315)	(6,737,019)		(96,875,176)
Unrealized (loss) / gain on inventories	(3,926,654)	4,195,377	845,483	62,083			1,176,289
Selling expenses	(7,779,324)	(1,155,190)	(78,466)		(958,911)		(9,971,891)
Gain on equity investees						40,198,825	
Segment gain	15,232,915	9,146,031	3,202,023	379,997	4,420,442		32,381,408
Operating margin <sup>(i)</sup>	12.1%	17.8%	15.5%	12.2%	36.5%		15.2%
Depreciation	(2,032,714)	(1,324,148)	(431,035)		(164,730)	(506,440)	(4,459,067)
<b>Balance Sheet Data</b>							
Assets <sup>(iii)</sup>	Ps. 207,607,195	Ps. 165,295,847	Ps. 28,954,741	Ps. 11,166,028	Ps. 1,736,875	Ps. 657,119,730	Ps. 1,071,880,416

- (i) Not included in the segment gain.
- (ii) Segment gain divided by the sum of production income and sales.
- (iii) Includes Ps.436,554,114 related to our equity interests in IRSA, BrasilAgro, Cactus and Agro Uranga. Remaining assets comprise cash and banks, current investments, trade account receivables, other receivables and intangible assets.

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Year ended June 30, 2006

	Crops	Beef Cattle	Milk	Feed lot	Others	Non Operating <sup>(i)</sup>	Total
<b>Income Statement Data</b>							
Production income	Ps. 37,005,907	Ps. 20,452,655	Ps. 7,892,462	Ps.	Ps.	Ps.	Ps. 65,351,024
Cost of production	(34,635,590)	(18,780,372)	(5,845,360)				(59,261,322)
Sales	61,659,566	33,713,479	7,892,462	2,721,377	6,353,777		112,340,661
Cost of sales	(52,948,920)	(32,993,523)	(7,892,462)	(2,318,102)	(3,257,448)		(99,410,455)
Unrealized gain / (loss) on inventories	1,054,094	2,979,122	(144,941)	13,530			3,901,805
Selling expenses	(8,657,797)	(1,026,535)	(51,782)	(53,852)	(361,486)		(10,151,452)
Gain on equity investees						22,140,997	
Segment gain	3,477,260	4,344,826	1,850,379	362,953	2,734,843		12,770,261
Operating margin <sup>(ii)</sup>	3.5%	8.0%	11.7%	13.3%	43.0%		7.2%
Depreciation	(2,071,635)	(1,385,720)	(540,989)	(304,637)	(78,714)	(730,392)	(5,112,088)
<b>Balance Sheet Data</b>							
Assets <sup>(iii)</sup>	Ps. 133,840,099	Ps. 147,615,752	Ps. 20,382,880	Ps. 3,641,461	Ps. 3,903,962	Ps. 561,271,730	Ps. 870,655,884

(i) Not included in the segment gain.

(ii) Segment gain divided by the sum of production income and sales.

(iii) Includes Ps.391,545,431 related to our equity interests in IRSA, BrasilAgro and Agro Uranga. Remaining assets comprise cash and banks, current investments, trade account receivables, other receivables and intangible assets.

**Cresud's Results of Operations**

Effective July 1, 2006, we adopted Technical Resolution No. 22 Agricultural Activities (RT No. 22). RT No. 22 prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets. RT No. 22 prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. It requires measurement at fair value less estimated point-of-sale costs from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. RT No. 22 requires that a change in fair value less estimated point-of-sale costs of a biological asset be included in profit or loss for the period in which it arises. RT No. 22 also requires that gains or losses arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs to be included in profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the entity. RT No. 22 is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Accordingly, RT No. 22 does not deal with the processing of agricultural produce after harvest; for example, the processing of milk into cheese.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset. Biological assets are living unharvested crops, heads of cattle and milking cows. Agricultural produce such as harvested crops, beef milk and raw materials are the harvested product of biological assets. Biological transformation results in the following types of outcomes: asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants).



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The adoption of RT No. 22 did not have an impact in our measurement and recognition of biological transformation. Rather, it changed the format of our income statement. Under RT No. 22 we break down the components of our costs as separate line items in the income statement. There was no change in our gross profit for any of the periods presented.

Prior to the adoption of RT No. 22 gains or losses arising from initial recognition of biological assets and agricultural produce as well as changes in biological assets were included as a deduction from costs of sales. Under RT No. 22 these changes are disclosed separately in the income statement under the line item titled "Production income" in our income statement.

Also, prior to the adoption of RT No. 22, costs directly related to the transformation of biological assets and agricultural produce were also included as an addition to costs of sales. Under RT No. 22, these costs are disclosed separately in the income statement under the line item titled "Cost of production" in our income statement due to the direct relationship to the transformation of biological assets and agricultural produce.

The adoption of RT No. 22 did not affect our recognition of revenue which is included in the line item titled "Sales" in our income statement. See Note 2 u) to our consolidated financial statements. As a result of the adoption of RT No. 22, our costs of sales show direct costs related to the sales of agricultural produce other than selling expenses. RT No. 22 intends to purport that costs of sales are not significant in agricultural activities while costs of biological transformation into agricultural produce represent the major costs of these activities.

In addition, under RT No. 22, the exhibits entitled "Cost of Sales" and "Cost of Production" included in our consolidated financial statements present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the relevant periods. This reconciliation includes (a) the gain or loss arising from changes in fair value less estimated point-of-sale costs; (b) increases due to purchases; (c) decreases attributable to sales and biological assets classified as held for sale; (d) decreases due to harvest; (e) increases resulting from business combinations, if any; (f) other changes.

The following terms used herein with the meanings specified:

*Production Income.* We recognize production income when there is a change in biological assets. For example, we recognize production income when crops are harvested or a cow is born or gains a certain amount of weight. Biological assets are living animals or plants, such as unharvested crops, heads of cattle and milking cows. Agricultural produce such as harvested crops, beef, milk and raw materials are the harvested product of biological assets.

*Cost of Production.* Our cost of production consists of costs directly related to the transformation of biological assets and agricultural produce.

*Sales.* Our sales consist of revenue on the sales of crops, milk and beef cattle. Sales are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. Revenue from cattle feeding operations, primarily comprised of feeding, animal health and yardage, and revenue from operating leases and brokerage activities are recognized as services are performed.

*Cost of Sales.* Our cost of sales consists of certain direct costs related to the sales of agricultural produce other than selling expenses.

*Results from inventory holding and transactions in the Buenos Aires Futures and Options Exchange Market and Chicago Board of Trade (CBOT).* Our gain from inventory holding consists of the changes in the carrying amount of biological assets between the beginning and the end of current period and transactions in the Buenos Aires Futures and Options Exchange Market and Chicago Board of Trade (CBOT).

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### **Operating Results**

#### **Fiscal year ended June 30, 2008 compared to fiscal year ended June 30, 2007**

##### ***Production income***

Production income was Ps.159.8 million for the fiscal year 2008, 55.5% higher than the amount recorded for the previous fiscal year. This was primarily attributable to a Ps.45.0 million increase in our Crops segment, a Ps.4.5 million increase in our Beef cattle segment, and a Ps.7.5 million increase in our Milk segment.

##### ***Crops***

Production income from our Crops segment increased 62.2%, from Ps.72.4 million for fiscal year 2007 to Ps.117.5 million for fiscal year 2008, primarily as a result of:

a 13.3% increase in total production volumes, from 174,905 tons in fiscal year 2007 to 198,146 tons in fiscal year 2008, mainly due to an increase in volumes of wheat (27.7%), corn (17.4%) and sunflower (36.6%) harvested, partially offset by a decrease of 2.9% in volumes of soybean harvested from year to year; and

a 39.8% increase in average prices for our grains.

The 13.3% increase in the production volume from our Crops segment was mainly due to our harvest of a larger area of crops, from 49,244 hectares in fiscal year 2007 to 59,639 hectares in fiscal year 2008 (including 3,811 hectares under concession through our subsidiary Agropecuaria Cervera S.A.).

As of June 30, 2008, the harvested surface was 91.7% of our total sown surface, compared to 94.5% as of June 30, 2007.

In addition, the production volume in our Crops segment was adversely impacted by a 6.5% decrease in our average yields, from 3.6 tons per hectare during fiscal year 2007 to 3.3 tons per hectare during fiscal year 2008, mainly as a result of a 21.1% increase in the exploited surface in fiscal year 2008 compared to the previous year, the mix of grains harvested and unfavorable weather conditions.

The average grain price (at market value) increased 31.0%, from Ps.426 per ton for fiscal year 2007 to Ps.558 per ton for fiscal year 2008.



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The following table shows the average board prices <sup>(1)</sup> per ton as of June 30, 2007 and 2008:

	Fiscal year ended June 30,	
	2007	2008
	Ps.	Ps.
Wheat	450	633
Sunflower	930	1,000
Corn	340	528
Soybean	630	904

<sup>(1)</sup> Rosario Commodities Exchange board prices

*Beef Cattle*

Production income for the Beef Cattle segment increased 22.9%, from Ps.19.5 million for fiscal year 2007 to Ps.23.9 million for fiscal year 2008, primarily as a result of:

a 38.7% increase in the average price per kilogram of cattle produced, from Ps.2.0 during fiscal year 2007 to Ps.2.7 during fiscal year 2008;

partially offset by a 11.4% decrease in the production volume of beef, from 9,913 tons for fiscal year 2007 to 8,786 tons for fiscal year 2008, in part as a result of the deconsolidation of Cactus due to the reduction of our equity interest from 50.0% to 24.0%, compared to the proportional consolidation of this subsidiary during the six months ended December 31, 2006;

a 38.8% decrease in the production volume of cattle heads slaughtered in the feedlot during fiscal year 2008 compared to the previous year;

a decrease in the production volume as a result of the drought which led to the transfer of beef cattle to other farms, thus generating alterations in feeding; in addition, as a consequence of the winter, we obtained grass of lower quality, which affected slaughtering and subsequent sale in previous stages;

a decrease in the production volume due to the sale of the Tapenagá farm; and

a slight 2.3% decrease in births during fiscal year 2008 compared to fiscal year 2007.

The number of hectares dedicated to beef cattle production increased from 114,056 hectares in fiscal year 2007 to 123,894 hectares in fiscal year 2008. This increase was mainly due to a higher number of hectares leased and to the conversion of hectares of land reserve into cattle production hectares in the Los Pozos farm during fiscal year 2008, partially offset by the retirement of cattle hectares due to the sale of the Tapenagá farm.

*Milk*

Production income for the Milk segment increased 68.8%, from Ps.10.9 million in fiscal year 2007 to Ps.18.4 million in fiscal year 2008. This increase was mainly due to:

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a 45.3% increase in average prices of milk, from Ps.0.58 per liter in fiscal year 2007 to Ps.0.85 per liter in fiscal year 2008; and

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a 25.0% increase in milk production volumes, from 16.7 million liters in fiscal year 2007 to 20.8 million liters in fiscal year 2008. This increase in production volume was mainly due to (i) an increase in the average number of milking cows (from 2,677 in fiscal year 2007 to 3,174 in fiscal year 2008), in part due to the start of production in the new milking yard of our La Juanita farm, which increased its milking capacity to 1,800 cows; and (ii) a 5.3% improvement in the efficiency level of average daily milk production per cow, from 17.1 liters in fiscal year 2007 to 18.0 liters in fiscal year 2008.

***Cost of production***

Cost of production increased 54.2%, from Ps.75.1 million in fiscal year 2007 to Ps.115.7 million in fiscal year 2008. This increase is mainly due to a Ps.30.6 million increase in our Crops segment, a Ps.4.3 million increase in our Beef Cattle segment and a Ps.5.8 million increase in our Milk segment.

***Crops***

Cost of production from our Crops segment increased 59.4%, from Ps.51.5 million in fiscal year 2007 to Ps.82.2 million in fiscal year 2008, primarily as a consequence of:

a 13.8% increase in production volume in fiscal year 2008 compared to the previous year,

an increase in prices of raw materials used (agrochemicals and seeds); and

a 20.3% increase in the number of hectares leased from third parties during fiscal year 2008 compared to the previous year.

Cost of production per ton increased 39.6%, from Ps.298 in fiscal year 2007 to Ps.416 in fiscal year 2008, primarily as a result of higher costs of production and lower yields per hectare during the current fiscal year.

***Beef Cattle***

Cost of production from our Beef Cattle segment increased 28.3%, from Ps.15.1 million in fiscal year 2007 to Ps.19.3 million in fiscal year 2008. The higher cost of production from our Beef Cattle segment during fiscal year 2008 was mainly attributable to higher feeding costs as a result of increased prices of grains and raw materials and the effects of the drought requiring higher feed portion volumes.

The direct cost per kilogram produced increased 45.3%, from Ps.0.89 in fiscal year 2007 to Ps.1.29 in fiscal year 2008, due to higher prices in direct costs of production, partially offset by a lower total production volume, primarily as a result of the sale of our Tapenagá farm during fiscal year 2007, and in part as a result of the deconsolidation of Cactus due to the reduction of our equity interest from 50.0% to 24.0%, compared to the proportional consolidation of this subsidiary during the six months ended December 31, 2006.

**Table of Contents***Milk*

Cost of production for the Milk segment increased 68.5%, from Ps.8.5 million in fiscal year 2007 to Ps.14.3 million in fiscal year 2008. This increase was mainly due to:

a 25.0% increase in milk production in fiscal year ended June 30, 2008 compared to the previous fiscal year; and

the impact of higher feeding costs as a consequence of the increased prices of corn and other raw materials.

As a result of the above, cost of production per liter of milk increased from Ps.0.51 in fiscal year 2007 to Ps.0.69 in fiscal year 2008.

*Sales*

Sales increased 47.4%, from Ps.110.3 million in fiscal year 2007 to Ps.162.6 million in fiscal year 2008, primarily as a result of a Ps.33.5 million increase in the Crops segment, a Ps.0.5 million increase in the Beef Cattle segment, a Ps.7.8 million increase in the Milk segment and a Ps.13.7 million increase in the Other segment, partially offset by a Ps.3.1 million decrease in our Feedlot segment as a result of the deconsolidation of Cactus during the fiscal year ended June 30, 2008.

*Crops*

Sales from our Crops segment increased 62.7%, from Ps.53.4 million in fiscal year 2007 to Ps.86.9 million in fiscal year 2008, primarily as a consequence of:

a 24.4% increase in the sales volume, from 125,947 tons in fiscal year 2007 to 156,718 tons in fiscal year 2008, mainly due to a higher grain production volume during fiscal year 2008 and a higher level of grain inventories at the beginning of the year (74,563 tons at the beginning of fiscal year 2008 compared to 28,315 tons at the beginning of fiscal year 2007); and

a 31.0% increase in average prices of grains sold, from Ps.426 per ton in fiscal year 2007 to Ps.558 per ton in fiscal year 2008.

	<b>Grain Inventories (in tons)</b>		
	<b>Fiscal year ended June 30,</b>		
	<b>2007</b>	<b>2008</b>	<b>Change</b>
Inventories at the beginning of the fiscal year	28,315	74,563	46,248
Purchases	9,202	10,223	1,021
Production	174,160	198,146	23,986
Sales	(125,947)	(156,718)	(30,771)
Transfer of unharvested crops to expenses	(11,168)	(14,040)	(2,872)
Inventories at the end of the fiscal year	74,563	112,174	(37,612)

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### *Beef Cattle*

Sales from our Beef Cattle segment increased 1.5%, from Ps.32.0 million in fiscal year 2007 to Ps.32.4 million in fiscal year 2008, primarily as a result of:

a 15.8% increase in the average price per kilogram, from Ps.2.40 in fiscal year 2007 to Ps.2.78 in fiscal year 2008; and

partially offset by a 12.4% decrease in beef sales volume, from 13,332 tons in fiscal year 2007 to 11,677 tons in fiscal year 2008, mainly as a result of the deconsolidation of Cactus due to the reduction in our equity interest from 50.0% to 24.0%, compared to the proportional consolidation of this subsidiary during the six months ended December 31, 2006.

The average cattle stock decreased from 97,111 heads in fiscal year 2007 to 92,555 heads in fiscal year 2008, primarily as a result of the sale of our Tapenagá farm in fiscal year 2007, and the effect of the deconsolidation of Cactus described above.

### *Milk*

Sales from our Milk segment increased 79.8%, from Ps.9.7 million in fiscal year 2007 to Ps.17.5 million in fiscal year 2008, primarily as a result of:

a 45.3% increase in average prices of milk, from P.0.58 per liter in fiscal year 2007 to Ps.0.85 per liter in fiscal year 2008; and

a 23.7% increase in sale volume mainly due to an increase in the average number of milking cows and improvement in the efficiency level of production.

### *Feedlot*

Due to the change in our equity interest in our subsidiary Cactus, from 50.0% to 24.0%, no income was recorded in our Feedlot segment during the current fiscal year ended June 30, 2008, due to the effect of deconsolidation, compared to our proportional consolidation of this subsidiary during the six months ended December 31, 2006.

### *Other*

Sales from our Other segment increased 112.8%, from Ps.12.1 million in fiscal year 2007 to Ps.25.8 million in fiscal year 2008, mainly due to:

a Ps.9.5 million increase in commodity brokerage services; and

a Ps.4.2 million increase in sales of services to third parties and others.

### *Cost of sales*

Cost of sales for fiscal year 2008 increased 45.5% to Ps.141.0 million, from Ps.96.9 million in fiscal year 2007, primarily as a result of a Ps.28.6 million increase in the Crops segment, a Ps.7.9 million increase in the Milk segment and a Ps.10.6 million increase in the Other segment, partially offset by a Ps.0.2 million decrease in the Beef Cattle segment and Ps.2.8 million generated by the deconsolidation of Cactus in the Feedlot segment.

The cost of sales as a percentage of sales was 87.8% in fiscal year 2007 and 86.7% in fiscal year 2008.



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### *Crops*

Cost of sales from our Crops segment increased 60.4%, from Ps.47.4 million in fiscal year 2007 to Ps.76.0 million in fiscal year 2008, primarily as a result of:

a 24.4% increase in the volume of grain sold in fiscal year 2008 compared to the previous year; and

a 31.0% increase in the average market price of grains in fiscal year 2008.

The average cost per ton sold increased 28.9%, from Ps.376 in fiscal year 2007 to Ps.485 in fiscal year 2008, mainly as a result of the higher average market prices of grains.

### *Beef Cattle*

Cost of sales from our Beef Cattle segment decreased 0.8%, from Ps.30.3 million in fiscal year 2007 to Ps.30.0 million in fiscal year 2008, primarily as a result of:

a 12.4% decrease in the beef sales volume in fiscal year 2008, partially offset by an increase in the general price level of cattle; and

partially offset by a 15.8% increase in the average price per kilogram of cattle sold in fiscal year 2008.

### *Milk*

Cost of sales from our Milk segment increased 81.2%, from Ps.9.7 million in fiscal year 2007 to Ps.17.6 million in fiscal year 2008, primarily as a result of:

a 45.3% increase in the level of prices of milk which had an impact on the cost of sales; and

a 23.7% increase in sale volume of milk.

### *Feedlot*

Due to the change in our equity interest in our subsidiary Cactus, from 50.0% to 24.0%, no costs have been recorded in our Feedlot segment during the current fiscal year ended June 30, 2008, due to the effect of deconsolidation, compared to the proportional consolidation of this subsidiary during the six months ended December 31, 2006.

### *Other*

Cost of sales from our Other segment increased 158.0%, from Ps.6.7 million in fiscal year 2007 to Ps.17.4 million in fiscal year 2008, primarily as a result of higher costs arising from brokerage activities due to an increase in the number of commodity trading transactions through our subsidiary Futuros y Opciones.com and costs generated by services to third parties.

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### ***Gross profit***

As a result of the above mentioned factors, gross profit increased 59.4%, from Ps.41.2 million in fiscal year 2007 to Ps.65.7 million in fiscal year 2008. Our gross margin, calculated as our gross profit divided by our production income, increased from 40.1% in fiscal year 2007 to 41.1% in fiscal year 2008, primarily as a result of:

a 71.7% increase in gross profit from our Crops segment, from Ps.26.9 million for fiscal year 2007 to Ps.46.2 million for fiscal year 2008;

a 14.7% increase in gross profit from our Beef Cattle segment, from Ps.6.1 million for fiscal year 2007 to Ps.7.0 million for fiscal year 2008;

a 64.3% increase in gross profit from our Milk segment, from Ps.2.4 million for fiscal year 2007 to Ps.4.0 million for fiscal year 2008;

the effect of deconsolidation of Cactus in the Feedlot segment, a Ps.0.3 million profit during the first six-month period of fiscal year 2007; and

a 56.3% increase in gross profit from our Other segment, from Ps.5.4 million for fiscal year 2007 to Ps.8.4 million for fiscal year 2008.

### ***Selling expenses***

Selling expenses increased 45.4%, from Ps.10.0 million in fiscal year 2007 to Ps.14.5 million in fiscal year 2008. Selling expenses of the Crops, Beef Cattle and Other segments represented 77.5%, 9.5% and 13%, respectively, of our total selling expenses in fiscal year ended June 30, 2008.

#### ***Crops***

Selling expenses of our Crops segment as a percentage of sales decreased from 15.1% in fiscal year 2007 to 13% in fiscal year 2008 as a result of the increase in average prices of commodities. Selling expenses per ton of grain sold increased 12.3%, from Ps.64 per ton in fiscal year 2007 to Ps.72 per ton in fiscal year 2008, primarily as a result of higher cost of freight, conditioning, and storage.

#### ***Beef Cattle***

Selling expenses of our Beef Cattle segment as a percentage of sales increased from 2.7% in fiscal year 2007 to 4.3% in fiscal year 2008.

#### ***Milk***

Milk sales did not generate significant selling expenses as all the production was sold directly to dairy producers.

#### ***Other***

Selling expenses of our Other segment as a percentage of sales decreased from 8.3% in fiscal year 2007 to 6.6% in fiscal year 2008.



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### ***Administrative expenses***

Administrative expenses increased 57.0%, from Ps.16.6 million in fiscal year 2007 to Ps.26.1 million in fiscal year 2008, mainly due to the increase in compensation to directors, salaries and wages and social security contributions, fees and compensation for services (including consulting fees mainly related to Sarbanes-Oxley compliance, and accounting, legal and technical advisory fees), office and administration expenses, and vehicle and travel expenses.

### ***Net gain on sale of farms***

Net gain on sale of farms was Ps.20.0 million for fiscal year ended June 30, 2008, compared to Ps.22.3 million for fiscal year 2007.

#### ***Fiscal year 2008***

On May 30, 2008, we signed the deed of sale for a parcel of land of 2,430 hectares of the La Esmeralda farm located in the Province of Santa Fe. The total sale price was US\$6.2 million, which was collected in full. The sale value was US\$2,550 per hectare, while the book value was approximately US\$309 per hectare, generating a gain of approximately Ps.16.8 million (US\$5.3 million); and

On October 22, 2007, we signed the deed of sale for a parcel of land of 4,974 hectares of the Los Pozos farm located in the Province of Salta. The transaction was agreed at a price of US\$1.1 million. The sale value was US\$225.0 per hectare. This sale generated a gain of approximately Ps.3.2 million (US\$1.0 million).

#### ***Fiscal year 2007***

On June 6, 2007 we signed the deed of sale for 20,833 hectares of the Tapenagá farm for US\$ 7.3 million, generating a gain of approximately Ps.15.4 million (US\$ 5.0 million);

On June 5, 2007 we signed the deed of sale for a parcel of land of 14,516 hectares of the Los Pozos farm for US\$ 2.2 million, which have been collected in full, generating a gain of approximately Ps.6.4 million (US\$ 2.0 million); and

On January 19, 2007 we signed the bill of sale for a parcel of land of 50 hectares of the El Recreo farm for Ps.0.7 million, generating a gain of approximately Ps.0.5 million (US\$ 0.15 million).

### ***Gain from valuation of other assets at net realization value***

Gain from valuation of other assets at net realization value was Ps.0.9 million during fiscal year 2008. This gain was generated in connection with the bill of sale without possession of 1,829 hectares of two parcels of the El Recreo farm, owned by Inversiones Ganaderas S.A., for a price of US\$ 0.4 million. Although this sale has not yet been consummated, the property to be sold has been revalued at the proposed sale price in accordance with current Argentine generally accepted accounting standards and, as a result, a gain of approximately US\$ 0.3 million (Ps.0.9 million) was recognized due to such revaluation.

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**Gain (loss) from inventory holding (beef cattle, grains and raw materials) and transactions in the Buenos Aires Futures and Options Exchange Market and Chicago Board of trade ( CBOT )**

Our gain (loss) from inventory holding and transactions in the Buenos Aires Futures and Options Exchange Market (*Mercado a Término*) and CBOT decreased from a Ps.1.2 million gain in fiscal year 2007 to a Ps.2.3 million loss in fiscal year 2008. During fiscal year 2008, we recorded a Ps.14.5 million loss from transactions in the Buenos Aires Futures and Options Exchange Market and CBOT, which was partially offset by a Ps.12.2 million gain from the holding of grains, beef cattle and raw materials, while during fiscal year 2007, we recorded a Ps.3.1 million loss from transactions in the Buenos Aires Futures and Options Exchange Market and CBOT, which was offset by a Ps.4.3 million gain from the holding of grains, beef cattle and raw materials.

***Operating income***

Operating income increased 14.7%, from Ps.38.0 million in fiscal year 2007 to Ps.43.6 million in fiscal year 2008. Our operating margin, calculated as our operating income divided by the sum of our production income, was 37.0% during the fiscal year ended June 30, 2007, compared to 27.3% during the fiscal year ended June 30, 2008, primarily as a result of:

a 59.4% increase in gross profit, from Ps.41.2 million for fiscal year 2007 to Ps.65.7 million for fiscal year 2008;

an increase generated by a Ps.0.9 million gain from the valuation of other assets at net realization value for the El Recreo farm (1,829 hectares) during the current fiscal year;

offset by a 45.4% increase in selling expenses, from Ps.10.0 million for fiscal year 2007 to Ps.14.5 million for fiscal year 2008, mainly due to a higher sales volume in the Crops segment;

a 57.0% increase in administrative expenses, from Ps.16.6 million for fiscal year 2007 to Ps.26.1 million for fiscal year 2008, mainly due to the increase in compensation to directors, fees and compensation for services, salaries and wages, office and administrative expenses, and vehicle and travel expenses;

a Ps.2.3 million decrease in net gain on sale of farms, from Ps.22.3 million for fiscal year 2007 to Ps.20.0 million for fiscal year 2008; and

a Ps.3.5 million decrease in net gain from inventory holding and from transactions in the Buenos Aires Futures and Options Exchange Market and CBOT in fiscal year 2008.

***Net financial results***

We had net financial losses of Ps.10.5 million and Ps.52.3 million for fiscal years 2007 and 2008, respectively, primarily as a result of:

a Ps.29.6 million increase in the loss generated by net exchange differences in fiscal year 2008;

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a Ps.11.6 million increase in interest expense in fiscal year 2008;

a Ps.2.6 million increase in the loss generated by the bank debit and credit tax in fiscal year 2008; and

partially offset by Ps.2.0 million of income derived from other financial investments and mutual funds.

Our net financial loss in fiscal year 2008 is mainly due to (i) a Ps.30.5 million loss generated by net exchange differences, primarily as a result of an asset position in U.S. dollars derived from the capital issue carried out during the current fiscal year. It should be noted that the exchange rate used for the capital issue was \$/US\$ 3.158, while the buying exchange rate at the end of the current fiscal year was \$/US\$ 2.985, (ii) a Ps.23.3 million loss generated by the negative impact of interest for debt financing, mainly due to an increased debt position and higher interest rates, and (iii) a Ps.4.5 million loss generated by the bank debit and credit tax as a result of a higher volume of transactions.

This financial loss was partially offset by (i) a Ps.4.0 million gain generated by the positive impact of other financial interest from related party loans, interest income from financing of the sale of farms and financial investments during the current fiscal year, and (ii) a Ps.2.1 million gain from transactions with securities, shares and others. It should be mentioned that the effect of interest from the convertible notes issued and acquired was recorded for fiscal year 2007 but is not reflected for fiscal year 2008 (the notes were due on November 14, 2007).

***Other income and expenses, net***

Other income and expenses, net, represented a net expense of Ps.4.3 million and Ps.4.1 million in fiscal years 2007 and 2008, respectively, mainly due to the negative impact for the tax on personal assets payable by the Company on behalf of its shareholders as required under Argentine legislation.

***Gain on equity investees***

Gain on our equity investees decreased 4.4%, from Ps.40.2 million in fiscal year 2007 to Ps.38.4 million in fiscal year 2008, primarily as a result of:

lower income of Ps.1.6 million in fiscal year 2008 with respect to our investment in IRSA. The gain from our investment in IRSA was Ps.33.1 million for fiscal year 2007, compared to Ps.31.5 million for fiscal year 2008 (including amortization of goodwill);

lower income of Ps.1.1 million in fiscal year 2008 with respect to our equity interest in BrasilAgro. The gain from our investment in BrasilAgro was Ps.4.2 million for fiscal year 2007, compared to Ps.3.1 million for fiscal year 2008;

partially offset by higher income of Ps.1.1 million in fiscal year 2008 with respect to our equity interest in Agro-Uranga S.A. and Cactus Argentina S.A. The gain from our investment in these companies was Ps.2.9 million for fiscal year 2007, compared to Ps.3.9 million for fiscal year 2008.

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The gain on equity investees in fiscal year 2008 includes our shareholding in Cactus Argentina S.A. as a result of the deconsolidation during the current fiscal year as compared to the previous year.

### ***Management fee***

Under the consulting agreement entered into with Consultores Asset Management S.A., we pay a fee equal to 10% of our net income for agricultural advisory services and other management services. The fees amounted to Ps.5.5 million and Ps.2.2 million in the fiscal years 2007 and 2008, respectively.

### ***Income tax***

Our income tax expense was Ps.8.4 million in fiscal year 2007 and Ps.0.3 million in fiscal year 2008. We recognize our income tax expense on the basis of the deferred tax liability method, thus recognizing temporary differences between accounting and tax assets and liability measurements. The main temporary differences derive from valuation of cattle stock, fixed assets sale and replacement, and tax loss carryforwards.

For purposes of determining the deferred assets and liabilities, the tax rate expected to be in force at the time of their reversion or use, according to the legal provisions enacted as of the date of issuance of this filing, 35%, has been applied to the identified temporary differences and tax losses.

### ***Minority interest***

Our minority interest was a Ps.0.3 million loss for both fiscal years 2007 and 2008.

### ***Net income***

Due to the above-mentioned issues, our net income decreased 53.5%, from Ps.49.4 million for fiscal year 2007 to Ps.22.9 million for fiscal year 2008. Our net margin, calculated as our net income divided by our production income, was 14.4% for fiscal year 2008, compared to 48.0% for fiscal year 2007.

## **Fiscal year ended June 30, 2007 compared to fiscal year ended June 30, 2006**

### ***Production income***

Production income was Ps.102.8 million for the fiscal year ended June 30, 2007, 57.3% higher than the amount recorded the previous fiscal year. This was primarily attributable to a Ps.35.4 million increase in our Crops segment and a Ps.3.0 million increase in our Milk segment, partially offset by a Ps.1.0 million decrease in production income of our Cattle segment.

### ***Crops***

Production income from our Crops segment increased 95.7%, from Ps.37.0 million for the fiscal year 2006 to Ps.72.4 million for fiscal year 2007, primarily as a result of:

a 64.2% increase in production volumes, from 106,867 tons in our fiscal year 2006 to 175,455 tons in our fiscal year 2007 (the corn and soy production increased 155.8% and 43.2%, respectively, partially offset by decreases of 23.6% and 6.9% in wheat and sunflower production, respectively); and

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a 19.2% increase in average prices for our grains.

The 64.2% increase in production volumes from our Crops segment was mainly due to a 29.7% increase in the total sown surface for production, from 37,022 hectares during fiscal year 2006 to 49,244 hectares during fiscal year 2007. Our owned sown surface for production increased from 20,018 hectares during fiscal year 2006 to 22,712 hectares during fiscal year 2007, and our leased sown surface for production increased from 17,004 hectares during fiscal year 2006 to 25,307 hectares during fiscal year 2007. The sown surface for production under concession through our subsidiary Agropecuaria Cervera was 1,225 hectares.

The 64.2% increase in production volumes from our Crops segment was also due to a 23.4% increase in our average yields, from 2.89 tons per hectare in our fiscal year 2006 to 3.56 tons per hectare in our fiscal year 2007. This increase in average total yields was a result of better weather conditions in comparison to the previous fiscal year.

The average prices for our grains (at realizable net value) increased 19.2 % in fiscal year 2007, from Ps.346 per ton in our fiscal year 2006 to Ps.413 per ton in our fiscal year 2007.

The following table sets forth the average Rosario board prices per ton as of June, 30 2006 and 2007:

	Year ended June 30,	
	2006	2007
Wheat	Ps.312	Ps. 393
Sunflower	513	676
Corn	240	343
Soybean	508	597

Source: Rosario Commodities Exchange.

*Beef Cattle*

Production income from our Beef Cattle segment decreased 4.8%, from Ps.20.5 million for the fiscal year ended June 30, 2006 to Ps.19.5 million for the fiscal year ended June 30, 2007. Production volumes increased slightly 1.1%, from 9,803 tons in fiscal year 2006 to 9,913 tons in fiscal year 2007.

It is worth mentioning that during the current fiscal year, the income and volume of beef cattle production include the proportional consolidation of 50.0% in the subsidiary Cactus for only 6 months up to December 2006 (due to the change of valuation method for decrease in our share participation, from 50.0% to 24.0%) compared to the proportional consolidation of this subsidiary during fiscal 2006.

The increase in volume is mainly due to a higher volume of beef cattle generated in our own fields and to the improvement of weather conditions on the production of grass. These were negatively impacted by the lasting effect of the 2006 drought on this fiscal year. Also, during fiscal year 2007 a lower number of cattle finished in feed lot was noted, as a consequence of the effects of the drought that affected fiscal year 2006.

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Although our Cattle segment had a price increase in the rodeo categories, the re-categorization of cattle produced a negative impact on the production income of the current fiscal year which generated a 5.9% decrease in the average value per kilogram of beef cattle produced, from Ps.2.1 in fiscal year 2006 to Ps.2.0 in fiscal year 2007. Consequently, the categories that generated a higher number of kilograms were those that did not suffer a significant price increase. Beef cattle are re-categorized to reflect different stages in their life cycle.

The number of hectares dedicated to beef cattle production increased from 100,724 hectares in fiscal year 2006 (29,222 leased hectares corresponding to contracts expired before closing of fiscal year 2006 are not included) to 114,056 hectares in fiscal year 2007 (41 hectares corresponding to Cactus are not included). This increase was mainly due to a higher number of hectares leased and to the conversion of hectares of land reserve into cattle in the Los Pozos farm during the current fiscal year, negatively compensated by the retirement of cattle hectares due to the sale of the Tapenagá farm.

### *Milk*

Milk production income increased 38.3%, from Ps.7.9 million in fiscal year 2006 to Ps.10.9 million in fiscal year 2007, including Ps.1.2 million generated by the re-categorization of milking yard cattle. Milking yard cattle are re-categorized to reflect different stages in their life cycle. This increase was primarily as a result of (i) a 14.2% increase in production volumes, from 14.6 million liters in fiscal year 2006 to 16.7 million liters in fiscal year 2007, and (ii) a 7.9% increase in average prices of milk, from Ps.0.54 per liter in fiscal year 2006 to Ps.0.58 per liter in fiscal year 2007.

This increase in production income was mainly due to (i) higher production volume of the milk, (ii) an increase in the average number of milking cows (from 2,410 in fiscal year 2006 to 2,677 in fiscal year 2007), in part due to the start of production in the new milking yard of our La Juanita farm, Province of Buenos Aires which increased its milking capacity to 1,800 cows and (iii) a 2.8% improvement in the efficiency level of average daily milk production per cow (from 16.6 liters in fiscal year 2006 to 17.1 liters in the fiscal year 2007).

### *Cost of production*

Cost of production increased 26.7%, from Ps.59.3 million in fiscal year 2006 to Ps.75.1 million in fiscal year 2007. This increase is mainly attributable to a Ps.16.9 million increase in our Crops segment and a Ps.2.6 million increase in our Milk segment, partially offset by a Ps.3.7 million decrease in our Beef Cattle segment.

### *Crops*

Cost of production from our Crops segment increased 48.8%, from Ps.34.6 million in fiscal year 2006 to Ps.51.5 million for the fiscal year 2007. This increase is mainly due to a 64.2% increase in the volume of production in our Crops segment as a consequence a 29.7% increase in surface produced in our fiscal year 2007 compared to the previous fiscal year.

Cost of production per ton decreased 11.1 %, from Ps.334 in fiscal year 2006 to Ps.297 in fiscal year 2007, primarily as a result of better yields that had the effect of reducing the cost per ton produced in fiscal year 2007. Cost of production in fiscal year 2006 reflected the negative effects of a drought on certain farms.

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### *Beef Cattle*

Cost of production from our Beef Cattle segment decreased 19.9%, from Ps.18.8 million in fiscal year 2006 to Ps.15.1 million for the fiscal year 2007. The direct cost per kilogram produced decreased 30.4%, from Ps.1.28 in fiscal year 2006 to Ps.0.89 in fiscal year 2007 primarily as a result of a higher volume of beef cattle production that allowed diluting the cost per kilogram produced in the current fiscal year.

Lower cost of production from our Beef Cattle business segment as compared to the previous fiscal year is mainly attributable to the increase in feeding and health costs in line with the effects of the drought.

Considering the our total production increase in the current fiscal year, the decrease in costs of production was due to higher number of tons produced per hectare assigned to the activity, from 0.07 ton per hectare in fiscal year 2006 to 0.08 ton per hectare in fiscal year 2007.

### *Milk*

Cost of production from our Milk segment increased 45.0%, from Ps.5.8 million in our fiscal year 2006 to Ps.8.5 million in our fiscal year 2007. Such increase was mainly due to:

a 14.2% increase in milk production in fiscal year 2007, and

the impact of higher feeding costs as a consequence of the increase in corn prices and other raw materials of the milk segment.

Cost of production from our Milk business segment per thousand liters increased from Ps.401 in fiscal year 2006 to Ps.509 in fiscal year 2007.

### *Sales*

Sales for the fiscal year ended June 30, 2007 decreased 1.8%, from Ps.112.3 million in fiscal year 2006 to Ps.110.3 million in fiscal year 2007 primarily as a result of a Ps.8.3 million decrease in our Crops segment and a Ps.1.7 million decrease in our Beef Cattle segment, partially offset by higher sales in our Milk, Feedlot and Other segments of Ps.1.8 million, Ps.0.4 million and Ps.5.8 million, respectively.

### *Crops*

Sales from our Crops segment decreased 13.4%, from Ps.61.7 million in fiscal year 2006 to Ps.53.4 million in fiscal year 2007 primarily as a result of a 24.0% decrease in sales volume, from 164,104 tons in fiscal year 2006 to 124,652 tons in fiscal year 2007 and a 14.0% increase in average prices, from Ps.376 per ton in fiscal year 2006 to Ps.428 in fiscal year 2007.

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Although the production volume of grain in fiscal year 2007 was 64.2% higher than in fiscal year 2006, our sales volume was lower in fiscal year 2007 than in fiscal year 2006 primarily as a result of lower levels of grain inventories at the beginning of fiscal year 2007 (90,060 tons at the beginning of fiscal year 2006 compared to 28,315 tons at the beginning of fiscal year 2007).

	<b>Grain Inventories</b>		
	<b>Year ended June 30,</b>		
	<b>2006</b>	<b>2007</b>	<b>Change</b>
	<b>(in tons)</b>		
Inventories at the beginning of the fiscal year	90,060	28,315	(61,745)
Purchases	21,182	9,202	(11,980)
Production	106,867	175,455	68,588
Sales	(164,104)	(124,652)	39,452
Transfer of unharvested crops to expenses	(25,690)	(13,757)	11,933
Inventories at the end of the fiscal year	28,315	74,563	46,248

*Beef Cattle*

Sales from our Beef Cattle segment decreased 5.2%, from Ps.33.7 million in our fiscal year 2006 to Ps.32.0 million in our fiscal year 2007 primarily as a result of a 9.7% decrease in sales volume, from 14,762 tons in fiscal year 2006 to 13,332 tons in fiscal year 2007 which was partially offset by a 5.0% increase in the average price per kilogram, from Ps.2.28 in fiscal year 2006 to Ps.2.40 in fiscal year 2007.

The decrease in the sales volume was mainly due to a lower number of finished cattle in the feedlot, from 21,400 in fiscal year 2006 to 11,900 in fiscal year 2007, as a consequence of lower beef cattle purchases during fiscal year 2007.

The average cattle stock increased from 91,500 heads in fiscal year 2006 to 97,111 in fiscal year 2007.

*Milk*

Sales from our Milk segment increased 23.3%, from Ps.7.9 million in our fiscal year 2006 to Ps.9.7 million in our fiscal year 2007, primarily as a result of:

a 14.2% increase in production volume due to an increase in the average number of milking cows and improvement in the efficiency level of average daily milk production per cow; and

a 7.9% increase in average prices of milk, from Ps.0.54 per liter in fiscal year 2006 to Ps.0.58 per liter in fiscal year 2007.

*Feedlot*

Sales from our Feedlot segment increased 14.0%, from Ps.2.7 million in our fiscal year 2006 to Ps.3.1 million in our fiscal year 2007, primarily as a result of:

an increase in the level of occupation of our feedlot, from 15,400 heads in fiscal year 2006 to 19,400 heads in fiscal year 2007,

an increase in the price of the feed as a consequence of an increase in the price of corn, and



the fact that during fiscal year 2007 the cattle raiser sent for feeding in our feedlot cattle of higher weight which consumed larger feed volumes.

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It should be mentioned that, we have changed the valuation method of our investment in Cactus because of a decrease in our share participation in Cactus, from 50.0% to 24.0% compared with the proportional consolidation of this subsidiary during fiscal year 2006.

### *Other*

Sales from our Other segment increased 90.7%, from Ps.6.4 million in fiscal year 2006 to Ps.12.1 million for fiscal year 2007, mainly due to a Ps.0.3 million increase in sales of services, Ps.0.8 increase in sales from leasing of our farms to third parties and Ps.3.4 million increase from commodity brokerage services (from Futuros y Opciones.com). Sales of services to third parties are services for weighing and re-conditioning of cereal and watering.

Although the number of owned hectares leased to third parties during fiscal year 2007 was slightly lower in fiscal year 2007 than in fiscal year 2006, the higher average leasing prices more than compensated for the reduction in hectares leased.

### *Cost of sales*

Cost of sales for our fiscal year 2007 were Ps.96.9 million, 2.6% lower than cost of sale for fiscal year 2006, primarily as a result of lower cost of sales in our Crops and Beef Cattle segments of 10.6% and 8.2%, respectively which were partially offset by higher cost of sales in our Milk, Feedlot and Other segments of 23.3%, 20.1% and 106.8%, respectively.

Cost of sales as a percentage of net sales were 87.8% in fiscal year 2007 and 88.5% in fiscal year 2006.

### *Crops*

Cost of sales from our Crops segment decreased 10.6%, from Ps.52.9 million in fiscal year 2006 to Ps.47.4 million in fiscal year 2007, primarily as a result of:

a 24.0% reduction in the volume of grain sold in fiscal year 2007 compared to fiscal year 2006; and

a higher average prices of commodities in fiscal year 2007.

The average cost per ton sold in fiscal year 2007 increased 17.7%, from Ps.323 in fiscal year 2006 to Ps.380 in fiscal year 2007.

### *Beef Cattle*

Cost of sales from our Beef Cattle segment decreased 8.2%, from Ps.33.0 million in fiscal year 2006 to Ps.30.3 million in fiscal year 2007, primarily as a result of a 9.7% decrease in production volume of Cattle compared to fiscal year 2006 due to a lower number of finished cattle in the feedlot.

### *Milk*

Cost of sales from our Milk segment increased 23.3%, from Ps.7.9 million in fiscal year 2006 to Ps.9.7 million in fiscal year 2007 primarily as a result of a 14.2% increase in production volume of milk in fiscal year 2007.

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### *Feedlot*

Cost of sales from our Feedlot business segment increased 20.1%, from Ps.2.3 million in fiscal year 2006 to Ps.2.8 million in fiscal year 2007, primarily as a result of a 26.0% increase in average occupation of the feedlot in fiscal year 2007 and to higher volumes of feed consumed due to incoming cattle of higher average weight that required higher feeding costs. The price per ton of feed portion increased 37.0%, from Ps.207 in year 2006 to Ps.284 in year 2007, mainly due to an increase in the price of corn during fiscal year 2007. The cost of feedlot services as percentage of sales increased 85.2% in fiscal year 2006 to 89.8% in fiscal year 2007. It should be mentioned that, we have changed the valuation method of our investment in Cactus because of a decrease in our share participation in Cactus, our subsidiary engaged in the feed lot business, from 50.0% to 24.0% compared with the proportional consolidation of this subsidiary during fiscal year 2006.

### *Other*

Cost of sales from our Other segment increased 106.8%, from Ps.3.3 million for the fiscal year 2006 to Ps.6.7 million for the fiscal year 2007 primarily as a result of higher costs arising from Futuros y Opciones.com and costs generated by services to third parties.

### ***Gross profit***

As a result of the above mentioned factors, gross profit increased 116.5%, from Ps.19.0 million for fiscal year 2006 to Ps.41.2 million for fiscal year 2007. Our gross margin, calculated as our gross profit divided by the sum of our production income increased from 29.1% for fiscal year 2006 to 40.1% for fiscal year 2007, primarily as a result of:

a 143.1% increase in gross profit from our Crops segment, from Ps.11.1 million for fiscal year 2006 to Ps.26.9 million for fiscal year 2007;

a 155.2% increase in gross profit from our Beef Cattle segment, from Ps.2.4 million for fiscal year 2006 to Ps.6.1 million for fiscal year 2007;

a 18.9% increase in gross profit from our Milk segment, from Ps.2.0 million for fiscal year 2006 to Ps.2.4 million for fiscal year 2007;

a 21.2% decrease in gross profit from our Feed Lot segment, from Ps.0.4 million for fiscal year 2006 to Ps.0.3 million for fiscal year 2007; and

a 73.7% increase in gross profit from our Other segment, from Ps.3.1 million for fiscal year 2006 to Ps.5.4 million for fiscal year 2007.

### ***Selling expenses***

Selling expenses decreased 1.8%, from Ps.10.2 million in fiscal year 2006 to Ps.10.0 million for fiscal year 2007. Selling expenses of the Crops, Beef Cattle and Other segments represented 77.8%, 11.4% and 10.0%, respectively, of our total selling expenses in fiscal year 2007.

### *Crops*

Selling expenses of Crops as a percentage of sales of Crops increased from 14.1% in fiscal year 2006 to 14.5% in fiscal year 2007 as a result of higher cost of freight, conditioning and storage. Selling expenses per ton of grain sold increased 17.8%, from Ps.53 per ton in fiscal year 2006 to Ps.62 per ton in fiscal year 2007.



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### *Beef Cattle*

Selling expenses of Beef Cattle as a percentage of sales of Cattle were 3.1% in fiscal year 2006 and 3.6% in fiscal year 2007.

### *Milk*

Milk sales did not generate significant selling expenses during fiscal years 2006 or 2007, as all the production was marketed directly to dairy producers.

### *Administrative expenses*

Administrative expenses increased 43.8%, from Ps.11.6 million in fiscal year 2006 to Ps.16.6 million in fiscal year 2007, mainly due to the increase in fees and compensations for services (includes consulting fees with respect to Sarbanes-Oxley compliance, accounting, legal and tax fees and migration system), salaries and social contributions, taxes, rates and contributions and office and administration expenses.

### *Net gain on sale of farms*

Net gain on sale of farms increased 124.9%, from Ps.9.9 million for the fiscal year 2006 to Ps.22.3 million for fiscal year 2007, primarily as a result of the following sales:

#### *Fiscal year 2007:*

On June 6, 2007 we sold 20,833 hectares of the Tapenagá farm for Ps.22.0 million, generating a gain of approximately Ps.15.4 million;

On June 5, 2007 we sold a fraction of 14,516 hectares of the Los Pozos farm for Ps.6.7 million, generating a gain of approximately Ps.6.4 million; and

On January 19, 2007 we sold a fraction of 50 hectares of the El Recreo farm for Ps.0.7 million, generating a gain of approximately Ps.0.5 million.

#### *Fiscal year 2006:*

On July 25, 2005 we sold 5,727 hectares of the El Gualicho farm in the Province of Córdoba for Ps.17.5 million, generating a gain of Ps.9.9 million.

### **Gain from inventory holding (beef cattle, grains and raw materials) and transactions in the Buenos Aires Futures and Options Exchange Market and Chicago Board of Trade ( CBOT ).**

Our gain from inventory holding and transactions in the Buenos Aires Futures and Options Exchange Market (Mercado a Término) and CBOT decreased from a Ps.3.9 million gain in fiscal year 2006 to a Ps.1.2 million gain in fiscal year 2007. During fiscal year 2006, we recorded a Ps.0.3 million loss from transactions in the Buenos Aires Futures and Options Exchange Market and CBOT, which was offset by a Ps.4.2 million gain from the holding of grains, beef cattle and raw

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materials, while during fiscal year 2007, we recorded a Ps.3.1 million loss from transactions in the Buenos Aires Futures and Options Exchange Market and CBOT, which was partially offset by a Ps.4.2 million gain from the holding of grains, beef cattle and raw materials.

***Operating income***

Operating income increased 242.2%, from Ps.11.1 million in fiscal year 2006 to Ps.38.0 million in fiscal year 2007. Our operating margin, calculated as our operating income divided by the sum of our production income increased from 17.0% for fiscal year 2006 to 37.0% for fiscal year 2007 primarily as a result of:

a 116.5% increase in gross profit, from Ps.19.0 million for fiscal year 2006 to Ps.41.2 million for fiscal year 2007;

a 1.8% decrease in selling expenses, from Ps.10.2 million for fiscal year 2006 to Ps.10.0 million for fiscal year 2007;

a 69.9% decrease in unrealized gain on inventory and transactions in the Buenos Aires Futures and Options Exchange Market, from Ps.3.9 million for fiscal year 2006 to Ps.1.2 million for fiscal year 2007;

a 43.8% increase in administrative expenses, from Ps.11.6 million for fiscal year 2006 to Ps.16.6 million for fiscal year 2007; and

a 124.9% increase in net gain on sale of farms, from Ps.9.9 million for fiscal year 2006 to Ps.22.3 million for fiscal year 2007.

***Net financial results***

We had net financial income of Ps.12.4 million in our fiscal year 2006 compared to a net financial loss of Ps.10.5 million for the fiscal year 2007. The principal differences between both fiscal years were:

Ps.14.9 million of income realized in fiscal year 2006 in connection with our exchange of convertible bonds of IRSA for shares of Agropecuaria Cervera;

Ps.5.1 million increase in net interest expense in fiscal year 2007 compared to fiscal year 2006 as a result of higher levels of average debt during fiscal; and

Ps.3.2 million increase in fiscal year 2007 in the loss generated by the differences in exchange rates.

Our net financial loss in fiscal year 2007 arise from (i) a Ps.10.0 million loss generated by the negative impact of interest for debt financing, (ii) a Ps.1.9 million loss generated by the debits and credits tax and (iii) a Ps.1.9 million loss derived from exchange differences and other factors. These losses were partially offset by (i) Ps.1.1 million of income derived from operations with securities and shares and (ii) Ps.2.2 million of interest income from convertible notes issued by IRSA, including interest paid from convertible bonds issued by Cresud and other interest.

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### ***Other income and expenses, net***

Other income and expenses, net, represented a net expense of Ps.3.4 million in fiscal year 2006 compared to a net expense of Ps.4.3 million in fiscal year 2007, mainly due to a higher negative impact of Ps.0.6 million for the tax on personal assets of our shareholders.

### ***Gain on equity investments***

Gain on our equity investments increased 81.6%, from income of Ps.22.1 million in fiscal year 2006 to income of Ps.40.2 million in fiscal year 2007 and the difference was primarily as a result of:

higher income of Ps.9.7 million of gain with respect to our investment in IRSA (including amortization of goodwill of Ps.2.9 million);

higher income of Ps.6.7 million of gain with respect to our investment in BrasilAgro;

higher income of Ps.2.0 million of gain with respect to our investment in Agro Uranga S.A.; and

lower income of Ps.0.3 million with respect to our investments in other subsidiaries and affiliates companies which partially offset the above-mentioned gains.

During fiscal year 2007 our shareholding in Cactus Argentina S.A. decreased from 50.0 % to 24.0% due to the addition of a new shareholder on December 31, 2006; and as a result we consolidated 50.0% of Cactus results of operations through December 31, 2006 and 24% thereafter.

### ***Management Fee***

Under the consulting agreement entered into with Consultores Asset Management, we pay a fee equal to 10% of our net income for agricultural advisory services and other management services. The fees amounted to Ps.5.5 million and Ps.3.8 million in the fiscal years 2007 and 2006, respectively.

### ***Income tax expense***

Our Income tax expenses increased 54.2%, from Ps.5.4 million in fiscal year 2006 to Ps.8.4 million in fiscal year 2007. We recognized our income tax expense on the basis of the deferred tax liability method, thus recognizing temporary differences between accounting and tax assets and liabilities measurements. The main temporary differences derive from cattle stock and fixed assets valuation. For purposes of determining the deferred assets and liabilities, the tax rate expected to be in force at the time of their reversion or use, according to the legal provisions enacted as of the date of issuance of these financial statements (35%) has been applied to the identified temporary differences and tax losses. Our effective tax rate in fiscal year 2007 was 17.0% compared to 16.5% in fiscal year 2006.

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### ***Minority interest***

During fiscal years 2006 and 2007, a negative participation of third parties of Ps.0.1 million and Ps.0.3 million respectively was recorded to reflect the minority participation in the income of subsidiaries.

### ***Net income***

Due to the above-mentioned issues, our net income increased 50.1%, from Ps.32.9 million for fiscal year 2006 to Ps.49.4 million for fiscal year 2007. Our net margin, calculated as our net income for a fiscal year divided by the sum of our production income was 50.3% for fiscal year 2006 and 48.0% for fiscal year 2007.

## **B. LIQUIDITY AND CAPITAL RESOURCES**

### ***Liquidity***

Our principal sources of liquidity have historically been:

cash generated by our issuance of common shares;

cash from borrowings and financing arrangements (including cash from the exercise of warrants); and

cash proceeds from the sale of farms.

Our principal cash requirements or uses (other than in connection with our operating activities) have historically been:

acquisition of interests in related companies;

capital expenditures for property, plant and equipment (including acquisitions or purchases of farms);

interest payments and repayments of short-term and long-term debt; and

payments of dividends.

Our liquidity and capital resources include our cash and cash equivalents, proceeds from sales of real estate investments, bank borrowing, long-term debt and capital financing.



**Table of Contents****Cash Flows**

The table below shows, for the periods indicated, our cash flows:

	<b>For the year ended June 30,</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in millions of Pesos)</b>		
Net cash used in operating activities	(21.5)	(56.1)	(76.3)
Net cash provided by financing activities	92.3	115.8	917.8
Net cash used in investing activities	(110.9)	(0.9)	(406.6)
Net increase (decrease) in cash and cash equivalents	(40.1)	58.8	434.9

As of June 30, 2008, we had cash and cash equivalents of Ps.521.1 million, an increase from Ps.86.2 million as of June 30, 2007. The increase was primarily due to our collection of receivables from the sale of fixed assets of Ps.6.4 million, cash inflows from the sale of farms of Ps.22.5 million, cash generated by our issuance of common shares of Ps.881.1 million, cash proceeds from the exercise of warrants of Ps.15.1 million, and net proceeds from short-term and long-term debt of Ps.33.5 million. This was partially offset by cash outflows for operating activities of Ps.76.3 million, for increases in our interest in related companies of Ps.407.5 million, for acquisition and improvement of fixed assets of Ps.28.0 million, and for dividend payments of Ps.8.3 million.

As of June 30, 2007, we had cash and cash equivalents of Ps.86.2 million, an increase from the Ps.27.4 million balance as of June 30, 2006. The increase was primarily due to cash inflows from the sale of farms of Ps.25.3 million, cash proceeds from the exercise of warrants of Ps.84.2 million and the net proceeds from short-term and long-term debt of Ps.39.4 million, partially offset by the cash outflows used in operating activities of Ps.56.1 million, dividend payments of Ps.5.5 million and acquisition and improvement of fixed assets of Ps.29.3 million.

*Net Cash Used in Operating Activities**Fiscal Year ended June 30, 2007 and 2008*

Net cash used in operations increased from Ps.56.1 million in fiscal year 2007 to Ps.76.3 million in fiscal year 2008. The increase in net cash used in operating activities was primarily due to the increase in current investments of Ps.18.3 million in fiscal year 2008 compared to fiscal year 2007, an increase in inventories of Ps.42.8 million and a decrease in other payables of Ps.5.4 million, which were partially offset by a decrease in trade accounts receivable of Ps.30.5 million, a decrease in other receivables of Ps.6.9 million, an increase of Ps.0.4 million in social security payable, expenses, taxes payable, and advances to customers, an increase of Ps.18.0 million in trade accounts payable, and dividends collected of Ps.1.4 million. Our operating activities resulted in net cash outflows of Ps.76.3 million for fiscal year 2008, due to an increase in current investments, other receivables, inventories, and decreases in other payables amounting to Ps.109.3 million that were partially offset by a decrease in trade accounts receivable and an increase in social security payable, expenses, taxes payable, advances to customers, trade accounts payable, and dividends collected of Ps.25.8 million.

*Fiscal Year ended June 30, 2006 and 2007*

Net cash used in operations increased from Ps.21.5 million in fiscal year 2006 to Ps.56.1 million in fiscal year 2007. The increase in net cash used in operating activities was primarily due to the increase in current investments of Ps.1.1 million in fiscal year 2007 compared to fiscal year 2006, an increase in trade accounts receivable of Ps.27.2 million, a decrease in other payables of

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Ps.3.8 million and an increase in inventories of Ps.39.6 million which were partially offset by a Ps.25.9 million increase in other receivables, in trade accounts payable and in social security payable, expenses, taxes payable and advances to customers. Our operating activities resulted in net cash outflows of Ps.56.1 million for fiscal year 2007, essentially due to a decrease in current investments, an increase in social security payable, expenses, taxes payable, advances to customers, and dividends collected of Ps.13.1 million that were offset by an increase in trade accounts receivable, other receivables, inventories and trade accounts payable amounting to Ps.87.0 million.

### *Net Cash Used in Investing Activities*

#### *Fiscal Year ended June 30, 2007 and 2008*

Net cash used in investing activities increased from a net cash outflow of Ps.0.9 million in fiscal year 2007 to a net cash outflow of Ps.406.6 million in fiscal year 2008. Our investing activities resulted in a net cash outflow of Ps.406.6 million in fiscal year 2008 mainly due to the acquisition of interests in related companies for Ps.407.5 and the acquisition and upgrading of fixed assets for Ps.28.0 million which were partially offset by the sale of fixed assets for Ps.22.5 million and the collection of secured receivables from the sale of farms for Ps.6.4 million.

#### *Fiscal Year ended June 30, 2006 and 2007*

Net cash used in investing activities decreased from a net cash outflow of Ps.110.9 million in fiscal year 2006 to a net cash outflows of Ps.0.9 million in fiscal year 2007. Our investing activities resulted in a net cash outflow of Ps.0.9 million in fiscal year 2007 mainly due to the acquisition and upgrading of fixed assets for Ps.29.3 million which was partially offset by the sale of fixed assets for Ps.25.3 million and the collection of secured receivables from the sale of farms for Ps.3.9 million.

### *Net Cash Provided by Financing Activities*

#### *Fiscal Year ended June 30, 2007 and 2008*

Net cash provided from financing activities increased from Ps.115.8 million in fiscal year 2007 to Ps.917.8 million in fiscal year 2008 primarily due to an increase in cash generated by our issuance of common shares of Ps.881.1 million, partially offset by the decrease in the exercise of warrants for Ps.69.0 million, an increase of dividend payments of Ps.2.8 million, a decrease in proceeds of financial loans of Ps.5.8 million, and by the payment of secured payables from the purchase of farms of Ps.1.5 million. Our financing activities resulted in net cash inflows of Ps.917.8 million primarily due to our issuance of common shares of Ps.881.1 million, the exercise of warrants and proceeds from financial loans for Ps.94.3 million, partially offset by dividend payments and payments of financial loans for Ps.53.9 million.

#### *Fiscal Year ended June 30, 2006 and 2007*

Net cash provided from financing activities increased from Ps.92.3 million in fiscal year 2006 to Ps.115.8 million in fiscal year 2007 primarily due to a decrease in proceeds of financial loans of Ps.25.6 million partially offset by the increase in the exercise of warrants of Ps.30.6 million and by the payment of secured payable from the purchase of farms of Ps.14.3 million. Our financing activities resulted in net cash inflows of Ps.115.8 million primarily due to the exercise of warrants and proceeds from financial loans of Ps.168.7 million partially offset by dividend payments and payments of financial loans of Ps.50.6 million.

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The current credit market turmoil may affect our ability to obtain additional capital; however, as of the date of this annual report, we have been able to complete some transactions and do not believe this may severely impact the execution of our business plan. If market conditions continue to deteriorate, we may have the ability to delay the funding of certain new development outlays. Also, we may need to raise additional funds in order to support more rapid expansion, develop or acquire new properties, respond to competitive pressures, or take advantage of unanticipated opportunities.

We believe our working capital (calculated by subtracting current liabilities from current assets) is sufficient for our present requirements. In the event that cash generated from our operations is at any time insufficient to finance our working capital, we would seek to finance such working capital needs through new debt, equity financing or selective asset sales. For more information about liquidity, please see Risk Factors section.

### ***Our Indebtedness***

#### *Convertible Notes due 2007*

On November 21, 2002, we issued US\$ 50.0 million of convertible notes due November 2007. The convertible notes accrued interest at 8% per annum, payable on a semi-annual basis. The conversion price was US\$ 0.5078 per common share which meant that each convertible note could be exchanged for 1.9693 common shares. Additionally, each convertible note contained an attached warrant granting an option to acquire 1.9693 shares at a price of US\$ 0.6093 each.

The exercise term of our outstanding warrants and the conversion term of our convertible notes issued on November 21, 2002 expired on November 14, 2007. During the conversion and exercise terms, the holders of our warrants and convertible notes exercised an aggregate of 49,867,018 warrants and converted an aggregate of 49,910,874 convertible notes. There are no additional outstanding warrants or convertible notes to acquire our shares.

#### *Credit Suisse Loan Agreement*

On May 2, 2006, we entered into a US\$ 8 million loan agreement with Credit Suisse. The maturity of this loan agreement was November 2, 2008 and the applicable interest rate was 3-month LIBOR plus 375 basis points. The Credit Suisse loan agreement was initially secured by a swap transaction under ISDA 2000 Definitions with IRSA's convertible notes for a total amount of US\$ 10 million, which were subsequently replaced with 1,834,860 GDRs of IRSA, plus a U.S. dollar denominated amount that fluctuates in accordance with the trading price of IRSA's shares. This loan agreement imposed certain restrictions on the payment of dividends. Under the agreement we were permitted to pay or distribute, directly or indirectly, whether in cash or obligations to third parties, up to US\$ 5,000,000 for any calendar year:

for any dividend or other distribution on our capital stock or any interest on capital, excluding any dividends, distributions or interest paid solely in our capital stock or in options, warrants or other rights to acquire capital stock;

in respect of the purchase, acquisition, redemption, withdrawal, defeasance or other acquisition for value of any of our capital stock or any warrants, rights or options to acquire such capital stock;

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in respect of the return of any capital to our shareholders as such;

in connection with any distribution or exchange of property in respect of our capital stock, warrants, rights, options, obligations or securities to or with our shareholders as such; or

in consideration of any irrevocable capital contributions or in payment of interest.

After the closing of the fiscal year ended June 30, 2008, on October 24, 2008, we repaid our total debt to Credit Suisse International ( CSI ). Cresud repaid the principal amount of US\$ 8.0 million and, simultaneously, Cresud received from CSI 1,834,860 GDRs of IRSA which were held as collateral for the transaction.

*Other Loans*

As of June 30, 2008, we had total loans for Ps.195.6 million, composed by unsecured loans for Ps.152.6 million denominated in Pesos and Ps.20.9 million denominated in U.S. Dollars; and secured loans for Ps.22.1 million for the purpose of financing our investment in BrasilAgro, as detailed in the following table, which presents our indebtedness as of June 30, 2008:

	Currency	Timetable of Maturity or Amortization					Total (in millions of constant Pesos as of June 30, 2008) <sup>(1) (2)</sup>	Annual average interest rate %
		Under 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 5 years	Over 5 years		
Unsecured Loans	ARS	152.6				152.6	Floating	
Unsecured Loans	US\$	20.9				20.9	6.59	
Secured Loans <sup>(3)</sup>	US\$	22.1				22.1	Libor + 3.75	
Total Debt		195.6				195.6		

(1) Exchange rate as of June 30, 2008 US\$ 1.00 = Ps.3.025.

(2) Includes accrued interest.

(3) Net of guarantee in cash for Ps. 2.4 million.

As of September 30, 2008, our debt, excluding the loan from Credit Suisse that was repaid on October 24, 2008, amounts to Ps. 91.8 million. After analyzing the structure of our debt, we obtained loans for Ps. 22.8 million to finance our crop production and Ps. 69.0 million for short-term needs.

**IRSA's Results of Operations****Overview****Effects of the economic crisis on IRSA since 2001**

IRSA's historical financial results have been, and are expected to continue to be, materially affected by the general level of economic activity and growth of per capita disposable income in Argentina, where all of its assets are located and its operations are performed. From December 2001



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through most of 2002, Argentina experienced a crisis that virtually paralyzed its economy and led to radical changes in government policies. Argentina's trade and fiscal deficits and the rigidity of its fixed exchange rate system (known as the convertibility regime), combined with the country's excessive reliance on foreign capital and with its mounting external debt, resulted in a deep contraction of the economy and in banking and fiscal crises when capital started to leave the country.

In response to the political and economic crisis, the Argentine government undertook a number of far-reaching initiatives that significantly changed the monetary and foreign exchange regime and the regulatory framework for conducting business in Argentina. Between December 2001 and January 2002, Argentina abolished the fixed parity between the Peso and the U.S. dollar, rescheduled bank deposits, converted dollar denominated debts into pesos, and suspended payment on a significant portion of its public debt.

Most sectors of the Argentine economy were severely affected by the crisis and regulatory changes. In April 2002, the economy started its path to stabilization and realized a clear improvement of economic variables during the second half of the year, mainly as a result of expanding exports and decreasing imports. While the devaluation of the Peso had significant adverse consequences, it resulted in a positive balance for Argentina's current account, which fostered a reactivation of domestic production. The sharp decline in the Peso's value against foreign currencies, together with a decline in production costs in U.S. dollar terms, made Argentine products relatively inexpensive in the export markets. At the same time, the costs of imported goods increased significantly due to the devaluation of the Peso, forcing Argentine consumers to substitute their purchase of foreign goods with domestic products, substantially boosting domestic demand for domestic products.

During the second half of 2002, Argentina's Gross Domestic Product (GDP) increased 4.4%, and the consumer price index inflation was 8.0% for the six-month period ended December 31, 2002, compared to 30.5% for the six-month period ended June 30, 2002. The improving economic conditions, particularly the reduction of capital outflows from the Argentine economy and the banking system, allowed the government to begin lifting restrictions on bank withdrawals in November 2002.

Despite the improvement in economic conditions during the second half of 2002, Argentina's overall GDP contracted 10.9% for the full year, receding to 1993 values, investment collapsed (with, for example, negative growth of 43% in the second quarter compared to the second quarter of 2001), and inflation increased sharply. The main impact of the crisis was the tremendous social hardship. Unemployment rose from 12.9% to 19.7% between 1998 and 2002, real wages declined 24% in 2002, and the poverty index increased from 29% of the population in 2000 to 52% in 2002.

In May 2003, Argentina's political environment was reorganized when Néstor Kirchner took office as president. The economy continued to show indications of recovery, as GDP grew 8.8% in 2003. A combination of sound fiscal and monetary policies kept consumer price inflation under control at 3.5% in 2003. During 2003, Argentina moved towards normalizing its relationship with the IMF, withdrew all the national and provincial governments' quasi-money securities from circulation (amounting to Ps.7.8 billion), and eliminated all deposit restrictions. The trade balance experienced a sustained surplus, aided by the rise in commodity prices and export volumes. Social indicators also improved. The unemployment rate decreased to 17.3% in 2003 and real wages began to recover.

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During 2004 and 2005, the Argentine economy continued to grow. GDP grew 9.0% in 2004 and 9.0% in 2005 according to the Central Bank's survey of independent forecasting firms. Inflation remained relatively low in 2004 although it almost doubled to 6.1% from 2003, and it increased to 12.3% during 2005, 9.8% during 2006, 8.5% during 2007 and 4.7% as of the first semester of 2008.

In June 2005, the Argentine government completed a restructuring of a substantial portion of the federal government's public debt, which had been in default since December 2001. Argentina reduced the outstanding principal amount of its public debt from US\$191.3 billion to US\$126.6 billion and negotiated lower interest rates and extended payment terms. Approximately US\$19.5 billion of defaulted bonds held by creditors who did not participate in the exchange offer remain outstanding.

During 2008, the international scenario has shown signs of deterioration, as a consequence of the subprime mortgages collapse. Thus, from the standpoint of economics and finance, uncertainty has grown and global growth expectations have been revised down, not only with respect to the developed countries, but also to the emerging ones.

Therefore, Argentina faces a global economic slow-down that may significantly impair economic growth. However, Argentina can continue to generate positive export balances through the export of primary commodities and industrial manufactures.

Although the Argentine economy has recovered significantly from the crisis occurred in 2002, the effects of the global economic slow down on Argentina cannot be predicted. See Risk Factors Risks Related to Argentina.

**Effects of inflation**

From 1997 until the end of year 2001, the Argentine government's policies substantially reduced the level of inflation. Therefore, during that period inflation did not significantly affect IRSA's financial condition and results of operations. The following are annual inflation rates since 2002 published by the Argentine Ministry of Economy and Production:

Year ended June 30,	Consumer Price Index	Wholesale Price Index
2002	28.4%	88.2%
2003	10.2%	8.1%
2004	4.9%	8.6%
2005	9.0%	7.7%
2006	11.0%	12.1%
2007	8.8%	9.4%
2008 <sup>(1)</sup>	9.3%	13.8%

The increase in inflationary risk may erode IRSA's present macroeconomic stability, causing a negative impact on IRSA's operations.

During 2006 and 2007 retail prices increased significantly, making inflation one of the main economic issues. In order to hold back inflation, the government signed trade agreements, primarily within the food and textile sectors. In this regard, the Wholesale Price Index (IPIM) increased by 9.1% in the first eleven months of 2008. This shows that inflation is one of the most important problems facing the Argentina today.

**Effects of interest rate fluctuations**

Most of IRSA's U.S. dollar denominated debt accrues interest at a fixed rate. An increase in interest rates will not necessarily result in a significant increase in IRSA's financial costs and may not materially affect IRSA's financial condition and IRSA's results of operations.

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### **Effects of foreign currency fluctuations**

A significant portion of IRSA's financial debt is denominated in U.S. dollars. Therefore, a devaluation of the Argentine Peso against the U.S. dollar would increase IRSA's indebtedness measured in Pesos and materially affect IRSA's results of operations. Foreign currency exchange rate fluctuations significantly increase the risk of default on IRSA's mortgages and lease receivables. Due to the fact that many of IRSA's customers have their cash flows in Pesos, a fluctuation of exchange rate may increase their U.S. dollar-denominated liabilities. Foreign currency exchange restrictions that may be imposed by the Argentine Government could prevent or restrict IRSA's access to U.S. dollars, affecting IRSA's ability to service IRSA's U.S. dollar denominated liabilities.

### **Evolution of IRSA's Business Segments**

#### ***Shopping centers***

The profitability of IRSA's shopping center business is highly sensitive to consumer spending, overall GDP growth in Argentina and availability of financing. The contraction in consumer spending and the greater reliance on informal and low quality products that characterized the Argentine economy during the crisis has been significantly lessened along with an increase in GDP growth. This economic reactivation has significantly increased the revenues of Alto Palermo, IRSA's subsidiary engaged in shopping center ownership and operation. During the fiscal years ended June 30, 2006, 2007 and 2008, IRSA's shopping center revenues were Ps.215.0 million, Ps.270.3 million and Ps.345.4 million respectively.

#### ***Consumer Financing operations.***

Tarshop S.A. is a subsidiary of Alto Palermo through which IRSA has rolled out a consumer financing business. Economic reactivation and the consequent increase in consumer spending have been fueling the growth in this business as in the case of the shopping center segment. Conceived originally as a marketing tool intended to stimulate sales at IRSA's shopping centers, Tarshop's credit card business has extended beyond IRSA's shopping centers, becoming one of the fastest growing consumer financing businesses in the consumer financing industry in Argentina. As of June 30, 2008, Tarshop had 894,000 customer accounts of which 640,000 had unpaid balances, an average indebtedness of Ps. 1,630 per account. Total portfolio amounted to Ps. 1,044.6 million, 78% of which was securitized through the Tarjeta Shopping Financial Trusts Program. During the fiscal years ended June 30, 2006, 2007 and 2008, the revenues of IRSA's credit card operations were Ps.123.0 million, Ps.213.0 million and Ps.291.0 million, respectively.

As a result of the current international financial scenario, IRSA has observed a high volatility in interest rates and increases in systemic delinquency, affecting the performance and financing of the consumer finance business. The higher delinquency levels have led to an increase in the subordination of financial trusts which, added to the changes in their tax treatment, the higher interest rates resulting from higher risk and a slight deceleration in private consumption, have forced IRSA to review the general economic and the business prospects of Tarshop S.A. IRSA is focused on improving Tarshop's capital base and operating performance in order to consolidate its position in the industry. For more information about IRSA's consumer financing Segment, please see [Recent Developments](#) section.



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**Table of Contents*****Development and sale of properties***

Demand for new residential units is influenced by a number of factors, including employment rates, short-term and long-term interest rates, availability of government-sponsored and private mortgage financing programs and products, consumer confidence, governmental policies, demographic factors and, to a lesser extent, changes in property taxes, energy costs and federal income tax rates. In addition, the feasibility of developing and marketing new residential units depends on a number of factors such as the inventory of existing units, zoning restrictions, government policies, cost and availability of land, construction and sales costs and the availability of financing on reasonable terms, among other factors. At the time of the crisis, residential sales came to a virtual standstill and real estate prices fell sharply. During the last four years, the market has begun to recover, making gradual progress. This continuing market stabilization accounts for much of the revenue increase in IRSA's Development and Sale of Properties segment. During the fiscal years ended June 30, 2006, 2007 and 2008, IRSA's development and sale of properties segment had revenues of Ps.104.0 million, Ps.75.8 million and Ps. 196.8 million, respectively.

***Office and other non-shopping center rental properties***

The profitability of offices and other non-shopping center rental properties segment is similarly affected by the macroeconomic factors described above. Favorable market conditions and the incidence of bankruptcy are also closely related to levels of vacancy and to the price at which IRSA can lease IRSA's premises which in turn adversely affect IRSA's revenues in this segment. During the 2001 Argentine economic crisis and its aftermath, few development projects were built in Argentina. However, demand for office space and rental properties has increased substantially during the last four years, significantly raising prices. During the fiscal years ended June 30, 2006, 2007 and 2008, IRSA's offices and other non-shopping center rental properties segment had revenues of Ps.30.6 million, Ps.55.7 million and Ps.101.0 million, respectively.

***Hotel operations***

The revenues from IRSA's hotel business are also highly sensitive to market conditions. For example, the devaluation of the Peso following the repeal of the Convertibility Law made Argentina a less expensive, and therefore a more attractive, tourist destination, significantly increasing the influx of foreign tourists. The appreciation of foreign currency also rendered domestic travel destinations more appealing to the Argentines, many of whom replaced foreign travel with local travel. During fiscal years ended June 30, 2006, 2007 and 2008, IRSA's Hotel operations segment had revenues of Ps.103.8 million, Ps.122.7 million and Ps.148.8 million, respectively.

**Factors Affecting Comparability of Results of Operations**

Described below are certain considerations that will facilitate an understanding of IRSA's overall operating results. These factors are based upon the information which is currently available to IRSA and do not represent all of the factors that are relevant to an understanding of IRSA's current and future results of operations.

***Recent results on equity investees***

IRSA currently owns 11.8% of Banco Hipotecario, Argentina's leading mortgage lender in terms of mortgage loans granted and provider of mortgage-related insurance and mortgage loan services. For fiscal years ended June 30, 2007 and 2008, IRSA's investment in Banco Hipotecario generated a gain of Ps.41.4 million and a loss of Ps.12.4 million respectively. The results IRSA recorded in IRSA's 2007 and 2008 fiscal years represented 38.6% and (22.5)%, respectively, of IRSA's consolidated net income for such years.

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### ***Variability of results due to substantial property acquisitions and dispositions***

The development and sale of large residential and other properties does not yield a stable, recurring stream of revenue. On the contrary, large acquisitions and sales significantly affect revenues for a reporting period, making it difficult to compare IRSA's year-to-year results. For example, the Ps.108.4 million sale of Bouchard 551 and the Ps.56.6 million sale of plot Y of Dique III have significantly impacted IRSA's results for IRSA's 2008 fiscal year. IRSA's historical revenues have varied from period to period depending upon the timing of sales of properties, and IRSA's future period-on-period results of operations are likely to continue to vary, perhaps significantly, as a result of periodic acquisitions and dispositions of properties.

### **Critical Accounting Policies and Estimates**

In connection with the preparation of IRSA's consolidated financial statements included in this annual report, IRSA has relied on variables and assumptions derived from historical experience and various other factors that IRSA deemed reasonable and relevant. Although IRSA reviews these estimates and assumptions in the ordinary course of business, the portrayal of IRSA's financial condition and results of operation often requires IRSA's management to make judgments regarding the effects of matters that are inherently uncertain on the carrying value of IRSA's assets and liabilities. Actual results may differ from those estimated under different variables, assumptions or conditions. In order to provide an understanding about how management forms IRSA's judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, IRSA has included comments related to each critical accounting policy described as follows:

revenue recognition;

business combinations;

useful lives of real estate assets;

provision for allowances and contingencies;

impairment of long-lived assets;

debt restructuring;

deferred income tax;

minimum presumed income tax; and

negative goodwill, net

#### ***Revenue recognition***

IRSA primarily derives its revenues from domestic office space and shopping center leases and services operations, from the development and sale of properties, from consumer financing operations and from hotel operations.



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*Accounting for real estate barter transactions.* During the years ended June 30, 2008 and 2006 IRSA entered into certain non-monetary transactions with third parties pursuant to which IRSA sold plots of land in the ordinary course of business in exchange for cash and/or other real estate properties. Under Argentine GAAP, these transactions were recorded based on the fair value of the assets involved and, as a result, a gain or loss was recognized at the time of the exchange. IRSA believes that this accounting policy is a critical accounting policy because the impact of accounting for real estate barter transactions under this method could have a material effect on IRSA's consolidated balance sheet as well as on IRSA's results of operations.

*Recognition of inventories at net realizable value.* Inventories, on which IRSA received payments in advance that establish the sales price and the terms and conditions of the contract assuring the closing of the transaction and the realization of the gain, are valued at net realizable value. At June 30, 2008, payments for Ps.2.8 million were valued according to these criteria, which were principally applied to the following developments: Torre Renoir Dock III for Ps.2.6 million and Torres Rosario for Ps.0.2 million. IRSA believes that the accounting policy related to recognition of inventories at net realizable value is a critical accounting policy because the impact of accounting under this method could have a material effect on IRSA's consolidated balance sheet as well as on IRSA's results of operations. The performance of a sensitivity analysis, which reduced the fair market value of the properties by 5%, would have resulted in a smaller Gain from recognition of inventories at net realizable value by Ps.2.1 million for IRSA's fiscal year ended June 30, 2008.

*Leases and services from shopping center operations.* IRSA accounts for IRSA's leases with tenants as operating leases. IRSA generally charges tenants a rent which consists of the higher of (i) a monthly base rent (the Base Rent) and (ii) a specified percentage of the tenant's monthly gross retail sales (the Percentage Rent) (which generally ranges between 4% and 10% of tenant's gross sales). Furthermore, pursuant to the rent escalation clause in most leases, the tenant's Base Rent generally increases between 7% and 12% each year during the term of the lease. Certain of IRSA's lease agreements contain provisions which provide for rents based on a percentage of sales or based on a percentage of sales volume above a specified threshold. IRSA determines the compliance with specific targets and calculate the additional rent on a monthly basis as provided for in the contracts. Thus, IRSA does not recognize contingent rents until the required thresholds are exceeded.

IRSA's lease agreements vary from 36 to 120 months. Law No. 24,808 provides that tenants may rescind commercial lease agreements after the initial six months, upon not less than 60 days' written notice, subject to penalties of one and a half months rent if the tenant rescinds during the first year of its lease, and one month of rent if the tenant rescinds after the first year of its lease.

IRSA also charges IRSA's tenants a monthly administration fee, prorated among the tenants according to their leases, which varies from shopping center to shopping center, relating to the administration and maintenance of the common area and the administration of contributions made by tenants to finance promotional efforts for the overall shopping centers operations. IRSA recognizes administration fees monthly when earned. In addition to rent, IRSA generally charges tenants admission rights. Admission rights are non-refundable admission fees that tenants may be required to pay upon entering into a lease or upon lease renewal. An admission right is normally paid in one lump sum or in a small number of monthly installments. IRSA recognizes admission rights using the straight-line method over the life of the respective lease agreements. Furthermore, the lease agreements generally provide for the reimbursement of real estate taxes, insurance, advertising and certain common area maintenance costs. These additional rents and tenant reimbursements are accounted for on the accrual basis.

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IRSA also derives revenues for parking lot fees charged to visitors. IRSA recognizes parking revenues as services are performed.

*Leases and services from office and other non-shopping center rental properties.* IRSA accounts for IRSA's leases with tenants as operating leases. IRSA charges tenants a base rent on a monthly basis. IRSA recognizes rental income on a straight-line basis over the term of the leases.

*Development and sale of properties.* IRSA records revenue from the sale of properties when all of the following criteria are met: (a) the sale has been consummated (a sale is not considered consummated until (i) the parties are bound by the terms of a contract, (ii) all consideration has been exchanged, (iii) any permanent financing for which the seller is responsible has been arranged and (iv) all conditions precedent to the closing have been performed); (b) IRSA determines that the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property (the adequacy of a buyer's initial investment is measured by (i) its composition and (ii) its size compared with the sales value of the property); (c) IRSA's receivable is not subject to future subordination (IRSA's receivable will not be placed in or occupy a lower rank, class or position with respect to other obligations of the buyer); and (d) IRSA has transferred to the buyer the risk and rewards of ownership and does not have a continuing involvement in the property.

IRSA generally enters into purchase and sale agreements with purchasers of units in IRSA's residential development properties prior to the commencement of construction. Pursuant to this practice, IRSA initiates its marketing and sales efforts on the basis of already-commissioned architectural designs and model units. As a general rule, purchasers pay a booking charge for the units and subsequently enter into fixed price purchase and sale agreements. The balance of the purchase price is due upon delivery of the constructed and completed unit.

Construction of such residential development properties is done pursuant to turn-key contracts with major Argentine and South American construction companies that provide for construction to be completed within a prescribed period and budget, subject to customary exceptions.

IRSA uses the percentage-of-completion method of accounting with respect to sales of development properties under construction effected under fixed-priced contracts. Under this method, revenue is recognized based on the ratio of costs incurred to total estimated costs applied to the total contract price. IRSA does not commence revenue and cost recognition until such time as the decision to proceed with the project is made and construction activities have begun.

The percentage-of-completion method of accounting requires management to prepare budgeted costs (i.e., the estimated costs of completion) in connection with sales of properties and/or units. All changes to estimated costs of completion are incorporated into revised estimates during the contract period.

Under this method of accounting, revenues for work completed may be recognized in the statement of income prior to the period in which actual cash proceeds from the sale are received. In this situation, a deferred asset is recorded. Alternatively, and as is more common for us, where property and/or unit purchasers pay IRSA an advance down-payment and monthly cash installments prior to the commencement of construction, a liability is recorded. This is recorded as a customer advance in the financial statements.

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*Consumer financing.* IRSA derives revenues from origination of consumer loans and consumer financing transactions and securitization of corresponding receivables. Revenues from credit card transactions are primarily comprised of (i) merchant discount fees which are recognized when transactional information is received and processed by the Company; (ii) data processing services which consist of processing and printing cardholders account statements, and which are recognized as services are provided; (iii) life and disability insurance charges to cardholders which are recognized on an upfront basis, and (iv) interest income generating by financing and lending activities. Revenue from financing and lending activities are comprised of interest income generating by financing and lending activities. Revenue from financing and lending activities are comprised of interest income which is recognized on an accrual basis.

*Hotel operations.* IRSA recognizes revenues from occupation of rooms, catering, and restaurant services as earned at the close of each business day.

***Business combinations***

Acquisitions are accounted for under the purchase method of accounting. Under the purchase method of accounting, IRSA allocates the purchase price of properties to tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Technical Resolution No. 18. In making estimates of fair values for the purpose of allocating purchase price, IRSA's management use a number of sources. IRSA also considers information about each property obtained as a result of IRSA's pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of tangible and intangible assets acquired. IRSA allocates a portion of the purchase price to tangible assets including the fair value of the building on an as-if-vacant basis and to land determined either by real estate tax assessments, third-party appraisals or other relevant data. Generally, IRSA determines the as-if-vacant value by using a replacement cost method. Also, a portion of the purchase price is allocated to above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease. The capitalized above-market and below-market lease values are amortized as a reduction of or an addition to rental income over the remaining noncancelable terms of the respective leases. Should a tenant terminate its lease, the unamortized portion of the lease intangibles would be charged or credited to income. A portion of the purchase price is also allocated to the value of leases acquired and management uses independent sources or management's determination of the relative fair values of the respective in-place lease values. IRSA's estimates of value are made using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods, considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. IRSA also estimates costs to execute similar leases including leasing commissions, legal expenses and other related costs. Other intangible assets acquired may include tenant relationships which are valued based on management's evaluation of the specific characteristics of each tenant's lease and IRSA's overall relationship with the respective tenant. IRSA has not identified any lessee with whom IRSA has developed a type of relationship allowing the recognition of an intangible asset.

***Useful lives of real estate assets***

IRSA is required to make subjective assessments as to the useful lives of IRSA's properties for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those properties. These assessments have a direct impact on IRSA's net income. If ITSA would lengthen or shorten the expected useful life of a particular asset, it would be depreciated over more or less years and result in less or more depreciation expense and higher or lower net income.

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### ***Provisions for allowances and contingencies***

IRSA provides for losses relating to mortgage, lease and other accounts receivable. The allowance for losses is recognized when, based on current information and events, it is probable that IRSA will be unable to collect all amounts due according to the terms of IRSA's agreements. Allowances are determined on a case-by-case basis, where applicable, by considering the present value of expected future cash flow or the fair market value of collateral if the loan is securitized. Determinations that an allowance should be recognized are dependent on information available at the time of the determination. As a result, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used at the time of the determination. IRSA has considered all events and/or transactions subject to reasonable and standard estimation procedures. The consolidated financial statements reflect these considerations.

IRSA has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor and other matters. IRSA accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, IRSA's estimate of the outcomes of these matters and IRSA's lawyers' experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs, which could have material effect on IRSA's future results of operations and financial condition or liquidity.

### ***Impairment of long-lived assets***

IRSA periodically evaluates the carrying value of IRSA's long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. IRSA considers the carrying value of a long-lived asset to be impaired when its value in use or its net realizable value, whichever is greater, is less than its carrying value. Value in use is determined by the expected cash flows from the assets discounted at a rate commensurate with the risk involved. Net realizable value is determined by the selling price of the assets less costs to sell.

Under Argentine GAAP a previously recognized impairment loss is reversed when there is a subsequent change in estimates used to compute the fair market value of the asset. In that event, the new carrying value of the asset is the lower of its fair market value or the net carrying value the asset would have had if no impairment had been recognized. Both the impairment charge and the impairment reversal are recognized in earnings. U.S. GAAP prohibits the reversal of a previously recognized impairment charge.

IRSA believes that the accounting estimate related to asset impairment is a critical accounting estimate because:

it is highly susceptible to change from period to period because it requires company management and/or independent appraisers to make assumptions such as, future sales and cost of sale, future vacancy rates and future prices, which requires significant adjustments because actual prices and vacancy rates have fluctuated in the past and are expected to continue to do so; and

the impact that recognizing an impairment would have on assets reported on IRSA's balance sheet as well as on the results of IRSA's operations could be material.

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During the years ended June 30, 2002, 2003, 2004 and 2005 IRSA recognized impairment losses. As permitted by Argentine GAAP, due to increases in fair market values, these impairment charges were subsequently reversed during the years ended June 30, 2004 through the current fiscal year. Impairment charges and subsequent reversals are included in the line item Gain from operations and holdings of real estate assets, net in the income statement.

The fair market value of IRSA's office and rental properties was determined following the rent value method, taking into consideration each property's future cash flow, its comparability with other properties in the market and its historic vacancy rates. The price per square meter of IRSA's properties varies according to the category and type of building, and to each property's idiosyncratic traits. Vacancy rates are the lowest in history with rates below 1%. Moreover, IRSA currently believes that a significant amount of new office space, comparable to IRSA's existing buildings, is not likely to become available in the City of Buenos Aires during IRSA's next two or three fiscal years. IRSA applied an assumed 5% vacancy rate in preparing IRSA's cash flow analyses. For buildings IRSA considers to be Class A (those having the best location and condition) the average price per square meter used was between Ps.80 and Ps.120 per square meter per month, while for buildings IRSA consider to be Class A/B (having very good location and/or condition) the average price was between Ps.52 and Ps.69 per square meter per month, and for buildings IRSA considers Class B/C (those having good location and/or condition) it was Ps.36 per square meter per month. The performance of a sensitivity analysis, which would have reduced the fair market value of these properties by 5%, would have resulted in a smaller reversal of impairment losses of Ps.0.2 million, as of June 30, 2008.

With respect to IRSA's Hotel Operations segment, the discounted cash flows methodology was applied by taking the forecasts of each hotel in a 10-year flow and discounting such estimated amounts at rates according to risk, location and other relevant factors. The cash flows to be discounted considered revenues per room, per guest, per additional charge as well as the fixed and variable expenditures related to the transaction. Rate increases and occupancy variations were estimated based on the information supplied by each hotel's management and comparing them to industry-specific data in the local market. IRSA believes that tourism activities and related industries in Argentina have increased by 8% to 12% over the last 12 months, above worldwide figures, according to inbound traveling and spending statistics provided by the National Tourism Agency.

Shopping centers were valued according to the rent value method. IRSA calculated discount rates considering each property's location, its comparability with other properties in the market, its historic rental income, vacancy rates and cash flow. The average discount rates IRSA used ranged between 14.5% and 16.5%, the average price per leasable square meter was Ps.7,043 and the average vacancy rate was calculated taking into consideration a permanent vacancy rate of 5%.

IRSA used the open market method for determining the fair market value of IRSA's land reserves and inventories. IRSA estimated the value of each site by taking into consideration the value of the property according to its surface area and location, as well as the availability of inventory. The performance of a sensitivity analysis, which would have reduced the fair market value of these properties by 5% would have resulted in a smaller reversal of impairment losses of Ps.0.02 million, and an increased recognition of impairment losses of Ps. 0.02 million, as of June 30, 2008.



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***Debt restructuring***

*Extension of the Alto Palermo's Convertible Notes' maturity date.* On August 20, 2002, Alto Palermo issued an aggregate amount of US\$50.0 million of uncollateralized convertible notes (the "Convertible Notes") in exchange for cash and the settlement of certain liabilities. The Convertible Notes accrue interest at a fixed annual interest rate of 10% (payable semiannually), are convertible at any time at the option of the holder into common shares of Ps. 0.10 par value per share and originally matured on July 19, 2006. On May 2, 2006 a Meeting of Noteholders resolved to extend the maturity date of the Convertible Notes through July 19, 2014, leaving the remaining terms and conditions unchanged.

Argentine GAAP requires that an exchange of debt instruments with substantially different terms be considered a debt extinguishment. Argentine GAAP clarifies that from a debtor's perspective, an exchange of debt instruments between, or a modification of a debt instrument by, a debtor and a creditor shall be deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10% different from the present value of the remaining cash flows under the terms of the original instrument. The new debt instrument should be initially recorded at fair value, and that amount should be used to determine the extinguishment gain or loss to be recognized.

Fair value should be determined by the present value of the future cash flows to be paid under the terms of the new debt instrument discounted at a rate commensurate with the risks of the debt instrument and time value of money. If it is determined that the original and new debt instrument are not substantially different, then a new effective interest rate is to be determined based on the carrying amount of the original debt instrument and the revised cash flows. Based on the analysis performed, IRSA concluded that the instruments were not substantially different and accordingly the original Convertible Notes were not considered to have been extinguished.

IRSA believes that the accounting policy related to the extension of Alto Palermo's Convertible Notes' maturity date is a critical accounting policy because it required us to make an estimate of the present value of the future cash flows, using an estimated discount rate which is highly susceptible to changes from period to period, and as a result the impact on the fair market value of IRSA's debt instruments could be material.

***Deferred income tax***

IRSA recognizes income tax using the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Technical Resolution No. 17 requires companies to record a valuation allowance for that component of net deferred tax assets which is not recoverable.

IRSA believes that the accounting estimate related to deferred income tax is a critical accounting estimate because:

it is highly susceptible to change from period to period because it requires company management to make assumptions, such as future revenues and expenses, exchange rates and inflation among others; and

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the impact that calculating income tax using this method would have on assets or liabilities reported on IRSA's consolidated balance sheet as well as on the income tax result reported in IRSA's consolidated statement of income could be material.

### ***Minimum presumed income tax ( MPIT )***

IRSA calculates the minimum presumed income tax provision by applying the current 1% rate on computable assets at the end of the year. This tax complements the income tax. IRSA's tax obligation each year will coincide with the highest amount due under either of these two taxes. However, if the minimum presumed income tax provision exceeds income tax in a given year, the amount in excess of income tax can be offset against income tax arising in any of the following ten years.

IRSA has recognized the minimum presumed income tax provision paid in previous years as a credit as IRSA estimates that it will offset future years' income tax.

IRSA believes that the accounting policy relating to the minimum presumed income tax provision is a critical accounting policy because it requires management to make estimates and assumptions with respect to IRSA's future results that are highly susceptible to change from period to period, and as such the impact on IRSA's financial position and results of operations could be material.

### ***Negative goodwill, net***

When the sum of the individual fair values of the identifiable tangible and intangible assets exceeds the purchase price paid, negative goodwill exists. Under Argentine GAAP, when negative goodwill exists after an acquiring entity initially assigns values to all assets acquired and liabilities assumed, RT No. 18 states that the entity must first reassess whether all acquired assets and assumed liabilities have been identified and properly valued. If an amount of negative goodwill still results after this reassessment, intangible assets acquired (including above and below market leases, in-place leases and tenant relationships, as applicable), are subject to reduction. If after all of these intangible assets are reduced to zero and an amount of negative goodwill still remains, the remaining unallocated negative goodwill is amortized under the straight-line method over the weighted average useful life of the main tangible assets acquired.

### ***Goodwill***

Goodwill represents the excess of cost over the fair value of net identifiable assets and is amortized under the straight-line method over the weighted average useful life of the main tangible assets acquired.

The carrying amount does not exceed its respective estimated recoverable value at the end of this year.

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**Principal differences between Argentine GAAP and U.S. GAAP**

The principal differences, other than inflation accounting, between Argentine GAAP and U.S. GAAP are related to the following:

the impact of certain U.S. GAAP adjustments on equity investees;

the accounting for marketable securities;

the application of different useful lives for depreciation purposes;

the deferral of certain preoperating and organization expenses under Argentine GAAP which are expensed as incurred under U.S. GAAP;

the accounting for a mortgage payable with no stated interest;

the accounting for securitization programs;

the application of certain U.S. GAAP adjustments to the estimation of the fair value of net assets acquired;

the present-value accounting;

the restoration of previously recognized impairment losses accounting;

the accounting for convertible notes;

the accounting for troubled debt restructuring;

the accounting for real estate barter transactions;

the accounting for the appraisal revaluation of fixed assets;

the revenue recognition of deferred brokerage commissions over the term of the respective leases;

the escalation rental revenue under straight-line method over the term of the leases;

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the deferral of certain revenues from life and disability insurance and origination fees;

the amortization of fees related to the Senior Notes;

the accounting for software obtained for internal use;

the accounting for increasing rate debt;

the differences between the price-level restated amounts of assets and liabilities and their historical basis, that under Argentine GAAP, are treated as permanent differences in accounting for deferred income tax calculation purposes while under U.S. GAAP are treated as temporary differences;

the effect of the reversal of gain from recognition of financial receivables at net realizable value.

the effect of the reversal of capitalized exchange differences.

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the effects on deferred income tax of the foregoing taxes of the above-mentioned reconciling items, as appropriate;

the effect on minority interest of the above-mentioned reconciling items, as appropriate; and

In addition, certain other disclosures required under U.S. GAAP have been included in the U.S. GAAP reconciliation. See note 28 to IRSA's audited consolidated financial statements included elsewhere in this annual report.

Net income under Argentine GAAP for the years ended June 30, 2006, 2007 and 2008 was approximately Ps. 96.6 million, Ps.107.1 million and Ps. 54.9 million, respectively, compared to approximately Ps. 89.9 million, Ps.103.2 million and Ps.122.1 million, respectively, under U.S. GAAP. Shareholders' equity under Argentine GAAP as of June 30, 2007 and 2008, was Ps.1,646.7 million and Ps.1,924.2 million, respectively, compared to Ps.1,358.7 million and Ps.1,640.9 million, respectively, under U.S. GAAP.

**Business Segment Reporting**

IRSA has determined that IRSA's reportable segments are those based on IRSA's method of internal reporting. Accordingly, IRSA has six reportable segments. These segments are Shopping centers, Consumer financing, Development and sale of properties, Offices and other non-shopping center rental properties, Hotel operations and Financial operations and others.

A general description of each segment follows:

*Shopping centers.* This segment includes the operating results of IRSA's shopping centers principally consisting of lease and service revenues from tenants.

*Consumer financing.* IRSA operates a consumer financing business through Alto Palermo's majority-owned subsidiary Tarshop. Consumer financing operations consist primarily of lending and servicing activities relating to the credit card and personal loans products IRSA offers to consumers at shopping centers, hypermarkets and street stores. IRSA finances a substantial majority of IRSA's credit card and personal loans consumer financing activities through securitization of the receivables underlying the accounts IRSA originates. IRSA's revenues from consumer financing transactions are derived from interest income generated by financing and lending activities, merchants' fees, insurance charges for life and disability insurance and fees for data processing and printing cardholders' account statement.

*Development and sale of properties.* This segment includes the operating results of IRSA's construction and/or sale of residential buildings business.

*Offices and other non-shopping center rental properties.* This segment includes the operating results from IRSA's lease and service revenues for office space and other non-retail building properties.

*Hotel operations.* This segment includes the operating results of IRSA's hotels principally comprised of room, catering and restaurant revenues.

*Financial operations and others.* This segment primarily includes revenues and associated costs generated from the sale of equity securities, other securities-related transactions and other non-core activities.

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IRSA measures its reportable segments based on net income. Inter-segment transactions, if any, are accounted for at current market prices. IRSA evaluates performance and allocate IRSA's resources to each segment based on operating income. The company is not dependent on any single customer.

### **Allocation of expenses and other income to business segments**

#### *Allocation of selling expenses to business segments*

Selling expenses directly attributable to the Shopping centers, Consumer financing and Hotel operations segments are directly allocated to these segments. These expenses are individually incurred by each segment. All other selling expenses are allocated to the remaining segments based on the expenses incurred by each segment.

#### *Allocation of administrative expenses to business segments*

Administrative expenses directly attributable to the Shopping centers, Consumer financing, and Hotel operations segments are directly allocated to these segments. These expenses are incurred individually by these segments. All other administrative expenses are prorated among the Development and sale of properties and the Offices and other non-shopping center rental properties segments based on the percentage of the operating assets and revenues generated by each segment. Accordingly, 45.8% and 54.2% of administrative expenses (excluding expenses directly attributable to the Shopping centers, Consumer financing, and Hotel operations segments) are allocated to the Development and sale of properties and the Offices and other non-shopping center rental properties segments, respectively.

#### *Allocation of results from retained interest in securitized receivables to business segments*

Alto Palermo's results from its interest in Tarjeta Shopping trusts are allocated to IRSA's Consumer financing segment.

#### *Allocation of results from operations and holding of real estate assets, net*

These results are allocated to the segment that generates them.

#### *Allocation of the amortization of goodwill*

Includes, principally, the amortization of goodwill generated from (i) the acquisition of Alto Palermo, (ii) the acquisition of Alto Palermo's subsidiaries, (iii) the purchase of Alto Palermo's Convertible Notes and (iv) the acquisition of 33% interest in Palermo Invest. The amortization is allocated to the segment that generates the corresponding goodwill.

#### *Allocation of financial results to business segments*

#### *Financial results, net*

Includes interest income, interest on discounting assets and liabilities, gain (loss) on financial operations, financial expenses, exchange gain (loss), and other financial results allocated to each segment, as described below.

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### *Gain (loss) on financial operations*

The gains (losses) on financial operations related to the Shopping centers, Consumer financing, and Hotel operations segments are directly allocated to these segments as each of them manages their financial results separately. The remaining financial gains or losses are shown in the Financial operations and others segment since they are not specifically generated by any other separate segment.

### *Interest income, interest on discounting assets and liabilities and financial expenses*

Only the results generated by Alto Palermo, Tarjeta Shopping, and IRSA's hotels are recorded in the Shopping centers, Consumer financing and Hotel operations segments, respectively. The remaining results are prorated among Development and sale of properties, Offices and other non-shopping center rental properties, Shopping centers, Consumer financing, Hotel operations, and Financial operations and others in proportion to the corresponding assets to each segment.

### *Exchange gain (loss) and other financial results*

In the case of Shopping centers, Consumer financing, and Hotel operations, exchange gains (losses) and other financial results are attributed to the segments that give rise to them. The remaining items are recorded in Financial operations and others as they are not directly related to any segment.

### *Allocation of (Loss) gain on equity investees*

(Loss) gain on equity investees is allocated to the corresponding segments. (Loss) gain on equity investees carrying out activities not falling under any of IRSA's segments of activity are recorded under Financial operations and others.

### *Allocation of other (income) expenses, net*

The Shopping centers, Consumer financing, and Hotel operations segments each manage their expenses individually. The results generated by such operations are directly allocated to these segments. The remaining expenses are shown in the Financial operations and others segment since they are not specifically generated by any other separate segment.

### *Allocation of minority interest*

Minority interests are allocated among IRSA's respective segments that generate them.

### *Allocation of income tax and MPIT*

The corresponding taxes are allocated to the segment that generates them, with the exception of IRSA's taxes that are prorated among the Development and sale of properties, the Offices and other non-shopping center rental properties and the Financial operations and others segments.

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The following tables show certain operating data by business activity:

As of and for year ended June 30, 2008	Development and sale of properties	Offices and other non-shopping center rental properties (a)	Shopping centers	Hotel operations	Consumer financing (f)	Financial operations and others	Total
			(in thousands Ps.)				
<b>Statement of Income Data</b>							
Revenues	196,811	100,989	345,395	148,847	291,030	1,170	1,084,242
Costs	(150,894)	(25,818)	(99,175)	(84,220)	(129,025)	(529)	(489,661)
Gross profit	45,917	75,171	246,220	64,627	162,005	641	594,581
Gain from recognition of inventories at net realizable value	2,832						2,832
Selling expenses	(7,696)	(3,458)	(24,809)	(16,608)	(111,415)		(163,986)
Administrative expenses	(21,849)	(22,028)	(39,150)	(29,979)	(66,988)		(179,994)
Net loss from retained interest in securitized receivables					(1,261)		(1,261)
Gain from operations and holding of real estate assets, net	66	2,604					2,670
Operating income (loss)	19,270	52,289	182,261	18,040	(17,659)	641	254,842
Amortization of goodwill	488	1,782	(390)		(242)		1,638
Loss on equity investees	(1,065)		(33)	(23)		(12,088)	(13,209)
Financial results, net	(8,502)	(10,069)	(23,585)	(5,884)	(375)	(28,327)	(76,742)
Other income (expenses), net			4,975	(5,713)	3,800	(8,704)	(5,642)
Income (loss) before taxes and minority interest	10,191	44,002	163,228	6,420	(14,476)	(48,478)	160,887
Income tax and MPIT	1,820	1,679	(74,992)	(4,010)	(1,522)	(1,087)	(78,112)
Minority interest	1		(36,347)	863	7,458	125	(27,900)
Net income (loss)	12,012	45,681	51,889	3,273	(8,540)	(49,440)	54,875
Gross margin(b)	0.23	0.74	0.71	0.43	0.56	0.55	0.55
Operating margin(c)	0.10	0.52	0.53	0.12	(0.06)	0.55	0.24
Net margin(d)	0.06	0.45	0.15	0.02	0.03	(42.26)	0.05
Depreciation and amortization(e)	577	24,908	73,185	13,283	1,888		113,841
<b>Balance Sheet Data</b>							
Operating assets	436,392	999,060	1,642,341	233,613	113,052		3,424,458
Non operating assets	26,519	57,433	62,649	18,246	21,068	861,419	1,047,514
Total assets	462,911	1,056,493	1,704,990	252,039	134,120	861,419	4,471,972
Operating liabilities	25,530	100,430	250,957	33,115	205,671		615,703
Non operating liabilities	247,320	209,399	662,174	199,813	75,714	80,956	1,475,376
Total liabilities	272,850	309,829	913,131	232,928	281,385	80,956	2,091,079

(a) Includes offices, commercial and residential premises.

(b) Gross profit divided by revenues.

(c) Operating income divided by revenues.



- (d) Net income divided by revenues.
- (e) Included in operating income.
- (f) Formerly known as Credit Card Operations .

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As of and for year ended June 30, 2007	Development and sale of properties	Offices and other non-shopping center rental properties (a)	Shopping centers	Hotel operations	Consumer financing (f)	Financial operations and others	Total
	(in thousands Ps.)						
<b>Statement of Income Data</b>							
Revenues	75,751	55,683	270,266	122,681	212,965	1,410	738,756
Costs	(57,823)	(16,699)	(91,112)	(68,960)	(76,251)	(802)	(311,647)
Gross profit	17,928	38,984	179,154	53,721	136,714	608	427,109
Gain from recognition of inventories at net realizable value	20,737						20,737
Selling expenses	(12,846)	(4,376)	(22,346)	(12,175)	(61,966)		(113,709)
Administrative expenses	(19,624)	(16,827)	(32,717)	(26,893)	(45,366)		(141,427)
Net income from retained interest in securitized receivables					3,254		3,254
(Loss) gain from operations and holding of real estate assets, net	(18)	1,845	741				2,568
Operating income	6,177	19,626	124,832	14,653	32,636	608	198,532
Amortization of goodwill	286	1,044	(2,802)				(1,472)
(Loss) gain on equity investees	(491)		(818)	(412)		41,747	40,026
Financial results, net	(7,088)	(6,256)	(28,190)	(5,268)	825	50,076	4,099
Other income (expenses), net			(6,382)	160	3,034	(10,912)	(14,100)
(Loss) Income before taxes and minority interest	(1,116)	14,414	86,640	9,133	36,495	81,519	227,085
Income tax and minimum presumed income tax	(11,786)	(1,987)	(40,798)	(3,102)	(15,455)	(14,411)	(87,539)
Minority interest	(4)	(326)	(22,000)	(1,400)	(8,719)		(32,449)
Net (loss) income	(12,906)	12,101	23,842	4,631	12,321	67,108	107,097
Gross margin(b)	0.24	0.70	0.66	0.44	0.64	0.43	0.58
Operating margin(c)	0.08	0.35	0.46	0.12	0.15	0.43	0.27
Net margin(d)	(0.17)	0.22	0.09	0.04	0.06	47.59	0.14
Depreciation and amortization(e)	39	16,256	67,046	12,358	1,297		96,996
<b>Balance Sheet Data</b>							
Operating assets	508,742	675,321	1,336,166	202,113	139,657		2,861,999
Non operating assets	30,516	24,662	39,073	6,318	18,771	1,163,560	1,282,900
Total assets	539,258	699,983	1,375,239	208,431	158,428	1,163,560	4,144,899
Operating liabilities	31,472	83,073	199,616	23,304	165,713		503,178
Non operating liabilities	278,615	247,763	734,370	153,117	44,722	86,010	1,544,597
Total liabilities	310,087	330,836	933,986	176,421	210,435	86,010	2,047,775

(a) Includes offices, commercial and residential premises.

(b) Gross profit divided by revenues.

(c) Operating income divided by revenues.

(d) Net income divided by revenues.

(e) Included in operating income.

(f) Formerly known as Credit Card Operations .

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As of and for year ended June 30, 2006	Development and sale of properties	Offices and other non-shopping center rental properties (a)	Shopping centers	Hotel operations	Consumer financing (f)	Financial operations and others	Total
			(in thousands Ps.)				
<b>Statement of Income Data</b>							
Revenues	103,966	30,565	215,003	103,763	122,969	1,414	577,680
Costs	(54,200)	(8,987)	(77,382)	(57,971)	(43,933)	(1,358)	(243,831)
Gross profit	49,766	21,578	137,621	45,792	79,036	56	333,849
Gain from recognition of inventories at net realizable value	9,063						9,063
Selling expenses	(1,797)	(1,020)	(15,700)	(10,688)	(30,900)		(60,105)
Administrative expenses	(12,807)	(11,315)	(25,837)	(20,998)	(25,925)		(96,882)
Net income from retained interest in securitized receivables					2,625		2,625
Gain from operations and holding of real estate assets, net	52	2,619	9,499	446			12,616
Operating income	44,277	11,862	105,583	14,552	24,836	56	201,166
Amortization of goodwill			(856)		(224)		(1,080)
(Loss) gain on equity investees			(1,599)	146		43,110	41,657
Financial results, net	(5,383)	(4,579)	(23,273)	(1,935)	106	(5,862)	(40,926)
Other expenses, net			(9,636)	(415)	(125)	(8,087)	(18,263)
Income before taxes and minority interest	38,894	7,283	70,219	12,348	24,593	29,217	182,554
Income tax and minimum presumed income tax	(2,053)	(2,451)	(40,220)	(3,852)	(8,238)	(1,977)	(58,791)
Minority interest		(1,077)	(14,582)	(4,157)	(7,374)		(27,190)
Net income	36,841	3,755	15,417	4,339	8,981	27,240	96,573
Gross margin(b)	0.48	0.71	0.64	0.44	0.64	0.04	0.58
Operating margin(c)	0.43	0.39	0.49	0.14	0.20	0.04	0.35
Net margin(d)	0.35	0.12	0.07	0.04	0.07	19.26	0.17
Depreciation and amortization(e)	253	7,903	62,337	9,671	815		80,979
<b>Balance Sheet Data</b>							
Operating assets	386,740	359,725	1,139,767	145,796	74,148		2,106,176
Non operating assets	49,624	46,158	18,536	13,310	10,655	495,662	633,945
Total assets	436,364	405,883	1,158,303	159,106	84,803	495,662	2,740,121
Operating liabilities	15,183	52,688	129,653	21,281	97,969		316,774
Non operating liabilities	81,414	72,126	243,303	59,030	13,272	18,447	487,592
Total liabilities	96,597	124,814	372,956	80,311	111,241	18,447	804,366

(a) Includes offices, commercial and residential premises.

(b) Gross profit divided by revenues.

(c) Operating income divided by revenues.

(d) Net income divided by revenues.

(e) Included in operating income.

(f) Formerly known as Credit Card Operations .

**Results of Operations for the Fiscal Years ended June 30, 2007 and 2008**

***Revenues***

Revenues from sales, leases and services rose 46.8%, from Ps. 738.8 million for fiscal year 2007 to Ps. 1,084.2 million in fiscal year 2008, due mainly to an increase in revenues from IRSA's Development and sale of properties, Consumer financing, Shopping centers, Offices and other non-shopping center rental properties, and Hotel operations segments.

***Development and sale of properties***

The revenues of IRSA's Development and sale of properties segment rose 159.8% from Ps.75.8 million for fiscal year 2007 to Ps.196.8 million in fiscal year 2008. Revenues associated with this segment commonly sustain significant period-on-period variations arising from: (i) the number of properties sold and their prices, (ii) the properties in construction and the degree of progress of such projects.

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This increase in revenues was primarily due to the revenues generated during fiscal year 2008 by (i) the sale of 29.9% of the Bouchard Plaza building, commonly known as Edificio La Nación, for Ps.108.4 million; (ii) the sale of Parcel Y at Dock III for Ps.56.6 million; (iii) a barter agreement through which a plot of land in the project known as Terreno Caballito was exchanged for home units and parking lots appraised at Ps. 19.2 million and (iv) a barter agreement through which a plot of land in the project known as Terreno Rosario was exchanged for home units and parking lots appraised at Ps. 3.4 million.

### *Offices and other non-shopping center rental properties*

The revenues of IRSA's Offices and other non-shopping center rental properties segment increased 81.4%, from Ps. 55.7 million for fiscal year 2007 to Ps. 101.0 million in fiscal year 2008. This increase was mainly due to Ps. 45.0 million increase in revenues from office rentals which rose from Ps. 52.9 million in fiscal year 2007 to Ps. 97.9 million in fiscal year 2008. This Ps. 45 million increase in revenues was mainly attributable to: (i) Ps. 28.3 million in revenues from rentals in the following recently acquired Class A office buildings: Della Paolera 265, purchased in August 2007 generated revenues of Ps. 15.7 million, Bouchard 551, acquired in March 2007, generated revenues of Ps. 8.8 million, and Dock del Plata, acquired in November 2006, generated revenues of Ps. 3.8 million; and (ii) Ps. 16.1 million in revenues from rentals due to the increase in prices charged per square meter and similar increases in occupancy rates (which increased from 94% during fiscal year 2007 to 93.6% during fiscal year 2008).

### *Shopping centers*

The revenues of IRSA's Shopping centers segment rose by 27.8% from Ps. 270.3 million for fiscal year 2007 to Ps. 345.4 million in fiscal year 2008. This increase was due mainly due to a Ps. 62.6 million increase in revenues from rentals and admission rights. This increase was due in turn to a 31.0% increase in the total sales of IRSA's tenants which went up from Ps. 2,825.8 million in fiscal year 2007 to Ps. 3,702.3 million in fiscal year 2008. The average occupancy rate at IRSA's shopping centers rose from 99.1% in fiscal year 2007 to 99.3% during fiscal year 2008.

### *Hotel operations*

The revenues of the Hotel operations segment rose by 21.3% from Ps. 122.7 million in fiscal year 2007 to Ps. 148.8 million in fiscal year 2008, mainly due to (i) an 18.8% increase in the average price per room at the hotels (from Ps. 469.0 per night in fiscal year 2007 to Ps. 557.0 per night in fiscal year 2008), (ii) an increase in the average occupancy rate from 74% in fiscal year 2007 to 76% in fiscal year 2008, and (iii) a 27.2% increase in the number of rooms available at Hotel Llao Llao, which were added during fiscal year 2008.

### *Consumer financing*

The revenues of the Consumer financing segment rose by 36.7%, up from Ps. 213.0 million during fiscal year 2007 to Ps. 291.0 million during fiscal year 2008. This was mainly due to (i) the favorable macroeconomic conditions prevailing in Argentina in 2008 and the consequent rise in consumption, (ii) the continuous enhancement in the services rendered to Tarshop customers, (iii) an increase in the fees charged for the issuance of credit card statements and for the issuance of credit cards.

### *Financial operations and others*

The revenues of the Financial operations and others segment decreased by Ps. 0.2 million, from Ps. 1.4 million during fiscal year 2007 to Ps. 1.2 million during fiscal year 2008.

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### *Costs*

Costs increased by 57.1%, from Ps. 311.6 million for fiscal year 2007 to Ps. 489,7 million in fiscal year 2008, due to an increase in the costs of the following segments: Development and sale of properties, Consumer financing, Hotel operations, Offices and other non-shopping center rental properties, and Shopping centers. When measured as a percentage of IRSA's revenues, costs went up from 42.2% during fiscal year 2007 to 45.2% during fiscal year 2008.

#### *Development and sale of properties*

The costs of the Development and sale of properties segment increased by 161.0%, from Ps. 57.8 million for fiscal year 2007 to Ps. 150.9 million in fiscal year 2008. The costs associated with this segment commonly sustain major period-on-period variations according to: (i) the number of properties sold and their prices and (ii) the properties in construction and the degree of progress of such projects.

The increase in costs in fiscal year 2008 was mainly due to: (i) the sale of a 29.9% stake in the Bouchard Plaza building, commonly known as Edificio La Nación, for Ps. 89.4 million, (ii) the sale of Parcel Y at Dock III for Ps. 41.8 million, (iii) a barter agreement through which a plot of land in the project known as Terreno Caballito was exchanged for home units and parking lots for Ps. 10,1 million, and (iv) Ps. 3.6 million cost of a barter agreement through which a plot of land in the project known as Terreno Rosario was exchanged for home units and parking lots. When measured as a percentage of IRSA's revenues, the costs associated with the Development and sale of properties segment rose from 76.3% during fiscal year 2007 to 76.7% during fiscal year 2008.

#### *Offices and other non-shopping center rental properties*

The costs of the Offices and other non-shopping center rental properties segment rose by 54.6%, from Ps. 16.7 million for fiscal year 2007 to Ps. 25.8 million in fiscal year 2008. Depreciation accounts for the most significant portion of the costs associated with this segment.

The increase in the costs for fiscal year 2008 when compared to fiscal year 2007 was mainly due to increased depreciation expenses which amounted to Ps. 4.8 million, as a consequence of the addition to IRSA's portfolio of three new buildings to be allocated to IRSA's rentals business, namely, Edificio República, Della Paolera 265 and Museo Renault. When measured as a percentage of the segment's revenues, the costs associated with the Offices and other non-shopping center rental properties segment dropped from 30.0% during fiscal year 2007 to 25.6% during fiscal year 2008.

#### *Shopping centers*

The costs of the Shopping centers segment rose by 8.8% from Ps. 91.1 million for fiscal year 2007 to Ps. 99.2 million in fiscal year 2008, primarily due to: (i) a Ps. 6.2 million increase in depreciation and amortization, (ii) higher costs resulting from lawsuit-related contingencies in the amount of Ps. 1.6 million, (iii) an increase in parking-lot related expenses in the amount of Ps. 1.4 million, and (iv) an increase in costs associated with unrecoverable expenses in the amount of Ps. 1.1 million, offset in part by (v) a decrease in the costs related to refurbishments and changes in leasable areas in the amount of Ps. 2.2 million. When measured as a percentage of the segment's revenues, the costs associated with the Shopping centers segment dropped from 33.7% during fiscal year 2007 to 28.7% during fiscal year 2008.

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### *Hotel operations*

The costs of the Hotel operations segment rose by 22.1%, from Ps. 69.0 million for fiscal year 2007 to Ps. 84.2 million in fiscal year 2008, mainly due to salary increases and increased social security contributions, increases in the costs of food and beverages, repairs and maintenance, public utilities, and fees and commissions paid. When measured as a percentage of IRSA's revenues, the costs associated with the Hotel operations segment rose from 56.2% in fiscal year 2007 to 56.6% in fiscal year 2008.

### *Consumer financing*

The costs of the Consumer financing segment rose by 69.2% from Ps. 76.3 million during fiscal year 2007 to Ps. 129.0 million during fiscal year 2008 mainly as a result of: (i) an increase in the expenses related to interest and fees originating in the outsourcing of collection and other related services; (ii) an increase in expenses related to salaries and social security contributions; (iii) an increase in the fees for services; and (iv) an increase in taxes, charges, contributions and tax-related services.

When measured as a percentage of the segment revenues, the costs associated with the Consumer financing segment went up from 35.8% during fiscal year 2007 to 44.3% during fiscal year 2008.

### *Financial operations and others*

The costs of the Financial operations and others segment decreased by Ps. 0.3 million, from Ps. 0.8 million for fiscal year 2007 down to Ps. 0.5 million in fiscal year 2008.

### ***Gross profit***

As a result of the above, gross profit rose by 39.2%, from Ps. 427.1 million for fiscal year 2007 to Ps. 594.6 million in fiscal year 2008, mainly due to the increase in gross profit from the Shopping centers, Offices and other non-shopping center rental properties, Development and sale of properties, Consumer financing, and Hotel operations segments. When measured as a percentage of the segment's revenues, gross profit dropped from 57.8% for fiscal year 2007 to 54.8% for fiscal year 2008.

### ***Gain from recognition of inventories at net realizable value***

During fiscal year 2008, IRSA recorded a Ps. 2.8 million gain from recognition of inventories at net realizable value, primarily in connection with Torre Renoir for Ps. 2.6 million, compared to a Ps. 20.7 million gain during fiscal year 2007, primarily related to Dock III Parcel X for Ps. 18.7 million and to San Martín de Tours for Ps. 1.5 million.

### ***Selling expenses***

Selling expenses rose by 44.2%, from Ps. 113.7 million for fiscal year 2007 to Ps. 164.0 million in fiscal year 2008, mainly due to an increase in the selling expenses of Consumer financing operations segment and to a lesser extent, to increases in the Hotel operations and Shopping centers segments, which were offset in part by the decreases in the Development and sale of properties, and Offices and other non-shopping center rental properties segments. When measured as a percentage of revenues, Selling expenses decreased from 15.4% for fiscal year 2007 to 15.1% in fiscal year 2008.



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### *Development and sale of properties*

The selling expenses associated with the Development and sale of properties segment include a turnover tax, commissions and expenses derived from sales, advertising and promotion and the allowance for doubtful accounts. Selling expenses dropped by 40.1%, from Ps. 12.8 million during fiscal year 2007 to Ps. 7.7 million during fiscal year 2008, primarily as a result of a Ps. 7.2 million decrease in turnover tax, offset in part by a Ps. 2.1 million increase in advertising and promotion expenses. When measured as a percentage of the segment's revenues, the Selling expenses related to the Development and sale of properties segment fell from 17.0% during fiscal year 2007 to 3.9% during fiscal year 2008.

### *Offices and other non-shopping center rental properties*

The selling expenses of the Offices and other non-shopping center rental properties segment decreased by Ps. 0.9 million from Ps. 4.4 million for fiscal year 2007 to Ps. 3.5 million in fiscal year 2008 mainly due to the reduction in the allowance for doubtful accounts and to the decrease in advertising and promotion expenses; which were offset in part by an increase in turnover tax. When measured as a percentage of the segment's revenues, the Selling expenses associated with the Offices and other non-shopping center rental properties segment fell from 7.9% during fiscal year 2007 to 3.4% during fiscal year 2008.

### *Shopping centers*

The selling expenses of the Shopping centers segment rose by 11.0% from Ps. 22.3 million for fiscal year 2007 to Ps. 24.8 million in fiscal year 2008 as a result of: (i) a Ps. 2.1 million increase in salaries and social security contributions; (ii) a Ps. 0.9 million increase in exhibitions and events; and (iii) a Ps. 0.7 million increase in turnover tax; (iv) offset in part by a Ps. 1.2 million decrease in the allowance for doubtful accounts. When measured as a percentage of the segment's revenues, the selling expenses associated with the Shopping centers segment decreased from 8.3% during fiscal year 2007 to 7.2% during fiscal year 2008.

### *Hotel operations*

The selling expenses of the Hotel operations segment rose by 36.4% from Ps. 12.2 million for fiscal year 2007 to Ps. 16.6 million for fiscal year 2008. This increase was primarily due to (i) an increase in the commissions of travel agents and credit cards in the amount of Ps. 2.1 million, indicative of the increase in the level of activities; and (ii) a Ps. 0.9 million increase in advertising. When measured as a percentage of the segment's revenues, the Selling expenses associated with the Hotel operations segment went up from 9.9% during fiscal year 2007 to 11.2% during fiscal year 2008.

### *Consumer financing*

Selling expenses from the Consumer Financing segment increased 79.8%, from Ps. 62.0 million during fiscal year ended June 30, 2007 to Ps. 111.4 million during fiscal year ended June 30, 2008, mainly due to: (i) an increase in allowance for doubtful accounts of Ps. 38.5 million. In this case it is important to note that as of June 30, 2008 a higher bad debt chargeoff of Ps. 21.8 million resulted from an increase in overdue accounts; (ii) a Ps. 5.5 million increase in advertising expenses and rewards; and (iii) a Ps. 4.7 million increase in turnover tax expenses. When measured as a percentage of the segment's revenues, the Selling expenses associated with Consumer financing operations increased from 29.1% during fiscal year 2007 to 38.3% during fiscal year 2008.

**Table of Contents***Administrative expenses*

Administrative expenses rose by 27.3%, from Ps. 141.4 million for fiscal year 2007 to Ps. 180.0 million in fiscal year 2008, mainly due to the increase in the activities of the Consumer financing operations segment, and to a lesser extent, to the increases sustained by each one of the remaining segments. The main components of administrative expenses are salaries and social security contributions for administrative personnel, fees and payments for services, directors' fees, banking expenses, fixed asset depreciation, and taxes (except for turnover tax). When measured as a percentage of revenues, Administrative expenses went down from 19.1% in fiscal year 2007 to 16.6% in fiscal year 2008.

*Development and sale of properties*

The administrative expenses of the Development and sale of properties segment rose by 11.3%, from Ps. 19.6 million for fiscal year 2007 to Ps. 21.8 million in fiscal year 2008, mainly due to a Ps. 1.6 million increase in fees and compensation for services. When measured as a percentage of the segment's revenues, the administrative expenses associated with the Development and sale of properties segment dropped from 25.9% for fiscal year 2007 to 11.1% in fiscal year 2008.

*Offices and other non-shopping center rental properties*

The administrative expenses related to the Offices and other non-shopping center rental properties segment rose by 30.9%, from Ps. 16.8 million for fiscal year 2007 to Ps. 22.0 million in fiscal year 2008. The increase was mainly due to (i) a Ps. 2.5 million increase in fees and compensation for services, and (ii) a Ps. 0.7 million increase in salaries and social security contributions. When measured as a percentage of the segment's revenues, the administrative expenses associated with the Offices and other non-shopping center rental properties segment dropped from 30.2% for fiscal year 2007 to 21.8% in fiscal year 2008.

*Shopping centers*

The administrative expenses related to the Shopping centers segment rose by 19.7%, from Ps. 32.7 million for fiscal year 2007 to Ps. 39.2 million in fiscal year 2008 mainly due to (i) a Ps. 3.3 million increase in salaries and social security contributions, (ii) a Ps. 1.7 million increase in taxes, mainly related to the tax on bank debits and credits, and (iii) a Ps. 1.3 million increase in directors' fees. When measured as a percentage of the segment's revenues, the Administrative expenses associated with the Shopping centers segment, decreased from 12.1% during fiscal year 2007 to 11.3% during fiscal year 2008 as a result of the current financial crisis and the increase in delinquency rates.

*Hotel operations*

The administrative expenses related to the Hotel operations segment rose by 11.5%, from Ps. 26.9 million for fiscal year 2007 to Ps. 30.0 million in fiscal year 2008, mainly as a result of (i) a Ps. 1.9 million increase in salaries and social security contributions, and (ii) a Ps. 1.6 million increase in fees and compensation for services; offset in part by (iii) a Ps. 1.3 million decrease in commissions. When measured as a percentage of the segment's revenues, the administrative expenses associated with the Hotel operations segment decreased from 21.9% for fiscal year 2007 to 20.1% for fiscal year 2008.

*Consumer financing*

The administrative expenses related to the Consumer financing segment rose by 47.7%, jumping from Ps. 45.4 million during fiscal year 2007 to Ps. 67.0 million during fiscal year 2008. This increase was mainly due to (i) a Ps. 9.1 million increase in salaries and social security contributions; (ii) a Ps. 7.5 million increase in fees and compensation for services; and (iii) increased expenses associated with property rentals and taxes of Ps. 4.2 million. When measured as a percentage of the segment's revenues, the administrative expenses associated with the Consumer financing segment rose from 21.3% during fiscal year 2007 to 23.0% during fiscal year 2008.

**Table of Contents*****Net loss from retained interest in securitized receivables***

Income/loss from retained interest in securitized receivables dropped by Ps. 4.5 million, from income of Ps. 3.3 million for the fiscal year ended June 30, 2007 to a Ps. 1.3 million loss for fiscal year ended June 30, 2008 due to the outcome of the placement of new issuances related to credit card trusts and the appraisal of our interest therein. A loss at the time of placement of new issuances is recognized when, as a consequence of prevailing market conditions, there is an increase in interest rates payable to Tarshop Trust Bond holders resulting in a tightening of the spreads at which receivables underlying such issues are financed. As of June 30, 2008, IRSA increased an allowance for impairment by Ps. 12.0 million, to adjust the book amount of our certificates of interest to their estimated recoverable value.

***Gain from operations and holding of real estate assets, net***

This item reflects the income and loss resulting from impairment and the reversal of charges for impairment recognized in the past. Results from operation and holding of real estate assets rose by 4.0% from Ps. 2.6 million income for fiscal year 2007 to Ps. 2.7 million income in fiscal year 2008 recognized mainly in relation to the building located at Constitución 1159 for Ps. 2.1 million. During fiscal year 2007, income for Ps. 2.6 million had been attributed mainly as follows: Neuquén Project: Ps. 2.2 million, Suipacha 652: Ps. 0.9 million, and Av. de Mayo 589 for Ps. 0.7 million, offset in part by a loss of Ps. 1.5 million in connection with Torres Rosario.

***Operating income (loss)***

Operating income rose by 28.4% from Ps. 198.5 million for fiscal year 2007 to Ps. 254.8 million in fiscal year 2008, mainly due to an increase in the Shopping centers, Offices and other non-shopping center rental properties, Development and sale of properties, and Hotel operations segments, offset in part by a decrease in the Operating income of the Consumer financing segment. When measured as a percentage of revenues, operating income decreased from 26.9% in fiscal year 2007 to 23.5% for fiscal year 2008.

***Development and sale of properties***

Operating income in the Development and sale of properties segment rose by Ps. 13.1 million up from Ps. 6.2 million for fiscal year 2007 to Ps. 19.3 million for fiscal year 2008, due to increases in revenues and a decrease in selling expenses, partially offset by (i) increased costs, (ii) a reduction in income from the recognition of inventories at net realizable value and (iii) an increase in administrative expenses. When measured as a percentage of revenues for the segment, Operating income in the Development and sale of properties segment rose from 8.2% during fiscal year 2007 to 9.8% during fiscal year 2008.

***Offices and other non-shopping center rental properties***

Operating income in the Offices and other non-shopping center rental properties segment rose by 166.4%, from Ps. 19.6 million for fiscal year 2007 to Ps. 52.3 million in fiscal year 2008, due to an increase in revenues and a decrease in selling expenses, partially offset by increased costs and an increase in Administrative expenses. When measured as a percentage of revenues for the segment, operating income for the Offices and other non-shopping center rental properties segment, rose from 35.2% during fiscal year 2007 to 51.8% during fiscal year 2008.

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### *Shopping centers*

Operating income in the Shopping centers segment rose by 46.0%, from Ps. 124.8 million for fiscal year 2007 to Ps. 182.3 million in fiscal year 2008, due to an increase in revenues, partially offset by an increase in costs, an increase in administrative expenses and an increase in selling expenses. When measured as a percentage of revenues for the segment, Operating income for the Shopping centers segment, increased from 46.2% during fiscal year 2007 to 52.8% during fiscal year 2008.

### *Hotel operations*

Operating income in the Hotel operations segment rose by 23.1% from Ps. 14.7 million for fiscal year 2007 to Ps. 18.0 million in fiscal year 2008, due to an increase in revenues, partially offset by an increase in costs, an increase in administrative expenses and an increase in selling expenses. When measured as a percentage of revenues for the segment, operating income for the Hotel operations segment increased from 11.9% during fiscal year 2007 to 12.1% during fiscal year 2008.

### *Consumer financing*

Operating income in the Consumer financing segment decreased by 154.1% from Ps. 32.6 million income for fiscal year 2007 to a Ps. 17.7 million loss in fiscal year 2008, due to increases in costs, in selling expenses and in administrative expenses and to a reduction in income from retained interest in securitized receivables concerning Tarjeta Shopping trusts, partially offset by an increase in revenues. When measured as a percentage of revenues for the segment, operating income for the Consumer financing segment decreased from 15.3% for fiscal year 2007 to (6.1)% during fiscal year 2008.

### *Financial operations and others*

Operating income in the Financial operations and others segment remained at Ps. 0.6 million for the fiscal years 2007 and 2008. When measured as a percentage of revenues operating income for the Financial operations and others segment increased from 43.1% for fiscal year 2007 to 54.8% for fiscal year 2008.

### *Amortization of negative goodwill, net*

Amortization of goodwill includes: (i) the amortization of goodwill corresponding to the following Alto Palermo subsidiaries: Shopping Alto Palermo S.A., Fibesa S.A, Tarshop Sociedad Anónima, Emprendimiento Recoleta S.A. and Empalme S.A.I.C.F.A y G as well as (ii) the amortization of IRSA's negative goodwill resulting from the acquisition of shares in Alto Palermo S.A. and Palermo Invest S.A. Amortization of goodwill rose by Ps. 3.1 million, from a Ps. 1.5 million loss for fiscal year 2007 to Ps. 1.6 million income in fiscal year 2008.

### *Loss on equity investees*

Results from related companies dropped by Ps. 53.2 million, from Ps. 40.0 million income for fiscal year 2007 to a Ps. 13.2 million loss in fiscal year 2008. This decrease was mainly due to a Ps. 53.7 million reduction in Banco Hipotecario's profit from Ps. 41.4 million in fiscal year 2007 to a Ps. 12.4 million loss in fiscal year 2008.

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This loss is primarily due to the decline in the market value of the Argentine government bonds Banco Hipotecario received as compensation and held in its portfolio. In spite of these losses, Banco Hipotecario remains well-capitalized in regards to regulatory guidelines as of June 30, 2008 and thereafter.

Banco Hipotecario also experienced a significant decline in its stock price during the year ended June 30, 2008 and the three months ended September 30, 2008. Management believes that this decline is not reflective of the current operating performance of Banco Hipotecario. For more information please see *Recent Developments* .

### ***Financial results, net***

Financial results, net decreased by Ps. 80.8 million, from Ps. 4.1 million income for fiscal year 2007 to a Ps. 76.7 million loss in fiscal year 2008. This loss was mainly due to: (i) a Ps. 88.1 million decrease in results from financial operations, primarily due to a Ps. 85.2 million decrease in the fair value of IRSA's holdings of mutual funds; (ii) Ps. 33.5 million increase resulting from higher financing expenses, primarily due to the increase in interest charges paid as a consequence of the issuance of notes by IRSA and Alto Palermo during this fiscal year, partially offset by (iii) a decrease in the interest paid due to the redemption in October 2007 of IRSA's floating rate secured notes in the amount of US\$ 37.4 million, (iv) and the repayment of an unsecured loan for US\$ 51 million. These reductions were partially offset by (i) foreign exchange gains in the amount of Ps. 26.3 million compared to fiscal year 2007, as a consequence of a variation in the US Dollar selling exchange rate during the fiscal year (from 3.093 Argentine Pesos per U.S. dollar as of June 30, 2007 to 3.025 Argentine Pesos per U.S. dollar as of June 30, 2008), in contrast to the previous year when the Argentine Peso/US Dollar exchange rate had increased significantly (from 3.086 Argentine Pesos per U.S. dollar as of June 30, 2006 to 3.093 Argentine Pesos per U.S. dollar as of June 30, 2007), and (ii) a Ps. 20.0 million increase due to the interest earned during fiscal year 2008 compared to fiscal year 2007, as a consequence of investments and other interest earned by Alto Palermo.

### ***Other income (expenses), net***

Other income (expenses), net, decreased by 60.0% from net expenses of Ps. 14.1 million in fiscal year 2007 to net expenses of Ps. 5.6 million in fiscal year 2008, primarily due to (i) the reversal of a provision for contingencies in the amount of Ps. 5.6 million, and (ii) a decrease in charges for personal property tax of Ps. 1.2 million which, according to Argentine regulations, IRSA must realize on behalf of its shareholders.

### ***Income before taxes and minority interest***

Income before taxes and minority interest dropped by Ps. 66.2 million, from Ps. 227.1 million for fiscal year 2007, to income of Ps. 160.9 million in fiscal year 2008.

### ***Income tax and MPIT***

Income tax and minimum presumed income tax dropped by 10.8% from Ps. 87.5 million for fiscal year 2007 to Ps. 78.1 million in fiscal year 2008. IRSA applied the deferred tax method in calculating its income tax for the fiscal years 2007 and 2008, thus recognizing the temporary differences in IRSA's tax assets and liabilities.

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### ***Minority interest***

This item includes IRSA's proportional equity interest in the subsidiaries in which IRSA owns a minority interest. The loss resulting from third-party interests in these subsidiaries dropped by 14%, from a Ps. 32.4 million loss for fiscal year 2007 to a Ps. 27.9 million loss for fiscal year 2008, mainly due to the increase in the income statement accounts of the companies in which IRSA has a minority interest and to the acquisition of the remaining 33.33% stake in Palermo Invest S.A., which eliminated the effect of the minority interest in this company during fiscal year 2008.

### ***Net income***

Therefore, net income decreased by Ps. 52.2 million from Ps. 107.1 million for fiscal year 2007 to Ps. 54.9 million in fiscal year 2008.

## **Results of Operations for the Fiscal Years ended June 30, 2006 and 2007**

### ***Revenues***

Revenues increased 27.9% from Ps.577.7 million in fiscal year 2006 to Ps.738.8 million in fiscal year 2007, primarily due to increases in the revenues of each of IRSA's Consumer financing, Shopping centers, Offices and other non-shopping center rental properties and Hotel operations segments, partially offset by a decrease in the revenues of IRSA's Development and sale of properties segment.

### ***Shopping Centers***

Revenues from IRSA's shopping centers segment increased 25.7% from Ps.215.0 million in fiscal year 2006 to Ps.270.3 million in fiscal year 2007. This increase was principally due to a Ps.55.3 million increase in revenues from rentals and admission rights as a consequence of (i) a 22.1% increase in the average rental price per square meter and (ii) a 24.3% increase in the total sales of IRSA's lessees, from Ps.2,273.3 million during fiscal year 2006 to Ps.2,825.8 million during fiscal year 2007, resulting in a Ps.552.5 million increase in revenues from variable rental payments. The average occupancy rate of IRSA's shopping centers decreased from 99.1% in fiscal year 2006 to 97.0% in fiscal year 2007.

### ***Consumer financing***

Revenues from IRSA's Consumer Financing segment increased 73.2% from Ps.123.0 million during fiscal year 2006 to Ps.213.0 million during fiscal year 2007. This increase resulted from:

favorable macroeconomic conditions in fiscal year 2007, which showed a general increase in consumption;

an increase of 201,114 in the number of newly issued credit cards;

the opening of four new branches;

a 90.5% increase in sales made with IRSA's shopping card and a 47.1% increase in the number of stores accepting IRSA's card; and

an increase of income from financial operations and others.

Revenues from IRSA's Financial Operations and Others segment remained stable with respect to fiscal year 2006. Revenues included in this segment represent fees for services unrelated to IRSA's Others segments.



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*Development and Sale of Properties*

Revenues from IRSA's development and sale of properties segment decreased 27.1% from Ps.104.0 million in fiscal year 2006 to Ps.75.8 million in fiscal year 2007. This business segment generally does not show consistently recurring revenues due to the nature of IRSA's business. As a result, period-on-period comparisons may vary significantly depending on the projects that IRSA is developing and their degree of completion. The decrease of the revenues of this segment in fiscal year 2006 was principally due to the absence in fiscal year 2007 of Ps.104.0 million of revenues which were recognized during fiscal year 2006 principally arising from the following operations:

Ps.41.8 million from the sale of parcel Y, Dock III;

Ps.23.0 million from the sale by IRSA's subsidiary Alto Palermo of a parcel of land near its Paseo Alcorta shopping center;

Ps.22.8 million from the sale of block 36 of the parcel called Terrenos de Caballito; and

Ps.10.0 million from the sale of Edificios Cruceros units.

The absence in fiscal year 2007 of the Ps.104.0 million of revenues mentioned above was partially offset by the following revenues recognized during fiscal year 2007:

Ps.31.0 million from the sale to third parties of 10% of IRSA's Santa María del Plata land reserve;

Ps.26.2 million from the sale of plot Z, Dock III;

Ps.8.6 million from the sale of units in San Martín de Tours and

Ps.8.4 million from the sale of Edificios Cruceros units.

*Offices and Other Non-Shopping Center Rental Properties*

Revenues from IRSA's Offices and Other Non-Shopping Center Rental Properties increased 82.2% from Ps.30.6 million in fiscal year 2006 to Ps.55.7 million in fiscal year 2007. This increase was primarily due to a Ps.25.5 million increase in the revenues from office rentals, from Ps.27.4 million in fiscal year 2006 to Ps.52.9 million in fiscal year 2007. This increase in revenues from office rentals was due to:

an increase, from 94.0% in fiscal year 2006 to 99.1% in fiscal year 2007, in IRSA's average occupancy rates in offices for lease due to IRSA's inclusion in fiscal year 2007 of Dock del Plata and Bouchard 551 and Reconquista 823 (which were 100.0% occupied);

a 93.3% increase in annual rentals from offices for lease arising principally from (i) price increases in the following buildings which increased IRSA's total leasable area of Class A buildings by 53% from 78.115 to 119.360 square meters: Intercontinental Plaza resulting in higher rents of Ps.5.5 million, Bouchard 710 resulting in higher rents of Ps.3.1 million, Maipú 1300 resulting in higher rents of Ps.2.5 million and Libertador 498 resulting in higher rents of Ps.2.4 million (ii) the acquisition of two new premium buildings: Bouchard 551 (acquired in March 2007) which generated rental revenues in fiscal year 2007 of Ps.3.9 million and Dock del Plata (acquired in November 2006) which generated rental revenues in fiscal year 2007 of Ps.3.1 million; and





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the occupancy rate of the offices and other non-shopping center rental properties segment increased from 96.9% in fiscal year 2006 to 97.4% during fiscal year 2007.

*Hotel Operations*

Revenues from IRSA's hotel operations increased 18.2% from Ps.103.8 million in fiscal year 2006 to Ps.122.7 million in fiscal year 2007, principally due a 23.7% increase in the average price per room in IRSA's hotels, from Ps.379.0 in fiscal year 2006 to Ps.469.0 in fiscal year 2007. In fiscal year 2007, revenues from the Hotel Llao Llao increased Ps.8.9 million, revenues from the Hotel Intercontinental increased Ps.6.0 million and revenues from the Hotel Sheraton Libertador increased Ps.4.0 million, in each case compared to fiscal year 2006. These improvements in fiscal year 2007 were partially offset by a decrease in average occupancy rates from 78.7% in fiscal year 2006 to 74.0% during fiscal year 2007.

*Costs*

IRSA's costs increased 27.8% from Ps.243.8 million in fiscal year 2006 to Ps.311.6 million in fiscal year 2007 as a result of an increase in costs of each of IRSA's business segments during fiscal year 2007 other than Financial Operations and Others. IRSA's total costs as a percentage of IRSA's revenues remained flat at 42.2% for each of fiscal year 2006 and 2007.

*Consumer financing*

Costs of the Consumer financing segment increased 73.6%, from Ps.43.9 million during fiscal year ended June 30, 2006 to Ps.76.3 million during fiscal year ended June 30, 2007. This increase, which reflected the expansion of IRSA's Consumer financing segment in fiscal year 2007, was primarily due to:

a Ps.11.0 million increase in the cost of salaries and social security charges;

a Ps.9.8 million increase in expenses for interest and commissions;

a Ps.5.7 million increase in charges for taxes, rates, contributions and services; and

a Ps.2.8 million increase in fees and services payable to third parties.

The cost of Consumer financing as percentage of revenues from such segment remained flat at 35.8% in each of fiscal years 2006 and 2007.

*Financial Operations and Others*

The cost of the Financial Operations and Others segment decreased Ps.0.6 million, from Ps.1.4 million in fiscal year 2006 to Ps.0.8 million in fiscal year 2007. Costs included in this line represent expenses unrelated to IRSA's other segments.

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*Shopping Centers*

Costs of the Shopping Centers segment increased 17.7%, from Ps.77.4 million in fiscal year 2006 to Ps.91.1 million in fiscal year 2007. This increase was primarily due to:

a Ps.6.6 million increase in costs related to renovation of shopping centers' common areas;

a Ps.4.7 million increase in depreciation and amortization charges due to the depreciation of fixed assets; and

a Ps.2.3 million increase in costs for unrecovered expenses.

The cost of the Shopping Centers segment as percentage of the revenues from such segment decreased from 36.0% in fiscal year 2006 to 33.7% during fiscal year 2007.

*Development and Sale of Properties*

Costs related to Development and Sale of Properties increased 6.7%, from Ps.54.2 million in fiscal year 2006 to Ps.57.8 million in fiscal year 2007. This business segment generally does not show consistently recurring costs due to the nature of IRSA's business. As a result, period-on-period comparisons may vary significantly depending on the projects that IRSA is developing and their degree of completion. The increase in costs of this segment was principally due to the following costs incurred in fiscal year 2007:

Ps.26.2 million related to the sale of plot Z of Dock III;

Ps.12.9 million related to the sale of 10% of the Santa María del Plata land reserve;

Ps.8.2 million related to the sale of San Martín de Tours units; and

Ps.3.2 million related to the sale of Edificio Cruceros units.

The foregoing cost increases in fiscal year 2007 were partially offset by the non-recurrence in fiscal year 2007 of the following costs which were incurred in fiscal year 2006:

Ps.18.4 million in costs related to the sale of Alcorta Plaza (through Alto Palermo);

Ps.11.3 million of costs related to the sale of block 36 of the plot called Terrenos de Caballito ;

Ps.9.7 million of costs related to the sale of plot Y, Dock III; and

Ps.8.8 million of costs related to the sale of Edificios Cruceros units.

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Costs included in this segment as percentage of revenues from such segment increased from 52.1% in fiscal year 2006 to 76.3% in fiscal year 2007.

### *Offices and Other Non-Shopping Center Rental Properties*

Costs of the Offices and Other Non-Shopping Center Rental Properties segment increased 85.5%, from Ps.9.0 million in fiscal year 2006 to Ps.16.7 million in fiscal year 2007. The principal cost component in this office segment is the depreciation of buildings rented, and the increase in

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fiscal year 2007 was principally due to (i) Ps.3.4 million higher depreciation in fiscal year 2007 as a result of the addition of two new rental properties, Dock del Plata and Bouchard 551 and (ii) Ps.5.9 million higher depreciation as a result of a change in the determination of remaining useful life of IRSA's rental buildings, which decreased from an average of 496 months in fiscal year 2006 to an average of 253 months in fiscal year 2007.

*Hotel Operations*

Costs of Hotel Operations increased 19.0%, from Ps.58.0 million in fiscal year 2006 to Ps.69.0 million in fiscal year 2007 principally due to increases in depreciation of assets, fees for commissions and services, food and beverages and salaries and social security charges in each case related to increasing revenues from such segment. Costs of Hotel Llao Llao increased Ps.6.0 million, those of Hotel Intercontinental increased Ps.2.6 million and those of Hotel Sheraton Libertador increased Ps.2.4 million. Costs of hotel operations as percentage of revenues of such segment increased from 55.9% in fiscal year 2006 to 56.2% in fiscal year 2007.

*Gross profit*

As a result of the above, gross profit increased 27.9% from Ps.333.8 million in fiscal year 2006 to Ps.427.1 million in fiscal year 2007. IRSA's gross margin, calculated as IRSA's gross profit divided by IRSA's revenues, remained at 57.8% in fiscal years 2006 and 2007 primarily as a result of improvements in the gross margin of IRSA's Shopping Centers and Financial Operations and Others segments, partially offset by a decrease in the gross margin of IRSA's Development and Sale of Properties, Offices and Other Non-Shopping Center Rental Properties, Hotel Operations and Consumer financing segments.

*Gain from recognition of inventories at net realizable value*

This line reflects the valuation at net realization value of inventories in respect of which IRSA received prepayments of rentals pursuant to contractual terms which establish the consummation of the sales and the resulting profits. This business segment generally does not show consistently recurring gains, and as a result, period-on-period comparisons may vary significantly depending on the projects that IRSA is developing and their degree of completion. During fiscal year 2007, IRSA recognized Ps.20.7 million gain which was principally applied to the following developments:

Dock III - Plot X in an amount equal to Ps.18.4 million; and

San Martín de Tours in an amount equal to Ps.1.5 million.

During fiscal year 2006, IRSA recognized a gain of Ps.9.1 million primarily in respect of: Edificios Cruceros in an amount equal to Ps.4.6 million, Torres Rosario in an amount equal to Ps.3.5 million, Dock III Plot Z in an amount equal to Ps.1.6 million and San Martín de Tours in an amount equal to Ps.(0.6) million.

*Selling expenses*

Selling expenses increased 89.2% from Ps.60.1 million in fiscal year 2006 to Ps.113.7 million in fiscal year 2007 principally due to an increase in the selling expenses of the Consumer financing and Shopping Centers segments of Ps.31.1 million and Ps.6.6 million, respectively.

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Selling expenses as a percentage of revenues increased from 10.4% in fiscal year 2006 to 15.4% in fiscal year 2007.

### *Shopping Centers*

Selling expenses for the Shopping Centers segment increased 42.3%, from Ps.15.7 million in fiscal year 2006 to Ps.22.3 million in fiscal year 2007 due to: (i) a Ps.2.0 million increase in the costs of salaries and social security charges; (ii) a Ps.1.4 million increase in the charge for turnover tax; and (iii) a Ps.1.2 million increase in the charge for bad debts. Selling expenses related to Shopping Centers as a percentage of revenues from such segment increased from 7.3% in fiscal year 2006 to 8.3% in fiscal year 2007.

### *Consumer financing*

Selling expenses for the Consumer financing segment increased 100.5%, from Ps.30.9 million in the fiscal year ended June 30, 2006 to Ps.62.0 million in the fiscal year ended June 30, 2007 principally due to:

a Ps.11.7 million increase in advertising expenses;

a Ps.11.8 million increase in the charge for bad debts; and

a Ps.5.8 million increase in the charge for turnover tax.

Selling expenses of Consumer financing as a percentage of the revenues from such segment increased from 25.1% in the fiscal year 2006 to 29.1% in fiscal year 2007.

### *Development and Sale of Properties*

Selling expenses for this segment consist of commissions and expenses derived from sales, stamp tax and on gross sales (gross revenues). Selling expenses for Development and Sale of Properties increased Ps.11.0 million in fiscal year 2007 principally due to a higher turnover tax charge during such fiscal year as a result of IRSA's sale of Solares de Santa María.

### *Offices and Other Non-Shopping Center Rental Properties*

Selling expenses for the Offices and Other Non-Shopping Center Rental Properties segment increased Ps.3.4 million, from Ps.1.0 million in fiscal year 2006 to Ps.4.4 million in fiscal year 2007 due to a Ps.1.9 million higher charge for bad debtors by IRSA's subsidiary Inversora Bolívar, and higher charges for turnover tax and real estate commissions.

### *Hotel Operations*

Selling expenses for the Hotel segment increased 13.9% from Ps.10.7 million in fiscal year 2006 to Ps.12.2 million in fiscal year 2007 principally due to increases in turnover tax, salaries and social security charges and commissions for tourism agencies, in each case reflecting an increase in the revenues of the segment in line with higher activity.

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### *Administrative expenses*

Administrative expenses increased 46.0% from Ps.96.9 million in fiscal year 2006 to Ps.141.4 million in fiscal year 2007 primarily due to an increase in administrative expenses in the Consumer financing segment and, to a lesser extent, increases in each of the remaining segments. Principal components of administrative expenses are salaries and social security charges, directors' fees, fees and remunerations for services and depreciation of fixed assets. Administrative expenses as a percentage of revenues increased from 16.8% in fiscal year 2006 to 19.1% in fiscal year 2007.

### *Shopping Centers*

Administrative expenses of the Shopping Centers segment increased 26.6%, from Ps.25.8 million in fiscal year 2006 to Ps.32.7 million in fiscal year 2007 principally due to (i) a Ps.3.7 million increase in expenses for fees and third parties' services; (ii) a Ps.2.0 million increase in the charge for directors' fees and (iii) a Ps.1.3 million increase in expenses for taxes, rates and contributions mostly due to the tax on bank debits and credits. Administrative expenses of the Shopping Centers segment as a percentage of the revenues from such segment remained essentially flat, increasing from 12.0% in fiscal year 2006 to 12.1% in fiscal year 2007.

### *Consumer financing*

Administrative expenses of the Consumer financing segment increased 75.0%, from Ps.25.9 million in fiscal year 2006 to Ps.45.4 million in fiscal year 2007. This increase was primarily due to:

a Ps.11.4 million increase in expenses for salaries, compensation, social security charges and personnel;

a Ps.2.4 million increase in expenses for rentals, taxes, rates and contributions; and

a Ps.3.0 million increase in expenses for fees and third parties' services.

Administrative expenses of Consumer financing as a percentage of revenues from such segment increased from 21.1% in fiscal year ended 2006 to 21.3% during fiscal year 2007 as a result of a higher proportional average of these expenses in respect of the revenues increase of this segment.

### *Development and Sale of Properties*

Administrative expenses of the Development and Sale of Properties segment increased 53.2%, from Ps.12.8 million in fiscal year 2006 to Ps.19.6 million in fiscal year 2007 due to: (i) a Ps.4.5 million increase for salaries, bonds and social security charges and directors' fees and (ii) a Ps.2.1 million increase in bank expenses. Administrative expenses of Development and Sale of Properties as a percentage of revenues from this segment increased from 12.3% in fiscal year 2006 to 25.9% in fiscal year 2007.

### *Offices and Other Non-Shopping Center Rental Properties*

Administrative expenses of the Offices and Other Non-Shopping Center Rental Properties segment increased 48.7% from Ps.11.3 million in fiscal year 2006 to Ps.16.8 million in fiscal year 2007. The increase is principally due to an increase of Ps.4.0 million in salaries, bonds and social security charges and fees to directors and to a Ps.1.8 million increase in bank expenses. Administrative expenses of Offices and Other Non-Shopping Center Rental Properties as a percentage of revenues from such segment decreased from 37.0% in fiscal year 2006 to 30.2% in fiscal year 2007.

**Table of Contents***Hotel Operations*

Administrative expenses of the Hotel segment increased 28.1% from Ps.21.0 million in fiscal year 2006 to Ps.26.9 million in fiscal year 2007, principally due to: (i) a Ps.1.7 million increase in administrative expenses of Hotel Intercontinental mostly due to an increase in salaries and social security charges, commissions and depreciation of fixed assets, (ii) a Ps.1.4 million increase in administrative expenses of Hotel Sheraton Libertador principally due to an increase in fees for services and in salaries and social security charges and (iii) a Ps.2.8 million increase in administrative expenses of Hotel Llao Llao principally due to increases in salaries and social security charges, fees for services due to higher sales and taxes, rates and contributions. Administrative expenses of Hotel Operations as a percentage of revenues from such segment increased from 20.2% in fiscal year 2006 to 21.9% in fiscal year 2007.

*Net income from retained interest in securitized receivables*

This gain reflects the result generated by Alto Palermo's participation in the Tarjeta Shopping credit card trusts. This gain increased 24.0% , from Ps.2.6 million in fiscal year 2006 to Ps.3.3 million in fiscal year 2007, primarily due to the creation in fiscal year 2007 of new credit card trusts in connection with new securitizations in such year.

*Gain from the operations and holdings of real estate assets, net*

This line reflects the impairment losses and gains associated with the reversal of previously recognized impairment charges. Results from the operation and holding of real estate assets decreased 79.6%, from a gain of Ps.12.6 million in fiscal year 2006 to a gain of Ps.2.6 million in fiscal year 2007, principally recorded in Neuquén Project for Ps.2.2. million, Suipacha 652 for Ps.0.9 million, Avenida de Mayo 589 for Ps.0.7 million and Torres de Abasto for Ps.0.1 million, partially offset by a loss of Ps.1.5 million corresponding to Torres Rosario. During fiscal year 2006 the gain of Ps.12.6 million had been attributable to Caballito for Ps.6.5 million, Alto Rosario for Ps.3.5 million, Espacio Aereo Coto for Ps.1.4 million, Torre Constitución for Ps.0.7 million and Reconquista 823 for Ps.0.6 million.

*Operating income*

Operating income decreased 1.3% million from Ps.201.2 million in fiscal year 2006 to Ps.198.5 million in fiscal year 2007 mainly due to a decrease in the operating income of the Development and Sale of Properties segment that was partially offset by increases in operating income of each of IRSA's other segments. IRSA's operating margin, calculated as IRSA's operating income divided by IRSA's revenues, decreased from 34.8% for fiscal year 2006 to 26.9% for fiscal year 2007 primarily as a result of decreases in the operating margins of IRSA's Development and Sale of Properties, Offices and other non-Shopping Center Rental Properties, Shopping Centers, and Consumer Financing segments, partially offset by an increase in the operating margin of IRSA's Financial Operations and Others segment.

*Shopping Centers*

Operating income of Shopping Centers increased 18.2%, from Ps.105.6 million in fiscal year 2006 to Ps.124.8 million in fiscal year 2007 mostly due to a 25.7% increase in the revenues from this segment that was partially offset by increases of 17.7% in costs, 42.3% in selling expenses and 26.6% in administrative expenses. The operating income of this segment as a percentage of revenues from such segment decreased from 49.1% during fiscal year 2006 to 46.2% during fiscal year 2007 primarily as a result of a decrease during fiscal year 2007 in the gain generated by the reversal of previously recognized impairment charges which was only Ps.0.7 million in fiscal year 2007 compared to Ps.9.5 million in fiscal year 2006.



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*Consumer financing*

Operating income of the Consumer Financing segment increased 31.4%, from Ps.24.8 million in fiscal year 2006 to Ps.32.6 million in fiscal year 2007 primarily due to a 73.2% increase in revenues from this segment that were partially offset by increases of 73.6% in costs, 100.5% in selling expenses and 75.0% in administrative expenses. The operating income of this segment as a percentage of the revenues from such segment decreased from 20.2% during fiscal year 2006 to 15.3% during fiscal year 2007 primarily as a result of the increase in selling expenses of almost 101% while the revenues from this segment increased 73.2%. IRSA's selling expenses in this segment increased at a greater rate than IRSA's revenues from this segment as a result of a Ps.11.9 million increase in the charge for bad debts.

*Development and Sale of Properties*

Operating income from the Development and Sale of Properties segment decreased 86.0% from Ps.44.3 million in fiscal year 2006 to Ps.6.2 million in fiscal year 2007 primarily due to a decrease in the revenues from this segment and increases in selling and administrative expenses, partially offset by higher gain from recognition of inventories at their net realizable value during fiscal year 2007. The operating income of this segment as a percentage of the revenues from such segment decreased from 42.6% during fiscal year 2006 to 8.2% during fiscal year 2007.

*Offices and Other Non-Shopping Center Rental Properties*

Operating income from the Offices and Other Non-Shopping Center Rental Properties segment increased 65.5%, from Ps.11.9 million in fiscal year 2006 to Ps.19.6 million in fiscal year 2007 primarily due to an 82.2% increase in the revenues from this segment. The operating income of this segment as a percentage of the revenues from such segment decreased from 38.8% during fiscal year 2006 to 35.2% during the fiscal year 2007 primarily as a result of the effect during fiscal year 2007 of the adjustment in the remaining useful life of IRSA's rental buildings which generated a loss of Ps.5.9 million reflected in the cost of this segment. Without considering this effect IRSA's operating income as a percentage of IRSA's revenues would have been 45.8% instead of 35.2%.

*Hotel Operations*

Operating income of Hotel Operations increased from Ps.14.6 million in fiscal year 2006 to Ps.14.7 million in fiscal year 2007 mostly due to an increase in revenues from this segment that was partially offset by increases in costs and expenses. The operating income of this segment as a percentage of the revenues from such segment decreased from 14.0% during fiscal year 2006 to 11.9% during fiscal year 2007, primarily as a Ps.2.4 million increase in depreciation due to a change in the determination of the remaining useful life of IRSA's three hotels, which decreased from an average of 408 months in fiscal year 2006 to an average of 207 months in fiscal year 2007.

*Financial Operations and Others*

Operating income of the Financial Operations and other operations segment increased Ps.0.5 million from Ps.0.1 million in fiscal year 2006 to Ps.0.6 million in fiscal year 2007. Operating revenues of this segment as a percentage of the revenues from such segment increased from 4.0% in fiscal year 2006 to 43.1% in fiscal year 2007 primarily as a result of a 40.9% decrease in the costs of this segment.

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***Amortization of negative goodwill, net***

The amortization of the goodwill includes: (i) amortization of the goodwill of the following subsidiaries of Alto Palermo: Shopping Alto Palermo S.A., FIBESA, Tarshop, ERSA and Empalme and (ii) of IRSA's own negative goodwill generated by IRSA's purchase of Alto Palermo and Palermo Invest S.A. shares. Amortization of goodwill increased (Ps.0.4 million), from a charge of Ps.1.1 million in fiscal year 2006 to a charge of Ps.1.5 million in fiscal year 2007.

***Financial results, net***

Financial results, net increased Ps.45.0 million, from a net loss of Ps.40.9 million in fiscal year 2006 to a net gain of Ps.4.1 million in fiscal year 2007. The principal causes for this variation were:

the increase of Ps.40.4 million in results of financial operations mainly due to an increase of Ps.46.9 million in the fair market value of IRSA's investment in the mutual investment fund, Dolphin Fund Plc.;

a Ps.12.1 million positive exchange difference compared to fiscal year 2006 due to a lower depreciation during fiscal year 2007 of the Peso versus the US dollar; and

Ps.9.9 million due to higher interest income in fiscal year 2007 of which Ps.7.6 million resulted from financial investments.

These improvements were partially offset by a Ps.16.5 million increase in financial expenses in fiscal year 2007, principally due to higher interest expense resulting from the issuance of bonds by IRSA and Alto Palermo during fiscal year 2007.

***Gain on equity investees***

Gain from related companies decreased 3.9% from a gain of Ps.41.7 million in fiscal year 2006 to a gain of Ps.40.0 million in fiscal year 2007. This decrease principally resulted from a Ps.5.7 million decrease in the gain of Banco Hipotecario, from Ps.47.0 million in fiscal year 2006 to Ps.41.4 million in fiscal year 2007. This decrease was partially offset by the absence in fiscal year 2007 of the Ps.4.0 million loss incurred in fiscal year 2006 from IRSA's investment in Abril S.A.

***Other income (expenses), net***

Other income (expenses), net, decreased 22.8%, from a net expense of Ps.18.3 million in fiscal year 2006 to a net expense of Ps.14.1 million in fiscal year 2007 principally due to: (i) a Ps.7.5 million decrease in the allowance for uncollectible loans and (ii) a Ps.3.1 million increase for the recovery of allowances, which were partially offset in fiscal year 2007 by: (i) a Ps.4.5 million increase in charges for donations and (ii) a Ps.2.7 million increase in contingencies for lawsuits.

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### ***Income before taxes and minority interest***

As a result of the above mentioned issue, income before taxes and minority interest increased 24.4% passing for an income of Ps.182.6 million in fiscal year 2006 to an income of Ps.227.1 million in fiscal year 2007.

### ***Income tax and MPIT***

Income tax and minimum presumed income tax increased 48.9%, from Ps.58.8 million in fiscal year 2006 to Ps.87.5 million in fiscal year 2007. IRSA applied the deferred tax method to calculate IRSA's income tax for the two fiscal years, recognizing the temporary differences in the accounting and in tax assets and liabilities. IRSA's effective tax rate in the fiscal year 2007 was 38.5% compared to 32.2% in fiscal year 2006.

The Ps.28.7 million variation was principally caused by the net impact of:

Ps.23.6 million increase in the expense for income tax for IRSA's company, from Ps.4.0 million during fiscal year 2006 to Ps.27.6 million during fiscal year 2007 due to the charge during fiscal year 2007 for Ps.11.6 million of deferred tax mostly caused by the sale of Santa María del Plata;

a Ps.12.9 million allowance for income tax in fiscal year 2007 mostly caused by the sale of shares in Banco Hipotecario and ownership units in Dolphin Fund Plc.;

a of Ps.7.8 million increase in the expense for income tax of Alto Palermo, from Ps.48.5 million in fiscal year 2006 to Ps.56.3 million in fiscal year 2007; and

a Ps.0.5 million increase in the expense for income tax of Nuevas Fronteras S.A.

### ***Minority interest***

The negative result caused by third parties' participation in subsidiaries increased 19.3% from a charge of Ps.27.2 million in fiscal year 2006 to a charge of Ps.32.4 million in fiscal year 2007 as a consequence of an increase in the income accounts of related companies in which IRSA has a minority interest (principally in the Shopping Centers and Consumer financing segments).

### ***Net income***

Due to the above-mentioned issues, net income increased 10.9% from Ps.96.6 million in fiscal year 2006 to Ps.107.1 million in fiscal year 2007.

### **IRSA's Liquidity and Capital Resources**

IRSA's principal sources of liquidity have historically been:

cash generated by operations;

cash generated by the issuance of debt securities;

cash from borrowings and financings arrangements; and



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cash proceeds from the sale of real estate.

IRSA's principal cash requirements or uses (other than in connection with our operating activities) have historically been:

capital expenditures for property, plant and equipment;

interest payments and repayments of short-term and long-term debt;

acquisition of shares in companies;

payments of dividends; and

acquisitions or purchases of real estate.

IRSA's liquidity and capital resources includes its cash and cash equivalents, proceeds from bank borrowings and long-term debt, capital financing and sales of real estate investments.

As of June 30, 2008, IRSA had a working capital of Ps.151.6 million and cash equivalents totaling Ps.389.0 million, a decrease of 45.1% from the Ps.708.5 million of cash and cash equivalents held as of June 30, 2007.

As of June 30, 2007, IRSA had a working capital of Ps.523.7 million. At the same date, IRSA had cash and cash equivalents totaling Ps.708.5 million, an increase of 332.2% from the Ps.163.9 million of cash and cash equivalents held as of June 30, 2006.

As of June 30, 2006, IRSA had a working capital of Ps.62.6 million. At the same date, IRSA had cash and cash equivalents totaling Ps.163.9 million, an increase of 15.0% from the Ps.142.6 million of cash and cash equivalents held as of June 30, 2005.

The current credit market turmoil may affect our ability to obtain additional capital; however, as of the date of this annual report, IRSA has been able to complete some transactions and do not believe this may severely impact the execution of our business plan. If market conditions continue to deteriorate, IRSA may have the ability to delay the funding of certain new development outlays. Also, IRSA may need to raise additional funds in order to support more rapid expansion, develop or acquire new properties, respond to competitive pressures, or take advantage of unanticipated opportunities.

IRSA believes its working capital (calculated by subtracting current liabilities from current assets) and our cash from operating activities are adequate for its present and future requirements. In the event that cash generated from IRSA's operations is at any time insufficient to finance its working capital, IRSA would seek to finance such working capital needs through debt or equity financing or selective assets sales. For more information about liquidity please see "Risk Factors" section.

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**Cash Flow Information*****Operating Activities***

*2008 Fiscal Year.* IRSA's operating activities resulted in net cash inflows of Ps.319.9 million for fiscal year 2008, primarily as a result of operating gains of Ps.368.7 million, a decrease in inventories of Ps. 129.7 million and an increase in trade accounts payable of Ps.40.8 million. These were partially offset by an increase in accounts receivable, net of Ps.121.1 million, an increase in other receivables and prepaid expenses, and prepaid expenses net of Ps.51.1 million, a decrease in customer advances, salaries and social security payable and taxes payable of Ps.30.4 million and an increase in current investments of Ps.22.7 million.

*2007 Fiscal Year.* IRSA's operating activities resulted in net cash inflows of Ps.163.1 million for fiscal year 2007 primarily as a result of operating gains of Ps.276.0 million, an increase in trade accounts payable of Ps.65.1 million, a decrease in inventories of Ps.29.0 million, and an increase in accrued interest of Ps.21.5 million partially offset by an increase in accounts receivables, net of Ps.79.7 million, and increase in other receivables and prepaid expenses, net of Ps.79.6 million, an increase in non-current investments of Ps.35.6 million and an increase in current investments of Ps.29.8 million.

*2006 Fiscal Year.* IRSA's operating activities resulted in net cash inflows of Ps.194.7 million for fiscal year 2006 primarily as a result of operating gains of Ps.218.5 million, an increase in trade accounts payable of Ps.56.0 million, a decrease in inventories of Ps.25.1 million, an increase in accrued interest of Ps.14.0 million and a decrease in current investments of Ps.10.3 million partially offset by an increase in account receivable, net of Ps.80.3 million, a decrease in customer advances, salaries and social security payable and taxes payable of Ps.28.4 million and an increase in non-current investments of Ps.26.4 million.

***Investment Activities***

*2008 Fiscal Year.* IRSA's investing activities resulted in net cash outflows of Ps.788.6 million for fiscal year 2008, of which Ps.419.0 million were related to the acquisition of bussines and assets, mainly to the purchase of two buildings (including their in place leases) known as Edificio República and Torre Bank Boston for Ps.228.3 million and Ps.173.9 million, respectively. IRSA also made investments in fixed assets of Ps. 332.5 million of which, Ps.257.7 million were invested through Alto Palermo primarily in the partial construction of the Panamerican Mall for Ps.114.4 million, improvements of shopping centers for Ps.50.0 million, in the initial payment for the transfer of Soleil Factory shopping center for Ps.25.6 million, and Ps.40.0 million in the Hotel segment of which Ps. 30.7 million were invested in Hotel Llao Llao. IRSA also invested Ps. 23.1 million relating to Patio Olmos Building and Ps. 16.1 were related to advance payment for a plot of land located at Beruti 3571. IRSA also invested Ps.17.2 million in undeveloped parcels of land.

*2007 Fiscal Year.* IRSA's investing activities resulted in net cash outflows of Ps.510.8 million for fiscal year 2007, primarily as a result of investments in fixed assets of Ps.410.1 million due to (i) the acquisition of Bouchard 551 for Ps.243.2 million, (ii) Ps.96.4 million through Alto Palermo primarily for improvements made in shopping centers (iii) improvements in the Hotel Operations segment for Ps.57.1 million, principally in Llao Llao for Ps.49.4 million, and as a result of a decrease in minority interest of Ps.41.0 million principally due to the increase in IRSA's ownership in Palermo Invest and in Alto Palermo for Ps.27.5 million and Ps.7.2 million, respectively.

On December 12, 2006 IRSA purchased from different holders 34,710 shares of Canteras Natal Crespo for a total amount of Ps.1.8 million. After this transaction, IRSA's interest on Canteras (jointly with our partner ECIPSA) increased up to 98.45%.

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*2006 Fiscal Year.* IRSA's investing activities resulted in net cash outflows of Ps.136.6 million for fiscal year 2006, primarily as a result of investments in fixed assets of Ps.54.1 million due to (i) improvements made in shopping centers amounting to Ps.33.6 million and (ii) improvements in the Hotel Operations segment for Ps.20.1 million. IRSA also invested Ps.62.1 million in undeveloped parcels of land primarily through our subsidiary Alto Palermo. IRSA also made investments of Ps.4.3 million to increase its ownership interest in Alto Palermo, and Ps.4.2 million in the acquisition of 43.2% of Canteras Natal Crespo S.A. Additionally, IRSA posted a guaranty deposit for Ps.8.6 million at Deutsche Bank guaranteeing its obligations to Argentimo S.A. relating to an agreement entered into between Alto Palermo, Argentimo S.A. and Constructora San José Argentina S.A. for the acquisition of land for the development of a shopping center and a dwelling and/or office building.

***Financing Activities***

*2008 Fiscal Year.* IRSA's financing activities resulted in net cash inflows of Ps.149.1 million. IRSA's net cash provided by financing activities for fiscal year 2008 was primarily related to (i) an increase in short-term and long-term debt of Ps.183.5 million, mainly due to the takeover of the Macro bank loan for the acquisition of Edificio República, (ii) IRSA's issuance of common shares as a result of the exercise of warrants for Ps.163.4 million, (iii) a capital contribution by minority owners in related parties of Ps.32.5 million. This was partially offset by (i) the repurchase of debt of Ps.138.6 million (ii) the payment of dividends by subsidiaries to minority shareholders of Ps.24.3 million, and (iii) the partial repayment of Ps.18.4 million of a mortgage obligation.

*2007 Fiscal Year.* IRSA's financing activities resulted in net cash inflows of Ps.892.2 million. IRSA's net cash provided by financing activities for fiscal year 2007 was primarily related to (i) the proceeds from short-term and long-term debt for Ps.1,199.7 million, primarily due to the issuance of its notes and Alto Palermo notes (ii) IRSA's issuance of common shares as a result of the exercise of warrants for Ps.26.0 million, partially offset by (i) the payment of short-term and long-term debt for Ps.292.2 million, (ii) the payment of dividends to minority shareholders for Ps.23.2 million and (iii) a the partial repayment of Ps.18.0 million of a mortgage payable.

*2006 Fiscal Year.* IRSA's financing activities resulted in net cash outflows of Ps.36.8 million. IRSA's net cash spent on financing activities for fiscal year 2006 was primarily related to the payment of short-term and long-term debt for Ps.82.5 million, the payment of dividends by its subsidiaries to minority shareholders totaling Ps.12.7 million, the repayment of debt owed to minority shareholders for Ps.5.2 million and a partial repayment of Ps.25.6 million of a mortgage payable, partially offset by our issuance of common shares as a result of the exercise of warrants for Ps.43.6 million and proceeds from issuance of short-term and long-term debt totaling Ps.45.1 million.

**Table of Contents****Indebtedness**

The following table sets forth the scheduled maturities of IRSA's outstanding debt as of June 30, 2008:

**Maturity Schedule**

	Currency	Less than 1 year <sup>(1)</sup>	From 1 to 2 years (in millions of Pesos) <sup>(3)</sup>	From 2 to 3 years	From 3 to 4 years	More than 4 years	Total <sup>(2)</sup> %	Average annual interest rate %
<b>Bank and other debt</b>								
Bank loans	Ps. / US\$	139.8	32.9	20.3	20.3	20.3	233.6	
Hoteles Argentinos secured loan	US\$	1.9	16.1				18.0	9.7
Alto Palermo 10% convertible notes due 2014	US\$	2.1				46.9	49.0	10.0
Alto Palermo 11% Series II notes <sup>(4)</sup>	Ps.	0.2	43.5	43.8	44.0	16.7	148.1	11.0
Alto Palermo 7.875% Series I notes due 2017 <sup>(4)</sup>	US\$	3.5	-0.5	-0.5	-0.5	360.4	362.4	7.9
IRSA 8.5% notes due 2017 <sup>(4)</sup>	US\$	15.1	-0.9	-0.9	-0.9	449.7	462.1	8.5
Debt related to purchase of subsidiaries	US\$	24.6	9.1				33.7	
Debt related to purchase of subsidiaries	Ps.	0.1					0.1	
Total bank and other debt		187.3	100.2	62.7	62.9	894	1,307.0	
<b>Mortgages payable</b>								
Mortgage payable Terrenos Bariloche	US\$	2.9	1.5				4.5	7.0
Total mortgages payable		2.9	1.5	0	0	0	4.5	
Total debt		190.2	101.7	62.7	62.9	894	1,311.4	

(1) Includes accrued interest.

(2) Figures may not sum due to rounding.

(3) Exchange rate as of June 30, 2008: US\$1.00 = Ps.3.025.

(4) Includes issuance expenses (under Argentine GAAP expenses incurred in connection with the issuance of debt are classified as short-term or long-term debts, as appropriate).

**Prepayment of IRSA's Outstanding Indebtedness**

On October 21, 2007, IRSA notified the holders of its secured notes due November 2009 and the creditors under IRSA's US\$51 million syndicated bank loan agreement dated November 21, 2002 of IRSA's intention to redeem all outstanding notes and repay such loans in full, plus interest accrued until the redemption and repayment date, as applicable. On October 29, 2007, IRSA prepaid US\$ 24.3 million of principal and US\$0.3 million of interest accrued on the notes, and US\$14.9 million of principal and US\$0.2 million of interest accrued on the loans.

*Hoteles Argentinos secured loan*



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On March 23, 2005, Credit Suisse First Boston International acquired the US\$11.1 million indebtedness incurred by Hoteles Argentinos which had been in default since January 2002. On April 21, 2006, Hoteles Argentinos reduced the outstanding principal amount to US\$6.0 million with a prepayment, and the unpaid balance was restructured to mature in March 2010 with scheduled amortization payments as described below:

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Date	Amount due (US\$ thousands)
March 15, 2008	213
September 15, 2008	225
March 15, 2009	239
September 15, 2009	253
March 15, 2010	5,070

Interest accrues on the unpaid principal of this loan at six-month LIBOR plus 7.0%.

In addition, IRSA entered into a credit default swap agreement with Credit Suisse International which, among other provisions, secures the payment of Hoteles Argentinos' indebtedness and provides that in the event of default IRSA should acquire the loan. Simultaneously with the amendment to Hoteles Argentinos' loan agreement, IRSA amended the credit default swap agreement with Credit Suisse International. Thus, IRSA would only assume 80.0% of Hoteles Argentinos' indebtedness in the event of default. The remaining 20.0% was assumed by Starwood Hotels and Resorts Worldwide Inc. (Starwood), an indirect minority shareholder of Hoteles Argentinos, which has also been instrumented through a credit default swap agreement. To secure performance of IRSA's obligations under the agreement with Credit Suisse International, IRSA made an escrow deposit of US\$1.2 million.

The loan agreement of Hoteles Argentinos provides that it may not declare or pay any dividends or make any distribution on capital stock, or purchase, redeem, retire, defease or otherwise acquire any of its own shares, or make any distribution of assets, capital stock, warrants, rights, options, obligations or securities to shareholders, except in an amount not to exceed the lesser of (x) Hoteles Argentinos' excess cash flow for the preceding fiscal year, or (y) the consolidated retained earnings and consolidated profits earned; and then only if, after giving pro forma effect to such action, no default or event of default would occur as a consequence thereof.

On March 15, 2008 IRSA repaid an installment of principal of US\$ 0.2 million.

*Alto Palermo 10% convertible notes due 2014*

On August 20, 2002, Alto Palermo issued US\$ 50.0 million unsecured Convertible Notes in exchange for cash and the settlement of certain liabilities owed to its shareholders. These convertible notes mature on July 19, 2014, according to the maturity date extension approved at the meeting of holders of such convertible notes on May 2, 2006. The convertible notes accrue interest (payable semi-annually) at a 10.0% fixed annual interest rate and are convertible at any time at the holder's option into shares of common stock of Ps. 0.10 par value each. The conversion rate per U.S. dollar is the lower between (i) 30.8642 and (ii) the result from dividing the exchange rate prevailing on the conversion date by Alto Palermo's common shares' par value. As of June 30, 2008, as a result of the conversions made, the aggregate outstanding amount of Alto Palermo's convertible notes was US\$47.2 million. If all the noteholders exercise their conversion rights, Alto Palermo's common shares would increase from 782.0 million (Ps. 224.0 million par value) to 2,239.7 million (Ps. 224.0 million par value). As of June 30, 2008, IRSA holds US\$31.7 million of Alto Palermo's convertible notes.

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*IRSA s 8% convertible notes due 2007*

On November 21, 2002, IRSA issued US\$100.0 million of convertible notes due November 2007. The convertible notes accrue interest at 8% per annum, payable on a semi-annual basis. The conversion price is US\$0.545 per common share, which means that each US\$1.00 principal amount of such convertible note may be exchanged for 1.8347 common shares. Additionally, each convertible note contains a warrant attached that grants its holder an option to acquire 1.8347 shares at a price of US\$0.6541 each.

From the date of issuance through June 30, 2007, the holders of IRSA s convertible notes exercised their conversion rights for a total of 81.1 million units with a face value of US\$1.0 each, issuing 148.8 million common shares with a face value of Ps. 1.0 each. In addition, from the date of issuance through June 30, 2007, the warrants issued by IRSA were exercised for a total amount of US\$56.8 million, and 104.2 million shares were issued in exchange thereof. IRSA received funds aggregating US\$68.1 million. As of September 30, 2007 the outstanding amount of convertible notes and warrants amounted to 0.9 million and 14.0 million respectively, and the amount of outstanding shares was 551,779,869.

The exercise period of the outstanding warrants and the conversion period of the convertible notes, issued on November 21, 2002, expired on November 14, 2007. During the exercise and conversion periods, the holders of warrants and convertible notes exercised a total of 99,896,806 warrants and converted a total of 99,942,343 convertible notes, increasing IRSA s capital stock to 578,676,460 common shares. As of December 31, 2007, there were no warrants or convertible notes remaining.

*Alto Palermo series I and series II notes*

On May 11, 2007, Alto Palermo issued two new series of notes in an aggregate principal amount of US\$170 million. Series I consists of US\$120 million of notes due on May 11, 2017, which accrue interest at a fixed rate of 7.875% payable semi-annually on May 11 and November 11 of each year, commencing on November 11, 2007. The Series I notes mature in a single installment on May 11, 2017.

Series II consists of Ps.154 million (equivalent to US\$50 million) of notes which mature in seven, equal and consecutive semi-annual installments commencing on June 11, 2009, and which accrue interest at 11% per annum, payable on June 11 and December 11 of each year commencing on December 11, 2007.

*IRSA s 8.5% notes due 2017*

On February 2, 2007, IRSA issued its 2017 fixed rate notes for a total amount of US\$150.0 million, which accrue interest at an annual interest rate of 8.5% payable semi-annually and which mature in a single installment on February 2, 2017.

These notes also contain a covenant limiting IRSA s ability to pay dividends which may not exceed the sum of:

50% of its cumulative consolidated net income; or

75% of its cumulative consolidated net income if its consolidated interest coverage ratio for IRSA s most recent four consecutive fiscal quarters is at least 3.0 to 1; or

100% of cumulative consolidated net income if its consolidated interest coverage ratio for its most recent four consecutive fiscal quarters is at least 4.0 to 1; or

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100% of the aggregate net cash proceeds (with certain exceptions) and the fair market value of property other than cash received by IRSA or by its restricted subsidiaries from (a) any contribution to its capital stock or the capital stock of its restricted subsidiaries or issuance and sale of IRSA's qualified capital stock or the qualified capital stock of its restricted subsidiaries subsequent to the issue of its notes due 2017, or (b) issuance and sale subsequent to the issuance of its notes due 2017 or IRSA's indebtedness or the indebtedness of its restricted subsidiaries that has been converted into or exchanged for IRSA's qualified capital stock.

**Debt for the acquisition of Edificio República**

On April 28, 2008 IRSA executed a loan agreement secured by a mortgage with Banco Macro S.A. pursuant to which Banco Macro S.A. lent IRSA US\$ 33.6 million which IRSA applied to the repayment of the outstanding balance relating to the acquisition of Edificio República for a total term of 5 years. The principal must be repaid in five annual, equal and consecutive installments maturing on April 28 each year and accruing interest at an annual nominal rate of 12%. Interest must be repaid in semi-annual installments, maturing on April and October 28, of each year. The Edificio República has been mortgaged as security for the amount of the loan.

**Capital Expenditures**

*Five months period-Fiscal Year 2009.* For the five months of fiscal year 2009 IRSA invested Ps. 116.9 million in capital expenditures of which mainly (i) Ps. 70.9 million were related to the construction of Panamerican Mall; (ii) Ps. 19.4 million in improvements in Dique IV, (iii) Ps. 10.2 million were related to the improvements of our shopping center properties and (iv) Ps. 7.4 million in the Hotel segment, of which Ps. 4.2 million were invested in Sheraton Libertador Hotel. Regarding the capital expenditures for the rest of fiscal year 2009, they could vary according to the potential events described in our risk factors section.

*2008 Fiscal Year.* For the fiscal year ended June 30, 2008, IRSA invested Ps.768.7 million of which Ps.419.0 million were related to the acquisition of business and assets, mainly the purchase of two buildings (including their in place leases) known as Edificio República and Torre Bank Boston for Ps.228.3 million and Ps.173.9 million, respectively. IRSA also made investments in fixed assets of Ps. 332.5 million of which, Ps.257.7 million were invested through Alto Palermo primarily in the partial construction of the Panamerican Mall for Ps.114.4 million, improvements of shopping centers for Ps.50.0 million, in the initial payment for the transfer of Soleil Factory shopping center for Ps.25.6 million, and Ps.40.0 million in the Hotel segment of which Ps. 30.7 million were invested in Hotel Llao Llao. IRSA also invested Ps. 23.1 million relating to Patio Olmos Building and Ps. 16.1 were related to advance payment for a plot of land located at Beruti 3571. IRSA also invested Ps.17.2 million in undeveloped parcels of land.

*2007 Fiscal Year.* For the fiscal year ended June 30, 2007, IRSA invested Ps.419.4 million of which Ps.410.1 million, were related to the acquisition of Bouchard 551 for Ps.243.2 million, Ps.96.4 million through Alto Palermo primarily for the improvement of shopping centers and Ps.57.1 million in the Hotel segment, of which Ps.49.4 million were invested in Hotel Llao Llao. IRSA also invested Ps.9.3 million in undeveloped parcels of land.

*2006 Fiscal Year.* For the fiscal year ended June 30, 2006, IRSA invested Ps.116.2 million of which Ps.54.1 million were related to our shopping centers totaling Ps.33.6 million, and in the Hotel segment of Ps.20.1 million.

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IRSA believes that our two principal developments projects, the construction of Panamerican Mall through its subsidiary Alto Palermo and its residential project Horizons through CYRSA, will be finished in the first half of 2009 and in early 2011, respectively. However, in view of the current market conditions, construction might suffer some delays. In addition, during the construction period IRSA may need additional financing, which will be dependent the prevailing market conditions at the moment we need the funds.

**Contractual Obligations**

The following table sets forth IRSA's contractual obligations as of June 30, 2008:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Payments due by period (2)</b>			
		<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-Term Debt Obligations	2,033,839	272,662	359,072	306,230	1,095,875
Purchase Obligations	71,008	13,498	11,059	46,451	
Other Long-Term Obligations	12,155	4,244	5,276	1,716	919
Total (1)	2,117,002	290,404	375,407	354,397	1,096,794

(1) Includes IRSA's main financial and related parties debts, foreign suppliers and tax amnesty plan for gross sales tax payable.

(2) Includes accrued interest and prospected interest.

**C. RESEARCH AND DEVELOPMENTS, PATENTS AND LICENSES**

Investments in technology amounted to Ps.13.9 million, Ps.11.6 million and Ps. 22.9 million for the fiscal years 2008, 2007 and 2006 respectively. Our total technology investments aimed at increasing the productivity of purchased land amount to Ps.130.1 million since fiscal year 1995.

We reach our objectives within this area through the implementation of domestic and international technological development projects focusing mainly on:

Quality and productivity improvement.

Increase in land appreciation value through the development of marginal areas.

Increase in the quality of food in order to achieve global food safety standards. We aim to implement and perform according to official and private quality protocols that allow us to comply with the requirements of our present and future clients. Regarding official regulations, in 2003 we implemented the Servicio Nacional de Sanidad y Calidad Agroalimentaria law on animal identification for livestock in six farms. Simultaneously, in 2004 we implemented EurepGap Protocols with the objective of complying with European Union food safety standards and as a mean for continuous improvement of the internal management and system production of our farms. Our challenge is to achieve global quality standards.

We do not have any patents or licenses that are material for conducting our business.

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Our future operating results may be affected by variations in some factors, such as adverse changes in the price of commodities, the yield of crops, or changes in regulations. Though the recent significant decline in the price of commodities has not affected significantly our operating performance and results of operations, historical tendencies may not be representative of our future results. Our past results must not be considered indicative of our future performance. Future operating performance and land values can be affected if commodity prices continue dropping, which might also have a negative impact on the value of our farms. To mitigate certain risks associated with changes in weather and prices, we seek to apply hedging mechanisms through futures and option agreements in the grain market and to diversify our geographic areas of production.

**Production and sales**

At present we are engaged in various operations and activities including crops, cattle breeding and fattening, milk production and certain forestry activities. We complement our operations with the purchase and sale of land to benefit from the real estate valuation.

We conduct our business on owned and leased land. As of June 30, 2008, together with our subsidiaries, we owned 18 farms. Approximately 24,305 hectares of our own land are applied to, and suitable for crop production, whereas approximately 91,040 hectares are more suitable for beef cattle production and 4,320 hectares are applied to milk production.

The remaining 385,573 hectares consist mostly of land reserves. During fiscal year 2008, we leased 46 farms for agricultural and beef cattle production, which together spanned a total surface of 63,344 hectares, including double crop.

The following chart shows for the periods indicated below, the amount of land allocated to each productive activity (including the total amount of own and leased farms):

	Use of land				
	Fiscal Year ended June				
	2004 <sup>(1) (6)</sup>	2005 <sup>(1) (7)</sup>	2006 <sup>(1) (8)</sup>	2007 <sup>(1)(8)(9)(10)</sup>	2008 <sup>(1)(8)(9)(10)</sup>
	<i>(in hectares)</i>				
Crops <sup>(2)</sup>	27,358	40,722	41,283	53,579	63,900
Beef cattle <sup>(3)</sup>	125,669	126,879	129,946	114,097	123,935
Milk	1,001	1,776	1,698	2,609	4,320
Sheep				90,000	90,000
Land reserves <sup>(4)</sup>	266,916	263,177	418,477	393,677	385,573
Owned farmlands leased to others	13,996	9,978	14,229	13,771	8,467
<b>Total <sup>(5)</sup></b>	<b>434,940</b>	<b>442,532</b>	<b>605,633</b>	<b>667,733</b>	<b>674,195</b>

(1) Includes 35.723% of approximately 8,299 hectares owned by Agro-Uranga S.A., an affiliated Argentine company in which we own a non-controlling 35.7% interest.

(2) Includes wheat, corn, sunflower, soybean, sorghum and others.

(3) Breeding and fattening.

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- (4) We use part of our land reserves to produce rods and fence posts.
  
- (5) As of June 30, 2004, farmlands were leased in which 9,766 hectares were assigned to agricultural production. As of June 30, 2005, farmlands were leased in which 16,299 hectares were assigned to agricultural production. As of June 30, 2006, farmlands were leased in which 17,004 hectares were assigned to agricultural production and 32,647 to beef cattle production

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(including the Ñacurutú farm). As of June 30, 2007, 25,307 hectares were leased for agricultural production and 29,208 hectares were leased for beef cattle production. As of June 30, 2008, 30,449 hectares were leased for agricultural production and 32,895 were leased for beef cattle production.

- (6) Includes 8,360 hectares of the El Tigre farm purchased on April 30, 2003 and does not include 6,478 hectares of the 41-42 farm, the title deed to which was executed on November 26, 2003.
- (7) Includes 977 hectares of the San Enrique farm and 30,350 hectares of the Ñacurutú farm, sold in fiscal year 2005.
- (8) Includes 6,022 hectares of the San Pedro farm purchased on September 1, 2005 and approximately 162,000 hectares through our 99.99% interest in Agropecuaria Cervera S.A. which holds, among other assets and rights, the concession for the start-up of production pertaining to a comprehensive development project. Does not include 5,727 hectares of the El Gualicho farm sold on July 25, 2005.
- (9) Does not include 20,833 hectares of the Tapenagá farm, 14,516 hectares of the Los Pozos farm and 50 hectares of the El Recreo farm, which were sold in fiscal year 2007.
- (10) Includes 24% of 170 hectares owned by Cactus Argentina S.A.

*Crops*

Production income from our Crops segment increased 62.2%, from Ps.72.4 million for fiscal year 2007 to Ps.117.5 million for fiscal year 2008, primarily as a result of a 13.3% increase in total production volumes, from 174,905 tons in fiscal year 2007 to 198,146 tons in fiscal year 2008, mainly due to an increase in volumes of wheat (27.7%), corn (17.4%) and sunflower (36.6%) harvested, partially offset by a decrease of 2.9% in volumes of soybean harvested from year to year; and 39.8% increase in average prices for our grains.

The 13.3% increase in the production volume from our Crops segment was mainly due to our harvest of a larger area of crops, from 49,244 hectares in fiscal year 2007 to 59,639 hectares in fiscal year 2008 (including 3,811 hectares under concession through our subsidiary Agropecuaria Cervera S.A.).

As of June 30, 2008, the harvested surface was 91.7% of our total sown surface, compared to 94.5% as of June 30, 2007.

In addition, the production volume in our Crops segment was adversely impacted by a slight 6.5% decrease in our average yields, from 3.6 tons per hectare during fiscal year 2007 to 3.3 tons per hectare during fiscal year 2008, mainly as a result of a 21.1% increase in the exploited surface in fiscal year 2008 compared to the previous year, the mix of grains harvested and unfavorable weather conditions.

The average grain price (at market value) increased 31.0%, from Ps.426 per ton for fiscal year 2007 to Ps.558 per ton for fiscal year 2008.

Cost of production from our Crops segment increased 59.4%, from Ps.51.5 million in fiscal year 2007 to Ps.82.2 million in fiscal year 2008, primarily as a consequence of a higher production volume in fiscal year 2008 compared to the previous year, an increase in direct and indirect costs of production during fiscal year 2008 compared to the previous year, primarily as a result of higher prices of raw materials used (agrochemicals and seeds); and a larger number of hectares leased to third parties during fiscal year 2008 compared to the previous year.

Cost of production per ton increased 39.6%, from Ps.298 in fiscal year 2007 to Ps.416 in fiscal year 2008, primarily as a result of higher costs of production and lower yields per hectare during the current fiscal year.

Sales from our Crops segment increased 62.7%, from Ps.53.4 million in fiscal year 2007 to Ps.86.9 million in fiscal year 2008, primarily as a consequence of a 24.4% increase in the sales volume, from 125,947 tons in fiscal year 2007 to 156,718 tons in fiscal year 2008, mainly due to a higher grain production volume during fiscal year 2008 and a higher level of grain inventories at the beginning of the year (74,563 tons at the beginning of fiscal year 2008 compared to 28,315 tons at the beginning of fiscal year 2007); and 31.0% increase in average prices of grains sold, from Ps.426 per ton in fiscal year 2007 to Ps.558 per ton in fiscal year 2008.





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Cost of sales from our Crops segment increased 60.4%, from Ps.47.4 million in fiscal year 2007 to Ps.76.0 million in fiscal year 2008, primarily as a result of 24.4% increase in the volume of grain sold in fiscal year 2008 compared to the previous year; and 31.0% increase in the average market price of grains in fiscal year 2008.

The average cost per ton sold increased 28.9%, from Ps.376 in fiscal year 2007 to Ps.485 in fiscal year 2008, mainly as a result of the higher average market prices of grains.

*Beef Cattle*

Production income for the Beef Cattle segment increased 22.9%, from Ps.19.5 million for fiscal year 2007 to Ps.23.9 million for fiscal year 2008, primarily as a result of a 38.7% increase in the average price per kilogram of cattle produced, from Ps.2.0 during fiscal year 2007 to Ps.2.7 during fiscal year 2008; this increase was partially offset by a 11.4% decrease in the production volume of beef, from 9,913 tons for fiscal year 2007 to 8,786 tons for fiscal year 2008, in part as a result of the deconsolidation of Cactus due to the reduction of our equity interest from 50.0% to 24.0%, compared to the proportional consolidation of this subsidiary during the six months ended December 31, 2006; a 38.8% decrease in the production volume of cattle heads slaughtered in the feedlot during fiscal year 2008 compared to the previous year; a decrease in the production volume as a result of the drought which led to the transfer of beef cattle to other farms, thus generating alterations in feeding; in addition, as a consequence of the winter, we obtained grass of lower quality, which affected slaughtering and subsequent sale in previous stages; a decrease in the production volume due to the sale of the Tapenagá farm; and a 2.3% decrease in births during fiscal year 2008 compared to fiscal year 2007.

The number of hectares dedicated to beef cattle production increased from 114,097 hectares in fiscal year 2007 to 123,935 hectares in fiscal year 2008. This increase was mainly due to a higher number of hectares leased and to the conversion of hectares of land reserve into cattle production hectares in the Los Pozos farm during fiscal year 2008, negatively compensated by the retirement of cattle hectares due to the sale of the Tapenagá farm.

Cost of production from our Beef Cattle segment increased 28.3%, from Ps.15.1 million in fiscal year 2007 to Ps.19.3 million in fiscal year 2008. The higher cost of production from our Beef Cattle segment during fiscal year 2008 is mainly attributable to higher feeding costs as a result of increased prices of grains and raw materials and the effects of the drought requiring higher feed portion volumes.

The direct cost per kilogram produced increased 45.3%, from Ps.0.89 in fiscal year 2007 to Ps.1.29 in fiscal year 2008, due to higher prices in direct costs of production, partially offset by a lower total production volume, primarily as a result of the sale of our Tapenagá farm during fiscal year 2007, and in part as a result of the deconsolidation of Cactus due to the reduction of our equity interest from 50.0% to 24.0%, compared to the proportional consolidation of this subsidiary during the six months ended December 31, 2006.

Sales from our Beef Cattle segment increased 1.5%, from Ps.32.0 million in fiscal year 2007 to Ps.32.4 million in fiscal year 2008, primarily as a result of a 15.8% increase in the average price per kilogram, from Ps.2.40 in fiscal year 2007 to Ps.2.78 in fiscal year 2008. This was partially

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offset by a 12.4% decrease in beef sales volume, from 13,332 tons in fiscal year 2007 to 11,677 tons in fiscal year 2008, mainly as a result of the deconsolidation of Cactus due to the reduction in our equity interest from 50.0% to 24.0%, compared to the proportional consolidation of this subsidiary during the six months ended December 31, 2006.

The average cattle stock decreased from 97,111 heads in fiscal year 2007 to 92,555 heads in fiscal year 2008, primarily as a result of the sale of our Tapenagá farm in fiscal year 2007, supplemented by the effect of the deconsolidation of Cactus described above.

Cost of sales from our Beef Cattle segment decreased 0.8%, from Ps.30.3 million in fiscal year 2007 to Ps.30.0 million in fiscal year 2008, primarily as a result of a 12.4% decrease in the beef sales volume in fiscal year 2008, partially offset by an increase in the general price level of cattle; and by a 15.8% increase in the average price per kilogram of cattle sold in fiscal year 2008.

### *Milk*

Production income for the Milk segment increased 68.8%, from Ps.10.9 million in fiscal year 2007 to Ps.18.4 million in fiscal year 2008. This increase was mainly due to a 45.3% increase in average prices of milk, from Ps.0.58 per liter in fiscal year 2007 to Ps.0.85 per liter in fiscal year 2008; and a 25.0% increase in milk production volumes, from 16.7 million liters in fiscal year 2007 to 20.8 million liters in fiscal year 2008. This increase in production volume was mainly due to (i) an increase in the average number of milking cows (from 2,677 in fiscal year 2007 to 3,174 in fiscal year 2008), in part due to the start of production in the new milking yard of our La Juanita farm, which increased its milking capacity to 1,800 cows; and (ii) a 5.3% improvement in the efficiency level of average daily milk production per cow, from 17.1 liters in fiscal year 2007 to 18.0 liters in fiscal year 2008.

Cost of production for the Milk segment increased 68.5%, from Ps.8.5 million in fiscal year 2007 to Ps.14.3 million in fiscal year 2008. This increase was mainly due to a 25.0% increase in milk production in fiscal year ended June 30, 2008 compared to the previous fiscal year; and the impact of higher feeding costs as a consequence of the increased prices of corn and other raw materials.

As a result of the above, cost of production per liter of milk increased from Ps.0.51 in fiscal year 2007 to Ps.0.69 in fiscal year 2008.

Sales from our Milk segment increased 79.8%, from Ps.9.7 million in fiscal year 2007 to Ps.17.5 million in fiscal year 2008, primarily as a result of a 45.3% increase in average prices of milk, from P.0.58 per liter in fiscal year 2007 to Ps.0.85 per liter in fiscal year 2008; and a 23.7% increase in sales volume mainly due to an increase in the average number of milking cows and improvement in the efficiency level of production.

Cost of sales from our Milk segment increased 81.2%, from Ps.9.7 million in fiscal year 2007 to Ps.17.6 million in fiscal year 2008, primarily as a result of a 45.3% increase in the level of prices of milk which had an impact on the cost of sales; and a 23.7% increase in sales volume of milk.

### *Product Prospects*

The sources of the following information are the Secretaría de Agricultura, Pesca y Alimentación de la República Argentina ( SAGPyA ), the United States Department of Agriculture ( USDA ) and the Food and Agriculture Organization of the United Nations ( FAO ).

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### *Wheat*

USDA projections for the global 2008/2009 cycle estimate a production of approximately 682.4 million tons of wheat, 11.8% higher than the previous cycle. In the northern hemisphere, where many crops have reached a well-developed stage, a wheat production increase is forecasted especially in North America and Europe.

With regards to Argentina, the USDA projects an 11.0 million ton production for the 2008/2009 season, 32.5% lower than the prior year campaign. The lack of rains, the rising prices of supplies required for wheat farming, and the low soil humidity, have led to the marked decrease of this crop. The SAGPyA forecasts a reduction in sown area of approximately 22.4% compared to the previous season.

### *Corn*

The USDA estimates a 1.3% drop in global corn production, totaling 781.4 million tons versus 792.0 million tons in the previous cycle. The sown area in the United States, the largest world producer, decreased 9.7% compared to the 2007/08 cycle. Corn prices have dropped over 40% since the peak registered in last June due in part to lower demand, particularly from European countries, a larger than expected United States crop, and a large supply of feed quality wheat.

For Argentina, the USDA estimates that corn production will reach approximately 18.0 million tons, 13.7% lower than the previous cycle.

### *Soybean*

In the case of soybean, for the 2008/2009 cycle, the USDA projects a global production of 235.7 million tons, 6.7% more than the previous year. In addition, the United States, the largest world producer of soybean, expanded its sown area to the detriment of smaller areas earmarked for corn. In the middle of 2008, soybean prices registered a peak, but soybean and soybean oil prices have dropped as a consequence of the rapid changes in the global economy.

For Argentina, the USDA projects a production of 50.5 million tons for the 2008/2009 cycle, 9.3% higher than the previous year.

### *Sunflower*

Sunflower production for the 2008/2009 cycle is projected at approximately 33.2 million tons compared to 27.2 million tons in the previous year.

In Argentina, the SAGPyA forecasts a reduction in sown area of approximately 12% compared to the previous season, totaling approximately 2.3 million hectares. According to the USDA, the Argentine production of sunflower is forecast to be 4.4 million tons, a 5.4% decrease compared to the previous cycle.

### *Beef Cattle*

World beef prices have remained generally stable since late 2006. However, rising feed costs and strong consumer demand pushed global meat prices up between January and August 2008. In September 2008, prices started to show signs of weakening because of higher supply and faltering demand, particularly in developed countries. This decline in prices is expected to continue over the next months.

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With regards to global beef cattle production, the FAO estimates a 0.4% growth for 2009, reaching 65.4 million tons. However, local regulations on beef exports, downsized cattle stocks along with a conversion of pastures into croplands may affect beef production for 2009 in Argentina. The FAO anticipates a decline of 1% in the Argentinean beef output.

*Milk*

In recent months, the prices of many dairy products in the international market displayed weakness and fell from their peak in mid 2007. This tendency was accelerated by the economic downturn, appreciation of the U.S. Dollar and the increasing supply of milk products in the international market. The FAO estimates that global milk production will increase by 2.2% in 2008 and by 2.5% in 2009, reaching 709,7 million tons, a slower growth than in recent years. Although milk production in Argentina slightly decreased during 2007, the FAO estimates a 5% increase for 2008. Investments made in the milk producing sector are enabling Argentina to focus on global export markets, especially in the powdered milk and cheese sectors. However, production growth may be adversely affected by lower returns due to high export taxes on milk products, by high feed prices, and by the high opportunity costs of pasture.

**E. OFF-BALANCE SHEET ARRANGEMENTS****Guarantees by Futuros y Opciones.Com S.A.**

In the ordinary course of business, FyO guarantees certain brokerage transactions. Under the agreement, FyO guarantees the performance of the producer in case it does not comply with the physical delivery. The Company has recourse against the non-performing party. As of June 30, 2008, the value of transacted merchandise for which guarantees were granted amounted to Ps.14.1 million. As of the date of these financial statements, there were non-performing parties under the agreements for which the Company had to respond as guarantor. As of the date of these financial statements, the value of transacted merchandise for which guarantees were granted amounted to Ps.3.6 million.

**F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following table shows our contractual obligations as of June 30, 2008:

Detail	Payments due by period (In million of Pesos) (4)			
	Total	Less than 1 year	1-3 year	3-5 year More than 5 years
<b>Short-term debt</b>				
Charitable donations <sup>(1)</sup>	1.1	1.1		
Non-guaranteed loans <sup>(2)</sup>	173.7	173.7		
Guaranteed loan contract <sup>(3)</sup>	9.9	9.9		
Secured farm purchase obligations	5.4	5.4		
<b>Total</b>	<b>190.1</b>	<b>190.1</b>		

(1) Obligations do not accrue interest.

(2) Accrues interest at average rate of 14.77% for checking account overdrafts and fixed notes ranging from 6.25% to 7.25% for export financings.

(3) Accrues interest at a variable rate equal to Libor + 3.75% per annum.

(4) Includes accrued and prospecting interest.



**Table of Contents****G. SAFE HARBOR**

See the discussion at the beginning of this Item 5 and Forward Looking Statements in the introduction of this annual report, for forward-looking statement safe harbor provisions.

**Item 6. Directors, Senior Management and employees****A. DIRECTORS AND SENIOR MANAGEMENT****Board of Directors**

We are managed by a board of directors, which consists of eleven directors and five alternate directors. Each director and alternate director is elected by our shareholders at an annual ordinary meeting of shareholders for a three-year term, provided, however, that only one third of the board of directors is elected each year. The directors and alternate directors may be re-elected to serve on the board any number of times. There are no arrangements or understandings pursuant to which any director or person from senior managements is selected.

Our current board of directors was elected at the shareholders meetings held on October 31, 2006, October 10, 2007, and October 31, 2008, for terms expiring in the years 2009, 2010 and 2011 as the case may be. Our current directors are as follows:

<b>Directors(1)</b>	<b>Date of Birth</b>	<b>Position in Cresud</b>	<b>Term Expires(2)</b>	<b>Date of Current Appointment</b>	<b>Current Position Held Since</b>
Eduardo S. Elsztain	01/26/1960	Chairman	06/30/11	10/31/08	1994
Saúl Zang	12/30/1945	First vice- chairman	06/30/11	10/31/08	1994
Alejandro G. Elsztain	03/31/1966	Second vice- chairman and CEO	06/30/10	10/10/07	1994
Clarisa D. Lifsic	07/28/1962	Director	06/30/10	10/10/07	1994
Gabriel A.G. Reznik	11/18/1958	Director	06/30/09	10/31/06	2003
Jorge Oscar Fernández	01/08/1939	Director	06/30/09	10/31/06	2003
Fernando A. Elsztain	01/04/1961	Director	06/30/10	10/10/07	2004
David A. Perednik	11/15/1957	Director and chief administrative officer	06/30/10	10/10/07	2004
Pedro Damaso Labaqui Palacio	02/22/1943	Director	06/30/09	10/31/06	2006
Daniel E. Mellicovsky	01/17/1948	Director	06/30/11	10/31/08	2008
Alejandro Gustavo Casaretto	10/15/1952	Director	06/30/11	10/31/08	2008
Salvador D. Bergel	04/17/1932	Alternate director	06/30/11	10/31/08	1996
Juan C. Quintana Terán	06/11/1937	Alternate director	06/30/11	10/31/08	1994
Gastón A. Lernoud	06/04/1968	Alternate director	06/30/11	10/31/08	1999
Enrique Antonini	03/16/1950	Alternate director	06/30/10	10/10/07	2007
Eduardo Kalpakian	03/03/1964	Alternate director	06/30/10	10/10/07	2007

(1) The business address of our management is Cresud S.A.C.I.F.I. y A., Moreno 877, 23<sup>rd</sup> Floor, (C1091AAQ) Buenos Aires, Argentina.

(2) Term expires at the annual ordinary shareholders meeting.

Enrique Antonini, Eduardo Kalpakian, Jorge Oscar Fernández, Daniel E. Mellicovsky, and Pedro Damaso Labaqui Palacio qualify as independent, in accordance with *Comisión Nacional de Valores* Resolution N° 400/2002.

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The following is a brief biographical description of each member of our board of directors:

**Eduardo S. Elsztain.** Mr. Elsztain studied Economic Sciences at University of Buenos Aires (*Universidad de Buenos Aires*). He has been engaged in the real estate business for more than twenty years. He is the chairman of the board of directors of IRSA, Alto Palermo, Shopping Alto Palermo S.A., Consultores Asset Management and BACS Banco de Crédito & Securitización among other companies. He is also vice-chairman of Banco Hipotecario, E-Commerce Latina S.A. and BrasilAgro among other companies. He is Fernando A. Elsztain's cousin and Alejandro G. Elsztain's brother.

**Saúl Zang.** Mr. Zang obtained a law degree from University of Buenos Aires (*Universidad de Buenos Aires*). He is a member of the International Bar Association (Asociación Internacional de Abogados) and the Interamerican Federation of Lawyers (Federación Interamericana de Abogados). He is a founding member of the law firm Zang, Bergel & Viñes. He is also first vice-chairman of the board of directors of IRSA and Shopping Alto Palermo S.A., and vice-chairman of Alto Palermo, Puerto Retiro and Fibesa; and director of Banco Hipotecario, Nuevas Fronteras S.A., Tarshop and Palermo Invest S.A.

**Alejandro G. Elsztain.** Mr. Elsztain obtained a degree in agricultural engineering from University of Buenos Aires (*Universidad de Buenos Aires*). He is chairman of Inversiones Ganaderas S.A. and Cactus Argentina. He is also second vice-chairman of IRSA and executive vice-chairman of Alto Palermo and Shopping Alto Palermo S.A. He is a member of the board of directors of Futuros y Opciones S.A. Mr. Alejandro G. Elsztain is the brother of our chairman, Eduardo S. Elsztain, and cousin of Fernando A. Elsztain.

**Clarisa D. Lifsic.** Mrs. Lifsic obtained a degree in Economic Sciences from University of Buenos Aires (*Universidad de Buenos Aires*) and she holds a Masters Degree in Sciences with management expertise from Massachusetts Institute of Technology. She has also held offices in research and financial analysis areas in the private sector since 1987. She currently is the chairman of the board of directors of Banco Hipotecario.

**Gabriel A. G. Reznik.** Mr. Reznik obtained a degree in Civil Engineering from University of Buenos Aires (*Universidad de Buenos Aires*). He worked for IRSA since 1992 until May 2005 at which time he resigned. He formerly worked for an independent construction company in Argentina. He is an alternate director of Puerto Retiro S.A., Tarshop S.A. and Fibesa, as well as member of the board of Banco Hipotecario, among others.

**Jorge Oscar Fernández.** Mr. Fernández obtained a degree in Economic Sciences from University of Buenos Aires (*Universidad de Buenos Aires*). He has performed professional activities at several banks, financial corporations, brokerage and insurance firms and other companies related to financial services. He is also involved in many industrial, commercial and professional institutions and associations.

**Fernando A. Elsztain.** Mr. Elsztain studied architecture at University of Buenos Aires (*Universidad de Buenos Aires*). He has been engaged in the real estate business as a consultant and as managing officer of a real estate company. He is chairman of the board of directors of Llao Llao Resorts S.A., Palermo Invest S.A. and Nuevas Fronteras S.A. He is also a director of IRSA, Alto Palermo, Shopping Alto Palermo, Hoteles Argentinos and Tarshop and alternate director of Banco Hipotecario and Puerto Retiro. He is the cousin of our director chief executive officer Alejandro Elsztain and of our chairman Eduardo S. Elsztain.



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**Pedro Damaso Labaqui Palacio.** Mr. Labaqui obtained a law degree from University of Buenos Aires (*Universidad de Buenos Aires*). He is also director of Bapro Medios de Pago S.A., Permanent Syndic of Bayfe S.A. Fondos Comunes de Inversión, director and member of the Supervisory Committee of J. Minetti S.A.; and Director of REM Sociedad de Bolsa S.A.

**David A. Perednik.** Mr. Perednik obtained a degree in accounting from University of Buenos Aires (*Universidad de Buenos Aires*). He has worked for several companies such as Marifran Internacional S.A., a subsidiary of Louis Dreyfus Amateurs where he worked as Financial Manager from 1986 to 1997. He also worked as a Senior Consultant in the administration and systems department of Deloitte & Touche from 1983 to 1986. He is also chief administrative officer of IRSA and Alto Palermo.

**Daniel E. Mellicovsky.** Mr. Mellicovsky obtained a degree in accounting from the University of Buenos Aires (*Universidad de Buenos Aires*). He has served as director of several companies of the agricultural, food supplies, financial and hotel development sectors.

**Alejandro G. Casaretto.** Mr. Casaretto obtained a degree in agriculture from University of Buenos Aires (*Universidad de Buenos Aires*). He has served as our technical manager, farm manager, and technical coordinator since 1975.

**Salvador D. Bergel.** Mr. Bergel obtained a law degree and a PhD from Litoral University (*Universidad Nacional del Litoral*). He is a founding partner of Zang, Bergel & Viñes and a consultant at Repsol YPF S.A. He is also an alternate director of Alto Palermo.

**Juan C. Quintana Terán.** Mr. Quintana Terán obtained a law degree from University of Buenos Aires (*Universidad de Buenos Aires*). He is also a consultant at Zang, Bergel & Viñes law firm. He has been chairman and Judge of the National Commercial Court of Appeals of the City of Buenos Aires (Cámara Nacional de Apelaciones en lo Comercial). He is an alternate director of Alto Palermo.

**Gastón Armando Lernoud.** Mr. Lernoud obtained a law degree from El Salvador University (*Universidad de El Salvador*) in 1992. He obtained a Masters degree in Corporate Law in 1996 from Palermo University (*Universidad de Palermo*). He was a senior associated member of Zang, Bergel & Viñes law firm until June 2002, when he joined Cresud's lawyers.

**Enrique Antonini.** Mr. Antonini holds a degree in law from the University of Buenos Aires. He is currently a member of the board of directors of Banco Mariva S.A. (since 1992), Mariva Bursátil S.A. (since 1997). He has also served as a director of Inversiones y Representaciones S.A. from 1993 to 2002. He is a member of the Banking Lawyers Committee and the International Bar Association.

**Eduardo Kalpakian.** Mr. Kalpakian holds a degree in business from the University of Belgrano. He has also an MBA from the CEMA University of Argentina. He has been a director for 25 years of Kalpakian Hnos. S.A.C.I., a leading carpet manufacturer and flooring distributor in Argentina, as a director and is currently is vice chairman of the board and CEO. He is also vice chairman of the board of La Dormida S.A.A.C.E I.

### ***Employment contracts with our directors***

We do not have written contracts with our directors. However, Mr. Eduardo Elsztain, Saúl Zang, Alejandro Elsztain, Fernando Elsztain, Clarisa Lifsic and David Perednik are employed by us

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under the Labor Contract Law No. 20.744. This law governs certain conditions of the labor relationship, including remuneration, protection of wages, hours of work, holidays, paid leave, maternity protection, minimum age requirements, protection of young workers and suspension and termination of the contract.

**Management**

Our board of directors appoints and removes the senior management. Senior management performs its duties in accordance with the instructions of our board of directors. There are no arrangements by which a person is selected as a member of our senior management.

The following table shows information about our current senior management designated by the board of directors meeting:

Name	Date of Birth	Position	Current Position Held
			Since
Alejandro G. Elsztain	03/31/1966	Chief Executive Officer	1994
Gabriel Blasi	11/22/1960	Chief Financial Officer	2004
Alejandro Bartolomé	12/09/1954	General Manager of Argentine Operations	2008
David A. Perednik	11/15/1957	Chief Administrative Officer	1997
Alejandro Casaretto	10/15/1952	Regional Manager of Agricultural Real Estate	2008
Carlos Blousson	09/21/1963	General Manager of the International Operation (Paraguay/ Bolivia/ Uruguay)	2008

The following is a biographical description of each of our senior managers who are not directors:

*Gabriel Blasi.* Mr. Blasi obtained a business administration degree and carried out post graduate studies in Finance at CEMA University (*Universidad del CEMA, Centro de Estudios Macroeconómicos Argentinos*) and at Austral University (*IAE, Universidad Austral*). He formerly worked as a senior securities trader at Citibank. He also performed several management positions related to investment banking and capital markets at Banco Río (BSCH) and was a financial director of Carrefour Group and Goyaique SACIFIA (Grupo Perez Companc). Currently, he also serves as chief financial director of IRSA and Alto Palermo.

*Alejandro Bartolomé.* Mr. Bartolomé obtained a degree in agriculture from University of Buenos Aires (*Universidad de Buenos Aires*) and a Master's degree in Animal Production from University of Reading (England). He was treasurer of CREA Monte Buey Inrville and coordinator of the Dairy Group Santa Emilia from 1993 until 1996. He also worked as a farm manager and was associated to a farm management company called Administración Abelenda, Magrane, Anchorena.

*Carlos Blousson.* Mr. Blousson obtained a degree in agriculture from University of Buenos Aires (*Universidad de Buenos Aires*). He has been working as our Sales Officer since 1996. Prior to joining Cresud, he worked as a futures and options operator at Vanexva Bursátil Sociedad de Bolsa-. Previously, he worked as a farm manager and a technical advisor at Leucon S.A.

**Table of Contents****Supervisory Committee**

Our Supervisory Committee is responsible for reviewing and supervising our administration and affairs, and verifying compliance with the bylaws and the decisions adopted at shareholders' meetings. The members of the Supervisory Committee are appointed at the annual general ordinary shareholders' meeting for a term of one year. The Supervisory Committee is composed of three members and three alternate members.

The following table shows information about the members of our Supervisory Committee, who were elected in the annual general ordinary shareholders' meeting which was held on October 31, 2008:

<b>Member</b>	<b>Date of Birth (m/d/y)</b>	<b>Position</b>
José Daniel Abelovich	07/20/1956	Member
Marcelo Héctor Fuxman	11/30/1955	Member
Roberto Murmis	04/07/1959	Member
Alicia Rigueira	12/02/1951	Alternate member
Sergio Kolaczyk	11/28/1964	Alternate member
Silvia Cecilia de Feo	10/07/1958	Alternate member

All members of the supervisory committee qualify as independent, in accordance with *Comisión Nacional de Valores* Resolution No. 400/2002.

Set forth below is a brief biographical description of each member of our Supervisory Committee:

**José D. Abelovich.** Mr. Abelovich obtained a degree in accounting from the University of Buenos Aires (*Universidad de Buenos Aires*). He is a founding member and partner of Abelovich, Polano & Asociados S.R.L. / Nexia International, a public accounting firm in Argentina. Formerly, he had been a manager of Harteneck, López y Cía/Coopers & Lybrand and has served as a senior advisor in Argentina for the United Nations and the World Bank. He is a member of the Supervisory Committees of Alto Palermo, Shopping Alto Palermo, Hoteles Argentinos, Inversora Bolívar, IRSA and Banco Hipotecario S.A.

**Marcelo H. Fuxman.** Mr. Fuxman obtained a degree in accounting from the University of Buenos Aires (*Universidad de Buenos Aires*). He is a partner of Abelovich, Polano & Asociados S.R.L. / Nexia International, a public accounting firm in Argentina. He is also a member of the Supervisory Committee of Alto Palermo, Shopping Alto Palermo, Inversora Bolívar, IRSA and Banco Hipotecario S.A.

**Roberto Murmis.** Mr. Murmis holds a degree in accounting from the University of Buenos Aires (*Universidad de Buenos Aires*). Mr. Murmis is a partner at Abelovich, Polano & Asociados S.R.L. / Nexia International. Mr. Murmis worked as an advisor to the Secretaría de Ingresos Públicos. Furthermore, he is a member of the Supervisory Committee of Shopping Alto Palermo, Futuros y Opciones S.A., Llao Llao Resorts S.A. and IRSA.

**Alicia Graciela Rigueira.** Mrs. Rigueira holds a degree in accounting from the Universidad de Buenos Aires. Since 1998 she has been a manager at Estudio Abelovich, Polano & Asociados / Nexia International. From 1974 to 1998, Mrs. Rigueira performed several functions in Harteneck,

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Lopez y Cia affiliated with Coopers & Lybrand. Mrs. Rigueira lectured at the Facultad de Ciencias Económicas de la Universidad de Lomas de Zamora.

**Sergio Leonardo Kolaczyk.** Mr. Kolaczyk obtained a degree in accounting from the University of Buenos Aires (*Universidad de Buenos Aires*). He is a professional of Abelovich, Polano & Asociados S.R.L. / Nexia International. He is also an alternate member of the Supervisory Committee of Alto Palermo and IRSA.

**Silvia De Feo.** Mrs. De Feo obtained a degree in accounting from the University of Belgrano (*Universidad de Belgrano*). She is a manager at Abelovich, Polano & Asociados S.R.L. / Nexia International, an accounting firm in Argentina and former manager at Harteneck, Lopez & Cía./Coopers & Lybrand. She is also a member of the Supervisory Committees of Shopping Alto Palermo, Inversora Bolivar, Baldovinos S.A. and IRSA.

### **KEY EMPLOYEES**

There are no key employees.

## **B. COMPENSATION**

### ***Compensation of directors***

Under Argentine law, if the compensation of the members of the board of directors is not established in the by-laws of the company, it should be determined by the shareholders' meeting. The maximum amount of total compensation to the members of the board of directors, including compensation for technical or administrative permanent activities, cannot exceed 25% of the earnings of the company. That amount should be limited to 5% when there is no distribution of dividends to shareholders, and will be increased proportionally to the distribution. When one or more directors perform special commissions or technical or administrative activities, and there are no earnings to distribute, or they are reduced, the shareholders' meeting may approve compensation in excess of the above-mentioned limits.

The compensation of our directors for each fiscal year is determined pursuant to Argentine law, and taking into consideration whether the directors performed technical or administrative activities and our fiscal year's results. Once the amount is determined, they are considered at the shareholders' meeting.

At our shareholders meeting held on October 31, 2008 the shareholders approved an aggregate remuneration of Ps.2.4 million for all of our directors for the fiscal year ended June 30, 2008.

### ***Compensation of Supervisory Committee***

The shareholders meeting held on October 31, 2008, approved by majority vote the decision not to pay any compensation to our Supervisory Committee.

### ***Compensation of Senior Management***

Our senior management is paid a fixed amount established by taking into consideration their background, capacity and experience and an annual bonus which varies according to their individual performance and our results.

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The total and aggregate compensation of our senior management for the fiscal year ended June 30, 2008 was Ps.5.0 million.

During this period our contributions to compensation plan for our senior management amounted to Ps.0.6 million.

### ***Compensation plan for executive management***

We have a defined contribution plan covering its managers in Argentina. The Plan was effective from January 1<sup>st</sup>, 2006. Employees may begin participation voluntarily on monthly enrollment dates. Participants may make pre-tax contributions to the Plan of up to 2.5% of their monthly salary (Base Contributions) and pre-tax contributions of up to 15% of their annual bonuses (Extraordinary Contributions). Under the Plan, we match employee contributions to the plan at a rate of 200% for Base Contributions and 300% for Extraordinary Contributions. Contribution expense was Ps.0.15 million and Ps.0.12 million for the years ended June 30, 2008 and June 30, 2007, respectively. Participant contributions are held in trust as required by law. Individual participants may direct the trustee to invest their accounts in authorized investment alternatives. Our contributions are also held in trust. Participants or their assignees, as the case may be, may have access to 100% of our contributions under the following circumstances:

- (i) ordinary retirement in accordance with applicable labor regulations;
- (ii) total or permanent incapacity or disability;
- (iii) death.

In case of resignation or termination without cause, the manager will get the amounts arising from our contributions only if he or she has participated in the Plan for at least 5 years.

## **C. BOARD PRACTICES**

### **Benefits upon Termination of Employment**

There are no contracts providing for benefits to directors upon termination of employment.

### **Audit Committee**

In accordance with the Regime of Transparency in Public Offerings provided by Decree No. 677/01, the regulations of the *Comisión Nacional de Valores* and Resolutions No. 400 and 402 of the *Comisión Nacional de Valores*, our board of directors established an audit committee which would focus on assisting the board in exercising its duty of care, compliance with disclosure requirements, the enforcement of accounting policies, management of our business risks, the management of our internal control systems, ethical conduct of our businesses, monitoring the sufficiency of our financial statements, our compliance with the laws, independence and capacity of independent auditors and performance of our internal audit duties both by our company and our external auditors.

On November 3, 2008, our board of directors officially appointed Jorge Oscar Fernández, Daniel Mellicovsky and Pedro Damaso Labaqui Palacio, all of them independent members, as members of the audit committee. Jorge Oscar Fernández is the financial expert in accordance with the relevant SEC rules. We have a fully independent audit committee as per the standard provided in Rule 10(A)-3(b)(1).

**Table of Contents****Remuneration Committee**

There is no remuneration committee.

**D. EMPLOYEES**

As of June 30, 2008, we had 441 employees, including the employees of Cresud, Inversiones Ganaderas S.A., Agropecuaria Cervera S.A. and Futuros y Opciones.Com, but not those of Agro-Uranga S.A. Approximately 61% are under collective labor agreements. We believe we have good relations with the union and our employees. We have never experienced a work stoppage. The following table shows our employees for the fiscal year ended June 30, 2008, 2007 and 2006.

Province	At June 30, 2008		At June 30, 2007		At June 30, 2006	
	Permanent salaried	Temporary	Permanent salaried	Temporary	Permanent salaried	Temporary
Buenos Aires	170	6	112	6	99	4
Catamarca	8	2	8	1	12	4
Chaco	35	1	42		54	4
Córdoba	13	1	14		13	4
Entre Ríos	14		12		11	
La Pampa	38	6	25	8	29	3
Salta	43	7	34		21	
San Luis	17		20		39	3
Santa Fe	98	2	74	2	62	4
Santa Cruz	5	1	5			
Total employees	441	26	346	17	340	26

**E. SHARE OWNERSHIP****Share ownership of directors, members of the supervisory committee, and senior management as of November 30, 2008.**

The following table sets forth the amount and percentage of our shares beneficially owned by our directors, Supervisory Committee and senior management as of November 30, 2008:

Name	Position	Number of Shares	Percentage	Number of Warrants (2)
<b>Directors</b>				
Eduardo S. Elsztain (1)	Chairman	167,401,788	33.38%	75,312,821
Saúl Zang	First vice-chairman	1,482,231	0.30%	1,269,231
Alejandro G. Elsztain	Second vice- chairman / Chief Executive Officer	1,377,901	0.27%	1,314,289
Clarisa Lifsic	Director	272,806	0.05%	140,472
Gabriel A. G. Reznik	Director			
Jorge Oscar Fernández	Director	2,700,000	0.54%	
Fernando A. Elsztain	Director			
Pedro Damaso Labaqui Palacio	Director			

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Name	Position	Number of Shares	Percentage	Number of Warrants (2)
David A. Perednik	Director / Chief Administrative Officer	29,727	0.01%	29,727
Daniel E. Melicovsky	Director			
Alejandro Gustavo Casaretto	Director/Regional manager of Agricultural real Estate	63,790	0.01%	23,790
Juan C. Quintana Terán	Alternate Director			
Salvador D. Bergel	Alternate Director			
Gastón A. Lernoud	Alternate Director			
Enrique Antonini	Alternate Director			
Eduardo Kalpakian	Alternate Director			
<b>Senior Management</b>				
Gabriel Blasi	Chief Financial Officer	29,727	0.01%	29,727
Alejandro Bartolomé	Chief Executive Officer of the Argentine Operation	15,611	0.01%	5,611
Carlos Blousson	Chief Executive Officer of the International Operation	4,817	0.0%	1,817
<b>Supervisory Committee</b>				
José D. Abelovich	Member			
Marcelo H. Fuxman	Member			
Roberto Murmis	Member			
Silvia C. De Feo	Alternate member			
Alicia Rigueira	Alternate member			
Sergio Kolaczyk	Alternate member			
<b>Executive Committee</b>				
Saúl Zang	Member	1,482,231	0.30%	1,269,231
Eduardo S. Elsztain	Member	167,401,788	33.38%	75,312,821
Alejandro G. Elsztain	Member	1,377,901	0.27%	1,314,289

- (1) Includes (i) 163,184,378 shares beneficially owned by Inversiones Financieras del Sur S.A., for which Mr. Eduardo S. Elsztain may be deemed beneficial owner, (ii) 4,036,347 common shares beneficially owned by Dolphin Fund Plc., whose investment manager is a company beneficially owned by Eduardo Elsztain, (iii) 138,463 common shares beneficially owned by Consultores Assets Management S.A. and (iv) 42,600 common shares owned directly by Eduardo S. Elsztain. In addition, Mr. Eduardo Elsztain may be deemed beneficial owner of 75,312,821 Cresud s warrants which entitles him to acquired 25,104,274 new common shares through the exercise of those warrants.
- (2) Pursuant to a Prospectus (the "Prospectus"), dated March 11, 2008, contained in Cresud s Registration Statement on Form F-3 No. 333-146011, filed with the Securities and Exchange Commission on September 12, 2007, Cresud offered (the "Rights Offering") to its common shareholders rights to subscribe for 180,000,000 new common shares, together with the right to receive 180,000,000 warrants (the "New Warrants") to acquire additional common shares. Each common share entitled its holder to one right to subscribe for common shares. Each common share right entitled its holder to subscribe for 0.561141 new common shares, to subscribe at the same price for additional common shares remaining unsubscribed after the preemptive rights offering pursuant to its exercise of accretion rights, and to receive free of charge, for each new common share that it purchased pursuant to the Rights Offering, one New Warrant to purchase 0.33333333 additional common shares. The Bank of New York, as Cresud s ADS rights agent, made available to holders of its ADSs (each of which represents 10 common shares), rights to subscribe for new ADSs, together with the right to receive New Warrants to acquire additional common shares. Each ADS entitled its holder to one ADS right. Each ADS right entitled its holder to subscribe for 0.561141 new ADSs, to subscribe at the same price for additional common shares in the form of ADSs remaining unsubscribed after the preemptive rights offering pursuant to its exercise of accretion rights, and to receive free of charge, for each new ADS that it purchased pursuant to this offering, 10 New Warrants, each of which entitles such holder to purchase 0.33333333 additional common shares.

Prior to their expiration on May 22, 2015, the New Warrants are exercisable during the six-day period from and including the 17<sup>th</sup> through the 22<sup>nd</sup> day of each February, May, September and November (to the extent such dates are business days in New York City and in the City of Buenos Aires). Cresud accepts the exercise of New Warrants to purchase whole new common shares. Three New Warrants must be exercised in order to purchase one new common share. The exercise price for new common shares to be purchased pursuant to the exercise of New Warrants is of US\$ 1.68 and are payable in U.S. dollars. ADS holders wishing to obtain additional ADSs upon exercise of their New Warrants must deposit the common shares acquired under the New Warrants with The Bank of New York, as Cresud s depository, to obtain ADSs in accordance

with the terms of the deposit agreement.



**Table of Contents****Item 7. Major shareholders and related party transactions****A. MAJOR SHAREHOLDERS****Information about Major Shareholders****Share Ownership**

The following table sets forth information regarding ownership of our capital stock by each person known to us to own beneficially at least 5% of our common shares, Argentine pension funds and all our directors and officers as a group.

Shareholder	Share Ownership as of November 30, 2008	
	Number of Shares	Percentage <sup>(6)</sup>
IFISA <sup>(1)(2)</sup>	163,184,378	32.5%
Leucadia Nacional Corp. Asset Management <sup>(3)</sup>	44,855,660	8.9%
D.E. Shaw Oculus Portfolios, L.L.C. <sup>(4)</sup>	42,191,060	8.4%
Directors and officers <sup>(5)</sup>	5,746,404	1.1%
Argentine pension funds in the aggregate <sup>(6)</sup>	15,675,459	3.1%
Total	271,652,961	54.2%

- (1) Mr. Eduardo S. Elsztain is the president of (i) IFIS Limited (IFIS), a company incorporated under the laws of Bermuda and registered in Argentina under article 123 of the Argentine Corporations Law No. 19,550, located at Washington Mall West, 2<sup>nd</sup> Floor / Reid Street, Hamilton HM11, Bermuda, and (ii) IFISA, a company incorporated under the laws of Uruguay and registered in Argentina under article 123 of the Argentine Corporations Law No. 19,550, located at Road 8, km 17,500, Zonamérica Building 3, store 004, Montevideo, Uruguay, which is 100% owned by IFIS. Mr. Elsztain is the beneficial owner of 40.93% of IFIS capital stock, which owns 100% of IFISA.
- (2) As a result, Mr. Elsztain may be deemed beneficial owner of 33.4% of our total shares, which includes (i) 163,184,378 shares beneficially owned by Inversiones Financieras del Sur S.A., for which Mr. Eduardo S. Elsztain may be deemed beneficial owner, (ii) 4,036,347 common shares beneficially owned by Dolphin Fund Plc., whose investment manager is a company beneficially owned by Eduardo Elsztain, (iii) 138,463 common shares beneficially owned by Consultores Assets Management S.A. and (iv) 42,600 common shares owned directly by Eduardo S. Elsztain. In addition, Mr. Eduardo Elsztain may be deemed beneficial owner of 75,312,821 of Cresud's warrants which entitles him to acquire 25,104,274 new common shares through the exercise of those warrants.
- (3) According to the 13D filed with the SEC on December 11, 2008.
- (4) According to the 13F Form filed with the SEC on September 30, 2008.
- (5) Includes only direct ownership of our Directors and Senior Management.
- (6) Based on estimates from the Superintendencia de AFJP ( *Administradora de Fondos de Jubilaciones y Pensiones* ) on October 31, 2008. None of the pension funds individually own more than 3.1% of our common shares. The highest percentage owners of the shares are Met with approximately 0.6%, Consolidar with approximately 0.6%, Nación with approximately 0.5%, and Máxima with approximately 0.4%. On December 9, 2008, Law 26,425 was enacted. The law approved the government's plan to nationalize the country's ten private Retirement and Pension Fund Managements (AFJPs) and transfer the Ps.94,4 billion (approximately US\$ 29,3 billion) they held in assets as of the end of September 2008 to the social security agency (ANSES).

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As of June 30, 2005, 2006, 2007 and 2008, IFISA owned 17.3%, 21.2%, 32.8% and 32.5%, respectively, of our total shares. The increase in the ownership from 2006 to 2007 was due to the conversion of Cresud's convertible notes and Warrants that IFISA owned. IFISA has the same voting rights as our other shareholders.

**Table of Contents****Change in Capital Stock Ownership**

	As of November 30, 2008 %	As of June 30, 2008 %	As of June 30, 2007 %	As of June 30, 2006 %	As of June 30, 2005 %
IFISA <sup>(1)(2)</sup>	32.5%	32.5%	32.8%	21.2%	17.3%
Leucadia nacional Corp. Asset Management <sup>(3)</sup>	8.9%	6.7%			
D.E. Shaw Oculus Portfolios, L.L.C. <sup>(4)</sup>	8.4%	7.2%			
Directors and officers <sup>(5)</sup>	1.1%	1.0%	1.0%	1.3%	1.9%
Argentine pension funds in the aggregate <sup>(6)</sup>	3.1%	3.2%	3.7%	4.9%	7.1%

- (1) Mr. Eduardo S. Elsztain is the president of (i) IFIS Limited (IFIS), a company incorporated under the laws of Bermuda and registered in Argentina under article 123 of the Argentine Corporations Law No. 19,550, located at Washington Mall West, 2<sup>nd</sup> Floor / Reid Street, Hamilton HM11, Bermuda, and (ii) IFISA, a company incorporated under the laws of Uruguay and registered in Argentina under article 123 of the Argentine Corporations Law No. 19,550, located at Road 8, km 17,500, Zonamérica Building 3, store 004, Montevideo, Uruguay, which is 100% owned by IFIS. Mr. Elsztain is the beneficial owner of 40.93% of IFIS capital stock, which owns 100% of IFISA.
- (2) As a result, Mr. Elsztain may be deemed beneficial owner of 33.4% of our total shares, which includes (i) 163,184,378 shares beneficially owned by Inversiones Financieras del Sur S.A., for which Mr. Eduardo S. Elsztain may be deemed beneficial owner, (ii) 4,036,347 common shares beneficially owned by Dolphin Fund Pl., whose investment manager is a company beneficially owned by Eduardo Elsztain, (iii) 138,463 common shares beneficially owned by Consultores Assets Management S.A. and (iv) 42,600 common shares owned directly by Eduardo S. Elsztain. In addition, Mr. Eduardo Elsztain may be deemed beneficial owner of 75,312,821 of Cresud's warrants which entitles him to acquire 25,104,274 new common shares through the exercise of those warrants.
- (3) According to the 13D filed with the SEC on December 11, 2008.
- (4) According to the 13F Form filed with the SEC on September 30, 2008.
- (5) Includes only direct ownership of our Directors and Senior Management.
- (6) Based on estimates from the Superintendencia de AFJP ( Administradora de Fondos de Jubilaciones y Pensiones ) on October 31, 2008. None of the pension funds individually own more than 3.5% of our common shares. The highest percentage owners of the shares are Met with approximately 0.6%, Consolidar with approximately 0.6%, Nación with approximately 0.5%, and Máxima with approximately 0.4%. On December 9, 2008, Law 26,425 was enacted. The law approved the government's plan to nationalize the country's ten private Retirement and Pension Fund Managements (AFJPs) and transfer the Ps.94.4 billion (approximately US\$ 29.3 billion) they held in assets as of the end of September 2008 to the social security agency (ANSES).

**Difference in Voting Rights**

Our major shareholders do not have different voting rights.

**Arrangements for change in control**

There are no arrangements that may at a subsequent date in a change in control.

**Securities held in the host country**

As of November 30, 2008, the Company's total issued and outstanding capital stock outstanding consisted of 501,536,281 common shares. As of November 30, 2008, there were approximately 46,606,691 Global Depositary Shares (representing 466,066,910 of our common shares, or 92.9% of all of our outstanding shares held) in the United States by approximately 107 registered holders of global Depositary Shares.

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As of November 30, 2008 our directors and senior officers controlled, directly or indirectly, approximately 33.9% of our common shares. As a result, these shareholders have, and will continue to have, significant influence on the election of our directors and the outcome of any action requiring shareholder approval.

### **B. RELATED PARTY TRANSACTIONS**

#### **Headquarters**

In March, 2004 we entered into a lease agreement with Alto Palermo, IRSA and Isaac Elsztain e Hijos S.C.A. for the lease of our executive offices located in Bolívar 108, City of Buenos Aires. This lease has a term of 120 months and rent of Ps.8,490 payable monthly. We, Alto Palermo and IRSA each pay one-third of such rent in an amount of Ps.2,830 each.

In December 2003, we moved our headquarters to the 23<sup>rd</sup> floor of the Intercontinental Plaza tower, located at Moreno 877, in the City of Buenos Aires. We lease our headquarters and five parking lot spaces from Inversora Bolívar, a subsidiary of IRSA, pursuant to a lease agreement with an initial term of 60 months and an extension option for 36 additional months. We pay monthly rent of US\$2,979.

As of, September 2005, we lease one third of the 24<sup>th</sup> floor of the Intercontinental Plaza Tower from Inversora Bolivar S.A., a subsidiary of IRSA. The agreement had an initial duration of 36 months and we paid a monthly rent of US\$2,648.

As of January 2008, we also lease one third of the 2<sup>nd</sup> floor of the Intercontinental Plaza Tower from Inversora Bolivar S.A. The agreement, effective as from January 2008, has an initial duration of 36 months. We pay a monthly rent of US\$6,583 for the agreement.

Eduardo S. Elsztain, our chairman is also the chairman of the board of directors of Alto Palermo. Saúl Zang, our first vice-president is also director of Inversora Bolívar and Alejandro Gustavo Elsztain, our second vice-chairman is the vice chairman of Inversora Bolívar. In addition, Fernando Adrián Elsztain who is the chairman of Inversora Bolívar is also our director.

#### **Lease Agreement**

We lease a farm located in the Province of Córdoba, from Isaac Elsztain e Hijos S.C.A., pursuant to a lease agreement executed in July, 2005. This lease agreement has a term of three years and an option to extend the lease for three additional years. The leased farm has an extension of 15,069 hectares.

The rent was agreed to be paid in the following conditions: (i) for the first year the equivalent in Pesos of 7 Kg. of beef per hectare; (ii) for the second year up to the conclusion of this agreement (a) the equivalent in Pesos of 10 Kg. of beef per hectare if the total amount of cattle is less than 3,000; or (b) the equivalent in Pesos of 15 kg. of beef per hectare if the total amount of cattle exceeds 3,000. The beef price will be set, taking into account the price per kilo of beef quoted on *La Nación* newspaper, the previous Saturday of the payment date.

Due to the slowdown in the cattle sector, on February 26, 2007, we executed an addendum to the lease agreement that decreased the rent by 50% for the next six months with an extension option for six additional months. As the slowdown continued, on January 3, 2008, we executed a new addendum that extended the rent decrease for fiscal year 2008. We pay a rent of Ps.0.3 million during the fiscal year ended June 30, 2008.

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Fernando Adrián Elsztain, our director is also president of Isaac Elsztain e Hijos S.C.A. In addition, Alejandro G. Elsztain who is alternate director of Isaac Elsztain e Hijos S.C.A. is also our second vice-chairman and CEO.

### **Consulting Agreement**

Pursuant to the terms of the Consulting Agreement with Consultores Asset Management effective as of November 7, 1994, Consultores Asset Management provides us advisory services on matters related to capital investments in all aspects of the agriculture business. One of our shareholders and the Chairman of our board of directors is the owner of 85% of the capital stock of Consultores Asset Management and our First Vice Chairman of the board of directors holds the remaining 15% of its capital stock.

Pursuant to the terms of the Consulting Agreement, Consultores Asset Management provides us with the following services:

advises with respect to the investment of our capital in all aspects of agricultural operations, including, among others, sales, marketing, distribution, financing, investments, technology and business proposals;

acts on our behalf in such transactions, negotiating the prices, conditions, and other terms of each operation; and

gives advice regarding securities investments with respect to such operations.

The Consulting Agreement expressly provides that Consultores Asset Management may not advise us with respect to transactions that are entirely related to real estate.

Under the Consulting Agreement, we pay Consultores Asset Management for its services, an annual fee equal to 10% of our annual after-tax net income. We also reimburse Consultores Asset Management the administrative expenses incurred by it in performing its duties under the Consulting Agreement and: (i) remuneration to the directors and certifying accountants; (ii) remuneration of legal consultants; (iii) remuneration of auditors; (iv) representation costs; and (v) all other costs incurred by it in performing its services.

Fees totaled Ps.2.2 million, Ps.5.5 million and Ps.3.8 million for the years ended June 30, 2008, 2007 and 2006, respectively.

The Consulting Agreement is subject to termination by either party upon not less than 60 days prior written notice. If we terminate the Consulting Agreement without cause, we will be liable to Consultores Asset Management S.A for twice the average of the amounts of the management fee paid to Consultores Asset Management for the two fiscal years prior to such termination.

### **International Expansion in Paraguay - Agreement with Carlos Casado S.A.**

In September 2008, we entered into several agreements to carry out real estate and agricultural, livestock and forestry activities in the Republic of Paraguay. Under these agreements, a new corporation was organized with Carlos Casado S.A., in which we hold a 50% interest and act as adviser for the agricultural, livestock and forestry development of a rural property and of a potential area of up to 100,000 hectares located in Paraguay. In addition, we have executed a preliminary purchase agreement for a 50% interest in 41,931 hectares in Paraguay owned by Carlos Casado S.A. for US\$ 5.2 million.

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**Donations to Fundación IRSA.**

From time to time, we donate money to Fundación IRSA, a charitable, not-for-profit organization, whose Chairman is Eduardo S. Elsztain, our largest beneficial owner and our Chairman of the board of directors. Mr. Elsztain's wife serves as Secretary of Fundación IRSA.

During fiscal years ended June 30, 2008 and June 30, 2007, we made no donations to Fundación IRSA; however, during the year ended June 30, 2006, our donations amounted to Ps.1.6 million. In addition, as of June 30, 2008, we recognized a liability for our unconditional promise to make a cash donation of Ps.1.1 million to Fundación IRSA and accounted for such liability within trade accounts payable.

**Agreement for Shared Corporate Services with IRSA and Alto Palermo**

In order to reduce administrative expenses and to achieve a more efficient allocation of corporate resources, we entered into an Agreement for Shared Corporate Services with IRSA and Alto Palermo, on June 30, 2004 and amended on August 23, 2007. This agreement had an initial term of two years, and could be renewed for an equal term unless any of the parties decides to terminate it. Pursuant to this agreement tasks are performed by one or more of the companies for the benefit of one or more of other companies in exchange for a fee to be paid primarily through the provision of services in other areas. We believe each company continues to maintain its strategic and commercial independence while increasing operating efficiency. This agreement will not affect the independence of each company's record and accounting systems or adversely affect internal control systems or external audit tasks. Each company will continue to maintain separate assets and liabilities.

On August 15, 2008, we entered into the Second Agreement for Shared Corporate Services (*Segundo Convenio de Instrumentación de Modificaciones al Contrato de Servicios Compartidos*) with IRSA and Alto Palermo.

Alejandro Gustavo Elsztain is the General Coordinator of the program and the program is operated and implemented by Gabriel Adolfo Gregorio Reznik for us, Cedric Bridger for IRSA and Abraham Perelman for Alto Palermo, all of whom are directors and members of the Audit Committees of their respective companies. The main duties for implementation of the project are (a) monitoring the project's implementation in accordance with the agreement; (b) reviewing the billing report on a monthly basis to analyze and check it against the provisions of the agreement, and, in the event of discrepancies or deviations, preparing a report to submit for the consideration of the General Coordinator, and by each company's boards of directors and (c) assessing, on a permanent basis the results derived from the project's implementation and proposing to the General Coordinator changes in the event of a conflict with the agreement or, if appropriate, the possibility of establishing cost or benefit allocation mechanisms or criteria more consistent with the goals of the agreement.

Currently, the areas subject to the agreement are: Human Resources, Finance, Institutional Relations, Administration and Control, Systems and Technology, Insurance, Purchases and Procurement, Messenger Services, Contracts, Technical, Infrastructure and Services, Internal Audit, Planning and Development, Development of Works, Real Estate, Hotels and Tourism, and Risks and Processes.

In the future and in order to continue our policy of achieving a more efficient allocation of corporate resources, we may extend the areas in which we share corporate services with IRSA and Alto Palermo. Our chairman is also chairman of IRSA and Alto Palermo and our vice-chairman is

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also vice-chairman of IRSA and Alto Palermo. We believe that the terms and conditions of these transactions are consistent in all material respects with those prevailing in the market at the relevant time for agreements between unaffiliated parties.

The Agreement for Shared Corporate Services was filed with the SEC in a report on Form 6-K dated July 1, 2004 and amendments to this agreement were filed in reports on Form 6-K dated September 19, 2007 and the Second Agreement for Shared Corporate Services was filed on August 19, 2008. See Exhibit 4.4 and Note 8 to our audited consolidated financial statements contained elsewhere in this annual report.

### **Legal Services**

During the years ended June 30, 2008, 2007 and 2006, the law firm Zang, Bergel & Viñes provided us with legal services amounting Ps.1.0 million, Ps.0.3 million and Ps.0.6 million, respectively. Our first vice-chairman Saúl Zang and our director Salvador D. Bergel are partners of such law firm.

### **Subscription of our Convertible Notes by Inversiones Financieras del Sur S.A.**

On October 15, 2002, we initiated a preemptive rights offering to subscribe for 50,000,000 units consisting of US\$50.0 million of 8% convertible notes due 2007 ( convertible notes ) and non-detachable warrants to purchase shares of our common shares.

Inversiones Financieras del Sur S.A. ( IFISA ), an Uruguayan holding company, in which Mr. Eduardo S. Elsztain may be deemed beneficial owner by virtue of his voting power to control that company, has subscribed US\$22.6 million of our convertible notes.

During 2006 and 2007, IFISA converted all of its convertible notes and exercised all of its warrants. The conversion term of our convertible notes issued on November 21, 2002 expired on November 14, 2007. As a result IFISA owned, as of December 31 2007, 31.8% of our common shares.

### **Acquisition of IRSA Units**

Eduardo S. Elsztain and Saúl Zang are, Chairman and Vice Chairman of our board of directors, respectively and are also shareholders of our company. Mr. Elsztain and Mr. Zang are also Chairman and Vice-Chairman of the Board of Directors of IRSA, respectively and are also shareholders of IRSA.

During November and December 2002, we purchased 49.7 million convertible notes issued by IRSA and during July and November 2003, we purchased an additional 0.25 million convertible notes. The notes mature in 2007 and accrue interest semi-annually at 8% interest rate.

IRSA s convertible notes which were offered on October 15, 2002 for 100 million units consisting of US\$100.0 million of 8% convertible notes due 2007- are convertible at any time, at the option of the holder, into a fixed number of common shares. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of the warrant.

In May 2004 we decided to exercise our option to convert 5.0 million aggregate principal amount of IRSA s convertible notes as part of our long term strategy, in order to revert the reduction of our ownership percentage, which was diluted by the conversion of notes and the exercise of warrants by third parties. As a result of this conversion, we have received 9.2 million of IRSA common shares.



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In July 2004, we converted 0.35 million of convertible notes issued by IRSA for US\$0.5 million.

On September 30, 2004, we exercised 5.0 million of its IRSA Warrants for 9.2 ordinary shares at a total cost of US\$6.0 million.

In February 2006, we converted 5.0 million of convertible notes issued by IRSA for 9.2 million ordinary shares.

In April 2006, we converted 16.0 million of convertible notes issued by IRSA for 29.3 million ordinary shares.

In September 25, 2007, we converted US\$12 million IRSA convertible notes for 22.0 million ordinary shares of IRSA. After this conversion, we no longer own any IRSA convertible notes.

On October 25, 2007, we exercised 20.5 million of IRSA Warrants for 37.6 million ordinary shares at a total cost of US\$24.6 million.

Additionally, on October 26, 2007, we exercised all of our outstanding warrants (12.5 million) to acquire 22.9 million of our common shares for a total cost of US\$15.0 million.

The term for the exercise of IRSA's outstanding warrants and the conversion of IRSA's outstanding convertible notes issued on November 21, 2002 expired on November 14, 2007.

Throughout the conversion and exercise periods, holders of IRSA's warrants and convertible notes exercised an aggregate of 99,896,806 warrants and converted an aggregate of 99,942,343 convertible notes, respectively, increasing IRSA's capital stock to 578,676,460 issued and outstanding shares. As of the date of this Annual Report, there are no outstanding warrants or convertible notes to acquire IRSA's shares. After this exercise of warrants and conversion of convertible notes, we have no outstanding warrants or convertible notes of IRSA. As a result of the exercise of these warrants, our investment in IRSA increased from 25.0% as of June 30, 2007 to 34.4% of IRSA's shares as of November 16, 2007.

### **Purchase of Cresud Shares and Notes by Inversiones Financieras del Sur S.A.**

#### *Cresud convertible notes*

On October 15, 2002, we initiated a preemptive rights offering of 50,000,000 units consisting of US\$50.0 million of 8% convertible notes due 2007 ( convertible notes ) and non-detachable warrants to purchase our common shares.

Inversiones Financieras del Sur S.A., an Uruguayan holding company, in which Mr. Eduardo S. Elsztain may be deemed beneficial owner by virtue of his voting power to control that company, has subscribed US\$22.6 million of our convertible notes.

During the fiscal year ended on June 30, 2007, IFISA converted 15.0 million convertible notes and subsequently exercised the 15.0 Cresud warrants. Both transactions resulted in the issue of 58.9 million Cresud common shares.

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During the fiscal year ended on June 30, 2006, IFISA converted 5.5 million Cresud convertible notes resulting in the issue of 10.8 million Cresud common shares and 5.5 million warrants. During the same period IFISA purchased 0.5 million Cresud warrants and subsequently exercised 6.0 million warrants resulting in the issue of 11.9 million Cresud common shares.

On December 22, 2005 the Board of Directors of IFISA approved the distribution of dividends in kind of 3.5 million convertible notes of Cresud, as provided by the applicable law and its memorandum of incorporation. These assets were available for distribution during January 2006.

### *Cresud shares and warrants*

On March 31, 2008, 67.4 million of Cresud common shares and 67.4 million of Cresud warrants were issued as a result of the rights offering of 180 million of Cresud common shares and 180 million of Cresud warrants.

During the fiscal year ended June 30, 2008, IFISA sold 6.04 million of Cresud common shares and bought 5.64 million of Cresud warrants. As of June 30, 2008, IFISA owned 162.8 million of Cresud common shares and 73.0 million of Cresud Warrants.

As of November 21, 2008, IFISA owned 163.2 million shares of Cresud representing 32.5% of the total outstanding shares. IFISA also holds 73.0 million of Cresud Warrants, which represents 41.1% of total outstanding Warrants.

During the fiscal year ended on June 30, 2007, 58.9 million Cresud common shares were issued as a result of the conversion of 15.0 million Cresud convertible notes and the exercise of the 15.0 million Cresud warrants. During the same period IFISA bought the net of 4.3 million of Cresud common shares.

During the fiscal year ended on June 30, 2006, 22.7 million Cresud common shares were issued as a result of the conversion of 5.5 million Cresud convertible notes and from the exercise of 6.0 million warrants, of which a net of 4.6 million Cresud common shares were sold.

On October 18, 2005 Refco filed for Chapter 11 bankruptcy protection and announced a deal to sell its brokerage business to private investors. At the same time, IFISA acknowledged that Refco had disputed the ownership of IFISA's account assets.

On August 10, 2005, IFISA entered into an equity financing with Refco, for which 0.86 million Cresud ADRs and 2.5 million IRSA Convertible Bonds were placed as collateral.

On July 17, 2006, IFISA asserted the Proof of Claim against Refco for a total amount of US\$10.8 million.

On October 10, 2006, Marc S. Kirschner, the chapter 11 Trustee of Refco (the Trustee), announced his decision to liquidate substantially all of the Refco securities portfolio, by soliciting bids from multiple independent/dealers and by other means consistent with good market practice. The Trustee was also allowed to solicit additional bids from former Refco customers for particular securities, provided however, that neither the Trustee nor Refco shall have any obligation to contact former Refco customers, including IFISA when selling the above mentioned securities.

IFISA expressed its willingness to acquire the securities that were formerly in its account at Refco in a timely manner. Nevertheless, IFISA's offer to purchase Cresud ADRs from the Trustee, which included 860,000 Cresud ADRs was rejected.

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**Purchase of Cresud Convertible Notes by Directors and Shareholders**

As of June 30, 2007 and 2006, certain directors and shareholders were also holders of convertible notes, totaling US\$0.04 million and US\$14,992,438 which US\$14,984,838 corresponds to IFISA and US\$7,600 to Clarisa Lifsic.

The conversion term of our convertible notes expired on November 14, 2007. As of June 30, 2008, there were no additional convertible notes.

**Cresud's Intercompany Loans**

As of June 30, 2008, we, as lender, had a line of credit with our non-consolidated subsidiary Cactus Argentina S.A., as borrower, for Ps.3.4 million, with a variable annual interest rate, which is scheduled to mature on December 10, 2009.

**Security Loans**

Inversiones Ganaderas S.A. assigned Agrology S.A. the securities loan agreement with IFISA executed on March 12, 2008, which granted 790,631 unencumbered Global Depository Shares (GDRs) represented by Global Depository Receipts representative of 10 book-entry shares of common stock, with a face value of Ps.1.0 per share, of IRSA.

This loan does not imply the transfer of any voting or economic rights related to the GDR's which will be held by Agrology. With regards to the voting rights, the parties agreed that we will grant a power of attorney to IFISA with the respective voting instructions. With regards to dividends, IFISA will transfer the funds to Agrology.

This loan will accrue interest at a monthly rate equivalent to 3-month LIBOR, plus 150 basis points. It will be effective for 30 days and may be renewed for up to a maximum of 360 days.

On August 6, 2008, Agrology executed another securities loan agreement with IFISA which granted 1,275,022 Global Depository Shares, represented by GDRs representative of 10 shares of common book-entry shares with a face value of Ps.1.0 per share of IRSA. This agreement was executed under the same conditions as the agreement dated March 12, 2008 mentioned above.

**C. INTERESTS OF EXPERTS AND COUNSEL**

This section is not applicable.

**Item 8. Financial information**

**A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 18 for our consolidated financial statements.

**Legal or arbitration proceedings**

We are not engaged in any material litigation or arbitration and no material litigation or claim is known to us to be pending or threatened against us, other than those described below.

***Inversiones Ganaderas***

Exagrind S.A. has filed a lawsuit against our subsidiary Inversiones Ganaderas S.A. ( IGSA ) to recover damages and losses produced by a fire in Estancia San Rafael which is close to Tali Sumaj, Province of Catamarca. The fire took place on September 6, 2000. The estimated amount of the legal action is Ps.2.9 million at the date the claim was filed.

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IGSA argued that Exagrind's claim was incorrectly processed and requested that the first instance judge order a new notice of processed, which request was granted by the judge. Exagrind successfully appealed such decision. IGSA filed subsequent appeals requesting to be given the remainder of the legal term to answer the lawsuit, since at the time of Exagrind's appeal the legal term, had not yet expired. Such appeals were rejected by both first and second instance courts, ending with an appeal to the High Court of the Province of Catamarca. To date, a decision from the appellate court is still pending.

Additionally, in March 2007, under the request of Exagrind S.A., the court in charge of the case ordered a general inhibition of IGSA's assets. In June 2007, that measure was revoked and replaced by an attachment on the real estate.

### ***Exportaciones Agroindustriales Argentinas***

On January 11, 2007 our affiliate Cactus and us (solely nominee Argentine legal purposes) acquired 100% of the capital stock of Exportaciones Agroindustriales Argentinas S.A. (EAASA). On September 13, 2007, EAASA received an information request from the Central Bank relating to its obligation to repatriate foreign currency proceeds for an aggregate amount of US\$0.9 million from certain exports of agricultural products prior to our acquisition. Information requests often are a first step by the Central Bank in its initiation of administrative proceedings relating to possible breaches of foreign exchange regulations.

On October 8, 2007, EAASA requested an extension of the time to answer the Central Bank's information request in order to analyze the relevant accounts and operations. The Central Bank granted EAASA an extension of 30 business days from October 30, 2007 to answer the information request. EAASA answered the Central Bank's information request on time. Breach of exporters' obligations to repatriate export proceeds is subject to fines of up to ten times the amount involved and other penalties imposed pursuant to Argentine Criminal laws. We cannot assure you that the Central Bank will not initiate an administrative proceeding against EAASA, and that as a result of any such proceeding Central Bank will not impose fines and penalties that adversely affect the financial condition and results of operations of EAASA.

### ***Agropecuaria Cervera S.A.***

On September 17, 2007, certain individuals filed an action to enforce constitutional rights known as amparo against the Ministry of Production and Employment of the Province of Salta and Agropecuaria Cervera S.A. before the Second Chamber of the Indictment Court (*Cámara de Acusación Sala II*) of the Province of Salta. The plaintiffs seek an exceptional remedy to protect their constitutional rights, in the form of a declaration that Resolution No. 403 enacted by the Ministry is null and void. Resolution No. 403, dated September 23, 2004, authorized Agropecuaria Cervera to convert certain forested plots of land into non-forest land for agricultural purposes. The plaintiffs argued that such Resolution was enacted through an irregular administrative proceeding and is therefore unconstitutional.

On November 15, 2007, Agropecuaria Cervera S.A., as co-defendant, filed a response to the complaint, arguing against the remedy sought, primarily on the grounds that the plaintiffs failed to fulfill the procedural and legal prerequisites to filing the action. Agropecuaria Cervera S.A. further argued that the summary proceeding, as an exceptional remedy, is only available to protect individuals' constitutional rights or to prevent an imminent threat to such rights and does not apply in this case, since Resolution No. 403 was enacted three years prior.

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On September 23, 2008, Agropecuaria Cervera S.A. filed a pleading informing the court of the issuance of Decree No. 398/08, which approved the agreement between Agropecuaria Cervera and the *Unidad de Renegociación y Análisis de Contratos de Servicios Públicos* ( UNIREN ), including (i) the approval of the investments made by Agropecuaria Cervera; (ii) the recognition of the validity and effectiveness of the permits for our operations; (iii) the designation of the *Secretaría de Asuntos Agrarios* to coordinate with Agropecuaria Cervera and find a solution to the claims of the landless cattle raisers (*pastajeros*). Also, Agropecuaria Cervera requested in the pleading that the resolution of the court conform to the prosecutor's decision stating that the injunction was not an appropriate remedy. As of the date of this Annual Report, the Court's decision is still pending.

**IRSA's and Alto Palermo's legal or arbitration proceedings**

Set forth below is a description of certain material legal proceedings to which IRSA is a party. IRSA is not engaged in any other material litigation or arbitration and no other material litigation or claim is known to IRSA to be pending or threatened against it or its subsidiaries. Nevertheless, IRSA may be involved in other litigation from time to time in the ordinary course of business.

***Puerto Retiro***

On November 18, 1997, in connection with IRSA's acquisition of its subsidiary Inversora Bolívar S.A. ( Inversora Bolívar ), IRSA indirectly acquired 35.2% of the capital stock of Puerto Retiro. Inversora Bolívar had purchased such shares of Puerto Retiro from Redona Investments Ltd. N.V. in 1996. In 1999, IRSA, through Inversora Bolívar, increased its interest in Puerto Retiro to 50.0% of its capital stock. On April 18, 2000, Puerto Retiro received notice of a complaint filed by the Argentine Government, through the Ministry of Defense, seeking to extend the bankruptcy of Inversora Dársena Norte S.A. ( Indarsa ). Upon filing of the complaint, the bankruptcy court issued an order restraining the ability of Puerto Retiro to dispose of, in any manner, the real property it had purchased in 1993 from Tandanor S.A. ( Tandanor ). Puerto Retiro appealed the restraining order which was confirmed by the Court on December 14, 2000.

In 1991, Indarsa had purchased 90% of Tandanor, a former government-owned company, which owned a piece of land near Puerto Madero of approximately 8 hectares, divided into two parcels: Planta 1 and 2. After the purchase of Tandanor by Indarsa, in June 1993, Tandanor sold Planta 1 to Puerto Retiro, for a sum of US\$18 million pursuant to a valuation performed by J.L. Ramos, a well-known real estate brokerage firm in Argentina. Indarsa failed to pay to the Argentine government the price for its purchase of the stock of Tandanor, and as a result the Ministry of Defense requested the bankruptcy of Indarsa. Since the only asset of Indarsa was its holding in Tandanor, the Argentine government is seeking to extend Indarsa's bankruptcy to other companies or individuals which, according to its view, acted as a single economic group. In particular, the Argentine government has requested the extension of Indarsa's bankruptcy to Puerto Retiro which acquired Planta 1 from Tandanor.

The deadline for producing evidence in relation to these legal proceedings has expired. The parties have submitted their closing arguments and are awaiting a final judgment. However, the judge has delayed his decision until a final judgment in the criminal proceedings against the former Defense Minister and former directors of Indarsa has been delivered. We cannot give you any

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assurance that IRSA will prevail in this proceeding, and if the plaintiff's claim is upheld by the courts, all of the assets of Puerto Retiro would likely be used to pay Indarsa's debts and IRSA's investment in Puerto Retiro, valued at Ps.55.4 million as of June 30, 2008, would be lost. As of June 30, 2008, IRSA had not established any reserve with respect of this contingency.

***Llao Llao Holding***

Llao Llao Holding S.A. purchased Hotel Llao Llao in November, 1997, from the Argentine National Parks Administration. Llao Llao Holding S.A., the predecessor of Llao Llao Resorts S.A., was sued in 1997 by the National Parks Administration to collect the unpaid balance of the purchase price in Argentine sovereign debt securities amounting to US\$2.9 million. The trial court ruled in favor of the plaintiff. The ruling was appealed, and the court of appeals confirmed the judgment ordering the payment of US\$2.9 million in Argentine sovereign debt securities available at the date of the ruling, plus compensatory and punitive interest and attorneys' fees. On March 2, 2004, Llao Llao Resorts S.A. deposited a payment of Ps.7.2 million with Banco de la Ciudad de Buenos Aires in favor of the National Parks Administration and deposited Argentine sovereign debt securities class FRB - FRB L+13/16 2005 having a total principal amount of US\$4.1 million. The aggregate amount deposited on that date was Ps.9.2 million.

On June 30, 2004, the plaintiff filed a brief rejecting Llao Llao Resorts S.A. payment on the grounds that it was a partial payment and requesting the court to determine the term for the deposit of funds amounting to final payment of the total debt. The trial court pesified the outstanding amount of plaintiff's ruling against Llao Llao Resorts S.A., as well as the unpaid fee of the plaintiff's attorneys. The plaintiff appealed this decision. The court of appeals ruled in favor of the plaintiff maintaining the unpaid amounts were payable in U.S. dollars. Llao Llao Resorts S.A. filed an appeal, which was rejected. Llao Llao Resorts S.A. subsequently filed with the National Supreme Court an additional appeal in response to the refusal to allow the appeal and this action is still pending.

The plaintiff filed a petition requesting that the above mentioned deposit amount be transferred to a savings account. Llao Llao Resorts S.A. did not oppose this petition maintaining that its obligations would be cancelled upon such payment. Notwithstanding the appeal the complaint filed by Llao Llao Resorts S.A., the plaintiff has continued the procedure for the collection of the outstanding amount.

The plaintiff requested the court of original jurisdiction to initiate an incidental proceeding for the execution of the judgment. Llao Llao Resorts S.A. contested this settlement and requested the plaintiff to provide additional information, in order to evaluate the amount of the settlement. Also, Llao Llao Resorts S.A. requested that the execution be suspended until there is final judgment in the appeal filed with the National Supreme Court.

Llao Llao Resorts S.A.'s request was denied and on July 14, 2008, the court of appeals announced that by means of a decree dated June 18, 2008, that it had confirmed the settlement approved by the court of original jurisdiction.

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In accordance with the information provided by the attorneys in respect of this lawsuit, the amount to be recovered by virtue of the Court sentence amounts to 10.2 million as of September 30, 2008, such amount being recorded in Other current liabilities.

### ***Legal issues with the City Hall of Neuquén***

In June 2001, Shopping Neuquén requested that the City Hall of Neuquén allow it to transfer certain parcels of land to third parties so that each participant in the commercial development to be constructed would be able to build on its own land. The City Hall Executive Branch previously rejected this request under Decree No. 1437/2002 which also established the expiration of the rights arising from Ordinance 5178, including the loss of any improvement and expenses incurred. As a result, Shopping Neuquén had no right to claim indemnity charges and annulled its buy-sell land contracts.

Shopping Neuquén submitted a written appeal to this decision on January 21, 2003. It also sought permission to submit a revised schedule of time terms, taking account of the current situation and including reasonable short and medium term projections. The City Hall Executive Branch rejected this request in Decree 585/2003. Consequently, on June 25, 2003, Shopping Neuquén filed an Administrative Procedural Action with the High Court of Neuquén requesting, among other things, the annulment of Decrees 1,437/2002 and 585/2003 issued by the City Hall Executive Branch. On December 21, 2004, the High Court of Neuquén communicated its decision that the administrative procedural action that Shopping Neuquén had filed against the City Hall of Neuquén had expired. Shopping Neuquén filed an extraordinary appeal for the case to be sent to the Argentine Supreme Court.

On December 13, 2006, Shopping Neuquén signed an agreement with both the City Hall and the Province of Neuquén stipulating a new timetable for construction of the commercial and housing enterprises (the Agreement). Also, Shopping Neuquén was permitted to transfer certain parcels to third parties so that each participant in the commercial development to be constructed would be able to build on its own land, with the exception of the land in which the shopping center will be constructed. The Legislative Council of the City Hall of Neuquén duly ratified the Agreement. The City Hall Executive Branch promulgated the ordinance issued on February 12, 2007.

The Agreement also provides that Shopping Neuquén will submit, within 120 days after the Agreement is signed, a new urban project draft with an adjustment of the environmental impact survey, together with a map of the property subdivision, which the City Hall of Neuquén will approve or disapprove within 30 days after its presentation. If the project is approved, Shopping Neuquén will submit the final maps of the works to the City Hall within 150 days of this decision and construction must commence within a maximum period of 90 days thereafter. The first stage of construction (including minimum construction of 21,000 square meters of the shopping center and 10,000 square meters of the hypermarket) is expected to be completed within a maximum period of 22 months. The Agreement is conditional upon the City Hall declaring the feasibility of the draft project submitted, and upon the terms and conditions of this decision being accepted by Shopping Neuquén S.A. The City Hall of Neuquén reserves its right to rescind the Agreement and file the legal actions it deems pertinent if its conditions are contravened.

On March 28, 2007, Shopping Neuquén submitted the new project draft and revised environmental impact survey to the City Hall of Neuquén. On May 10, 2007, the City Hall of Neuquén, requested certain explanations and made recommendations for IRSA's consideration before issuing an opinion on the feasibility of the draft project. On July 17, 2007, Shopping Neuquén answered the City Hall's requests and on September 11, 2007, the City Hall approved the feasibility of the project.

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Shopping Neuquén submitted the final maps of the project to the City Hall. Once these maps are registered, Shopping Neuquén S.A. will have to start the works within 90 days term.

The agreement referred to above put an end to the legal proceeding between Shopping Neuquén and the City Hall of Neuquén under judicial procedure before the High Court of Neuquén.

### ***Other Litigation***

As of July 5, 2006, the Administración Federal de Ingresos Públicos filed a preliminary injunction with the Federal Court for Administrative Proceedings against Alto Palermo for an aggregate amount of Ps.3,689,485.5, plus an added amount, provisionally estimated, of Ps.900,000 for legal fees and interest. The main dispute is about the income tax due for admission rights. In the first instance, AFIP pleaded for a general restraining order. On November 29, 2006, the Federal Court issued an order substituting such restraining order for an attachment on the parcel of land located in Caballito neighborhood, City of Buenos Aires, where Alto Palermo is planning to develop a shopping center.

After IRSA's acquisition of Bouchard 557, it asked the Argentine Antitrust Authority whether it was necessary to notify it of such acquisition. The Antitrust Authority advised IRSA that it was in fact required to so notify it, and the pertinent court ratified such decision. Consequently, on April 22, 2008, the notice of the operation was filed with the Antitrust Authority. As of the date of this annual report, such matter is still to be resolved.

After IRSA sold the 29.85% interest of Bouchard 557 to Techint Compañía Técnica Internacional Sociedad Anónima Comercial e Industrial IRSA asked the Antitrust Authority if it was necessary to notify such operation. On July 4, 2008, the Antitrust Authority informed IRSA that it was not necessary to report such sale.

IRSA filed a new request for the Antitrust Authority's opinion regarding its acquisition of Bank Boston Tower on August 30, 2007. The Antitrust Authority advised IRSA that it was in fact required to so notify it, and IRSA challenged such opinion in the local courts.

On May 6, 2008, IRSA filed with the Antitrust Authority a request for its opinion as to the need to notify the Antitrust Authority the acquisition of Edificio República. The Antitrust Authority advised IRSA that it was in fact required to so notify it. IRSA challenged such opinion in the local courts.

On January 15, 2007 IRSA and Alto Palermo were notified of two claims filed against them before the Antitrust Authority, one by a private individual and the other one by the licensee of the shopping center, both opposing Alto Palermo's acquisition from the province of Córdoba of a property known as Ex-Escuela Gobernador Vicente de Olmos. On February 1, 2007 IRSA and Alto Palermo responded the claims. On June 26, 2007, the Antitrust Authority notified IRSA and Alto Palermo that it has initiated a summary proceeding to determine whether the completion of the transaction breaches the Antitrust Law. As of the date of this annual report the result of this proceeding is yet to be determined.

On January 22, 2008, Alto Palermo requested the Antitrust Authority's clearance of the transfer of the Soleil Factory shopping center. As of the date of this annual report, the Antitrust Authority has not reached a decision.



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IRSA is involved in other litigation which derives from the ordinary course of its business. IRSA accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, its estimates of the outcomes of these matters and the lawyers' experience in contesting, litigating and settling similar matters. As the scope of the liabilities becomes better defined, there will be changes in the estimates of future costs, which could have a material effect on IRSA's future results of operations and financial condition or liquidity.

For more information see Item 4 IRSA's Regulation and Government Supervision and Item 3 Risk Factors- Risk related to IRSA's Business- IRSA's business is subject to extensive regulation and additional regulations may be imposed in the future.

### **Dividends and dividend policy**

Pursuant to Argentine law, the distribution and payment of dividends to shareholders is valid only if they result from realized and net earnings of the company pursuant to annual financial statements approved by the shareholders. The approval, amount and payment of dividends are subject to the approval by our shareholders at our annual ordinary shareholders meeting. The approval of dividends requires the affirmative vote of a majority of the shares entitled to vote at the meeting.

In accordance with Argentine law and our by-laws, net and realized profits for each fiscal year are allocated as follows:

5% of such net profits is allocated to our legal reserve, until such reserve amounts to 20% of our capital stock;

a certain amount determined at a shareholders' meeting is allocated to compensation of our directors and the members of our supervisory committee; and

additional amounts are allocated for the payment of dividends or to optional reserve funds, or to establish reserves for whatever other purpose our shareholders determine.

On May 2, 2006, we entered into a US\$ 8 million loan agreement with Credit Suisse which imposed restrictions on our ability to pay dividends. Under this loan agreement, which matured on November 2, 2008, we were not permitted to pay dividends or make other restricted payments (including purchases or redemptions of our capital stock), in cash, obligations or other property, in an aggregate amount exceeding US\$ 5 million in any calendar year.

After the closing of the fiscal year ended June 30, 2008, on October 24, 2008, we repaid our total debt to Credit Suisse International (CSI). Cresud repaid the principal amount of US\$ 8.0 million and, simultaneously, Cresud received from CSI 1,834,860 GDRs of IRSA which were held as collateral for the transaction.

The following table sets forth the dividend payout ratio and the amount of dividends paid on each fully paid common share for the mentioned years. Amounts in Pesos are presented in historical, non-inflation adjusted Pesos as of the respective payment dates.

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Year	Total Dividend (millions of Pesos)	Dividend per Common Share (1) (Pesos)
1996		
1997		
1998	3.8	0.099
1999	11.0	0.092
2000	1.3	0.011
2001	8.0	0.030
2002		
2003	1.5	0.012
2004	3.0	0.020
2005	10.0	0.059
2006	5.5	0.024
2007	8.3	0.026
2008	20.0	0.040

(1) Corresponds to per share payments. To calculate the dividend paid per ADS, the payment per share should be multiplied by ten. Amounts in Pesos are presented in historical Pesos as of the respective payment date.

Future dividends with respect to our common shares, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our shareholders at a general shareholders meeting may deem relevant. As a result, we cannot give you any assurance that we will pay any dividends at any time in the future.

**B. SIGNIFICANT CHANGES****Recent Developments**

**Impact of Recent Credit Crisis.** During recent months, the world's principal financial markets have suffered the impact of volatility, lack of liquidity, and uncertainty. Consequently, stock market indexes showed a significant decline worldwide as a result of an evident economic slowdown. Although many countries took immediate action, the future of the international financial markets is uncertain, we do not yet know the direct effects of the crisis on the market value of major financial assets, particularly equity and debt instruments.

In Argentina, stock markets also showed a pronounced downward trend in the price of equity and debt instruments. We also saw increases in interest rates, country risk and foreign exchange rates and decreases in commodity prices. As of the date of this annual report, these effects persist. Management is closely evaluating and monitoring the effects of the current liquidity crisis and will take all corrective actions that are necessary.

In addition, we and our subsidiaries have experienced declines in our respective stock prices during the three months ended September 30, 2008 as compared to the prior quarter. Management believes that this decline is reflective of the current macro-economic conditions and is not related to our operating performance. Even though commodity prices have declined significantly, our operating performance has not been significantly affected by the current credit crisis as of the date of this annual report. Also, the market value of our farmland properties has not been significantly affected as of the date of this annual report. We believe that the stock prices have declined due to reasons unrelated to our business fundamentals. As of the date of this annual report, management believes that these declines in stock prices are temporary.

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Furthermore, we had a 42.13% equity interest in IRSA as of June 30, 2008 and carried this investment under the equity method of accounting. In December 17, 2008, we increased our equity interest in IRSA to 54.01% therefore we consolidate IRSA as from that date. IRSA, in turn, has an equity investment in BHSA, thus, our indirect investment in Banco Hipotecario is 4.95 % as of June 30, 2008 and 6.35% as of the date of this annual report. Banco Hipotecario recorded losses of Ps. 91.0 million for the year ended June 30, 2008. Moreover, for the three months ended September 30, 2008, BHSA recorded losses of Ps. 239.6 million and continued experiencing losses for the months of October and November of 2008. Such losses are primarily due to the decline in the market value of the Argentine government bonds Banco Hipotecario received as compensation and held in its portfolio. In spite of these losses, Banco Hipotecario remains well-capitalized in compliance with regulatory guidelines as of June 30, 2008 and thereafter.

Banco Hipotecario also experienced a significant decline in its stock price during the year ended June 30, 2008 and the three months ended September 30, 2008. Management believes that this decline is not reflective of the current operating performance of Banco Hipotecario.

We considered several factors including, but not limited to, the following (1) the reasons for the decline in value (whether it is credit event, interest or market related); (2) our ability and intent to hold the equity investment for a sufficient period of time to allow for recovery of value; (3) whether the decline is substantial for us; (4) the historical and anticipated duration of the events causing the decline in value and (5) the major fundamentals underlying our business. The evaluation of other-than-temporary impairments is a quantitative and qualitative process, which is subject to various risks and uncertainties. As of the date of this annual report, management believes that these declines are temporary and will continue to monitor market conditions and determine if any impairment to the carrying value of the investment is necessary.

In addition, one of the business segments of IRSA has been affected by the current credit crisis. The Consumer Financing segment includes the origination of consumer loans and credit card receivables and securitization activities.

Consumer loan and credit card receivables arise primarily under open-end revolving credit accounts used to finance purchases of goods and services offered by shopping centers, hypermarkets and street stores, and financing and lending activities through IRSA's indirect subsidiary Tarshop. IRSA's investment in Tarshop is held through IRSA's investment in Alto Palermo. These accounts have various billing and payment structures, including varying minimum payment levels and finance charge rates. Tarshop provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns and management's judgment.

Due to the current credit crisis and other conditions, some customers experienced delays in payments and delinquency rates increased during the year ended June 30, 2008. Moreover, delinquency rates further increased as of September 30, 2008 and thereafter. Tarshop has increased the level of the allowance for doubtful accounts which amounts to Ps. 66.5 million as of June 30, 2008. The allowance for doubtful accounts was increased to Ps. 83.7 million as of September 30, 2008. Tarshop is closely monitoring the delays, delinquency and uncollectibility rates.

Tarshop's generated a net loss of Ps. 18.6 million for the year ended June 30, 2008. For the three months ended September 30, 2008, Tarshop generated an additional net loss of Ps. 57.1 million. After year-end, Alto Palermo contributed an additional Ps. 60.0 million and increased its interest from 80.0% to 93.4% as of November 30, 2008. Alto Palermo has committed to support Tarshop financially under a credit line up to a maximum amount of Ps. 120.0 million, including the Ps. 86.0 million already contributed. At present, we are evaluating the suitability of capitalizing

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this loan. Alto Palermo has taken several actions to enhance Tarshop's capital base, from streamlining operations to closing redundant stores, to revising and making credit criteria more stringent. The securitization market is still open and Tarshop completed securitization programs during the recent months with no disruptions. As of June 30, 2008, Tarshop's credit risk exposure is contractually limited to the subordinated retained interests representing Ps.156.8 million and Ps. 19.4 million escrow reserves for losses. Due to the factors mentioned above, as of June 30, 2008, Tarshop has recorded an other-than-temporary impairment charge of Ps. 12.0 million to the retained interests to reflect current fair value. As of September 30, 2008, Tarshop's credit risk exposure is contractually limited to the subordinated retained interests representing Ps.161.2 million and Ps.17.9 million escrow reserves for losses. For the three months ended September 30, 2008, no additional impairment charge of related to the retained interests in securitized receivables was necessary.

We have a 14.39% equity investment in Brasilagro as of June 30, 2008 and carried this investment under the equity method of accounting. Brasilagro also experienced a significant decline in its stock price during the year ended June 30, 2008 and the three months ended September 30, 2008. Management believes that this decline is not reflective of the current operating performance of Brasilagro. In addition, the current market value of Brasilagro farmland properties has not been significantly affected. As indicated above, the evaluation for other-than-temporary impairments is a quantitative and qualitative process, which is subject to various risks and uncertainties. We considered similar factors, as discussed above, including, but not limited to, the following (1) the reasons for the decline in value (whether it is credit event, interest or market related); (2) our ability and intent to hold the equity investment for a sufficient period of time to allow for recovery of value; (3) whether the decline is substantial for us; (4) the historical and anticipated duration of the events causing the decline in value, and (5) the fundamentals underlying our business. At this point, management believes that these declines are temporary and will continue to monitor market conditions and determine if any impairment to the carrying value of the investment is necessary.

**Capital Increase and Exercise of warrants.** In March 2008 we concluded our capital increase of 180 million common shares. Thus, 180 million shares offered at the subscription price of US\$ 1.60 or Ps. 5.0528 per share were fully subscribed, both locally and internationally, increasing our outstanding capital to 500,774,772 common shares.

In addition, each shareholder received, without additional cost, one warrant for each share subscribed, entitling the holder thereof to acquire 0.33333333 new registered shares at US\$ 1.68 each, i.e. 180 million warrants were granted entitling the holders thereof to purchase an aggregate of 60 million additional shares at the above mentioned price. The warrants expire on May 22, 2015 and are listed on the Buenos Aires Stock Exchange with the symbol **CREW2**, and they are also listed on Nasdaq with the symbol **CRESW**. Funds obtained from increasing capital, net of issuance expenses, amount to Ps. 881.1 million, while the tax effect of issuance expenses amounted to Ps. 9.9 million. Funds obtained were assigned to shares and options issued based on the current value estimated upon subscription. As of June 30, 2008, 2,271,290 warrants had been exercised, which resulted in, 757,093 shares of common stock being issued for Ps. 4.0 million. During the first quarter of fiscal year 2009, certain holders of warrants exercised their right to purchase additional shares. Consequently, we issued an aggregate of 4,416 common shares of Ps.1.0 nominal value each, and 13,250 warrants were cancelled. We received Ps.23,002 as proceeds from these transactions. As of November 30, 2008, the amount of outstanding warrants was 177.7 million, whereas the capital stock consisted of 501,536,281 common shares.

**Repurchase of shares.** On August 26, 2008, our Board of Directors decided to establish the terms of the share repurchase plan under the provisions of Section 68 of Law 17,811 (added by Decree number 677/2001) and the Rules of the *Comisión Nacional de Valores*, in order to help reduce the price volatility of such shares. The terms and conditions of our repurchase plan were: (i) up to Ps.30,000,000, (ii) maximum of 10,000,000 shares to be acquired in the form of shares or ADS, (iii) a payable price between a minimum Ps.3 and up to Ps.3.5 per share, and (iv) a term of the acquisition for 70 days.

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Subsequently, there were amendments to the terms and conditions as follows:

On October 8, 2008, we established a minimum payable price of Ps.2.40.

On October 10, 2008, we established a minimum payable price of Ps.2.13.

On October 23, 2008, we established a minimum payable price of Ps.1. On that same date, the *Comisión Nacional de Valores* resolved to temporarily suspend the validity of the cap established in subsection e) of Section 11, Chapter I Shares and other Negotiable Instruments, which provided that the treasury stock of a Company could not exceed 10% of its capital stock.

On October 24, 2008, we established a maximum of 30,000,000 shares to be acquired.

On November 4, 2008, we decided to extend the term of the acquisition for 70 additional days.

On November 25, 2008, we ratified that the total amount of investment is Ps.82,000,000.

As of December 17, 2008, we had acquired a total of 21,026,719 of our own shares, representing 4.19 % of our own share capital on a fully diluted basis.

***Settlement of payable to Crédit Suisse International.*** On October 24, 2008, we repaid the outstanding balance of US\$8.0 million to Crédit Suisse International for our loan dated May 2, 2006. At the same time, we received from Crédit Suisse International 1,834,860 GDR s of IRSA, which constituted the security for the previously mentioned transaction.

***International Expansion.*** Following our international expansion strategy, we have entered into a series of agreements aimed at strengthening our position in the South American region. In July 2008, we executed various preliminary purchase agreements involving an aggregate surface area of 12,166 hectares in the Republic of Bolivia for a total of US\$ 28.9 million. These transactions include:

Preliminary purchase agreement for 4,566 hectares of the Las Londras farm located in the Province of Guarayos. The agreed price was US\$ 11.4 million.

Preliminary purchase agreement for 883 and 2,969 hectares of the San Cayetano and San Rafael farms, respectively, located in the Province of Guarayos. The agreed price was US\$ 8.9 million.

Preliminary purchase agreement for 3,748 hectares of the La Fon Fon farm located in the Province of Obispo Santiesteban. The agreed price was US\$ 8.6 million.

On November 20, 2008, we agreed to buy approximately 7,600 hectares of the San Cayetano, San Rafael and La Fon Fon farms located in Santa Cruz, Bolivia. We paid a 43% first installment on the US\$ 17.5 million purchase price, and the remainder will be paid in two annual payments.

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In September 2008, we entered into several agreements to carry out real estate and agricultural, livestock and forestry activities in the Republic of Paraguay. Under these agreements, a new corporation was organized with Carlos Casado S.A., in which we hold a 50% interest and act as adviser for the agricultural, livestock and forestry development of a rural property and of a potential area of up to 100,000 hectares located in Paraguay. In addition, we have executed a preliminary purchase agreement for a 50% interest in 41,931 hectares in Paraguay owned by Carlos Casado S.A. for US\$ 5.2 million.

***Agropecuaria Cervera S.A.*** On July 2, 2008, Agropecuaria Cervera and the government of the Province of Salta executed a memorandum of understanding renegotiating the concession agreements for the northern and southern areas of the real estate property. The agreements establish that the concessionaire should pay as a concession fee the amount in US Dollars equivalent to a quintal of soybean per harvested hectare of any crop in the northern and southern areas per year. The concession fee is required to be paid on July 1 of each year starting in 2009. For the purposes of determining the concession fee, 2,000 hectares in the southern area rented out to Compañía Argentina de Granos are excluded. Additionally, Agropecuaria Cervera committed to return the 30,000 hectares originally considered as not usable for agricultural purposes under the concession. On August 29, 2008, the Memorandum of Understanding was approved by Decree No. 3,766 of the Executive Power of the Province of Salta.

***Acquisition of IRSA s shares and consolidation of financial statements.*** From July 1, 2008 to December 17, 2008 we acquired 68,712,005 additional shares of IRSA on the open market for US\$ 47,423,279. Thus, our direct and indirect interest in IRSA through our affiliates amounts to 54.01%. Therefore we consolidate IRSA as of that date.

***Purchase of IRSA and APSA Notes.*** As of November 25, 2008, we had acquired nominal value US\$25.21 million of IRSA s 8.500% Series No. 1 Notes due 2017, for an average weighted price of US\$0.4844952 per Note, totaling US\$12.21 million.

As of the same date, we also acquired nominal value US\$5.00 million of Alto Palermo S.A. (APSA) s 7.875% Series No.1 Notes due 2017, for an average weighted price of US\$0.4185 per Note, totaling US\$2.09 million.

***Partial sale of El Recreo farm.*** In July 2008 we sold two parcels of land in El Recreo farm (1,829 hectares) located in the Province of Catamarca for a price of US\$0.36 million.

***Purchase of the Estancia Carmen farm.*** In September 2008 we purchased 10,910 hectares of the Estancia Carmen farm, located in the Province of Santa Cruz, adjacent to our 8 de Julio farm for a price of US\$ 0.7 million.

***Partial sale of Los Pozos farm.*** After the closing of the fiscal year ended June 30, 2008, we executed a preliminary sales agreement without transfer of possession for 1,658 hectares of the Los Pozos establishment located in the Province of Salta. The agreed sales price was US\$0.5 million, of which US\$ 0.3 million have been already paid. The balance is payable upon execution of the title deed, scheduled for April 1, 2009.

***Luján.*** In May 2008, Cresud entered into a preliminary purchase contract with transfer of possession with Birafriends S.A. (an unrelated party) for the acquisition of a plot of land in Luján, Province of Buenos Aires, for a total purchase price of US\$ 3.0 million. Cresud paid US\$ 1.2 million and the remaining balance will be paid at the time of the signing of the deed. On December 2008, IRSA assigned us the preliminary purchase contract. We will pay the remaining balance at the time of the signing of the deed, and will also refund IRSA the amount IRSA paid at the time of the signing of the preliminary purchase.

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**Acquisition of ownership interest.** On July 2, 2008, IRSA acquired a 30% interest in Metropolitan 885 Third Avenue LLC ( Metropolitan ), a limited liability company organized under the laws of Delaware, United States of America. The main asset of Metropolitan is a 34 story building known as the Lipstick Building located at third avenue between 53rd and 54th streets in Manhattan, New York City. In addition to this asset, the acquired company also includes the debt related to this building. The purchase price paid was US\$ 22.6 million. The property has approximately 59,000 square meters of leasable space. Also, IRSA acquired the right ( put right ) to sell the 50% of our stake in a period starting 6 months after this transaction until the third year anniversary of this transaction. Additionally, IRSA acquired the right of first offer for 60% of the 5% currently held by of one of the shareholders of Metropolitan.

**Coto Air Space Barter commitment between Alto Palermo and CYRSA.** In July, 2008 Alto Palermo entered into a barter agreement with CYRSA pursuant to which Alto Palermo, subject to certain closing conditions, would surrender to CYRSA its right to construct a tower over a preexisting structure (owned by a third party) in exchange for a small cash payment (US\$0.09 million) and 25% of the housing units in the future buildings. The total fair value of the transaction is US\$ 5.9 million.

**Dique IV, Puerto Madero.** IRSA s current portfolio of projects includes the addition of 11,000 square meters of leasable area in Dique IV in Puerto Madero, currently under construction and entailing a total projected investment of approximately Ps.50.5 million. Completion is scheduled for the beginning of calendar year 2009.

**Torres Renoir, Dock III.** On November 24, 2008, the Decree of Co-Ownership and Administration of the Renoir building developed on plot 1.c. was granted. The first lien mortgages established by DYPSA on plot 1.c and on plot 1.e were cancelled, and a new first lien mortgage was established on the functional units to be delivered to IRSA and on an additional functional unit. On the same date, DYPSA began the process of registration of the deeds of the units to be delivered to IRSA as consideration in kind for the sale of the plot. We believe the deeds will be granted to IRSA or its assignees within 45 days.

**Tarshop.** As a result of the current international financial scenario, a high volatility has been observed in interest rates and systemic delinquency has increased, affecting the performance and financing of the consumer finance business. The higher delinquency levels have led to an increase in the subordination of financial trusts which, added to the changes in their tax treatment, the higher interest rates resulting from higher risk and a slight deceleration in private consumption, have resulted in the need to review the general economic and the business specific prospects.

In order to face the growing volatility in the international financial markets and to provide Tarshop S.A. with a suitable capital base taking into account the current market conditions, in September 2008 Alto Palermo decided to take part in Tarshop S.A. s capital increase for up to Ps.60 million, and increased its equity interest in Tarshop S.A. from 80% to 93.4%.

In addition, Alto Palermo implemented several actions aimed at improving Tarshop S.A. s performance, including the revision of the point of sale structure, a 17% headcount reduction, the closing of 13 points of sale and a 10% reduction in leased centralized areas.

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In line with the commercial actions, various other measures have been implemented, including:

- (i) A new distribution channel structure.
- (ii) Changes in cash lending plans and shops financing, which involved tightening its credit origination and credit limits in order to improve our delinquency rates.
- (iii) Renegotiation of conditions with shops.

In addition, the recent changes introduced in the tax treatment of financial trusts and other reforms made by the National Executive Branch result in the need to monitor Tarshop S.A. and fine-tune its positioning strategy to gear with the changing conditions.

On October 2008 in the light of the difficult market conditions and in compliance with the strategic plan devised and implemented by Alto Palermo, subordinated loans were granted to Tarshop S.A. for a total amount of Ps. 51 million to improve its financial position given the particular moment by which the financial trust segment is going through, that is a source in Tarshop's financing.

On November 25, 2008, Alto Palermo completed a disbursement of Ps. 35 million to Tarshop S.A. This disbursement was subject to the revision and verification of the debt portfolio of Tarshop S.A. by Alto Palermo's Management and the Board of Directors. The amount was part of a credit line of up to Ps. 120 million, Alto Palermo granted to Tarshop S.A. to strengthen it financially, to fund its operating costs and to reposition Tarshop S.A. given the complex situation existing temporarily in the Financial Trusts markets. Out of the credit line approved, as of November 25, 2008, Ps. 86 million were disbursed. At present, Alto Palermo is evaluating the suitability of capitalizing these loans.

**Repurchase of Alto Palermo's Notes.** On September 12, 2008 Alto Palermo announced the repurchase of its *Serie II Notes* for a face value of US\$ 4.8 million. As a result, the amount of Alto Palermo's Notes in its portfolio had a face value of US\$ 4.8 million. On November 25, Alto Palermo announced the repurchase of its *Fixed Rate Notes due 2017, Serie I* for a face value of US\$ 5.00 million.

**Irsa's purchases of Alto Palermo's Notes.** On November 25, 2008, IRSA announced the acquisition of nominal value US\$8.03 million of Alto Palermo's *Serie I Notes due 2017*, for an average weighted price of US\$0.39820 per Note and for a total amount of US\$ 3.2 million

**Torres Rosario Project.** On November 27, 2008, Alto Palermo executed the deed of barter transfer, resulting from the execution of the option granted to Condominios del Alto S.A. to purchase parcel 2-h. This parcel represents 11,686 square meters. As consideration for its acquisition Condominios del Alto S.A. agreed to deliver forty two housing units, with a total constructed surface area of 3,182 square meters, representing 22% of the apartment of the building and 47 parking spaces, representing 22% of the parking of the building.

**Item 9. The offer and listing.**

**A. OFFER AND LISTING DETAILS**

The following summary provides information concerning our share capital and briefly describes all material provisions of our by-laws and the Argentine Corporation Law 19,550.



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**Stock Exchanges in which our securities are listed**

Our common shares are listed on the Buenos Aires Stock Exchange under the trading symbol CRES and NASDAQ under the trading symbol CRESY. As of June 30, 2008 our authorized capital stock consisted of 501,531,865 common shares, Ps.1.00 par value per share.

As of June 30, 2008, we had 560,774,772 common shares authorized and our outstanding capital stock consisted of 501,531,865 common shares. As of that date (1) we had no other shares of any class or series issued and outstanding and (2) there are no outstanding warrants or convertible notes to acquire our shares. Our common shares have one vote per share. All outstanding shares of the common shares are validly issued, fully paid and non assessable. As of June 30, 2008, there were approximately 2,264 holders of our common shares.

The amount of shares issued has increased due to the exercise of our outstanding warrants and the conversion of our outstanding convertible notes. During fiscal years 2005, 2006 and 2007; 12,001,760; 57,819,970; 88,971,671 new shares were issued. The term for the exercise of our outstanding warrants and the conversion of our outstanding convertible notes issued on November 21, 2002 expired on November 14, 2007. Throughout the conversion and exercise periods, holders of our warrants and convertible notes exercised an aggregate of 49,867,018 warrants and converted an aggregate of 49,910,874 convertible notes, respectively, increasing our capital stock to 320,774,772 issued and outstanding shares. There are no outstanding warrants or convertible notes to acquire our shares.

In March 2008 we concluded our capital increase of 180 million common shares. Thus, 180 million shares offered at the subscription price of US\$ 1.60 or Ps.5.0528 per share were fully subscribed, both locally and internationally, increasing our outstanding capital to 500,774,772 common shares.

In addition, each shareholder received, without additional cost, one warrant for each share subscribed, entitling the holder thereof to acquire 0.33333333 new shares at US\$ 1.68 each, i.e. 180 million warrants were granted entitling the holders thereof to purchase an aggregate of 60 million additional shares at the above mentioned price. The warrants expire on May 22, 2015 and are listed on the Buenos Aires Stock Exchange with the symbol CREW2 , and they are also listed on Nasdaq with the symbol CRESW . Funds obtained from increasing capital, net of issuance expenses, amount to Ps.881.1 million, while the tax effect of issuance expenses amounted to Ps.9.9 million. Funds obtained were assigned to shares and options issued based on the current value estimated upon subscription.

As of June 30, 2008, 2,271,290 options had been exercised, which resulted in, 757,093 shares of common stock being issued for Ps.4.0 million.

**Price history of our stock on the Buenos Aires Stock Exchange and NASDAQ**

Our common shares are traded in Argentina on the Buenos Aires Stock Exchange, under the trading symbol CRES. Since March 1997, our ADSs, each presenting 10 common shares, have been listed on the NASDAQ under the trading symbol CRESY. The Bank of New York is the depositary with respect to the ADSs.

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The table below shows the high and low daily closing prices of our common shares in Pesos and the quarterly trading volume of our common shares on the Buenos Aires Stock Exchange for the first quarter of 2003 through December 2008. The table also shows the high and low daily closing prices of our ADSs in U.S. dollars and the quarterly trading volume of our ADSs on the NASDAQ for the first quarter of 2003 through December 2008. Each ADS represents ten common shares.

	Buenos Aires Stock Exchange Price Per Share (Ps.)			NASDAQ US\$ per ADS		
	Share Volume	High	Low	ADS Volume	High	Low
<b>Fiscal Year 2003</b>						
1st Quarter	9,390,116	2.43	1.47	1,506,964	6.52	3.99
2nd Quarter	2,924,294	2.35	1.70	1,030,157	6.08	4.48
3rd Quarter	4,101,037	2.72	1.70	3,279,484	8.40	5.06
4th Quarter	3,915,643	2.66	2.04	1,899,432	9.73	6.62
Annual	20,331,090	2.02	2.04	7,716,037	9.73	3.99
<b>Fiscal Year 2004</b>						
1st Quarter	4,037,206	2.65	2.24	2,491,280	9.29	7.74
2nd Quarter	2,789,601	4.40	2.58	11,026,601	14.91	9.04
3rd Quarter	7,309,323	3.86	2.84	8,085,500	12.49	10.06
4th Quarter	3,572,063	3.52	2.54	4,892,233	12.54	8.38
Annual	17,708,183	4.40	2.84	26,495,614	14.91	7.74
<b>Fiscal Year 2005</b>						
1st Quarter	1,827,036	3.62	2.94	2,433,951	12.22	9.81
2nd Quarter	1,452,712	4.37	3.41	4,400,896	14.99	11.23
3rd Quarter	1,355,908	4.91	3.79	10,671,890	16.87	12.93
4th Quarter	4,597,793	4.03	2.88	7,392,284	13.74	9.78
Annual	9,233,449	4.91	2.88	24,899,021	16.87	9.78
<b>Fiscal Year 2006</b>						
1st Quarter	3,968,113	4.03	3.19	5,448,497	13.97	11.10
2nd Quarter	4,915,037	3.93	3.10	5,316,532	13.71	10.12
3rd Quarter	4,582,691	4.38	3.22	8,431,362	14.44	10.42
4th Quarter	4,003,720	5.73	3.73	17,830,919	19.45	12.10
Annual	17,469,361	5.73	3.10	37,027,310	19.45	10.12
<b>Fiscal Year 2007</b>						
1st Quarter	1,812,774	4.68	3.90	5,288,618	15.43	12.42
2nd Quarter	1,793,537	5.30	4.35	9,816,001	17.53	14.23
3rd Quarter	3,439,865	6.73	5.06	9,712,198	22.08	16.58
4th Quarter	13,792,055	7.37	6.12	7,522,056	24.28	19.81
Annual	20,838,231	7.37	3.90	32,338,873	24.28	12.42
<b>Fiscal Year 2008</b>						
1st Quarter	3,129,519	6.87	5.43	8,713,926	21.71	16.25
2nd Quarter	4,255,009	7.45	5.43	8,618,274	23.76	17.14
3rd Quarter	11,565,947	5.84	4.53	12,236,895	18.84	13.99
4th Quarter	8,008,908	5.43	4.71	11,790,596	16.98	14.48
Annual	26,959,383	7.45	4.53	41,359,691	23.76	13.99
June 2008	1,524,738	4.91	4.72	3,972,133	15.37	14.48
July 2008	1,528,453	4.66	4.10	3,102,266	14.80	13.14
August 2008	862,283	4.10	3.25	3,008,304	13.30	10.60
September 2008	1,442,148	3.55	3.26	3,159,368	11.17	10.50
October 2008	2,070,285	3.41	1.73	7,792,237	10.69	4.67
November 2008	1,064,907	2.48	1.85	4,969,265	6.36	5.01
December 2008 (through December 17 2008)	938,947	3.05	2.10	2,489,016	8.61	6.03

Source: Bloomberg



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**B. PLAN OF DISTRIBUTION**

This item is not applicable.

**C. MARKETS**

**Argentine Securities Markets**

***Comisión Nacional de Valores***

The Comisión Nacional de Valores is a separate governmental entity with jurisdiction covering the territory of Argentina. Its main purpose is to ensure transparency of Argentina's securities markets, to watch over the market price formation process and to protect investors. The *Comisión Nacional de Valores* supervises corporations authorized to issue securities to the public, the secondary markets where these securities are traded, and all persons and corporations involved in any capacity in the public offering and trading of these securities. The Argentine markets are governed generally by Law No. 17,811, as amended, which created the *Comisión Nacional de Valores* and regulates stock exchanges, stockbrokers, market operations and the public offerings of securities. There is a relatively low level of regulation of the market for Argentine securities and of investors' activities in this market, and enforcement of existing regulatory provisions has been extremely limited. Furthermore, there may be less publicly available information about Argentine companies than is regularly published by or about companies in the United States and certain other countries. However, the Argentine government and the *Comisión Nacional de Valores*, taking into consideration the deeper global awareness of the importance of having adequate corporate governance practices and a legal framework to enforce principles such as full information, and transparency, have issued decree No. 677/2001. This decree has the objective of determining the rights of the financial consumer, increasing market transparency and an adequate legal framework to increase the investor's protection within the capital markets. Most of its reforms are in line with world trends pertaining to corporate governance practices that have already been adopted by many emerging markets.

In order to offer securities to the public in Argentina, an issuer must meet certain requirements of the *Comisión Nacional de Valores* regarding assets, operating history, management and other matters, and only securities for which an application for a public offering has been approved by the *Comisión Nacional de Valores* may be listed on the Buenos Aires Stock Exchange.

This approval does not imply any kind of certification or assurance related to the merits or the quality of the securities, or the issuer's solvency. Issuers of listed securities are required to file unaudited quarterly financial statements and audited annual financial statements, as well as various other periodic reports, with the *Comisión Nacional de Valores* and the Buenos Aires Stock Exchange.

***Securities Exchanges in Argentina***

There are 10 securities exchanges in Argentina, of which the principal exchange for the Argentine securities market is the Buenos Aires Stock Exchange, which handles approximately 99% of all equity trading in the country.

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### *Buenos Aires Stock Exchange*

The Buenos Aires Stock Exchange is a complex, non-profit, and self-regulated organization. The various markets require different self-organizations of brokers within the Buenos Aires Stock Exchange, which is one of its particular characteristics. The most important and traditional of these markets is Mercado de Valores S.A. ( Merval ).

The securities that may be listed on the Buenos Aires Stock Exchange are: Stocks, Corporate Bonds, Convertible Corporate Bonds, Close-ended Investment Funds, Financial Trust, Indexes, Derivatives and Public Bonds. The Buenos Aires Stock Exchange is legally qualified for admission, suspension, and delisting of securities according to its own rules approved by the *Comisión Nacional de Valores*. Furthermore, the Buenos Aires Stock Exchange works very closely with the *Comisión Nacional de Valores* in surveillance activities. Also under a special agreement, registration and listing applications are directly filed with the Buenos Aires Stock Exchange for simultaneous processing.

### *Merval*

The Merval is a corporation whose 134 shareholder members are the only individuals and entities authorized to trade, either as principal or as agent, in the securities listed on the Buenos Aires Stock Exchange. Trading on the Buenos Aires Stock Exchange is conducted by continuous open outcry, or the traditional auction system, from 11:00 a.m. to 5:00 p.m. each business trading day of the year. Trading on the Buenos Aires Stock Exchange is also conducted through the automated trading platform, *Sistema Integrado de Negociación Asistida por Computación* ( SINAC ). SINAC is a computer trading system that permits trading in debt securities and equity securities. SINAC is accessed by brokers directly from workstations located at their offices. Currently, all transactions relating to listed notes and listed government securities can be effected through SINAC.

### *Over the Counter Market*

The Electronic Open Market (*Mercado Abierto Electrónico* or MAE ) is an exchange organized under the laws of Argentina, which operates as a self-regulatory organization under the supervision of the *Comisión Nacional de Valores*.

The MAE works as an electronic environment to process Over The Counter transactions. It is an electronic exchange where both government securities and corporate bonds are traded through spot and forward contracts.

The MAE has 90 brokers/dealers members, which include national banks, provincial banks, municipal banks, private national banks, foreign banks, cooperative banks, financial institutions, foreign exchange entities and pure brokers/dealers (exclusively engaged in brokerage activities). Both Argentine or foreign capital banks and financial institutions may be the MAE s brokers/dealers.

Securities to be traded must be registered with the pertinent supervising authorities and may be traded in the Mercado Abierto Electrónico, in other exchanges or in both of them concurrently.

### *Securities Central Depository*

*Caja de Valores S.A.* is a corporation organized under the laws of Argentina, totally private, which acts as central depository of public bonds and private securities. It was established in 1974 by Act 20,643, and it is supervised by the *Comisión Nacional de Valores*.

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Those authorized to make deposits of securities with the *Caja de Valores* are stockbrokers, banking financial institutions, and mutual funds.

The majority shareholders of the *Caja de Valores S.A.* are the Buenos Aires Stock Exchange and the Merval (49.98% each).

**Information regarding the Buenos Aires Stock Exchange**

	As of December 31,		As of June 30,	
	2006	2007	2007	2008
Market capitalization (Ps.billion)	1,229.31	1,773.04	1,335.91	1,822.31
Average daily trading volume (Ps.million)	61.37	88.62	69.9	95.87
Number of listed companies	106	111	107	111

Although companies may list all of their capital stock on the Buenos Aires Stock Exchange, in many cases a controlling block is retained by the principal shareholders resulting in only a relatively small percentage of many companies' stock being available for active trading by the public on the Buenos Aires Stock Exchange.

As of June 30, 2008, approximately 111 companies had equity securities listed on the Buenos Aires Stock Exchange. As of June 30, 2008, approximately 6.75% of the total market capitalization of the Buenos Aires Stock Exchange was represented by the securities of the ten largest national companies.

The Argentine securities markets are substantially more volatile than the securities markets in the United States and certain other developed countries. The Merval experienced a 13% increase in 1995, a 25% increase in 1996, a 6% increase in 1997, a 37% decrease in 1998, a 28% increase in 1999, a 24% decrease in 2000, a 29% decrease in 2001, a 77% increase in 2002, a 104% increase in 2003, a 28% increase in 2004, a 13% increase in 2005, a 35% increase in 2006, a 2.93% increase in 2007 and a 2.04% decrease for the six month period ended June 30, 2008. In order to control price volatility, the Merval operates a system pursuant to which the negotiation of a particular stock or debt security is suspended for a 15 minute period when the price of the security registers a variation on its price between 10% and 15% and between 15% and 20%. Any additional 5% variation on the price of the security after that results in additional 10 minute successive suspension periods.

**Nasdaq Stock Market**

Our ADSs are listed and traded in the Nasdaq Stock Market under the trading symbol CRESY .

**D. SELLING SHAREHOLDERS**

This section is not applicable.

**E. DILUTION**

This section is not applicable.

**F. EXPENSES OF THE ISSUE**

This section is not applicable.

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### **Item 10. Additional information**

#### **A. SHARE CAPITAL**

This section is not applicable.

#### **B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

##### **Our Corporate Purpose**

Our legal name is Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria. We were incorporated under the laws of Argentina on December 31, 1936 as a sociedad anónima (stock corporation) and were registered with *Public Registry of Commerce* on February 19, 1937 under number 26, on page 2, book 45 of National by-laws Volume. Pursuant to our by-laws, our term of duration expires on July 6, 2082.

Pursuant to article 4 of our by-laws our purpose is to perform the following activities:

Commercial activities with respect to cattle and products pertaining to farming and animal husbandry;

Real estate activities with respect to urban and rural properties;

Financial activities, except for those regulated by Law No. 21,526 of financial entities;

Farming and animal husbandry activities, for properties owned by us or by third parties; and

Agency and advice activities for which there is not required a specific qualifying title.

##### **Limited Liability**

Shareholders' liability for losses is limited to their shareholdings in the Company. Notwithstanding the foregoing, under the Argentine Corporation Law No. 19,550, shareholders who voted in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or a company's by-laws (or regulation, if any) may be held jointly and severally liable for damages to such company, other shareholders or third parties resulting from such resolution. In addition, a shareholder who votes on a business transaction in which the shareholder's interest conflicts with that of the Company may be liable for damages under the Argentine companies' law, but only if the transaction would not have been validly approved without such shareholder's vote.

##### **Capitalization**

We may increase our share capital upon authorization by our shareholders at an ordinary shareholders' meeting. Capital increases must be registered with the public registry of commerce referred to as the *Registro Publico de Comercio*, and published in the Boletín Oficial. Capital reductions may be voluntary or mandatory and must be approved by the shareholders at a special shareholders' meeting (*asamblea extraordinaria*). Reductions in capital are mandatory when losses have depleted reserves and exceed 50% of capital. At November 30, 2008 our share capital consisted of 501,536,281 common shares.

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Our bylaws provide that preferred stock may be issued when authorized by the shareholders at a special shareholders meeting (*asamblea extraordinaria*) and in accordance with applicable regulations. Such preferred stock may have a fixed cumulative dividend, with or without additional participation in our profits, resolved by the shareholders meetings. Our company currently has no outstanding preferred stock.

### **Preemptive Rights and Increases of Share Capital**

Pursuant to our by-laws and Argentine Corporation Law No. 19,550, in the event of an increase in our share capital, each of our existing holders of our common shares has a preemptive right to subscribe for new common shares in proportion to such holder's share ownership pursuant to our by-laws and the Argentine Corporation Law No. 19,550. For any shares of a class not preempted by any holder of that class, the remaining holders of the class will be entitled to accretion rights based on the number of shares they purchased when they exercised their own preemptive rights. Rights and accretion rights must be exercised simultaneously within 30 days following the time in which notices to the shareholders of a capital increase and of the rights to subscribe thereto are published for three days in the Boletín Oficial and a widely circulated newspaper in Argentina. Pursuant to the Argentine Companies Law, such 30-day period may be reduced to 10 days by a decision of our shareholders adopted at a special shareholders meeting (*asamblea extraordinaria*).

Additionally, the Argentine Companies Law permits shareholders at a special shareholders meeting (*asamblea extraordinaria*) to suspend or limit the preemptive rights relating to the issuance of new shares in specific and exceptional cases in which the interest of our company requires such action and, additionally, under the following specific conditions:

the issuance is expressly included in the list of matters to be addressed at the shareholders meeting; and

the shares to be issued are to be paid in-kind or in exchange for payment under pre-existing obligations.

Furthermore, Article 12 of the Negotiable Obligations Law permits shareholders at a special shareholders meeting (*asamblea extraordinaria*) to suspend preemptive subscription rights for the subscription of convertible bonds under the above-mentioned conditions. Preemptive rights may also be eliminated, so long as a resolution providing so has been approved by at least 50% of the outstanding capital stock with a right to decide such matters and so long as the opposition to such resolution does not surpass 5% of the share capital.

### **Shareholders Meetings and Voting Rights**

Our bylaws provide that shareholders meetings may be called by our board of directors or by our Supervisory Committee or at the request of the holders of shares representing no less than 5% of the common shares. Any meetings called at the request of shareholders must be held within 30 days after the request is made. Any shareholder may appoint any person as its duly authorized representative at a shareholders meeting, by granting a proxy. Co-owners of shares must have single representation.

In general, the following matters can be considered only at a special shareholders meeting (*asamblea extraordinaria*):

matters that may not be approved at an ordinary shareholders meeting;

the amendment of our bylaws;



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reductions in our share capital;

redemption, reimbursement and amortization of our shares;

mergers, and other corporate changes, including dissolution and winding-up;

limitations or suspensions to preemptive rights to the subscription of the new shares; and

issuance of debentures, convertible negotiable obligations and bonds that not qualify as notes (*obligaciones negociables*).

In accordance with our by-laws, ordinary and special shareholders meetings (*asamblea extraordinaria*) are subject to a first and second quorum call, the second to occur upon the failure of the first. The first and second notice of ordinary shareholders meetings may be made simultaneously. In the event that both are made on the same day, the second must occur at least one hour after the first. If simultaneous notice was not given, the second notice must be given within 30 days after the failure to reach quorum at the first. Such notices must be given in compliance with applicable regulations.

A quorum for an ordinary shareholders meeting on the first call requires the presence of a number of shareholders holding a majority of the shares entitled to vote and, on the second call, the quorum consists of the number of shareholders present, whatever that number. Decisions at ordinary shareholders meetings must be approved by a majority of the votes validly exercised by the shareholders.

A quorum for an special shareholders meeting (*asamblea extraordinaria*) on the first call requires the presence of persons holding 60% of the shares entitled to vote and, on the second call, the quorum consists of the number of shareholders present, whatever that number. Decisions at special shareholders meeting (*asamblea extraordinaria*) generally must be approved by a majority of the votes validly exercised.

However, pursuant to the Argentine Companies Law, all shareholders meetings, whether convened on a first or second quorum call, require the affirmative vote of the majority of shares with right to vote in order to approve the following decisions:

advanced winding-up of the company;

transfer of the domicile of the company outside of Argentina;

fundamental change to the purpose of the company;

total or partial mandatory repayment by the shareholders of the paid-in capital; and

a merger or a spin-off, when our company will not be the surviving company.

Holders of common shares are entitled to one vote per share. Owners of common shares represented by ADRs exercise their voting rights through the ADR Depository, who acts upon instructions received from such shareholders and, in the absence of instructions, votes in the same manner as our majority of the shareholders present in the shareholders meeting.

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The holders of preferred stock are not entitled to voting rights. However, in the event that no dividends are paid to such holders for their preferred stock, the holders of preferred stock are entitled to voting rights. Holders of preferred stock are also entitled to vote on certain special matters, such as a transformation of the corporate type, early dissolution, change to a foreign domicile, fundamental change in the corporate purposes, total or partial replacement of capital losses, mergers in which our company is not the surviving entity, and spin-offs. The same exemption will apply in the event the preferred stock is traded on any stock exchange and such trading is suspended or canceled.

### **Dividends and Liquidation Rights**

The Argentine Companies Law establishes that the distribution and payment of dividends to shareholders is valid only if they result from realized and net earnings of the company pursuant to an annual balance sheet approved by the shareholders. Our board of directors submits our financial statements for the previous financial year, together with the reports of our Supervisory Committee, to the Annual Ordinary Shareholders Meeting. This meeting must be held by October 30 of each year to approve the financial statements and decide on the allocation of our net income for the year under review. The distribution, amount and payment of dividends, if any, must be approved by the affirmative vote of the majority of the present votes with right to vote at the meeting.

The shareholders meeting may authorize payment of dividends on a quarterly basis provided no applicable regulations are violated. In that case, all and each of the members of the board of directors and the supervisory committee will be jointly and severally unlimitedly liable for the refund of those dividends if, as of the end of the respective fiscal year, the realized and net earnings of the Company are not sufficient to allow the payment of dividends.

When we declare and pay dividends on the common shares, the holders of our ADRs, each representing the right to receive ten ordinary shares, outstanding on the corresponding registration date, are entitled to receive the dividends due on the common shares underlying the ADRs, subject to the terms of the Deposit Agreement dated March 18, 1997 executed by and between us, The Bank of New York, as depositary and the eventual holders of ADRs. The cash dividends are to be paid in Pesos and, except under certain circumstances, are to be converted by the Depositary into U.S. dollars at the exchange rate prevailing at the conversion date and are to be paid to the holders of the ADRs net of any applicable fee on the dividend distribution, costs and conversion expenses, taxes and public charges. Since January 2002 and due to the devaluation of the Peso, the exchange rate for the dividends will occur at a floating market rate.

Our dividend policy is proposed from time to time by our board of directors and is subject to shareholders approval at an ordinary shareholders meeting. Declarations of dividends are based upon our results of operations, financial condition, cash requirements and future prospects, as well as restrictions under debt obligations and other factors deemed relevant by our board of directors and our shareholders.

Dividends may be lawfully paid only out of our retained earnings determined by reference to the financial statements prepared in accordance with Argentine GAAP. In accordance with the Argentine Companies Law, net income is allocated in the following order: (i) 5% is retained in a legal reserve until the amount of such reserve equals 20% of the Company's outstanding capital; (ii) dividends on preferred stock or common shares or other amounts may be retained as a voluntary reserve, contingency reserve or new account, or (iii) for any other purpose as determined by the Company's shareholders at an ordinary shareholders meeting.

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Our legal reserve is not available for distribution. Under the applicable regulations of the *Comisión Nacional de Valores*, dividends are distributed pro rata in accordance with the number of shares held by each holder within 30 days of being declared by the shareholders for cash dividends and within 90 days of approval in the case of dividends distributed as shares. The right to receive payment of dividends expires three years after the date on which they were made available to shareholders. The shareholders' meeting may authorize payment of dividends on a quarterly basis provided no applicable regulations are violated. In such case, all and each of the members of the board of directors and the supervisory committee will be jointly and severally liable for the refund of those dividends if, at the end of the respective fiscal year, the realized and net earnings of the Company are not sufficient to allow for the payment of dividends.

In the event of liquidation, dissolution or winding-up of our company, our assets are

to be applied to satisfy its liabilities; and

to be proportionally distributed among holders of preferred stock in accordance with the terms of the preferred stock. If any surplus remains, our shareholders are entitled to receive and share proportionally in all net assets available for distribution to our shareholders, subject to the order of preference established by our bylaws.

## **Approval of Financial Statements**

Our fiscal year ends on June 30 of each year, after which we prepare an annual report which is presented to our board of directors and Supervisory Committee. The board of directors submits our financial statements for the previous financial year, together with the reports of our Supervisory Committee, to the annual ordinary shareholders' meeting, which must be held within 120 days of the close of our fiscal year, in order to approve our financial statements and determine our allocation of net income for such year. At least 20 days before the ordinary shareholders' meeting, our annual report must be available for inspection at our principal office.

## **Right of Dissenting Shareholders to Exercise Their Appraisal Right**

Whenever certain actions are approved at a special shareholders' meeting (*asamblea extraordinaria*) (such as the approval of a merger, a spin-off (except when the shares of the acquired company are publicly traded), a fundamental change of corporate purpose, a transformation from one type of corporation to another, a transfer of the domicile of our company outside of Argentina or, as a result of the action approved, the shares cease to be publicly traded) any shareholder dissenting from the adoption of any such resolution may withdraw from our company and receive the book value per share determined on the basis of our latest financial statements, whether completed or to be completed, provided that the shareholder exercises its appraisal rights within ten days following the shareholders' meeting at which the resolution was adopted.

In addition, to have appraisal rights, a shareholder must have voted against such resolution or act within 15 days following the shareholders' meeting if the shareholder was absent and can prove that he was a shareholder of record on the day of the shareholders' meeting. Appraisal rights are extinguished with respect to a given resolution if such resolution is subsequently overturned at another shareholders' meeting held within 75 days of the previous meeting at which the original resolution was adopted. Payment on the appraisal rights must be made within one year of the date of the shareholders' meeting at which the resolution was adopted, except where the resolution involved a decision that our stock cease to be publicly traded, in which case the payment period is reduced to 60 days from the date of the resolution.

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### **Ownership Restrictions**

The *Comisión Nacional de Valores* regulations require that transactions that cause a person's holdings of capital stock of a registered Argentine company, to hold 5% or more of the voting power, should be immediately notified to the *Comisión Nacional de Valores*. Thereafter, every change in the holdings that represents a multiple of 5% of the voting power should also be notified.

Directors, senior managers, executive officers, members of the supervisory committee, and controlling shareholders of an Argentine company whose securities are publicly listed, should notify the *Comisión Nacional de Valores* on a monthly basis, of their beneficial ownership of shares, debt securities, and call and put options related to securities of such companies and their controlling, controlled or affiliated companies.

Holders of more than 50% of the common shares of a company or who otherwise have voting control of a company, as well as directors, officers and members of the supervisory committee, must provide the *Comisión Nacional de Valores* with annual reports setting forth their holdings in the capital stock of such companies and monthly reports of any change in their holdings.

### **Tender Offers**

Tender offers under Argentine law may be voluntary or mandatory. In either case, the offer must be made addressed to all shareholders. In the case of a mandatory tender offer, the offer must also be made to the holders of subscription rights, stock options or convertible debt securities that directly or indirectly may grant a subscription, acquisition or conversion right on voting shares.

Decree No. 677/2001 establishes that a person or entity wishing to acquire a significant holding ( *participaciones significativas* ) shall be required to launch a mandatory tender offer.

A mandatory tender offer will not be required in those cases in which the purpose of the acquisition of the significant holding is not to acquire the control of a company.

The *Comisión Nacional de Valores* defines a significant holding as holdings that represent an equal or a higher percentage than 35% and 51% of the voting shares as the case may be.

When a person or an entity intends to acquire more than 35% of the shares of a company, a mandatory tender offer to purchase 50% of the corporate voting capital is required by law.

If a person or an entity owns between 35% and 51% of the shares of a company, and wishes to increase its holdings by at least 6% within a 12 month period, a mandatory tender offer to acquire shares representing at least 10% of the voting capital will be legally required.

When a person or an entity wishes to acquire more than 51% of the shares of a company, a mandatory tender offer to acquire 100% of the voting capital will be legally required.

Finally, when a shareholder controls 95% or more of the outstanding shares of a company, (i) any minority shareholder may, at any time, demand that the controlling party make an offer to purchase all of the remaining shares of the minority shareholders and (ii) the controlling party can issue a unilateral statement of intention to acquire all of the remaining shares owned by the other stockholders.

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Pursuant to the Argentine Companies Law we may redeem our outstanding common shares only under the following circumstances:

to cancel such shares and only after a decision to reduce our capital stock (with shareholder approval at a special shareholders meeting (*asamblea extraordinaria*));

to avoid significant damage to our company under exceptional circumstances, and then only using retained earnings or free reserves that have been fully paid, which action must be ratified at the following ordinary shareholders' meeting; or

in the case of the acquisition by a third-party of our common shares.

The Public Offering of Securities Law provides for other circumstances under which our company, as a corporation whose shares are publicly listed, can repurchase our shares. The following are necessary conditions for the acquisition of our shares:

the shares to be acquired shall be fully paid,

there shall be a board of directors' resolution containing a report of our supervisory committee or audit committee. Our board of directors' resolution must provide the purpose of the acquisition, the maximum amount to be invested, the maximum number of shares or the maximum percentage of capital that may be acquired and the maximum price to be paid for our shares. Our board of directors must give complete and detailed information to both shareholders and investors,

the purchase shall be carried out with net profits or with free or optional reserves, and we must prove to the *Comisión Nacional de Valores* that we have the necessary liquidity and that the acquisition will not affect our solvency,

under no circumstances may the shares acquired by our company, including those that may have been acquired before and held by us as treasury stock, be more than 10% of our capital stock or such lower percentage established by the *Comisión Nacional de Valores* after taking into account the trading volume of our shares.

Any shares acquired by us that exceed 10% of our capital stock must be disposed of within 90 days from the date of acquisition originating the excess without prejudice of the liability corresponding to our board of directors.

Transactions relating to the acquisition of our own shares may be carried out through open market transactions or through a public offering:

in the case of acquisitions in the open market, the amount of shares purchased daily cannot exceed 25% of the mean daily traded volume of our shares during the previous 90 days.

in either case, the *Comisión Nacional de Valores* can require that the acquisition be carried out through a public offering if the shares to be purchased represent a significant percentage in relation to the mean traded volume.

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General Resolution No. 368/2001 of the *Comisión Nacional de Valores* as amended, provides general requirements that any company must comply with in the case of the acquisition of its shares under the Corporations Law or under the Public Offering of Securities Law. The acquisition of its shares by a company must be:

approved by a resolution of the board of directors with a report of its supervisory committee,

notice must be given to the *Comisión Nacional de Valores* and the Buenos Aires Stock Exchange, and notice must be published in the *Boletín* of the Buenos Aires Stock Exchange or in a widely circulated newspaper in Argentina,

be carried out with net profits or free reserves from the last financial statements and approved by the board of directors,

the board of directors has to prove to the *Comisión Nacional de Valores*, that the company has the necessary liquidity and that the acquisition does not affect its solvency,

all shares acquired by the company, including those that may have been acquired before and held by it as treasury stock, may not exceed 10% of its capital stock.

The recently enacted General Resolution No. 535/08 of the *Comisión Nacional de Valores* establishes that the acquisition limit of up to 10% of the company's own shares will be suspended up to December 31, 2008.

There are no legal limitations to ownership of our securities or to the exercise of voting rights pursuant to the ownership of our securities, by non-resident or foreign shareholders.

## **Registrations and Transfers**

Our common shares are held in registered, book-entry form. The registry for our shares is maintained by *Caja de Valores S.A.* at its executive offices located at 25 de mayo 362, (C1002ABH) Buenos Aires, Argentina. Only those persons whose names appear on such share registry are recognized as owners of our common shares. Transfers, encumbrances and liens on our shares must be registered in our share registry and are only enforceable against us and third parties from the moment registration takes place.

## **Amendment to the by-laws.**

On the shareholders' meeting held on October 10, 2007, our shareholders decided to amend the following sections of the by-laws: (i) Section Thirteen in order to adapt the performance bonds granted by directors to current rules and regulations, and (ii) Section Sixteen in order to incorporate the possibility of holding remote board meetings pursuant the provisions of section 65 of Decree 677/01.

## **Compliance with NASDAQ listing standards on corporate governance**

Cresud corporate governance practices are governed by the applicable Argentine law; particularly, the Argentine Corporation Law No. 19,550, Decree No. 677/2001 and the Standards of the *Comisión Nacional de Valores*, as well as by its corporate by-laws.

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Cresud has securities that are registered with the Securities and Exchange Commission and are listed on the NASDAQ, and is therefore subject to corporate governance requirements applicable to NASDAQ-listed non-US companies (a NASDAQ-listed company).

Pursuant to Nasdaq Marketplace Rule 4350(a), NASDAQ-listed non-US companies that are categorized as Foreign Private Issuers and may follow home country corporate governance practice in lieu of the requirements of Rule 4350, provided that the foreign private issuer complies with certain mandatory sections of Rule 4350, discloses each requirement of Rule 4350 that it does not follow and describes the home country practice followed in lieu of such requirement.

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The requirements of Rule 4,350 and the Argentine corporate governance practice that we follow in lieu thereof are described below:

**NASDAQ Standards for US companies**

**Rule 4350(b)(1)(A) Distribution of Annual and Interim Reports.**

**CRESUD S CORPORATE PRACTICES**

In lieu of the requirements of Rule 4350(b)(1)(A), we follow Argentine law, which requires that companies issue publicly a Spanish language annual report, including annual audited consolidated financial statements prepared in accordance with generally accepted accounting principles in Argentina, by filing such annual report with the *Comisión Nacional de Valores* and the Buenos Aires Stock Exchange, within 70 calendar days following the close of our fiscal year. Interim reports must be filed with the *Comisión Nacional de Valores* and the Buenos Aires Stock Exchange within 42 calendar days following the close of each fiscal quarter. The Buenos Aires Stock Exchange publishes the annual reports and interim reports in the Buenos Aires Stock Market Bulletin and makes the bulletin available for inspection at its offices. In addition, we provide our shareholders annual and interim financial reports upon request. English language translations of our annual reports and interim reports are filed with the SEC on Form 20-F and Form 6K, respectively. We also send the English language translation of our annual report and quarterly press releases related to the interim financial and operating results to the *Comisión Nacional de Valores* which posts them on its website. Furthermore, under the terms of the Deposit Agreement, dated as of March 18, 1997, among us, The Bank of New York, as depositary, and owners of ADSs issued thereunder, we are required to furnish The Bank of New York with, among other things, English language translations of our annual reports. Annual reports are available for inspection by ADR holders at the offices of The Bank of New York located at, 101 Barclay Street, 22<sup>nd</sup> Floor, New York, New York. Finally, Argentine law requires that 20 calendar days before the date of a shareholders meeting, the board of directors must provide to our shareholders, at our executive office or through electronic means, all information relevant to the shareholders meeting, including copies of any documents to be considered by the shareholders (which includes the annual report).

**Rule 4350I(1) Majority of Independent Directors.**

In lieu of the requirements of Rule 4350I(1), we follow Argentine law which does not require that a majority of the board of directors be comprised of independent directors. Argentine law instead requires that public companies in Argentina must have a sufficient number of independent directors to be able to form an audit committee of at least three members, the majority of which must be independent pursuant to the criteria established by the *Comisión Nacional de Valores*.



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<b>Rule 4350I(2) Executive Sessions of the board of directors.</b>	In lieu of the requirements of Rule 4350I(2), we follow Argentine law which does not require independent directors to hold regularly scheduled meetings at which only such independent directors are present (i.e., executive sessions). Our board of directors as a whole is responsible for monitoring our affairs. In addition, under Argentine law, the board of directors may approve the delegation of specific responsibilities to designated directors or non-director managers. Also, it is mandatory for public companies to form a supervisory committee (composed of <i>syndics</i> ) which is responsible for monitoring our legal compliance under Argentine law and compliance with our by-laws. Finally, our audit committee has regularly scheduled meetings and, as such, such meetings will serve a substantially similar purpose as executive sessions.
<b>Rule 4350I(3) Compensation of Officers.</b>	In lieu of the requirements of Rule 4350I(3), we follow Argentine law which does not require companies to form a compensation committee comprised solely of independent directors. For the determination of the compensation of the chief executive officer and all other executive officers no decision of a majority of independent directors or a compensation committee comprised solely of independent directors is required under Argentine law. Under Argentine law, the board of directors is the corporate body responsible for determining the compensation of the chief executive officer and all other executive officers, so long as they are not directors. In addition, under Argentine law, the audit committee shall give its opinion about the reasonableness of management s proposals on fees and option plans for our directors or managers.
<b>Rule 4350I(4) Nomination of directors.</b>	In lieu of the requirements of Rule 4350I(4), we follow Argentine law which requires that directors be nominated directly by the shareholders at the shareholders meeting and that they be selected and recommended by the shareholders themselves. Under Argentine law, it is the responsibility of the ordinary shareholders meeting to appoint and remove directors and to set their compensation.
<b>Rule 4350(d)(1) Audit Committee Charter.</b>	In lieu of the requirements of Rule 4350(d)(1), we follow Argentine law which requires that audit committees have a charter but does not require that companies certify as to the adoption of the charter nor does it require an annual review and assessment

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thereof. Argentine law instead requires that companies prepare a proposed plan or course of action with respect to those matters which are the responsibility of our audit committee. Such plan or course of action could, at the discretion of our audit committee, include a review and assessment of the audit committee charter. We believe that we are in compliance with the requirements for audit committee charters provided for in the Sarbanes Oxley Act.

**Rule 4350(d)(2) Audit Committee Composition.**

Argentine law does not require that companies have an audit committee comprised solely of independent directors and it is equally not customary business practice in Argentina to have such a committee. Argentine law instead requires that companies establish an audit committee with at least three members comprised of a majority of independent directors as defined by Argentine law. Nonetheless, although not required by Argentine law, we have a three member audit committee comprised of entirely independent directors, as independence is defined in Rule 10(A)-3(b)(1), one of which the Board has determined to be an audit committee financial expert. In addition, we have a supervisory committee composed of three syndics which are in charge of monitoring the legality, under Argentine law, of the actions of our board of directors and the conformity of such actions with our by-laws.

**Rule 4350(f) Quorum.**

In lieu of the requirements of Rule 4350(f), we follow Argentine law and our by-laws, which distinguish between ordinary meetings and extraordinary meetings and require, in connection with ordinary meetings, that a quorum consist of a majority of stock entitled to vote. If no quorum is present at the first meeting, a second meeting may be called at which the shareholders present, whatever their number, constitute a quorum and resolutions may be adopted by an absolute majority of the votes present. Argentine law, and our by-laws, require in connection with extraordinary meetings, that a quorum consist of 60% of the stock entitled to vote. However, if such quorum is not present at the first meeting, our by-laws provide that a second meeting may be called which may be held with the number of shareholders present. In both ordinary and extraordinary meetings, decisions are adopted by an absolute majority of votes present at the meeting, except for certain fundamental matters (such as mergers and spin-offs (when we are not the surviving entity and the surviving entity is not listed on any stock

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exchange), anticipated liquidation, change in its domicile outside of Argentina, total or partial recapitalization of its statutory capital following a loss, any transformation in our corporate legal form or a substantial change in our corporate purpose, or the issue of bonds) which require an approval by vote of the majority of all the stock entitled to vote (all stock being entitled to only one vote).

**Rule 4350(g) Solicitation of Proxies.** In lieu of the requirements of Rule 4350(g), we follow Argentine law which requires that notices of shareholders meetings be published, for five consecutive days, in the *Official Gazette* and in a widely circulated newspaper in Argentina no earlier than 45 calendar days prior to the meeting and at least 20 calendar days prior to such meeting. In order to attend a meeting and be listed on the meeting registry, shareholders are required to submit evidence of their book-entry share account held at *Caja de Valores* up to three business days prior to the scheduled meeting date. If entitled to attend the meeting, a shareholder may be represented by proxy (properly executed and delivered with a certified signature) granted to any other person, with the exception of a director, syndic, member of the supervisory committee, manager or employee of the issuer, which are prohibited by Argentine law from acting as proxies. In addition, our American Depositary Shares holders receive, prior to the shareholders meeting, a notice listing the matters on the agenda, a copy of the annual report and a voting card.

**Rule 4350(h) Conflicts of Interest** In lieu of the requirements of Rule 4350(h), we follow Argentine law which requires that related party transactions be approved by the audit committee when the transaction exceeds one percent (1%) of the corporation's net worth, measured pursuant to the last audited balance sheet, so long as the relevant transaction exceeds the equivalent of three hundred thousand Pesos (Ps.300,000). Directors can contract with the corporation only on terms consistent with prevailing market terms. If the contract is not in accordance with prevailing market terms, such transaction must be pre-approved by the board of directors (excluding the interested director). In addition, under Argentine law, a shareholder is required to abstain from voting on a business transaction in which its interests may be in conflict with the interests of the company. In the event such shareholder votes on such business transaction and such business transaction would not have been approved without such shareholder's vote, such shareholder may be liable to the company for damages and the resolution may be declared void.

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**C. MATERIAL CONTRACTS**

We do not have any material contract entered into outside the ordinary course of business other than some of the operations previously described under the Related Party Transactions, the Recent Developments and Our Indebtedness sections.

**D. EXCHANGE CONTROLS**

**Currency Exchange Regulation**

All foreign currency exchange transactions must be carried out in the free exchange market, in which the Argentine Central Bank participates by purchasing and selling foreign currency.

**Import and Export of Capital**

**Import of Capital**

Currently, there are no laws, executive orders or regulations nor any exchange controls in force in Argentina which limits the import of capital.

Pursuant to the Argentine Foreign Investment Law No. 21,382, and Decree No. 1,853/93, enacted in 1993, the purchase by foreign investors (any natural or legal person domiciled out of Argentina or an Argentine company of foreign capital ) of capital participation in a company existing in Argentina (according to the Foreign Investment Act) shall constitute a foreign investment.

At present there are no restrictions on foreign investments in industries other than public broadcasting media, and no prior authorization is required to make foreign investments.

Therefore, no prior authorization is required in order to purchase our securities.

See Item 3: Key Information Exchange Rates

**Export of Capital, including the availability of cash or cash equivalents**

From 1989 to December 3, 2001, there were no exchange controls restricting the peso-U.S. Dollar translation or the remittance of U.S. Dollars abroad. In compliance with the economic measures set forth by the Government by means of Decree No. 1570/01 dated December 3, 2001 and subsequent amendments thereto, aimed at protecting the integrity of the Argentine financial system, money could not be transferred abroad, unless expressly authorized by the Argentine Central Bank.

For purposes of accessing the funds deposited with financial institutions, clients were allowed to make electronic transfers between accounts of the same institution or others and in favor of the same holder or other persons; pay expenses by means of debit cards, checks, automatic debits and credit cards. Additionally, the Decree declared that new foreign currency deposits can only be

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received as time deposits, and no demand accounts denominated in foreign currency may be opened. Such restrictions were later relaxed and deposits of foreign currency in savings accounts ( cajas de ahorro ) by residents were allowed. Law No. 25,561 declared a public emergency in social, economic, administrative, financial and foreign exchange market matters, delegating to the Argentine executive branch until December 10, 2003, the powers to reorganize the financial, banking and foreign exchange system, reactivate the performance of the economy and improve the employment level and distribution of income, focusing on a program for the development of regional economies, creating the conditions for a sustainable economic growth, consistent with the public debt restructuring, and restructuring outstanding obligations affected by the new foreign exchange system. Such period was extended until December 31, 2006 by Law No. 26,077. Among other provisions, this law put an end to the convertibility system that had been in effect since April 1991, whereby pesos were convertible to U.S. Dollars at a rate of Ps.1.0 per U.S Dollar.

As a consequence of the enactment of Decree 260/02, as of February 8, 2002, a single and free exchange market was implemented, through which all foreign currency exchange transactions are made. Exchange transactions are freely entered into by parties, but subject to the regulations and requirements set forth by the Central Bank. The Central Bank issued Communication A 3471, as amended, establishing restrictions or special requirements for exchange transactions. Lack of compliance with requirements and conditions shall result in the application of sanctions established by the Criminal Law Exchange Regime.

Such regulation has been modified several times and, therefore, only the most important provisions currently in force are mentioned below:

Argentine individuals and companies are authorized to buy up to US\$ 2,000,000 per month;

the sale of foreign currency to non-residents, with the exception of international organizations, in an aggregate monthly amount exceeding US\$ 5,000 shall also be previously authorized by the Central Bank, except when it is evidenced that the amounts used to purchase foreign currency (i) come from the payment of a resident to the non-resident which orders the transfer; and (ii) the payment is performed in relation to import, services, revenues or other commercial transfers for which the resident should have accessed to the exchange market in accordance to the exchange rules that regulated payments abroad to commercial account;

foreign currency exchange or arbitrage transactions with financial institutions located abroad must be previously authorized by the Central Bank, except where such financial institutions are located in countries which are members of the Basel Committee and have an international credit rating not lower than A granted by international rating agencies registered with the Central Bank, or where such transactions are entered into with branches of Argentine official banks located abroad;

future operations in regulated markets, options or forwards transactions and any other type of derivatives entered into and cancelled in Argentina and settled in local currency are not subject to any restriction, provided, however, that: (i) such operations do not contemplate any payment or transfer obligation of a resident to a foreign country; (ii) any inflow of foreign currency into the local exchange market for the purposes of such an operation by a non resident who is party to such a transaction is subject to a non-transferable deposit denominated in U.S. Dollars for an amount equal to 30% of the relevant transaction for a period of 365 days in accordance to such further

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conditions as indicated bellow (the Non- Transferable Deposit ); and (iii) transfer of foreign currency abroad by a non resident derived from such transactions involving an aggregate monthly amount exceeding US\$ 5,000 shall also be previously authorized by the Central Bank.

Communication A 4285 dated January 17, 2005, relaxed restrictions on foreign currency transactions by abrogating the requirement of prior approval of the Central Bank for the execution of certain future and forward operations and for the access to the foreign exchange market for their cancellation. These operations include: (i) transactions executed by the financial system for the acquisition of certain time deposits having variable retribution; (ii) agreements for the coverage of foreign currencies and interest rates, (iii) agreements executed by exporters or importers for the coverage of commodity prices, as long as they are related to argentine foreign trade transactions; and (iv) the execution of external transactions in the form of Repos provided that they are executed for a term of at least 180 days. With the exception of inflows related to the external transactions in the form of Repos mentioned in (iv), any other inflow of foreign currency devoted to future or forward operations mentioned in (i) to (iii) is exempted from the obligation to constitute the Non- Transferable Deposit.

financial institutions must obtain prior authorization of the Central Bank in order to purchase any kind of asset, where the payment for such a transaction is made against delivery of foreign currency or any other kind of foreign denominated asset that is part of the General Exchange Position (Posición General de Cambios) (the GEP ) of these financial institutions;

new imports of goods may be fully paid in advance, without consideration of the kind of good, as well as debts for imports with any maturity date;

access to the free and sole exchange market is allowed for payment of expired capital services originated in financial debts, except for financial entities subject to advance refinancings and rediscounts granted by the Central Bank and restructuring of its foreign debt (Decree No. 739/03 and Communication A 3940);

non-residents may have access to the exchange market for purposes of transferring funds in foreign currency collected in Argentina, originated from the amortization installments from national public bonds issued in foreign currency, to accounts in foreign banks;

there are no restrictions to make payments abroad for services rendered by non-residents on any basis (freight, insurance, royalties, technical advise, fees, etc.);

transfers abroad for the payment of indebtedness of private entities (comprising both financial and non-financial institutions) and government owned entities; provided that they fulfill certain regulatory requirements among others such as (i) a sworn statement affirming the fulfillment of Communication A 3602 informative requirements; (ii) the possession of documents which evidence the genuineness of the operation being cancelled, i.e., the entry into the country of the finance proceed and/or its use to cancel the financial or commercial debt, etc.; (iii) the amounts to be transferred have been adjusted, as the case may be, in accordance to Decree 214/02 as amended; and (iv) the fact that the inflows have remained in the county for the legal minimum term (180 days until May 26, 2005 or 365 for funds entered into after that date) has been verified;

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effective as of January 8, 2003, Argentine companies may freely transfer corporate profits and dividends corresponding to audited financial statements of local companies without prior Central Bank approval and transfers of funds abroad in order to pay reinsurance premiums will be subject only to the issuance of a statement from the regulatory authority on insurance matters Superintendencia de Seguros de la Nación ( Superintendent of Insurance Board ), with respect to the reason and amount to be transferred;

there is an obligation to enter the funds received as payment for the export of goods and services into the exchange market and to convert them into local currency within a time limit established by the Ministry of Economy and Production;

foreign currency obtained from the collection of exports corresponding to bills of lading shall be sold at the reference exchange rate when the foreign currency so obtained was not clear at the exchange market within the applicable legal terms, in accordance with applicable regulation.

before September 2005, inflows of foreign currency which would be applied to export advances and prefinancing were allowed into the local exchange market avoiding the non-transferable deposit requirement established by Decree No. 616/05, issued on June 10, 2005 by providing a sworn statement stating that foreign funds would be used for a specific purchase transaction entered into with the buyer. Subsequently, the BCRA by means of the Communication A 4415 substituted the sworn statement requirement with the exhibition of the shipping contract involved in said transaction. Later, on November 22, 2005 BCRA's Communication A 4443 relaxed this requirement exempting exporters from providing such documentary evidence if they proved that the inflow of funds would not exceed more than 25% of the amount they received during the last year for similar transactions.

The Government, through the Central Bank, holds control over capital inflows and outflows, enacting the applicable rules in this regard. Decree No. 616/05, issued on June 10, 2005, established that inflows and outflows of foreign currency into the local exchange market, and indebtedness transactions incurred by local residents that may result in a foreign currency-denominated payment to non-residents, need to be registered with the Central Bank. Furthermore, as from May 26, 2005, the following situations will be subject to certain requirements and conditions:

(a) inflows of funds derived from foreign borrowing by the private financial and non financial sector, and (b) inflows of foreign currency by non-residents for the purpose of (i) holding a position in local currency, (ii) purchasing financial debt or assets and (iii) investing in government bonds in the secondary market. In these situations, the following requirements must be met: (i) inflows must remain in Argentina for 365 days to be computed as from the day they were negotiated in the local exchange market; (ii) the funds involved in the transactions covered by this decree must be deposited in a local bank account; (iii) a non-transferable deposit denominated in U.S. Dollars for an amount equal to 30% of the relevant transaction has to be made with the resulting proceeds. This deposit will only be reimbursed after the expiration of a 365 term, cannot bear interest (nor yield any other type of profit) and may not be used as collateral in any credit transaction. Such requirements do not apply to: (a) foreign direct investment, (b) primary placement of publicly traded debt or equity securities listed in one or more exchange markets, and (c) foreign trade and export finance debt related transactions.

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Subsequently, Resolution No. 365/2005 from the Ministry of Economy and Production established that non-resident capital inflows destined for the primary subscription of Argentine Central Bank notes and income derived from the sale by residents of foreign assets for an amount greater than US\$ 2 million per month, will also be subject to the aforementioned requirements.

Moreover, said resolution provided certain exemptions to the requirement of making the non-transferable deposit requirement such as: (i) inflows derived from borrowings extended by multilateral and bilateral financial institutions and official credit agencies, and (ii) inflows derived from financial borrowings extended by foreign creditors, so long as they are devoted to investments in non-financial assets and the borrowed amounts are repaid at least 24 months after they were granted.

In that sense, non-financial assets include:

- (i) investments recorded in the category PP&E of the financial statements (Notice 42303);
- (ii) intangible assets related to mine cost and/or research, prospection and exploration expenses (Notice 42884);
- (iii) acquisition of rights to use that had been recorded for accounting purposes in the category intangible assets of the company's financial statements (Notice 44670); and
- (iv) investments in assets that are comparable to intellectual property rights, which are commercialized through the assignment of rights to use and should be recorded for accounting purposes in the category intangible assets of the company's financial statements (Notice 46394).

This exemption automatically expires when the reported use is modified. In that case, the deposit established in item 6 of Communication A 4359 must be made within 10 business days of such event.

Communications A 4554 and A 4711, both dated September 24, 2007, established certain requirements and terms to file the documentation evidencing the correct classification of the transaction under the above mentioned exemption.

By contrast, according to Communication C 43075 dated September 26, 2005, inflows of foreign currency caused by a non-resident and devoted to the cancellation of payment obligations under a purchase agreement (including installment payments thereof) concerning a real estate property under construction may be registered as foreign direct investments provided that certain conditions are met.

Finally, Resolution No. 637/2005 from the Ministry of Economy and Production dated November 16, 2005 established that any inflow of foreign currency to the local exchange market devoted to the primary subscription of notes, bonds or participation certificates issued by the trustee of a trust, regardless of the channels in which they are traded (public or private offerings, or listings in self-regulated markets) is subject to the non-transferable deposit requirement established by Decree 616/05 if such requirement would be deemed applicable to the acquisition of the underlying assets of the trust.

### *Reporting requirements on Direct Investments*

On March 4, 2005 the Argentine Central Bank issued Communication A 4305 that regulates the reporting system of direct investments and real estate investments carried out by non-residents in Argentina and by Argentine residents abroad, which had been implemented through Communication A 4237 dated November 10, 2004.



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*Direct investments in Argentina of non-Argentine residents*

Non-Argentine residents are compelled to comply with the reporting regime if the value of their investments in Argentina reaches or surpasses the equivalent of US\$ 500,000 measured in terms of the net worth of the company in which they participate or fiscal value of the real estate owned. If the investments do not reach such amount, the compliance with such regime is optional.

According to Communication A 4237, companies in which non-Argentine residents participate in and administrators of real estate pertaining to non-Argentine residents are those obliged to comply with the reporting regime.

*Direct investments made abroad by Argentine residents*

Argentine investors are compelled to comply with the reporting regime if the value of their investments abroad reaches or surpasses the equivalent of US\$ 1,000,000 measured in terms of net worth of the company in which they participate or the fiscal value of the real estate they own.

If the value of those investments abroad does not exceed the equivalent of US\$ 5,000,000, the declaration could be carried out annually instead of semiannually. If the investments do not reach the equivalent of US\$ 1,000,000, the compliance with such regime is optional.

The first declarations will correspond to the semester ended on December 31, 2004, and will have to be filed within 90 calendar days as of such date.

*Conclusions:*

While the foreign exchange market system in Argentina has become increasingly flexible under recent regulations, Decree No. 616/05 severely deters short term inflows of foreign currency which are presumed to be of a speculative nature. Such determination on the part of the government is associated also to another short term economic policy goal and combined measures aimed at pegging or reasonably adjusting the United States Dollar value around Ps.3.10 per U.S. Dollar. We cannot assess whether these policies will be maintained in the longer run and how changes made therein may affect the economy and our business perspectives. Furthermore, we cannot predict how changes in the evolution of the world economy and commodity prices which constitutes an important part of Argentina's exports may influence exchange rates and control policies. Moreover, failure of the government to comply with financial commitments with the IMF or failure to reach an agreement with said institution may have an impact on the foreign exchange system. No assurance can be made as to the extent to which all such factors may lead to future restrictions that might further tighten foreign exchange controls or otherwise change the current foreign exchange system.

**E. TAXATION**

**United States Taxation**

The following summary describes the material United States federal income tax consequences of the ownership of shares and ADSs as of the date hereof. The discussion set forth below is applicable to U.S. Holders (as defined below). Except where noted, this discussion deals only with U.S. Holders that hold the shares or ADSs as capital assets. This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a bank;

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a dealer in securities or currencies;

a financial institution;

a regulated investment company;

a real estate investment trust;

an insurance company;

a tax exempt organization;

a person holding the shares or ADSs as part of a hedging, integrated or conversion transaction, constructive sale or straddle;

a trader in securities that has elected the mark-to-market method of accounting for your securities;

a person liable for alternative minimum tax;

a person who owns 10% or more of the voting stock of our company;

a partnership or other pass-through entity for United States federal income tax purposes; or

a person whose functional currency is not the U.S. Dollar.

Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depositary (the Depositary) to us and assumes that the deposit agreement governing the ADSs, and all other related agreements, will be performed in accordance with their terms.

**IF YOU ARE CONSIDERING THE PURCHASE, OWNERSHIP OR DISPOSITION OF SHARES OR ADSS YOU SHOULD CONSULT YOUR OWN TAX ADVISOR CONCERNING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO YOU AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.**

U.S. Holder means a beneficial owner of a share, or ADS that is for United States federal income tax purposes:

an individual citizen or resident of the United States;

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a corporation created or organized in or under the laws of the United States or any political subdivision of the United States;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons has authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership holds shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding shares or ADSs, you should consult your tax advisors.

***ADSs***

In general, for United States federal income tax purposes, U.S. Holders of ADSs will be treated as the owners of the underlying shares that are represented by the ADSs. However, the United States Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of Argentine taxes and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each discussed below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company. Deposits or withdrawals of shares by U.S. Holders for ADSs will not be subject to United States federal income tax.

***Distributions on Shares or ADSs***

Subject to the discussion under *Passive Foreign Investment Company Rules* below, the gross amount of distributions on the shares or ADSs, (including amounts withheld to reflect Argentine withholding taxes, if any) will be taxable as dividends to the extent paid out of our current and accumulated earnings and profits (as determined under United States federal income tax principles). Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of shares, or by the Depository, in the case of ADSs. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code.

With respect to non-corporate United States investors, certain dividends received before January 1, 2011 from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs (which are listed on the NASDAQ National Market), but not our shares, are readily tradable on an established securities market in the United States. Thus, we do not believe that dividends that we pay on our shares that are not backed by ADSs currently meet the conditions required for these reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. Non-corporate holders that do not

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meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met.

The amount of any dividend paid in Pesos will equal the U.S. Dollar value of the Pesos received calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received by you in the case of shares, or by the Depositary, in the case of ADSs, regardless of whether the Pesos are converted into U.S. Dollars. If the Pesos received are not converted into U.S. Dollars on the day of receipt, you will have a basis in the Pesos equal to their U.S. Dollar value on the date of receipt. Any gain or loss you realize on a subsequent conversion or other disposition of the Pesos will be treated as United States source ordinary income or loss.

Subject to certain significant conditions and limitations, Argentine tax withheld from dividends, if any, may be treated as foreign income tax eligible for credit or deduction against your United States federal income tax liability. For purposes of the foreign tax credit, dividends paid on the shares or ADSs will be treated as income from sources outside the United States and will generally constitute passive income. Further, in certain circumstances, if you:

have held ADSs or shares for less than a specified minimum period during which you are not protected from risk of loss, or

are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on ADSs or shares. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or shares (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the ADSs or shares), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. Consequently, such distributions in excess of our current and accumulated earnings and profits would generally not give rise to foreign source income and you would generally not be able to use the foreign tax credit arising from any Argentine withholding tax imposed on such distributions unless such credit can be applied (subject to applicable limitations) against United States federal income tax due on other foreign source income in the appropriate category for foreign tax credit purposes. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

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Subject to the discussion under **Passive Foreign Investment Company Rules** below, upon the sale, exchange or other disposition of shares or ADSs, you generally will recognize capital gain or loss equal to the difference between the U.S. Dollar value of the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the shares or ADSs, determined in U.S. Dollars. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition you have held the shares or ADSs for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize will generally be treated as United States source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Argentine tax imposed on the disposition of an ADS or share unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

***Passive Foreign Investment Company Rules***

Although it is an inherently uncertain factual issue, we may be a PFIC for the current or future taxable years.

In general, we will be a PFIC for any taxable year in which, either (i) at least 75% of the gross income of our company for the taxable year is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. If we own at least 25% by value of the stock of another corporation, we will be treated for purposes of the PFIC tests as owning a proportionate share of the assets of the other corporation, and as receiving directly a proportionate share of the other corporation's income.

The determination of whether we are a PFIC is made annually. If we are a PFIC for any taxable year during which you hold shares or ADSs in our company, unless you make the mark-to-market election discussed below, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our shares or ADSs, you will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition, including a pledge, of such shares or ADSs. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the equity interests will be treated as excess distributions. Under these special tax rules (i) the excess distribution or gain will be allocated ratably over your holding period for the equity interests, (ii) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and (iii) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election is only available for stock traded on certain designated United States exchanges and foreign exchanges which meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable United States Treasury regulations. Consequently, the mark-to-market election may be available to you with respect to the ADSs because the ADSs will be listed on the Nasdaq, which constitutes a qualified exchange under the regulations, although there can be no assurance that the ADSs will be

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regularly traded. You should note that only the ADSs and not the shares are listed on the Nasdaq. The shares are listed on the *Bolsa de Comercio de Buenos Aires*. Consequently, the *Bolsa de Comercio de Buenos Aires* would need to meet the trading, listing, financial disclosure and other requirements of the United States Treasury regulations. The ADSs or shares would need to be regularly traded on such exchanges in order for the ADSs or shares to be potentially eligible for the mark-to-market election.

If we are a PFIC in any taxable year in which you hold our shares or ADSs, but you do not make a mark-to-market election until a subsequent taxable year, you will be subject to special rules in the taxable year of the election. You should consult your own tax advisors regarding the application of the mark-to-market election in your particular situation.

If you make an effective mark-to-market election, you will include in income each year as ordinary income, rather than capital gain, the excess, if any, of the fair market value of your PFIC shares or ADSs at the end of the taxable year over your adjusted tax basis in the shares or ADSs and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of such shares or ADSs over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts. Any gain or loss on the sale of the shares or ADSs will be ordinary income or loss, except that such loss will be ordinary loss only to the extent of the previously included net mark-to-market gain.

If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the shares or ADSs are no longer regularly traded on a qualified securities exchange or the IRS consents to the revocation of the election. Under proposed Treasury regulations, mark-to-market inclusions and deductions will be suspended during taxable years in which are not a PFIC, but would resume if they subsequently become a PFIC. You are urged to consult your own tax advisor about the availability of making such a mark-to-market election.

Alternatively, a United States Holder of shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a qualified electing fund under section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

A United States Holder who owns shares or ADSs during any year that we are a PFIC must file IRS Form 8621.

You should consult your own tax advisors concerning the United States federal income tax consequences of holding the shares or ADSs if we are considered a PFIC in any taxable year.

### ***Argentine Personal Assets Taxes***

Amounts paid on account of the Argentine Personal Assets Taxes, if any, will not be eligible as a credit against your United States federal income tax liability, but may be deductible subject to applicable limitations in the Code.

### ***Information Reporting and Backup Withholding***

In general, information reporting requirements will apply to distributions on shares or ADSs and to the proceeds of sale of a share or ADS paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient (such as a corporation).

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Backup withholding may apply to such payments if you fail to provide a correct taxpayer identification number or certification of foreign or other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided you furnish the required information to the IRS.

### **Argentine Taxation**

The following discussion is a summary of certain Argentine tax considerations associated with an investment in, ownership or disposition of, the common share rights, the ADS rights, the common shares, or the ADSs by (i) an individual holder that is resident in Argentina, (ii) an individual holder that is neither domiciled nor resident in Argentina, (iii) a legal entity organized under the laws of Argentina, (iv) a permanent establishment in Argentina of a foreign entity and (v) a legal entity that is not organized under the laws of Argentina that does not have a permanent establishment in Argentina and is not otherwise doing business in Argentina on a regular basis. The discussion is for general information only and is based on current Argentine tax laws. Moreover, while this summary is considered to be a correct interpretation of existing laws in force as of the date of this filing, no assurance can be given that the courts or administrative authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws or interpretations will not occur.

### **PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES ARISING UNDER ANY TAXING JURISDICTION.**

#### ***Taxation of Dividends***

Dividends, either in cash, common shares, or kind approved by our shareholders are currently exempt from Argentine withholding or other taxes.

Notwithstanding the foregoing, according to Argentine law, income tax will be applied to the amount of dividends distributed in excess of a company's net taxable income determined in accordance with general income tax regulations for the fiscal years preceding the date of the distribution of such dividends. The legislation requires that companies withhold 35% of the amount of distributed dividends in excess of the net taxable income of such distribution, as determined in accordance with the income tax law. The withholding would not be applied to the payment of future dividends derived out of retained earnings obtained in the fiscal years ended prior to December 30, 1998. Dividends distributed by an Argentine company are not subject to this tax to the extent that those dividends arise from dividend income or other distributions received by such company from other Argentine companies.

#### ***Taxation of Capital Gains***

Due to certain amendments made to the Argentine Income Tax Law, it is not entirely clear whether certain amendments concerning payment of income tax on capital gains arising from the sale, exchange, or other disposition of common shares are in effect or not. Although Opinion No. 351 of the National Treasury General Attorney Office clarified the legal status of certain matters affecting the tax treatment of capital gains certain issues still remain unclear.

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*Resident individuals*

Under what we believe to be a reasonable interpretation of existing applicable tax laws and regulations: (i) income derived from the sale, exchange or other disposition of common share rights, ADS rights, common shares, or ADSs by resident individuals who do not sell or dispose of Argentine common shares on a regular basis would not be subject to Argentine income tax, and (ii) although there still exists uncertainty regarding this issue, income derived from the sale, exchange or other disposition of common share rights, ADS rights, common shares, or ADSs by resident individuals who sell or disposes of Argentine common shares on a regular basis should be exempt from Argentine income tax.

*Foreign beneficiaries*

Capital gains obtained by non residents or foreign entities from the sale, exchange or other disposition of common share rights, ADS rights, common shares or ADSs are exempt from income tax. Pursuant to a reasonable interpretation of existing applicable laws and regulations, and although the matter is not completely free from doubt, such treatment should also apply to those foreign beneficiaries that qualify as offshore entities for Argentine tax law purposes. For this purpose, an offshore entity is any foreign legal entity which pursuant to its by-laws or to the applicable regulatory framework: (i) its principal activity is to invest outside the jurisdiction of its incorporation and/or (ii) cannot perform in such jurisdiction certain transactions.

*Local entities*

Capital gains obtained by Argentine entities (generally entities organized or incorporated under Argentine law, certain traders and intermediaries, local branches of non Argentine entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina) derived from the sale, exchange or other disposition of common share rights, ADS rights, common shares or ADSs are subject to income tax at the rate of 35%. Losses arising from the sale of common share rights, ADS rights, common shares, or ADSs can be applied only to offset such capital gains arising from sales of common share rights, ADS rights, common shares or ADSs.

**WE RECOMMEND PROSPECTIVE INVESTORS TO CONSULT THEIR OWN TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES CONCERNING THE SALE OR OTHER DISPOSITIONS OF THE COMMON SHARES OR ADSs.**

*Value Added Tax*

The sale, exchange, disposition, or transfer of common share rights, ADS rights, common shares, or ADSs is not subject to Value Added Tax.

*Personal Assets Tax*

Law No. 25,585 issued on April 24, 2002 and published in the Official Gazette on May 15, 2002 (and applicable to personal assets held as of December 31, 2002) introduces amendments to Law No. 23,966 and imposes the personal assets tax on common shares and ADSs held by individuals and undivided estates domiciled or located in Argentina or abroad and legal entities not domiciled in Argentina, separately from other assets.

This amendment imposes the obligation to pay the personal assets tax on the Argentine private issuer of the common shares and ADSs, and authorizes it to seek recovery of the amount so paid, without limitation, by way of withholding or by foreclosing on the assets that gave rise to such payment. The tax is levied on the proportional equity value of the common shares as reflected in the most recent balance sheet closed as of December 31 of the taxable year, at the rate of 0.5% without any non-taxable minimum being applicable.



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Our shareholders approved the absorption of personal asset tax for the years 2002 to 2007. There can be no assurance that in the future this tax will be absorbed by the Company.

### *Tax on Minimum Notional Income (Impuesto a la Ganancia Mínima Presunta, IGMP)*

Companies domiciled in Argentina, partnerships, foundations, sole proprietorships, trusts, certain mutual funds organized in Argentina, and permanent business establishments owned by foreign persons, among other taxpayers, shall apply a 1% rate to the total value of assets held by such persons, above an aggregate nominal amount of Ps.200,000. Nevertheless, common shares and ADSs issued by entities subject to such tax are exempt from paying the IGMP.

### *Gross Profit Tax*

The gross profit tax is a local tax; therefore, the rules of the relevant provincial jurisdiction should be considered. This tax may be levied on the purchase and sale of common shares and/or the collection of dividends. In the particular case of the City of Buenos Aires, any transaction involving common shares and/or the collection of dividends and revaluations is exempt from this tax.

There is no gross profit tax withholding system applicable to the payments made to foreign beneficiaries.

Those investors who customarily perform, or who are deemed to perform, transactions in any jurisdiction in which they obtain their income from the sale of common shares and/or the collection of dividends are subject to this tax at an average rate of 3%, unless an exemption is applicable to them.

### *Stamp Tax*

The stamp tax is a local tax that is generally levied on the instrumentation of onerous acts executed within a certain territorial jurisdiction or outside a certain territorial jurisdiction but with effects in such jurisdiction.

In the City of Buenos Aires, the stamp tax has been repealed for all those acts that do not imply an onerous conveyance of real property or the lease of real property. However, most provincial tax authorities maintain this tax in effect for all acts in general; therefore, the instruments which implement onerous transactions (including issuance, subscription, placement and transfer) involving common share rights, ADS rights, common shares, or ADSs, executed in other jurisdictions, or with effects in those jurisdictions, could be subject to this tax.

### *Tax on Credits and Debits in Bank Accounts*

This tax is levied upon debits and credits in bank accounts and upon other transactions which, due to their special nature and characteristics, are similar or could be used in substitution for a checking account, such as payments on behalf of or in the name of third parties, procedures for the collection of securities or documents, drafts and transfers of funds made by any means, when these transactions are performed by local banks.

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The tax law and its regulations provide several exemptions to this tax. For example, it does not apply to entities recognized as exempt from income tax, to debits and credits relating to salaries, to retirement and pension emoluments credited directly by banking means and withdrawals made in connection with such credits and to credits in checking accounts originating from bank loans.

The general rate of the tax is 0.6%. An increased rate of 1.2% applies in cases in which there has been a substitution for the use of a checking account.

Pursuant to Argentine Regulatory Decree 380/2001, as amended, 34% of the tax paid on credits levied at the 0.6% rate and 17% of the tax paid on transactions levied at the 1.2% rate can be used, to its exhaustion, as a credit against income tax, tax on minimum notional income and/or the special contribution on cooperative capital.

### *Court and Other Taxes*

In the event that it becomes necessary to institute legal actions in relation to the common shares or ADSs in Argentina, a court tax (currently at a rate of 3.0%) will be imposed on the amount of any claim brought before the Argentine courts sitting in the City of Buenos Aires.

Argentina imposes neither an estate nor gift tax on a decedent, donor, legatee or donee. No Argentine tax is imposed on the deposit or withdrawal of common shares in exchange for ADSs. Other than the taxes discussed above, no other Argentine taxes are applicable to an investment in common shares or ADSs. At present, there is no national tax specifically applicable to the transfer of securities.

### *Tax Treaties*

Argentina has entered into tax treaties with several countries. There is currently no tax treaty or convention in effect between Argentina and the United States.

## **F. DIVIDENDS AND PAYING AGENTS**

This section is not applicable

## **G. STATEMENT BY EXPERTS**

This section is not applicable.

## **H. DOCUMENTS ON DISPLAY**

We file annual, quarterly and other information with the SEC. You may read and copy any document that we file at the public reference rooms of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. Our Internet address is <http://www.cresud.com.ar>. It should be noted that nothing on our website should be considered part of this annual report on Form 20-F. You may request a copy of these filings at no cost, by writing or calling the office at +54 (11)-4814-7800.

## **I. SUBSIDIARY INFORMATION**

This section is not applicable.

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**Item 11. Quantitative and qualitative disclosures about market risk**

In the normal course of business, we are exposed to commodity price, interest rate and exchange rates risks, primarily related to our integrated crop production activities and changes in exchanges rates and interest rates. We manage our exposure to these risks through the use of various financial instruments, none of which are entered into for trading purposes. We have established policies and procedures governing the use of financial instruments, specifically as it relates to the type and volume of them. The use of financial derivatives instruments is oriented to our core business and is supervised by internal control policies.

The following discusses our exposure to these risks. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in the risk factors section of this Annual Report. Uncertainties that are either non financial or unable to be quantified, such as political, economic, tax, other regulatory, or credit risks, are not included in the following assessment of our market risks.

***Interest Rate Risk***

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including both government and corporate obligations and money market funds.

Investments in both fixed rate and floating rate interest earning instruments carry varying degrees of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates. In general, longer dated securities are subject to greater interest rate risk than shorter dated securities. While floating rate securities are generally subject to less interest rate risk than fixed rate securities, floating rate securities may produce less income than expected if interest rates decrease. Due in part to these factors, our investment income may fall short of expectations or we may suffer losses in principal if securities that have declined in market value due to changes in interest rates are sold. To date, we have not utilized derivative financial instruments to hedge interest rate risk; however, there can be no assurance as to the employment of hedging strategies in the future.

As of June 30, 2008 we had current investments of Ps.485.3 million. In view of the nature of our total portfolio, an immediate 100 BPs parallel shift change in the interest rate curve would not have a significant impact on the value of our investment portfolio, its value tends to drop by Ps.0.6 millions per 100 Bps of increase in interest rate level.

***Foreign Exchange Risk***

From April 1, 1991, until the beginning of 2002, Convertibility Law No. 23,928 was applicable to Argentina. This law established a fixed exchange rate, under which the Central Bank was obliged to sell U.S. dollars to any person at a fixed rate of one Peso per U.S. dollar. Accordingly, the foreign currency fluctuations were reduced to a minimum level, during this period.

The primary economic change implemented by the current Argentine government in January 2002 was the announcement of the devaluation of the Peso. Due to the end of the Convertibility Plan, our foreign exchange exposure has increased considerably.

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Foreign currency exchange rate fluctuations could impact our cash flow in Pesos, since some of our products and inputs are payable in U.S. dollars. Although most of our liabilities are denominated in Pesos, a small percentage is in U.S. dollars, and fluctuations in the foreign currency exchange rate may affect us.

Foreign currency exchange restrictions imposed by the Argentine government in the future could prevent or restrict our access to U.S. dollars, thus affecting our ability to service our U.S. dollar-denominated liabilities. Also, fluctuations in the exchange rate between the Peso and the U.S. dollar may adversely affect the U.S. dollar equivalent of the Peso price of our common shares on the Buenos Aires Stock Exchange, and as a result would likely affect the market price of our ADSs in the United States.

We use derivative instruments from time to time to minimize our financing costs. However, we cannot assure you that we will be able to manage these risks in the future through a variety of strategies, including the use of hedging transactions. We do not use derivative instruments for speculative purposes.

As of June 30, 2008 we had a long position in FX non delivery Forwards of US\$8.97 million with an average price of 3.2095 Ps.per US\$ and an average tenor of 40 days.

	As of June 30, 2008						
	Average Interest Rate <sup>(1)</sup>	Outstanding Debt 2008	Under 1 year	Expected contractual maturity date (Ps. million)			
More than 1 and not more than 2 years				More than 2 and not more than 3 years	More than 3 and not more than 5 years	More than 5 and not more than 10 years	
<b>Debt:</b>							
Fixed rate (US\$ denominated)	6.59%	20.9	20.9				
Variable rate (US\$ denominated)	Libor +375%	22.1	22.1				
Fixed rate (Ps. denominated)							
Variable rate (Ps. denominated)	Floating	152.6	152.6				

(1) Average interest rate means the weighted average prevailing interest rate as of June 30, 2008.

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### ***Sensitivity to Exchange Rates and Interest Rates***

We estimate, based on the composition of our balance sheet as of June 30, 2008, that every variation in the exchange rate of Ps.0.10 against the U.S. dollars, plus or minus, would result in a variation of approximately Ps.1.47 million of our consolidated financial indebtedness. Since June 30, 2008, the Peso has depreciated versus the U.S. dollar from an exchange rate of Ps.3.025 =US\$1.00 to an exchange rate of Ps.3.4060=US\$1.00 at December 17, 2008 as quoted by *Banco de la Nación Argentina* at the U.S. dollar selling rate. The devaluation of the Peso against the U.S. dollar during such period was 12,6%.

We estimate, based on the composition of our balance sheet as of June 30, 2008, that every variation in the interest rate of 100 basis points, plus or minus, to our current floating-rate consolidated debt denominated in Pesos would result in a variation of approximately Ps.1.46 million of interest expense on an annual basis, assuming no change in the principal amount of this indebtedness. The variable US\$ denominated debt was fully repaid on October 24, 2008, thus our USD interest expenses are not affected by interest rates variations.

This sensitivity analysis provides only a limited, point-in-time view of the market risk sensitivity of certain of our financial instruments. The actual impact of our market foreign exchange rate and/or interest rate changes on our financial instruments may differ significantly from the impact shown in the sensitivity analysis.

### ***Commodity Price Risk and Derivative Financial Instruments***

We use derivative instruments to hedge risks arising out of our core agribusiness operations. We use a variety of commodity-based derivative instruments to manage our exposure to price volatility stemming from its integrated crop production activities. These instruments consist mainly of crop future contracts and put and call option contracts. Contract positions are designed to ensure that we will receive a defined minimum price for certain quantities of our production. The counterparties to these instruments generally are major financial institutions. In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts.

We usually cover up to 40% of our crop production in order to finance our operating costs. The hedge consists of taking positions on purchased puts or sold futures and calls that assure a fixed exit price. In the past, we have never kept a short position greater than our crop inventories. From time to time we may keep an additional long position in derivatives to improve the use of land and capital allocation (i.e., the use of land for rent). It is not our current intention to be exposed in a long derivative position in excess of 50% of our real production.

Derivative financial instruments involve, to a varying degree, elements of market and credit risk not recognized in our financial statements. The market risk associated with these instruments resulting from price movements is expected to offset the market risk of the underlying transactions, assets and liabilities, being hedged. The counterparties to the agreements relating to our futures and options contracts generally are large institutions with credit ratings equal to or higher than ours. We continually monitor the credit rating of such counterparties and seek to limit our financial exposure to any one financial institution. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of our exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed our obligations to the counterparties.

**Table of Contents***Futures and Options*

At June 30, 2008, we had outstanding futures and options as follows:

Crop	Tons	Deposit/Cost (Ps.)	Premium Paid (Collected) (Ps.)	Option Market Value as of 06/30/08 (Ps.)	Market Value (Loss) Gain as of 06/30/08 (Ps.)
<b><u>FUTURES</u></b>					
<b>Sale</b>					
Corn	18.700	390.737			(1,018.064)
Soybean	12.800	382.080			(1,041.437)
Wheat	9.700	202.682			(431.840)
Sunflower	500	14.925			55.223
<b><u>OPTIONS</u></b>					
<b>Put Buy</b>					
Corn	3.810		230.591	185.806	(44.785)
Wheat					
<b>Put Sale</b>					
Corn	3.810		(125.370)	(91.224)	34.146
Total	49.320	990.423	105.221	94.582	(2,446.757)

The deposits/costs on open futures and options as of June 30, 2008, were Ps.1.0 million, and futures generated an unrealized loss of Ps.2.4 million. The premiums paid for open options as of June 30, 2008, were Ps.0.1 million; the market value of such options was of Ps.0.1 million. The options resulted in an unrealized loss of Ps.0.01 million. The total unrealized loss on open futures and options was Ps.2.5 million as of June 30, 2008.

The fair value of our futures and options contracts is determined by calculating the market value of futures contracts, the market value of options acquired and sold and the margin deposits of these contracts. We use valuation models only for internal analysis. Therefore, figures set forth in our tables reflect real market prices used for pricing portfolio.

We combine our options operations with our futures operations, only as a means of reducing the exposure towards the decrease of the prices of our products.

**Current Situation**

As of December 10, 2008 we had outstanding debt denominated in USD of US\$ 11.5 millions. A change of 1% in Ps. / US\$ exchange rate would imply a Ps.0.4 million change in the Peso equivalent of face value of our debt and increases our interest expenses of Ps.0.03 million annually.

As of December 10, 2008 our pesos denominated debt was of Ps.85 millions. We estimate that every variation in the interest rate of 100 basis points to our current floating-rate consolidated debt denominated in Pesos would result in a variation of approximately Ps.0.9 million of interest expense on an annual basis, assuming no change in the principal amount of this indebtedness.

As of December 10, 2008 the amount of cash, cash equivalents and current investments was reduced. In view of the nature of our total portfolio, an immediate 100 BPs parallel shift in the interest rate curve would not have a significant impact on the value of our investment portfolio, its value tends to drop by Ps.1.8 millions per 100 Bps of increase in interest rate level. Also, a rise of 1% in Pesos / dollars exchange rate would imply an increase of Ps.1.3 million in the value of our investments in foreign currency.

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**Item 12. Description of securities other than equity securities**

This section is not applicable.

**PART II**

**Item 13. Defaults, dividend arrearages and delinquencies**

This section is not applicable.

**Item 14. Material modifications to the rights of security holders and use of proceeds**

A. This section is not applicable.

B. This section is not applicable.

C. This section is not applicable.

D. This section is not applicable.

E. This section is not applicable.

**Item 15. Controls and procedures**

**A. DISCLOSURE, CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities and Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer, as appropriate, to allow timely decisions regarding required disclosure. In connection with the preparation of this Annual Report on Form 20-F, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2008. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of fiscal year 2008.

**B. MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.**

The management of CRESUD S.A.C.I.F y A. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles.

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Management assessed the effectiveness of the our internal control over financial reporting as of June 30, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control Integrated Framework. Based on this assessment and the criteria set forth in Internal Control Integrated Framework, management concluded that, as of the end of fiscal year 2008, our internal control over the financial reporting was effective.

### **C. ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM.**

The Company s independent registered public accounting firm, Price Waterhouse & Co. S.R.L., Buenos Aires, Argentina -member firm of PricewaterhouseCoopers-, has issued an attestation report on the effectiveness of the our internal control over financial reporting, as stated in their report included herein. See Report of Independent Registered Public Accounting Firm .

### **D. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.**

During the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Item 16.**

### **A. AUDIT COMMITTEE FINANCIAL EXPERT**

In our annual ordinary shareholders meeting held on October 31, 2003, the audit committee was unanimously approved. Pursuant to this plan, the board of directors had to appoint the members of the audit committee who hold expertise in corporate administration, finance and accounting.

Our board of directors established an audit committee which would assist the Board in exercising its duty of care on disclosure requirements, the enforcement of accounting policies, management of our business risks, the management of our internal control systems, ethical conduct of the company s businesses, monitoring the sufficiency of our financial statements, the company s compliance with laws, independence and capacity of independent auditors and performance of our internal audit duties both by our company and our external auditors.

On November 3, 2008, our board of directors officially appointed Jorge Oscar Fernández, Daniel Mellicovsky, and Pedro Damaso Labaqui Palacio, all of them independent members, as members of the audit committee. Jorge Oscar Fernández is the financial expert in accordance with the relevant SEC rules. We have a fully independent audit committee as per the standard provided in Rule 10(A)-3(b)(1).

### **B. CODE OF ETHICS**

We have adopted a code of ethics that applies to our directors, officers and employees. On July 25, 2005, our Code of Ethics was amended by our board of directors. The reformed Code was filed in a Form 6K filing on August 1, 2005 and is available on our web site <http://www.cresud.com.ar>.

If we make any substantive amendment to the code of ethics or if we grant any waivers, including any implicit waiver, from a provision of the code of ethics, we will disclose the nature of such amendment or waiver in a Form 6-K or in our next Forms 20-F to be filed with the SEC.



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**C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees**

During fiscal years ended June 30, 2008 and 2007, we were billed a total amount of Ps.1.64 million and Ps.0.65 million respectively, for professional services rendered by our principal accountants for the audit of our financial statements and other services normally provided in connection with regulatory filings or engagements.

**Audit-Related Fees**

During fiscal year ended June 30, 2008, we were billed a total amount of Ps.0.01 million for professional services rendered by our principal accountants for other services related to the audit of our financial statements and other services normally provided in connection with regulatory filings or engagements. We were not billed for Audit-related fees in the fiscal year ended June 30, 2007.

**Tax Fees**

During the fiscal year ended June 30, 2008, we were billed a total amount of Ps.0.09 million for professional services rendered by our principal accountants for tax compliance, tax advice and tax planning. We were not billed for tax fees in the fiscal year ended June 30, 2007.

**All Other Fees**

During fiscal year ended June 30, 2008, and 2007 we were not billed for other fees for professional services rendered by our principal accountants including fees mainly related to special assignments and courses.

**Audit Committee Pre-Approval Policies and Procedures**

Our audit committee approves, in advance, the engagement of auditors and their fees for audit and non-audit services pursuant to paragraph (c)(7)(i)(c) of Rule 2-01 of Regulation S-X.

Our Audit Committee pre-approves all services, fees and services provided by the external auditors to ensure auditors' independence. One of the main tasks of the Audit Committee is to give its opinion in relation to the appointment of the external auditors, proposed by the Board of Directors to the General Shareholders Meeting. In order to accomplish such task, the Audit Committee shall:

Require any additional and complementary documentation related to this analysis.

Verify the independence of the external auditors;

Analyze different kinds of services that the external auditor would provide to the company. This description must also include an estimate of the fees payable for such services, specifically in order to maintain the principle of independence;

Inform the fees billed by the external auditor, separating the services related to the Audit Committee and other special services that could be not included as fees related to the Audit Committee;

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Take notice of any strategy proposed by of the external auditors and review it in accordance with the reality other business and the risks involved;

Analyze and supervise the working plan of the external auditors considering the business reality and the estimated risks;

Propose adjustments (if necessary) to such working plan;

Hold meetings with the external auditors in order to: (a) analyze the difficulties, results and conclusions of the proposed working plan; (b) analyze eventual possible conflicts of interests, related party transactions, compliance with the legal framework and information transparency;

Evaluate the performance of external auditors and their opinion regarding the Financial Statements.

### **D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

This section is not applicable.

### **E. PURCHASERS OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

#### **Issuer Purchases of Equity Securities**

On August 26, 2008, our Board of Directors decided to establish the terms of the share repurchase plan under the provisions of Section 68 of Law 17,811 (added by Decree number 677/2001) and the Rules of the *Comisión Nacional de Valores*, in order to help reduce the price volatility of such shares. The terms and conditions of our repurchase plan were: (i) up to Ps.30,000,000, (ii) maximum of 10,000,000 shares to be acquired in the form of shares or ADS, (iii) a payable price between a minimum Ps.3 and up to Ps.3.5 per share, and (iv) a term of the acquisition for 70 days.

Subsequently, there were amendments to the terms and conditions as follows:

On October 8, 2008, we established a minimum payable price of Ps.2.40.

On October 10, 2008, we established a minimum payable price of Ps.2.13.

On October 23, 2008, we established a minimum payable price of Ps.1. On that same date, the *Comisión Nacional de Valores* resolved to temporarily suspend the validity of the cap established in subsection e) of Section 11, Chapter I Shares and other Negotiable Instruments, which provided that the treasury stock of a Company could not exceed 10% of its capital stock.

On October 24, 2008, we established a maximum of 30,000,000 shares to be acquired.

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On November 4, 2008, we decided to extend the term of the acquisition for 70 additional days.

On November 25, 2008, we ratified that the total amount of investment is Ps.82,000,000.

As of December 17, 2008, we had acquired a total of 21,026,719 of our own shares, representing 4.19 % of our own share capital on a fully diluted basis.

Period		Total Number of Shares Purchased	Average Price Paid per Share (Ps.)	Total Number of Shares Purchased as Part of the Publicly Announced Plan	Maximum Number of Shares that may be yet in Purchased under the plan
08/29/08	08/31/08	31,000	3.38	31,000	9,969,000
09/01/08	09/30/08	2,122,886	3.36	2,153,886	7,846,114
10/01/08	10/31/08	9,650,493	2.03	11,804,379	18,195,621
11/01/08	11/30/08	5,756,140	2.02	17,560,519	12,439,481
12/01/08	12/17/08	3,466,200	2.52	21,026,719	8,973,281
<b>Total</b>		<b>21,026,719</b>			

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this Item.

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to pages F-1 through F-245.

Index to Financial Statements (see page F-1).

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**ITEM 19. EXHIBITS**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
1.1*	By-laws ( <i>Estatutos</i> ) of the registrant, which serve as the registrant's articles of incorporation and by-laws, and an English translation thereof.
1.2****	English translation of the amendment to the bylaws.
4.1*	Consulting Agreement among Cresud S.A.C.I.F. y A. and Dolphin Fund Management S.A. dated October 25, 1994.
4.2**	Agreement for the exchange of Corporate Service between the Company, IRSA and Alto Palermo, dated June 30, 2004.
4.3****	English translation of the Amendment to the Agreement for the exchange of Corporate Service between the Company, IRSA and Alto Palermo, dated August 23, 2007.
4.4	English translation of the Second Agreement for the Implementation of the Amendment to the Corporate Services Master Agreement, dated August 14, 2008.
8.1	List of Subsidiaries.
11.1***	Code of Ethics of the Company.
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Chief Executive Officer.
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Chief Financial Officer.
13.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Chief Executive Officer.
13.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Chief Financial Officer .

\* Incorporated herein by reference to the exhibit to the registrant's registration statement on Form F-1 (File No. 333-06548) filed with the SEC on March 3, 1997.

\*\* Incorporated herein by reference to the report statement on Form 6-K (File No. 333-06548) filed with the SEC on July 1, 2004.

\*\*\* Incorporated herein by reference to the registrant's report on Form 6-K (File No. 333-06548) filed with the SEC on August 1, 2005.

\*\*\*\* Incorporated herein by reference to the annual report on Form 20-F (File No. 333-06548) filed with the SEC on December 27, 2007.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Form 20-F on its behalf.

CRESUD SOCIEDAD ANÓNIMA

COMERCIAL INMOBILIARIA

FINANCIERA Y AGROPECUARIA

/s/ Alejandro G. Elsztain  
Alejandro G. Elsztain  
Chief Executive Officer

Date: December 30, 2008

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders equity and of cash flows present fairly, in all material respects, the financial position of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria and its subsidiaries at June 30, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2008 in conformity with accounting principles generally accepted in Argentina. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit for the year ended June 30, 2008). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 20 to the consolidated financial statements.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PRICE WATERHOUSE & Co. S.R.L.

By /s/ Andrés Suarez (Partner)  
Andrés Suarez  
Buenos Aires, Argentina

December 30, 2008

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Consolidated Balance Sheets**

**as of June 30, 2008 and 2007**

(In Argentine Pesos, except as otherwise indicated)

	2008	2007
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and banks (Notes 4.a) and 21.g))	Ps. 47,795,227	Ps. 46,930,644
Investments (Notes 4.b), 7, 21.c) and 21.g))	485,292,447	39,841,438
Trade accounts receivable, net (Notes 4.c), 7 and 21.g))	35,792,871	37,930,596
Other receivables (Notes 4.d), 7 and 21.g))	55,390,709	39,611,870
Inventories (Note 4.e))	111,525,262	52,460,289
Other assets (Note 4.f))	1,070,506	
	736,867,022	216,774,837
<b>Non-Current Assets</b>		
Other receivables (Notes 4.d) 7 and 21.g))	41,364,810	43,236,560
Inventories (Note 4.e))	76,113,042	68,345,438
Investments (Notes 4.b), 7 and 21.g))	925,970,511	474,022,374
Property and equipment, net (Note 21.a))	266,615,763	245,919,561
Intangible assets, net (Note 21.b))	22,829,041	23,581,646
	1,332,893,167	855,105,579
<b>Total Assets</b>	<b>Ps. 2,069,760,189</b>	<b>Ps. 1,071,880,416</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade accounts payable (Notes 4.g), 7 and 21.g))	Ps. 49,539,528	Ps. 30,935,851
Short-term debt (Notes 4.h), 7 and 21.g))	195,600,209	122,749,734
Salaries and social security payable (Notes 4.i) and 7)	6,409,289	4,219,120
Taxes payable (Notes 4.j) and 7)	10,324,198	6,699,044
Other liabilities (Notes 4.k) and 7)	473,960	3,087,957
	262,347,184	167,691,706
<b>Non-Current Liabilities</b>		
Trade accounts payable (Notes 4.g), 7 and 21.g))		246,231
Long-term debt (Notes 4.h), 7 and 21.g))		24,744,000
Taxes payable (Notes 4.j) and 7)	41,817,828	51,312,237
Other liabilities (Notes 4.k) and 7)	293,386	347,549
Provision for lawsuits and contingencies (Notes 7 and 21.d))	1,803,330	1,747,606
	43,914,544	78,397,623
<b>Total Liabilities</b>	<b>306,261,728</b>	<b>246,089,329</b>

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Minority interest	1,160,330	836,872
<b>SHAREHOLDERS EQUITY</b>	<b>1,762,338,131</b>	<b>824,954,215</b>
Total Liabilities and Shareholders Equity	Ps. 2,069,760,189	Ps. 1,071,880,416

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

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Consolidated Statements of Income**

**for the years ended June 30, 2008, 2007 and 2006**

(In Argentine Pesos, except as otherwise indicated)

	2008	2007	2006
<b>Production income</b>			
Crops	Ps. 117,473,605	Ps. 72,426,012	Ps. 37,005,907
Beef cattle	23,926,925	19,462,410	20,452,655
Milk	18,420,338	10,911,397	7,892,462
<b>Total production</b>	<b>159,820,868</b>	<b>102,799,819</b>	<b>65,351,024</b>
<b>Cost of production</b>			
Crops	Ps. (82,150,711)	Ps. (51,538,292)	Ps. (34,635,590)
Beef cattle	(19,316,000)	(15,050,438)	(18,780,372)
Milk	(14,283,089)	(8,476,391)	(5,845,360)
<b>Total cost of production (Note 21.f)</b>	<b>(115,749,800)</b>	<b>(75,065,121)</b>	<b>(59,261,322)</b>
<b>Gross income from production</b>	<b>44,071,068</b>	<b>27,734,698</b>	<b>6,089,702</b>
<b>Sales</b>			
Crops	Ps. 86,870,493	Ps. 53,401,376	Ps. 61,659,566
Beef cattle	32,431,928	31,966,582	33,713,479
Milk	17,492,552	9,730,929	7,892,462
Feed lot		3,102,229	2,721,377
Others	25,785,987	12,116,372	6,353,777
<b>Total sales</b>	<b>162,580,960</b>	<b>110,317,488</b>	<b>112,340,661</b>
<b>Cost of sales</b>			
Crops	Ps. (75,948,518)	Ps. (47,350,203)	Ps. (52,948,920)
Beef cattle	(30,038,217)	(30,272,710)	(32,993,523)
Milk	(17,629,859)	(9,730,929)	(7,892,462)
Feed lot		(2,784,315)	(2,318,102)
Others	(17,379,224)	(6,737,019)	(3,257,448)
<b>Total cost of sales (Note 21.e)</b>	<b>(140,995,818)</b>	<b>(96,875,176)</b>	<b>(99,410,455)</b>
<b>Gross income from sales</b>	<b>21,585,142</b>	<b>13,442,312</b>	<b>12,930,206</b>
<b>Gross profit</b>	<b>65,656,210</b>	<b>41,177,010</b>	<b>19,019,908</b>
Selling expenses (Note 21.h))	(14,497,124)	(9,971,891)	(10,151,452)
Administrative expenses (Note 21.h))	(26,103,558)	(16,628,088)	(11,560,307)
Net gain on the sale of farms	20,014,447	22,255,710	9,897,186

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Unrealized gain on inventories	Beef cattle	8,535,154	5,102,943	2,847,711
Unrealized gain (loss) on inventories	Crops, raw materials and MAT (1)	(10,877,719)	(3,926,654)	1,054,094
Unrealized gain	On farm held for sale (Note 3.k)	885,009		
<b>Operating income</b>		<b>43,612,419</b>	<b>38,009,030</b>	<b>11,107,140</b>
Financial results, net: (Note 4.1))				
Financial results generated by assets		(30,185,860)	2,882,976	33,859,684
Financial results generated by liabilities		(22,081,721)	(13,340,970)	(21,485,726)
Total financial results, net		(52,267,581)	(10,457,994)	12,373,958
Gain on equity investees		38,417,207	40,198,825	22,140,997
Other expense, net:				
Gain on the sale of fixed assets		38,589	7,542	116,650
Donations				(1,600,000)
Shareholders personal assets tax and others		(4,131,092)	(4,258,342)	(1,884,244)
Total other expense, net		(4,092,503)	(4,250,800)	(3,367,594)
Management fee		(2,170,982)	(5,484,697)	(3,836,470)
Income before income tax and minority interest		23,498,560	58,014,364	38,418,031
Income tax expense (Note 11)		(284,073)	(8,375,095)	(5,431,831)
Minority interest		(266,449)	(277,000)	(102,924)
<b>Net income for the year</b>		<b>Ps. 22,948,038</b>	<b>Ps. 49,362,269</b>	<b>Ps. 32,883,276</b>
<b>Earnings per share (Notes 3.u) and 12):</b>				
Basic net income per common share		Ps. 0.062	Ps. 0.20	Ps. 0.19
Diluted net income per common share		0.059	0.16	0.13

(1) Mercado a Termino de Buenos Aires - Buenos Aires Board of Trade

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

**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Consolidated Statements of Changes in Shareholders' Equity****for the years ended June 30, 2008, 2007 and 2006**

(In Argentine Pesos, except as otherwise indicated)

Items	Shareholders' contributions			Total	Legal reserve	Reserve for new developments	Retained earnings	Translation differences	Total
	Common stock (Note 5)	Inflation adjustment of common stock and treasury stock	Paid-in-capital						
<b>Balances as of June 30, 2005</b>	Ps. 162,784,579	Ps. 166,218,124	Ps. 78,175,196	Ps. 407,177,899	Ps. 7,692,591	Ps.	Ps. 108,200,480	Ps.	Ps. 523,070,970
Conversion of notes into common stock	29,151,389		15,957,556	45,108,945					45,108,945
Exercise of old warrants	28,668,581		24,918,614	53,587,195					53,587,195
Appropriation of retained earnings resolved by Shareholders Meeting held on November 29, 2005									
- Legal reserve					3,839,946		(3,839,946)		
- Cash dividends (Ps. 0.06 per share)							(10,000,000)		(10,000,000)
Changes of interests in equity investees and subsidiaries resulting from capital nature transactions (Note 5)			(12,134,376)	(12,134,376)					(12,134,376)
Translation differences								(6,650,419)	(6,650,419)
Net income for the year							32,883,276		32,883,276
<b>Balances as of June 30, 2006</b>	Ps. 220,604,549	Ps. 166,218,124	Ps. 106,916,990	Ps. 493,739,663	Ps. 11,532,537	Ps.	Ps. 127,243,810	Ps. (6,650,419)	Ps. 625,865,591
Conversion of notes into common stock	44,352,015		25,307,891	69,659,906					69,659,906
Exercise of old warrants	44,619,656		39,555,902	84,175,558					84,175,558

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Appropriation of retained earnings resolved by Shareholders Meeting held on October 31, 2006										
- Legal reserve				1,644,164			(1,644,164)			
- Cash dividends (Ps. 0.02 per share)							(5,500,000)			(5,500,000)
- Reserve for new developments						120,099,646	(120,099,646)			
Changes of interests in equity investees and subsidiaries resulting from capital nature transactions (Note 5)				(6,857,758)	(6,857,758)					(6,857,758)
Translation differences								8,248,649		8,248,649
Net income for the year								49,362,269		49,362,269

<b>Balances as of June 30, 2007</b>	Ps. 309,576,220	Ps. 166,218,124	Ps. 164,923,025	Ps. 640,717,369	Ps. 13,176,701	Ps. 120,099,646	Ps. 49,362,269	Ps. 1,598,230	Ps. 824,954,215
Conversion of notes into common stock	5,343,374		3,175,417	8,518,791					8,518,791
Exercise of old-warrants	5,855,178		5,306,325	11,161,503					11,161,503
Exercise of warrants	757,093		3,229,112	3,986,205					3,986,205
Issuance of common stock and warrants	180,000,000		711,052,360	891,052,360					891,052,360
Appropriation of retained earnings resolved by Shareholders Meeting held on October 10, 2007									
- Legal reserve				2,468,113			(2,468,113)		
- Cash dividends (Ps. 0.03 per share)							(8,250,000)		(8,250,000)
- Reserve for new developments						38,644,156	(38,644,156)		
Changes of interests in equity investees and subsidiaries resulting from capital nature transactions (Note 5)				(8,498,388)	(8,498,388)				(8,498,388)
Translation differences								16,465,407	16,465,407
Net income for the year								22,948,038	22,948,038

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**Balances as of**  
**June 30, 2008** Ps. 501,531,865 Ps. 166,218,124 Ps. 879,187,851 Ps. 1,546,937,840 Ps. 15,644,814 Ps. 158,743,802 Ps. 22,948,038 Ps. 18,063,637 Ps. 1,762,338,131

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

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**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Consolidated Statements of Cash Flows****for the years ended June 30, 2008, 2007 and 2006**

(In Argentine Pesos, except as otherwise indicated)

	2008	2007	2006
<b>Cash flows from operating activities:</b>			
Net income for the year	Ps. 22,948,038	Ps. 49,362,269	Ps. 32,883,276
<b>Adjustments to reconcile net income to net cash flows operating activities:</b>			
Income tax expense	284,073	8,375,095	5,431,831
Depreciation	5,721,242	4,459,067	5,112,088
Amortization	752,605		
Minority interest	266,449	277,000	102,924
Gain on equity investees	(38,417,207)	(40,198,825)	(22,140,997)
Unrealized loss (gain) on inventories	2,342,565	(1,176,289)	(3,901,805)
Net gain on the sale of farms	(20,014,447)	(22,255,710)	(9,897,186)
Gain on the sale of fixed assets	(38,589)	(7,542)	(116,650)
Accrued for management fees		2,817,997	3,073,950
Accrued expenses and allowance for doubtful accounts	9,297,728	9,053,039	10,940,250
Financial results	765,184	(2,438,155)	(6,663,008)
Gain from sale of non-current investments			(14,872,000)
<b>Changes in operating assets and liabilities:</b>			
(Increase) decrease in current investments	(12,110,680)	6,162,768	7,262,688
Decrease (increase) in trade accounts receivable	1,990,218	(28,541,205)	(1,339,921)
Increase in other receivables	(20,407,149)	(27,327,151)	(27,366,133)
(Increase) decrease in inventories	(71,089,201)	(28,274,045)	11,331,834
Increase (decrease) trade accounts payable	15,126,630	(2,873,413)	(4,833,940)
Increase (decrease) in salaries and social security payable taxes payable and advances from customers	5,972,340	5,581,373	(18,293,933)
Increase in interest payable	23,338,800	12,699,048	10,292,047
Dividends collected	2,709,392	1,352,941	1,108,923
Increase in non-current investments		(89,987)	
(Decrease) increase in other liabilities	(5,721,407)	(3,099,069)	415,721
<b>Net cash used in operating activities</b>	<b>(76,283,416)</b>	<b>(56,140,794)</b>	<b>(21,470,041)</b>
<b>Cash flows from investing activities:</b>			
Net proceeds from the sale of farms and other property and equipment	22,497,817	25,335,741	5,634,000
Collection of receivables from the sale of farms	6,391,191	3,850,808	5,736,964
Acquisition of farms and other property and equipment	(28,018,672)	(29,326,622)	(55,770,620)
Payment for subsidiary acquired, net of cash acquired			(1,857,985)
Increase in interest in equity method investee	(407,516,432)	(726,804)	(64,608,293)
<b>Net cash used in investing activities</b>	<b>(406,646,096)</b>	<b>(866,877)</b>	<b>(110,865,934)</b>
<b>Cash flows from financing activities:</b>			
Contributions received by subsidiaries from minority shareholders			180,000
Issuance of common stock and warrants, net of issuance costs	881,116,861		



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Exercise of old-warrants and warrants	15,147,708	84,175,558	53,587,195
Cash dividends paid	(8,250,000)	(5,500,000)	(10,000,000)
Proceeds from short-term and long-term debt	79,197,773	84,508,257	83,957,134
Payments of short-term debt	(45,686,836)	(45,139,498)	(18,959,790)
Payment of seller financing	(3,692,699)	(2,230,560)	(16,514,000)
<b>Net cash provided by financing activities</b>	<b>917,832,807</b>	<b>115,813,757</b>	<b>92,250,539</b>
Net increase (decrease) in cash and cash equivalents	434,903,295	58,806,086	(40,085,436)
Cash and cash equivalents as of the beginning of the year	86,183,136	27,377,050	67,462,486
Cash and cash equivalents as of year-end	Ps. 521,086,431	Ps. 86,183,136	Ps. 27,377,050

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

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Consolidated Statements of Cash Flows**

**for the years ended June 30, 2008, 2007 and 2006 (continued)**

(In Argentine Pesos, except as otherwise indicated)

	2008	2007	2006
<b>Supplemental cash flow information:</b>			
<b>Cash paid during the year for:</b>			
Interest	Ps. 18,482,238	Ps. 9,200,569	Ps. 10,336,890
Income tax	Ps. 4,352,941	Ps. 1,738,045	Ps. 33,317,971
<b>Non-cash investing and financing activities:</b>			
Inventory transferred to property and equipment	Ps. 1,914,059	Ps. 1,460,459	Ps. 779,347
Conversion of notes into common shares	Ps. 8,518,791	Ps. 69,659,906	Ps. 45,108,945
Seller financing for acquisition of farms	Ps.	Ps. 3,714,000	Ps. 7,160,617
Application of down payments received for the sale of farms	Ps.	Ps.	Ps. (2,055,200)
Increase in interest in IRSA by a decrease in non-current investments (conversion of IRSA Convertible Notes)	Ps. 37,764,000	Ps.	Ps. 66,338,239
Acquisition of subsidiary company through a decrease in non-current investments	Ps.	Ps.	Ps. 21,723,661
Tax effect issuance expenses of capital included in paid-in capital	Ps. 9,935,499	Ps.	Ps.
Increase in receivables from the sale of farms	Ps.	Ps. 3,646,002	Ps. 8,572,080
<b>Acquisition of subsidiary company:</b>			
Fair value of concession rights	Ps.	Ps.	Ps. 23,581,646
Fair value of other non-cash assets acquired	Ps.	Ps.	Ps. 5,922,781
Fair value of non-cash liabilities assumed	Ps.	Ps.	Ps. (317,165)
<b>Net assets acquired</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps. 29,187,262</b>
<b>Total purchase price</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps. 29,187,262</b>
Surrender of IRSA s Convertible Notes	Ps.	Ps.	Ps. 27,329,277
<b>Purchase price paid in cash</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps. 1,857,985</b>

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

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**1. Description of business**

Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria ( Cresud and together with its subsidiaries the Company ) was incorporated in 1936 as a subsidiary of Credit Foncier, a Belgian company engaged in, among other things, providing rural and urban loans in Argentina and administering real estate holdings foreclosed by Credit Foncier. Credit Foncier was liquidated in 1959, and as part of such liquidation, the shares of Cresud were distributed to Credit Foncier's shareholders. From the 1960s through the end of the 1970s, the business of the Company shifted exclusively to primary agricultural activities. Currently, the Company's business operations are comprised of crop production, cattle raising and fattening, milk production, cattle feeding, certain forestry activities and brokerage activities. However, from time to time it sells properties to profit from real estate appreciation opportunities and which, in the judgment of management, are surplus to the Company's primary operations.

**2. Preparation of financial statements**

**a) Basis of presentation**

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles used in Argentina, as set forth by the *Federación Argentina de Consejos Profesionales de Ciencias Económicas* ( FACPCE ) and as implemented, adapted, amended, revised and/or supplemented by the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* ( CPCECABA ) (collectively Argentine GAAP). In addition, the Company must comply with the regulations of the *Comisión Nacional de Valores* ( CNV ), the National Securities Commission in Argentina, which differ in certain significant respects from generally accepted accounting principles in the United States of America ( US GAAP ). Such differences involve methods of measuring the amounts shown in the consolidated financial statements as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission ( SEC ). A description of the significant differences between Argentine GAAP and US GAAP as they relate to the Company are set forth in Note 20 to these consolidated financial statements.

As discussed in Note 2.d), in order to comply with regulations of the CNV, the Company discontinued inflation accounting as from February 28, 2003. Since Argentine GAAP required companies to discontinue inflation adjustments only as from October 1, 2003, the application of CNV resolution represented a departure from Argentine GAAP. However, due to low inflation rates during the period from March to September 2003, such a departure has not had a material effect on the consolidated financial statements.

In addition, in accordance with the CNV regulations, the Company recognized deferred income taxes on an undiscounted basis. This accounting practice represented a departure from Argentine GAAP but did not have a material effect on the consolidated financial statements for the year ended June 30, 2006. However, as further discussed below, the CPCECABA issued revised accounting standards. One of these standards required companies to account for deferred income taxes on an undiscounted basis, thus aligning the accounting to that of the CNV. Since the CNV adopted the CPCECABA standards effective for the Company for the year ended June 30, 2007, there was no longer a difference on this subject between Argentine GAAP and the CNV regulations.

Effective July 1, 2006, the Company adopted Technical Resolution No. 22 *Agricultural Activities* (RT No. 22). RT No. 22 prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets. RT No. 22 prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. It requires measurement at fair value less estimated point-of-sale costs from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. RT No. 22 requires that a change in fair value less estimated point-of-sale

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costs of a biological asset be included in profit or loss for the period in which it arises. RT No. 22 also requires that gains or losses arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs to be included in profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

*a) Basis of presentation (continued)*

of a living animal or plant directly enhances or diminishes economic benefits to the entity. RT No. 22 is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Accordingly, RT No. 22 does not deal with the processing of agricultural produce after harvest; for example, the processing of milk into cheese.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset. Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes. Biological transformation results in the following types of outcomes: asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants).

The adoption of RT No. 22 did not have a significant impact in the measurement and recognition of biological transformation. Rather, it changed the format of the income statement. Under RT No. 22 the Company discloses certain components of its costs as separate line items in the income statement. There was no change in the gross profit for any of the periods presented.

Prior to the adoption of RT No. 22 gains or losses arising from initial recognition of biological assets and agricultural produce as well as changes in fair value of biological assets were included as a deduction of costs of sales. Under RT No. 22 these changes are disclosed separately in the income statement under the line item titled "Production income" in the income statement.

Also, prior to the adoption of RT No. 22, costs directly related to the transformation of biological assets and agricultural produce were also included as an addition to costs of sales. Under RT No. 22, these costs are disclosed separately in the income statement under the line item titled "Cost of production" in the Company's income statement due to the direct relationship to the transformation of biological assets and agricultural produce.

The adoption of RT No. 22 did not affect the Company's recognition of revenue which is included in the line item titled "Sales" in the income statement. See Note 3.a) for revenue recognition policies. As a result of the adoption of RT No. 22, costs of sales only show certain direct costs related to the sales of agricultural produce other than selling expenses. RT No. 22 intends to purport that costs of sales are not significant in agricultural activities while costs of biological transformation into agricultural produce represent the major costs of these activities.

In addition, under RT No. 22, "Exhibits Cost of Sales and Cost of Production" included in Note 21.e) and f) to the income statement present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. This reconciliation includes (a) the gain or loss arising from changes in fair value less estimated point-of-sale costs; (b) increases due to purchases; (c) decreases attributable to sales and biological assets classified as held for sale; (d) decreases due to harvest; (e) increases resulting from business combinations, if any; (f) other changes.

*Adoption by CNV of CPCECABA standards*

The CNV issued General Resolutions No. 485 and No. 487 on December 29, 2005 and January 26, 2006, respectively which adopted, with certain modifications, the new accounting standards previously issued by the CPCECABA through its Resolution CD 93/2005. These standards were effective for the Company for the year ended June 30, 2007.

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The most significant changes included in the accounting standards adopted by the CNV relate to (i) changes in the impairment test of long-lived assets, (ii) changes to deferred income tax accounting and (iii) accounting of deferred income taxes on a non-discounted basis.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

*a) Basis of presentation (continued)*

Under the new standards, the carrying value of a long-lived asset is considered impaired by a company when its value in use or its net realizable value, whichever is greater, is less than its carrying value. Value in use is determined by the expected cash flows from the assets discounted at a rate commensurate with the risk involved. Net realizable value is determined by the selling price of the asset less costs of sell.

The new standards provided for the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements. The new accounting standard mandates companies to treat these differences as temporary differences but allowed a one-time accommodation to continue treating these differences as permanent at the time of adoption of the standard. As a result, the Company elected to continue treating differences as permanent. The estimated effect as of June 30, 2008 that the adoption of the new criteria would have generated would be a decrease in shareholder's equity of approximately Ps. 15.4 million which should be recorded Ps. 16.1 million (loss) as a reduction to retained earnings and Ps. 0.7 million (gain) to the current year income statements.

Additionally as discussed in Note 3.m. in order to comply with the regulations of the CNV, the Company recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represented a departure from Argentine GAAP but did not have a material effect on the consolidated financial statements for the years ended June 30, 2006. In December 2005 and January 2006, the CPCECABA issued revised accounting standards. One of these standards required companies to account for deferred income taxes on an undiscounted basis, thus aligning the accounting to that of the CNV. Since the CNV adopted the CPCECABA standards effective for the Company for the year ended June 30, 2007, there was no longer a difference on this subject between Argentine GAAP and the CNV regulations.

*b) Basis of consolidation*

The accompanying consolidated financial statements include the accounts of Cresud and its subsidiaries over which Cresud has effective control. Investments in joint ventures in which the Company exercises joint control are accounted for under the proportionate consolidation method for details (see Note 2.c). Investments in companies in which Cresud exercises significant influence, but not control, are accounted for under the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation.

In accordance with Argentine GAAP, the presentation of the parent company's individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes.

A description of the subsidiaries over which Cresud has effective control, with their respective percentage of capital stock owned, is presented as follows:

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Subsidiaries	Percentage of capital stock owned as of June 30, (i)		
	2008	2007	2006
Inversiones Ganaderas S.A.	99.99%	99.99%	99.99%
Futuros y Opciones.Com S.A (FyO)	68.10%	70.00%	70.00%
Agropecuaria Cervera S.A.	99.99%	99.99%	99.99%
Agrology S.A.	99.99%		
FyO Trading S.A.	69.26%		

(i) Percentage of equity interest owned has been rounded.



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**Cresud Sociedad Anónima Comercial, Inmobiliaria,**

**Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

*c) Proportionate consolidation*

Cactus Argentina S.A. ( Cactus ) is a joint venture operation between the Company and Cactus Feeders Inc. As further discussed in Note 2.h), effective January 1, 2007, the Company's interest in the joint venture decreased from 50.0% to 24.0%. The Company followed Technical Resolution No. 21, Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions ( RT No. 21 ) in accounting for joint venture operations. RT No. 21 requires proportionate consolidation where effective joint control is exercised. Accordingly, these financial statements reflect the Company's pro-rata equity interest in the joint venture on a line-by-line basis through December 31, 2006. As from January 1, 2007, the investment in Cactus has been accounted for under the equity method of accounting since the Company has no longer exercise joint control but significant influence.

*d) Presentation of financial statements in constant Argentine Pesos*

On August 22, 1995, the Argentine Government issued Decree No. 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995 in accordance with CNV resolutions and Argentine GAAP, the Company began accounting for its financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, the consolidated financial statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical consolidated financial statements. The financial statement information of periods prior to August 31, 1995 was restated to pesos of general purchasing power as of August 31, 1995. The August 31, 1995 balances, adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

However, as a result of the inflationary environment in Argentina in 2002, the CPCECABA approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements as from January 1, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are to be considered stated in currency as of December 31, 2001.

On July 16, 2002, the Argentine government issued a decree, instructing the CNV to issue the necessary regulations for the acceptance of financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency.

However, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003.

Since Argentine GAAP required companies to discontinue inflation accounting as from October 1, 2003, the application of the CNV resolution represents a departure from generally accepted accounting principles in Argentina. However, due to the low level of inflation rates during the period from March 2003 through September 2003, such a departure has not had a material effect on the accompanying consolidated financial statements.

*e) Reclassifications*

Certain reclassifications of prior year's information have been made to conform to the current year presentation. The reclassifications had no impact on previously reported net income, net income per share, shareholders' equity or cash flows.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

*f) Functional currency and reporting currency*

The Company's functional and reporting currency is the Argentine Peso. Solely for the convenience of the reader certain amounts are alternatively expressed in Argentine Pesos, Brazilian Reais or US Dollars in the notes to the financial statements. Translations should not be construed as a representation that the amounts shown could have been, or could be, converted into U.S. Dollars or Brazilian Reais at that or any other rate. See Note 3.q) for a discussion on foreign currency translation.

*g) Acquisitions*

Year ended June 30, 2008

During the year ended June 30, 2008, the Company acquired 4,086,800 shares of BrasilAgro -Companhia Brasileira de Propriedades Agrícolas ( BrasilAgro ) for Ps.84.0 million, increasing its equity interest from 7.40% to 14.39%.

During this fiscal year, BrasilAgro acquired four properties, which represent 78,907 hectares. The properties acquired were:

Alto Taquari farm, a 5,266 hectare property for an aggregate consideration of R\$34.1 million (US\$19.14 million).

Araucaria farm (75%), a 11,657 hectare property for an aggregate consideration of R\$68.4 million (US\$38.5 million).

Chaparral farm, a 37,799 hectare property for an aggregate consideration of R\$47.1 million (US\$26.6 million).

Nova Buriti farm, a 24,185 hectare property for an aggregate consideration of R\$22.2 million (US\$12.5 million).

In September and November of 2007, the Company acquired 82.5 million shares of the common stock of its equity investee, IRSA Inversiones y Representaciones S.A. ( IRSA ), by (i) converting US\$12.0 million of IRSA's Convertible Notes into 22.0 million shares of IRSA's common stock and (ii) exercising the warrants to acquire 60.5 million shares of IRSA's common stock for a total purchase price of US\$39.6 million (Ps.124.7 million). Further, the Company acquired an additional 45,019,910 shares of the common stock of IRSA for US\$62.7 million (Ps.196.3 million), all of these acquisitions increased the Company's interest in IRSA from 25.01% to 42.13% as of June 30, 2008.

On December 17, 2007, the Company acquired the remaining undivided 25% of the 72 hectares of La Adela farm (18 hectares) for an aggregate purchase price of US\$0.1 million. As a result, as of June 30, 2008, the Company owned 1,054 hectares of La Adela farm.

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In April, 2008, the Company acquired an undivided 80% interest in La Esperanza farm (980 hectares) located in the Province of La Pampa for an aggregate purchase price of US\$1.28 million.

In May 2008, IRSA entered into a preliminary purchase contract with transfer of possession with Birafriends S.A. (an unrelated party) for the acquisition of a plot of land in Luján, Province of Buenos Aires, for a total purchase price of US\$ 3.0 million. IRSA paid US\$ 1.2 million and the remaining balance will be paid at the time of the signing of the deed. On December 2008, IRSA assigned the preliminary purchase contract to Cresud. Cresud will pay the remaining balance at the time of the signing of the deed, and will also refund IRSA the amount the Company paid at the time of the signing of the preliminary purchase.

On June 30, 2008, the Company acquired the Estancia Carmen farm, a 10,910 hectare property located in the Province of Santa Cruz for an aggregate purchase price of US\$0.7 million. The Company made a down payment of US\$0.2 million in cash and did not take possession of the property as of June 30, 2008. In September 2008, the Company paid off the remaining balance and assumed possession of the property.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

***g) Acquisitions (continued)***

The Company, directly or indirectly through its subsidiaries, formed two companies in May 2008, Agrology S.A. and FyO Trading S.A. Agrology is a new venture that invests in financial instruments and manages equity interests in other companies. FyO Trading is a new venture that engages in agricultural production and commerce.

**Year ended June 30, 2007**

In January 2007, Cactus acquired 100% of Exportaciones Agroindustriales Argentinas S.A. (EAASA) for an aggregate purchase price of Ps.16.8 million. EAASA is engaged in cattle slaughtering and meat processing activities.

Also, in January 2007, the Company acquired an additional 0.1% in BrasilAgro. BrasilAgro acquired, in separate transactions, 4 operating properties. These properties were acquired for an aggregate purchase price of approximately R\$94.0 million (US\$46.3 million). The properties acquired were:

Sao Pedro farm, a 2,443 hectare property for an aggregate consideration of R\$9.9 million (US\$4.7 million).

Cremaq farm, a 32,375 hectare for an aggregate consideration of and R\$42.2 million (US\$19.7 million).

Engenho farm, a 2,022 hectare for an aggregate consideration of and R\$10.0 million (US\$4.7 million).

Jatobá farm, a 31,603 hectare for an aggregate consideration of and R\$31.8 million (US\$17.2 million).

In April 2007, BrasilAgro, together with an unrelated party, Brenco Ltda. entered into a purchase agreement for the acquisition of Araucaria farm, a 15,543 hectares property located in Mineiros, State of Goias, Brazil. BrasilAgro's aggregate investment in this property was approximately US\$38.9 million. In May 2007, BrasilAgro entered into a purchase agreement for the acquisition of Alto Tacuari farm, a 5,266 hectares property located in Tacuari, Mato Grosso, Brazil, for an aggregate purchase price of US\$17.0 million.

On May 15, 2007, the Company acquired the 8 de Julio farm, a 90,000 hectare property located south of the Deseado River in the Province of Santa Cruz, for an aggregate purchase price of US\$2.4 million. Upon execution of the bill of purchase a payment was made for US\$1.2 million and possession over the farm was taken. On August 13, 2007, the Company paid US\$0.24 million and the balance of US\$0.96 million was paid in October 11, 2007, and also on that date the deed was executed. This farm offers excellent potential for sheep production, both in terms of wool and mutton production. In addition, it has future potential as a tourist attraction and for leisure activities.

**Year ended June 30, 2006**

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On September 1, 2005, the Company acquired the San Pedro farm, a 6,022 hectare property located in the Department of Concepción del Uruguay, Province of Entre Ríos, for an aggregate purchase price of US\$16.0 million, of which US\$9.5 million was paid when signed the deed, US\$4.0 million was paid on December 14, 2005 and US\$0.73 million was paid on September 1, 2006. The remaining balance of US\$1.7 million plus interest of US\$0.1 million will be paid in September 2009.

In December 2005, the Company acquired all the outstanding common stock of Agropecuaria Cervera S.A. ( ACER ), whose main asset was a 35-year concession right (renewable for an additional 29-year period) granted by the Provincial Government of Salta, Argentina, to exploit 162,000 hectares of undeveloped land and natural forests. The concession entitles ACER to conduct agricultural, cattle breeding and/or forestry activities

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

***g) Acquisitions (continued)***

during the concession period. Additionally, Agropecuaria Cervera committed to return the 30,000 hectares originally considered as not usable for agricultural purposes under the concession. The acquisition has been accounted for, as an asset acquisition. As a result, the Company allocated the purchase price of US\$9.6 million to the individual net assets acquired *i.e.*, forests, concession rights and certain miscellaneous fixed assets, in each case based on their relative fair values. No goodwill was recorded. See Note 19 for Subsequent Events.

The aggregate purchase price for the acquisition was US\$9.6 million, of which US\$1.1 million was paid in cash and US\$8.5 million by surrendering IRSA's Convertible Notes held by the Company (see note 4.b) (iii) for details).

In March 2006, the Company together with other unrelated parties founded BrasilAgro aimed at replicating the Company's business in Brazil. The Company contributed cash for Ps.63.1 million in exchange for shares and 104,902 warrants to purchase additional shares. The Company's equity interest in BrasilAgro was 7.3%. BrasilAgro's shares went public in the Brazilian Stock Exchange (Bovespa) in May 2006. Warrants vest in one-thirds as from May 2, 2007 to May 2, 2009 and are exercisable for a period of up to 15 years at an exercise price equivalent to the initial public offering price adjusted by the Brazilian IPCA inflation index. Should the Company exercise the warrants, the equity interest would be increased to 19.71%.

Moreover, an additional 104,902 warrants were issued which can only be exercised, at the Company's option, in the event of a tender offer. These warrants are exercisable through the year 2021 at an exercise price equivalent to the purchase price of the tender offer.

***h) Dispositions***

**Year ended June 30, 2008**

On October 22, 2007, the Company sold 4,974 hectares of Los Pozos farm for US\$1.1 million, which was collected in full as of June 30, 2008. This transaction generated a gain of US\$1.0 million.

On May 30, 2008, the Company sold 2,430 hectares of La Esmeralda farm for US\$6.2 million, which was collected in full as of June 30, 2008. This transaction generated a gain of US\$5.3 million.

In June 2008, BrasilAgro sold its Engenho farm, a 2,022 hectare property which was acquired for R\$10.1 million in December, 2006, for an aggregate consideration of R\$21.8 million. This transaction generated a gain of US\$6.6 million for BrasilAgro.

**Year ended June 30, 2007**

On August 28, 2006, the Company signed a preliminary sale contract of 1,829 hectares of the farm called El Recreo of its property for aggregate consideration of US\$0.36 million. This transaction was not closed as of June 30, 2008. See Note 19.c).

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On January 10, 2007, the Company entered into a Stock Subscription and Shareholders Agreement with Tyson Foods Inc. ( Tyson ) pursuant to which the Company's subsidiary, Cactus, issued 9,397,213 newly shares of Ps.1 each to Tyson for an aggregate price of Ps.16.7 million. As a result of this transaction, the Company decreased its ownership interest in Cactus to 24.0%. As discussed in Note 2.c), the Company accounted for its investment in Cactus under the proportionate consolidation method through December 31, 2006. As from January 1, 2007, the Company accounts for its investment in Cactus under the equity method of accounting.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

***h) Dispositions (continued)***

Cactus issued the shares to Tyson at a price per share in excess of the Company's average carrying amount per share. Consistently with other transactions, the Company recorded the change of interest as additional paid-in capital.

On June 5, 2007 the Company sold 14,516 hectares of Los Pozos farm, located in the Province of Salta, Argentina, for US\$2.2 million, which was fully collected. Therefore, this sale yielded a US\$2.0 million profit.

On June 6, 2007 the Company sold Tapenagá farm, covering 20,833 hectares, located in the Province of Formosa, Argentina, for US\$ 7.3 million. The Company received US\$3.7 million as down payment and the outstanding balance was financed. Therefore, the transaction yielded a US\$5.0 million profit.

**Year ended June 30, 2006**

On July 25, 2005 the Company sold El Gualicho farm, covering 5,727 hectares, located in the Province of Córdoba, Argentina, for a total sales price of US\$5.7 million, resulting in a gain of US\$3.4 million. The company collected US\$3.4 million and will collect the balance in five equal annual installments through July 2010.

***i) Use of estimates***

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Significant estimates include but are not limited to those required in the accounting for the conversion of IRSA Convertible Notes, the allowance to doubtful accounts, the depreciation, amortization and impairment of long-lived assets, the provision for contingencies and income taxes, assets recoverable value, purchase accounting and classification of current and non-current assets. Actual results could differ from those estimates.

**3. Significant accounting policies**

The following is a summary of significant accounting policies followed by the Company in the preparation of these consolidated financial statements:

***a) Revenue recognition***

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The Company primarily derives its revenues from the sale of crops, milk and live beef cattle, cattle feed lot operation, and services and leasing of its farms to third parties and brokerage activities. Through December 31, 2006, the Company's revenues included the proportionate share of the cattle feedlot operations through its joint venture in Cactus. As from January 1, 2007, the Company's equity interest in Cactus decreased to 24% and was deconsolidated. Thus, revenues from cattle feedlot operations are included in gain (loss) from equity investees.

As discussed in Note 2.a), effective July 1, 2006, the Company applied RT No. 22 which modified the presentation of the statement of income above gross profit. RT No. 22 prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activities. Agricultural activity is the management by an enterprise of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*a) Revenue recognition (continued)*

RT No. 22 requires that a change in fair value less estimated point-of-sale costs of a biological asset be included in net profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the enterprise.

The adoption of this standard did not have an impact on the Company's financial position and results of operations. There was no change in the determination of total gross profit and operating income of the Company.

Production income has been determined based on quantitative and qualitative changes of stocks subject to the biological transformation process measured from the beginning of the year through the closing date of these financial statements.

Cattle and grain production cost calculated to reflect production income is reflected in Note 21.e).

Cost of sales is calculated by inventory difference and the income for the production of meat, grain and milk is disclosed in the statements of income.

The adjustment for valuation to the net realization value of grain has been calculated as the difference between the production value at net realization value (NRV) upon harvesting and the value of the same production valued at net realization value (NRV) as of the closing date of these financial statements.

Cattle holding gain is disclosed in a line of the statements of income and is calculated as stated in Note 21.e) and 21.f).

The results generated by futures and options on the Futures Market are recognized under Unrealized gain (loss) on inventories Crops, raw materials and MAT on the statements of income. The closed positions are recognized as a difference between the exercise price and their close price; and the open positions at the end of the year, as the difference between their exercise price and the market value price for futures, and as a difference between the premium and the market value premium for options.

The charges for consumption of assets were determined based on the values of such assets.

The rest of income for the year is disclosed at incurred cost.

Financial income segregated into that generated by assets and by liabilities is disclosed in the statements of income.

Revenue on the sales of crops, milk and beef cattle is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. Revenue from operating leases and brokerage activities are recognized as services are performed.

The Company from time to time sell properties to profit from real estate appreciation opportunities. Farmland sales are recorded under the accrual method of accounting. Farmland sales are not recognized until (i) the sale is consummated, (ii) the Company has determined that the

buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property, (iii) the Company's receivable is not subject to future subordination, and (iv) the Company has transferred to the buyer the risk of ownership, and does not have a continuing involvement in the property.

***b) Cash and cash equivalents***

For purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less, to be cash equivalents. Mutual funds are considered to be cash equivalents since original maturity is determined by reference to the frequency with which liquidity is available according to current Argentine GAAP guidance and practice.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*c) Trade accounts receivable and payable*

Trade accounts receivable and payable are stated at their cash price estimated at the time of the transaction, plus interest and implied financial components accrued on the basis of the internal rate of return determined at such time, provided if they are significant. The Company provides for losses relating to trade accounts receivable. The allowance for losses is based on management's evaluation of various factors, including the credit risk of customers, historical trends and other information. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluations. Management has considered all events and/or transactions that are subject to reasonable and normal methods of estimation, and the consolidated financial statements reflect that consideration.

*d) Financial receivables and payables*

Financial receivables and payables have been valued at the amount deposited or collected, respectively, net of transaction costs, plus accrued interest based on the interest rate estimated at the time of the transaction.

*e) Investments*

*Current*

Current investments include IRSA Non-Convertible Notes, mutual funds, mortgage bonds, government bonds and time deposits. IRSA Non-Convertible Notes, mutual funds, mortgage bonds and government bonds are carried at market value as of year-end, with unrealized gains and losses reported in earnings. Time deposits are valued at cost plus accrued interest at year-end. As of June 30, 2007, current investments also include accrued interest on IRSA Convertible Notes.

*Investments in affiliates*

Investments in affiliates in which the Company has significant influence (generally representing an equity interest between 20% and 50%) have been accounted for under the equity method. However, the Company has a 14.39% interest in BrasilAgro. Since the Company exercises significant influence over BrasilAgro, the Company accounted for this investment under the equity method of accounting. The Company considered it has significant influence due to its ability to affect the financial and operating decisions of BrasilAgro under the shareholders agreement. Management periodically evaluates the carrying value of its equity investments for impairment. The carrying value of equity investments is considered impaired when an other-than-temporary decrease in the value of the investments has occurred.

Investments in which the Company does not have significant influence have been accounted for under the cost plus dividend method.

The Company records gain or losses due to changes of interests in equity investees and/or subsidiaries, resulting from capital nature transactions between the equity investees and/or subsidiaries and other shareholders, in additional paid-in capital within shareholders' equity.

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The Company accounts for its investment in other affiliates under the cost method of accounting.

### *Investment in IRSA Convertible Notes*

As of June 30, 2007, the Company's investment in IRSA Convertible Notes is carried at amortized cost at year-end. On September 25, 2007, the Company converted US\$12.0 million of IRSA's convertible notes into 22.0 million shares of common stock. See Note 4.b) for details.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*f) Business Combination*

Acquisitions are accounted for under the purchase method of accounting. Under the purchase method of accounting, the Company allocates the purchase price to identified tangible and intangible net assets acquired based on their fair values in accordance with the provisions of Technical Resolution No. 18. In making estimates of fair values for the purpose of allocating purchase price, management utilized a number of sources. As discussed in Note 2.g), the Company acquired a 17.12% equity interest in IRSA. IRSA is engaged in several business activities from shopping center operations to origination of consumer loans and credit card receivables to equity interests in banking operations, among others. In the case of IRSA acquisition, the Company evaluated all businesses acquired and allocated a portion of the purchase price to tangible assets including the fair value of buildings on an as-if-vacant basis and to land determined either by real estate tax assessments, third-party appraisals or other relevant data. The Company determined the as-if-vacant value by using a replacement cost method.

Also, a portion of the purchase price was allocated to above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease. The capitalized above-market and below-market lease values are amortized as a reduction of or an addition to rental income over the remaining noncancelable terms of the respective leases. Should a tenant terminate its lease, the unamortized portion of the lease intangibles would be charged or credited to income.

In addition, a portion of the purchase price was also allocated to the value of leases acquired and management utilized independent sources or management's determination of the relative fair values of the respective in-place lease values. The Company's estimates of value were made using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses included an estimate of carrying costs during the expected lease-up periods, considering current market conditions and costs to execute similar leases. In estimating carrying costs, management included real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. The Company also estimated costs to execute similar leases including leasing commissions, legal expenses and other related costs. The Company did not identify any lessee with whom it has developed a type of relationship allowing the recognition of an intangible asset.

As far as banking operations are concerned, identifiable intangible assets comprised primarily of core deposit intangibles and customer relationship intangibles, represent the net present value of the future economic benefits related to the use of an acquired deposit and customer base. These assets are being amortized on a straight-line method up to six years and eleven years respectively. The Company also identified trademarks as part of the purchase price allocation. Trademarks are not amortized as they have an undefined useful life.

*g) Negative goodwill and goodwill*

Goodwill represents the difference between the purchase price paid and the fair market value of net assets acquired. Goodwill is not amortized as it has an undefined useful life.

When the sum of the individual fair values of the identifiable tangible and intangible assets exceeds the purchase price paid, negative goodwill exists. Under Argentine GAAP, when negative goodwill exists after an acquiring entity initially assigns values to all assets acquired and liabilities assumed, RT No. 18 states that the entity must first reassess whether all acquired assets and assumed liabilities have been identified

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and properly valued. If an amount of negative goodwill still results after this reassessment, intangible assets acquired (including above and below market leases, in-place leases, trademarks, tenant relationships and core deposits, as applicable), are subject to reduction. If after all of these intangible assets are reduced to zero and an amount of negative goodwill still remains, the remaining unallocated negative goodwill is amortized under the straight-line

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*g) Negative goodwill and goodwill (continued)*

method over the weighted average useful life of the main tangible assets acquired, which ranges from 20 to 29 years, or accelerated as long as the acquired entity disposes its identifiable assets.

The carrying amount does not exceed their respective estimated recoverable value at the end of this year.

*h) Inventories*

The following is a description of each group of biological assets, categorized by stage of biological transformation:

Biological assets in the initial development of stage are those assets that have not attained the required level of biological development and/or transformation to be considered as consumable assets including unharvested crops and calves, breeding and cattle. These assets are valued at replacement cost of goods and services needed to obtain similar assets, which does not exceed the net realizable value as of year-end.

Bearer biological assets are those assets other than consumable biological assets that due to their stage of transformation and/or development are capable of producing specified output, for example livestock from which milk is produced. These assets are not agricultural produce, rather they are self-regenerating: i.e. cattle (including dairy and breeding cows). These assets are valued at replacement cost of a similar asset, acquired from third parties in the markets in which the Company regularly operates, which does not exceed the net realizable value as of year-end.

Consumable biological assets are those assets that may be harvested as agriculture produce or sold as biological assets, for example livestock intended for the production of meat and/or livestock held for sale:(including cattle, steers, heifers, cattle round-up mores and sheep). These assets are valued at their net realizable value represented by year-end quoted prices in the markets in which the Company regularly operates, net of additional selling costs.

Farming products: crops (including harvested crops): valued at net realizable value, represented by year-end quoted prices in the markets in which the Company regularly operates, net of additional selling cost.

Non-biological assets raw materials (including seeds, agrochemicals, semen cattle raising and dairy, food and by-products, packs and bundles, poles, bags and blankets, silos, raw materials). These assets are valued at reproduction or replacement cost as of year-end, which does not exceed the net realizable value.

All other inventories are valued at replacement cost.

Cattle holding results have been calculated as the price difference of the steer kilogram between the stock at the beginning of the year and of these financial statements.

The adjustment for valuation of crops at net realizable value has been calculated as the difference between the crops valued at net realizable value at the time of harvesting and the value of these crops valued at net realizable value at year-end.

The carrying values of inventories do not exceed their estimated recoverable values at the date of these financial statements.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*i) Property and equipment*

Property and equipment are stated at cost (adjusted for the inflation as described in Note 2.d)), less accumulated depreciation.

Depreciation expense has been determined using the straight-line method over the estimated useful lives of the related assets as specified below:

Asset	Estimated useful life (years)
Buildings and constructions	50
Alfalfa fields and meadow	Between 2 and 8
Machinery	10
Furniture and equipment	10
Mass wood	30
Others	Between 4 and 10

The cost of maintenance and repairs is expensed as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective asset.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statements of income.

*j) Intangible assets*

*Concession rights*

Relate to the concession rights acquired as part of the ACER acquisition. Concession rights acquired were valued at fair value at the time of the acquisition. Concession rights of ACER are amortized under the straight-line basis over the term of the concession, as from the beginning of operations (i.e. 30 years).

The carrying value of concession rights, do not exceed their estimated recoverable value at the end of these financial statements.

*k) Other assets*

Other assets include farms for which the Company entered into sale agreements whereby it received down payments which fixed the final purchase price. Moreover the contractual conditions provide reasonable assurance that the transaction will be closed. These assets are valued at fair value less costs to sell with unrealized gains included in the statement of income.

***l) Foreign currency assets and liabilities***

Assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rates as of year-end. Transactions denominated in foreign currencies are translated into pesos at the prevailing exchange rates on the date of transaction settlement. Foreign currency transaction gains and losses are recorded within Financial results, net in the accompanying consolidated statements of income.

***m) Income tax provision***

The subsidiaries of the Company calculate their income taxes on a separate basis. The Company did not either calculate or pay income taxes on a consolidated basis for any of the periods presented. The statutory income tax rate was 35.0% for all years presented.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*m) Income tax provision (continued)*

The Company records income taxes using the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is not recoverable.

The Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes in accordance with Resolution MD No. 11/2003 issued by the CPCECABA.

*n) Minimum presumed income tax (MPIT)*

The Company is subject to the MPIT. Pursuant to this tax regime, the Company is required to pay the greater of the income tax or the MPIT. Any excess of the MPIT over the income tax may be carried forward and recognized as a tax credit against future income taxes payable over a 10-year period. The MPIT provision is calculated on an individual entity basis at the statutory asset tax rate of 1% and is based upon the taxable assets of each company as of the end of the year, as defined by Argentine law.

*o) Provisions for contingencies*

The Company has certain contingent liabilities with respect to material existing or potential claims, lawsuits and other proceedings arising in the ordinary course of business. The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and its experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there will be changes in the estimates of future costs, which could have a material effect on the Company's future results of operations and financial condition or liquidity.

*p) Impairment of long-lived assets*

The Company periodically evaluates the carrying value of its long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company considers the carrying value of a long-lived asset to be impaired when the expected cash flows, from such asset are separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. The Company determines the fair market value primarily using independent appraisal valuations and utilizing anticipated cash flows discounted at a rate commensurate to the risk involved.

RT No. 17 establishes that a previously recognized impairment loss should only be reversed when there is a subsequent change in estimates used to compute the fair market value of the asset. In that event, the new carrying amount of the asset should be the lower of its fair market value or the net carrying amount the asset would have had if no impairment had been recognized.

*q) Foreign currency translation*

The financial statements of the Company's foreign operations in Brazil are translated in accordance with Technical Resolution No. 18, Specific Considerations for the Preparation of Financial Statements ( RT No. 18 ). RT No. 18 establishes guidelines to classify foreign investments either as foreign operations or foreign entities . A company is to be regarded as a foreign entity if it is financially, economically and organizationally autonomous. Otherwise, a company is to be regarded as a foreign operation if its operations are

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*q) Foreign currency translation (continued)*

integral to those of the Company. BrasilAgro has been classified as a foreign entity since it is financially, economically and organizationally autonomous. Accordingly, and pursuant to RT No. 18, financial statements of BrasilAgro are translated using period-end exchange rates for assets, liabilities and weighted average exchange rates during the period for the results of operations. Adjustments resulting from these translations are accumulated and reported as a separate component in the shareholders equity section.

*r) Vacation expenses*

Vacation expenses are fully accrued in the year the employee renders services to earn such vacation.

*s) Derivative financial instruments*

The Company uses derivative financial instruments to manage its exposure to certain risks, including commodity risks and foreign exchange risks. The Company follows Technical Resolution No. 20 Instrumentos Derivados y Operaciones de Cobertura and carries these derivatives as assets or liabilities at fair market value on the balance sheet. RT No. 20 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. While management believes each of the financial instruments manage various market risks, these instruments are not designated and accounted for as hedges as a result of the extensive record keeping requirements of the provisions. Accordingly, the Company's derivatives are marked to market on a current basis with gains and losses recognized in earnings. Deposits and premiums paid are recorded as other receivables on the balance sheet. See Note 6 for a description of the derivative financial instruments of the Company.

*t) Paid-in capital*

Related Companies Law No. 19,550 Section 33: Increases or decreases of the equity value of investments in IRSA and Cactus generated on the basis of changes in their shareholders' equity, arising from transactions of shareholders different from the Company and its subsidiaries, were included in this caption as established in captions 9 second part of Technical Resolution 17 of the FACPCE and Resolution CD 243/01 of the CPCECABA.

Warrants issued: the value of warrants issued by the Company has been allocated to the account Additional Paid-in Capital.

*u) Earnings per share*

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The Company is required to disclose earnings per share information for all periods presented. Basic earnings per share ( basic EPS ) are computed by dividing the net income available to common shareholders for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per share ( diluted EPS ) are computed by dividing the adjusted net income for the period by the weighted-average number of common shares and potential common shares outstanding during the period.

In computing diluted EPS, income available to common shareholders used in the basic EPS calculation is adjusted to add back the after-tax amount of interest recognized in the period with respect to any debt convertible to common stock. Additional adjustments are made for any other income or loss items that would result from the assumed conversion of potential common shares. The weighted-average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Diluted EPS is based on the most

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*u) Earnings per share (continued)*

advantageous conversion rate or exercise price over the entire term of the instrument from the standpoint of the security holder. The calculation of diluted EPS excludes potential common shares if their effect is anti-dilutive.

The Company has considered the dilutive effect of outstanding warrants and convertible debt in calculating diluted EPS.

**4. Details of balance sheet and income statement accounts:**

*a) Cash and banks*

	As of June 30,	
	2008	2007
Cash in banks	Ps. 46,348,052	Ps. 46,501,946
Collections to be deposited	1,284,375	349,476
Cash on hand	162,800	79,222
	Ps. 47,795,227	Ps. 46,930,644

*b) Investments*

	As of June 30,	
	2008	2007
<b>Current</b>		
Mutual funds	Ps. 473,291,204	Ps. 38,313,217
Government bonds and notes	93,116	121,529
Mortgage bonds	622,960	1,027,284
Interest on IRSA Convertible Notes		379,408
IRSA Non-Convertible Notes (i)	11,285,167	
	Ps. 485,292,447	Ps. 39,841,438
<b>Non-Current</b>		
Equity investments (ii)	Ps. 1,128,540,680	Ps. 503,860,500
IRSA Convertible Notes (iii)		37,116,000

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Others	352,260	352,260
Negative Goodwill net (iv)	(202,922,429)	(67,306,386)
	Ps. 925,970,511	Ps. 474,022,374

- (i) In February 2007, IRSA issued US\$150,000 of non-convertible notes (the IRSA Non-Convertible Notes ) due February 2017 under the Global Program for up to US\$200,000 authorized by the CNV in December 2006. The IRSA Non-Convertible Notes bear interest at a fixed rate of 8.5% per annum. The IRSA Non-Convertible Notes pay interest in cash semi-annually in arrears on February 2 and August 2 of each year, beginning on August 2, 2007. Principal on the Non-Convertible Notes is fully paid at maturity. In May, 2008 the Company acquired nominal value 5.000.000 of IRSA Non-Convertible Notes, for an average weighted price of US\$0.785 per Note, totaling US\$4.1 million.
- (ii) As of June 30, 2008, this amount represents the Company s 35.7% (unchanged from June 30, 2007), 42.13%, 14.39% and 24% equity interests in Agro-Uranga, IRSA, BrasilAgro and Cactus amounting to Ps 20.2 million, Ps.933.3 million, Ps.167.4 million and Ps.7.6 million, respectively. See Note 2.g) for additional details on acquisition for the year ended June 30, 2008.
- As of June 30, 2007, this amount represents the Company s 35.7%, 25.01%, 7.40% and 24.0% equity interests in Agro-Uranga, IRSA, BrasilAgro and Cactus amounting to Ps.18.1 million, Ps.411.9 million, Ps.68.1 million and Ps.5.8 million, respectively.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts: (continued)**

*b) Investments (continued)*

- (iii) In November 2002, IRSA issued US\$100.0 million of 8% convertible notes due 2007 with non-detachable warrants to acquired additional shares of common stock (the IRSA Convertible Notes ). In accordance with the terms and conditions of the agreement, the IRSA Convertible Notes are convertible, at any time, at the option of the holder, into a fixed number of common shares. The agreement provides for a conversion price of US\$ 0.54505, which only can be adjusted as a result of anti-dilution provisions. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of US\$0.65406 per share. The exercise price of the warrants is also adjusted as a result of anti-dilution provisions. In November and December 2002, the Company purchased US\$49.7 million of IRSA Convertible Notes. Additionally, between July 2003 and November 2007, the Company acquired 600,500 IRSA Convertible Notes for US\$0.9 million and sold 12,335,157 IRSA Convertible Notes. The sale generated income for Ps.83,623,172. Also, during that period, the Company exercised its conversion rights and exercised warrants of 37,958,011 IRSA Convertible Notes giving rise to issuing 139,295,450 shares of common stock with a face value of Ps.1 each one. Finally, third party holders of IRSA Convertible Notes exercised their conversion rights of 61,984,332 Convertible Notes and 61,938,795 warrants originating the issuance of 227,381,884 shares of common stock with a face value of Ps.1 each one. As a consequence of such conversions and exercise of warrants, the Company's equity interest decreased in Ps.64.4 million with the effect recorded in Paid-In Capital of Shareholders' Equity (see Note 5.c)). On November 14, 2007, IRSA Convertible Notes matured and the Company exercised its conversion rights (see Note 2.g) for details).
- (iv) As of June 30, 2008, this amount represents the net effect of negative goodwill associated with the Company's investment in IRSA (Ps.206.8 million) and goodwill associated with the Company's investment in BrasilAgro ( Ps.3.8 million). As of June 30, 2007, this amount represents negative goodwill associated with the Company's investment in IRSA (Ps. 67.3 million).

*c) Trade accounts receivable, net*

	As of June 30,	
	2008	2007
Trade accounts receivable	Ps. 34,966,267	Ps. 37,232,245
Related parties (Note 8)	1,207,624	1,070,710
Less:		
Allowance for doubtful accounts (Note 21.d)	(381,020)	(372,359)
	Ps. 35,792,871	Ps. 37,930,596

*d) Other receivables*

As of June 30,

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	2008	2007
<b>Current</b>		
Receivables from the sale of farms (i)	Ps. 6,188,608	Ps. 6,995,220
Prepaid leases	11,366,483	6,434,233
Guarantee deposits	990,423	877,790
Prepaid expenses, excluding leases	113,109	193,568
VAT receivable, net	13,763,311	7,083,007
Margin deposits receivable from brokers	89,270	2,898,730
Premiums collected / paid in connection with derivative instruments	94,582	(971,105)
Related parties (Note 8)	5,433,588	5,142,161
Income tax advances and MPIT credit (ii)	14,853,470	10,276,688
Other tax credits	450,636	249,905
Others	2,047,229	431,673
	Ps. 55,390,709	Ps. 39,611,870

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts: (continued)**

*d) Other receivables (continued)*

	As of June 30,	
	2008	2007
<b>Non-Current</b>		
VAT credit and prepaid income tax	Ps. 12,962,655	Ps. 21,465,469
Prepaid leases		179
Receivables from the sale of farms (i)	7,048,582	13,097,871
Related parties (Note 8)		223,558
MPIT (ii)	20,055,857	7,750,517
Deferred income tax (Note 11)	1,297,716	676,293
Others		22,673
	Ps. 41,364,810	Ps. 43,236,560

(i) As of June 30, 2008, represents the (a) current and non-current portion of the receivable from the sale of Tapenagá farm totaling US\$1.23 million and US\$1.21 million, respectively; (b) current and non-current portion of the receivable from the sale of El Gualicho farm totaling US\$0.69 million and US\$1.15 million, respectively and (c) current portion of the receivable from the sale of Ñacurutu farm totaling US\$0.15 million.

As of June 30, 2007, represents the (a) current and non-current portion of the receivable from the sale of Tapenagá farm totaling US\$1.2 million and US\$2.4 million, respectively; (b) current and non-current portion of the receivable from the sale of El Gualicho farm totaling US\$0.8 million and US\$1.7 million, respectively and (c) current and non-current portion of the receivable from the sale of Ñacurutu farm totaling US\$0.3 million and US\$0.1 million, respectively.

The receivable from El Gualicho farm accrues interest at 360-day LIBOR plus 3.84 % and the property sold is mortgaged in favor of the Company as collateral for the receivable. The receivable from Ñacurutu farm also accrues interest at 360-day LIBOR plus 6% and the property sold is mortgaged in favor of the Company as collateral for the receivable. The receivable from Tapenagá farm accrues interest at 360-day LIBOR plus 8% and the property sold is mortgaged in favor of the Company as collateral for the receivable.

(ii) The Company recorded the MPIT as a tax receivable since in the opinion of its management it is more likely than not that the Company will utilize such credits against future income tax charges.

*e) Inventories*

	As of June 30,	
	2008	2007
<b>Current</b>		

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Crops	Ps. 67,224,392	Ps. 30,866,271
Beef Cattle	12,836,555	11,130,777
Materials and others	21,701,233	5,538,713
Unharvested crops	6,486,244	2,673,752
Seeds and fodder	3,276,838	2,250,776
	Ps. 111,525,262	Ps. 52,460,289

**Non-Current**

Beef Cattle	Ps. 76,113,042	Ps. 68,345,438
	Ps. 76,113,042	Ps. 68,345,438

*f) Others assets*

	As of June 30,	
	2008	2007
<b>Current</b>		
Farm held for sale (Note 3.k))	Ps. 1,070,506	Ps.
	Ps. 1,070,506	Ps.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts: (continued)**

*g) Trade accounts payable*

	As of June 30,	
	2008	2007
<b>Current</b>		
Suppliers	Ps. 17,970,956	Ps. 14,255,092
Accruals	25,826,238	12,641,959
Related parties (Note 8)	5,742,334	4,038,800
	Ps. 49,539,528	Ps. 30,935,851
<b>Non-Current</b>		
Accruals for other expenses	Ps.	Ps. 246,231
	Ps.	Ps. 246,231

*h) Short-term and long-term debt*

	As of June 30,	
	2008	2007
<b>Short-term debt:</b>		
Loans (i)	Ps. 171,138,334	Ps. 114,005,729
Collateralized Loans (ii)	24,461,875	
Accrued interest on Convertible Notes (iii)		88,608
Convertible Notes expenses		(12,742)
Convertible Notes (iii)		8,668,139
	Ps. 195,600,209	Ps. 122,749,734
<b>Long-term debt:</b>		
Collateralized loans (ii)	Ps.	Ps. 24,744,000
	Ps.	Ps. 24,744,000

- (i) As of June 30, 2008 the balance primarily relates to several short-term loans granted by several domestic financial institutions and overdrafts. These loans accrue interest at annual fixed interest rates ranging from 6.25% to 20.0%. As of June 30, 2007 the balance primarily relates to several short-term loans granted by several domestic financial institutions and overdrafts. These loans accrue interest at annual fixed interest rates ranging from 5.60% to 9.60%.

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- (ii) As of June 30, 2008 and 2007 the balance relates to a collateralized loan with Credit Suisse. See Note 15. This loan accrued interest at variable rate per annum equal to the LIBOR plus 375 basic points. This loan was settled in October 24, 2008. This loan required the Company to comply with certain customary covenants. The Company complied with those covenants as of the date indicated.
- (iii) See Note 9 for details.

*i) Salaries and social security payable*

	As of June 30,	
	2008	2007
Provision for vacation and bonuses	Ps. 5,187,704	Ps. 3,775,108
Social security payable	892,383	121,341
Salaries payable	318,410	277
Others	10,792	322,394
	Ps. 6,409,289	Ps. 4,219,120



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(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts: (continued)***j) Taxes payable*

	As of June 30,	
	2008	2007
<b>Current</b>		
Income tax payable, net	Ps. 290,125	Ps.
Gross sales tax payable	293,211	193,103
Income tax withholdings	663,912	518,641
Property tax payable	46,251	230,361
MPIT payable, net	8,993,932	5,503,470
Gross sales tax withholdings	1,877	937
VAT withholdings		20,270
Others	34,890	232,262
	Ps. 10,324,198	Ps. 6,699,044
<b>Non-Current</b>		
Deferred income tax (Note 11)	Ps. 41,817,828	Ps. 51,312,237
	Ps. 41,817,828	Ps. 51,312,237

*k) Other liabilities*

	As of June 30,	
	2008	2007
<b>Current</b>		
Management fee payable (Note 8)	Ps.	Ps. 2,817,997
Related parties (Note 8)	419,796	215,796
Others	54,164	54,164
	Ps. 473,960	Ps. 3,087,957
<b>Non-Current</b>		
Others	Ps. 293,386	Ps. 347,549
	Ps. 293,386	Ps. 347,549

l) *Financial results, net*

	2008	As of June 30, 2007	2006
<b>Generated by assets:</b>			
Exchange (loss) gain	Ps. (32,490,358)	Ps. (1,151,529)	Ps. 11,510,779
Interest income	4,439,794	1,833,687	490,288
Allowance for doubtful accounts	(8,661)		(43,616)
Tax on bank account operations	(4,518,381)	(1,901,855)	(2,177,198)
Gain from sale of IRSA Convertible Notes			14,872,000
Interest income on IRSA Convertible Notes	(387,392)	2,959,795	7,123,844
Holding gain and result of transactions on securities investment	2,745,524	1,074,212	
Others	33,614	68,666	2,083,587
	Ps. (30,185,860)	Ps. 2,882,976	Ps. 33,859,684
<b>Generated by liabilities:</b>			
Interest expense on Convertible Notes	Ps. (88,383)	Ps. (2,716,240)	Ps. (8,330,855)
CER index on liabilities		1,551	(22,776)
Interest loss	(23,327,905)	(9,834,569)	(1,978,392)
Exchange gain (loss)	1,996,793	204,448	(9,302,801)
Others	(662,226)	(996,160)	(1,850,902)
	Ps. (22,081,721)	Ps. (13,340,970)	Ps. (21,485,726)

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**5. Shareholders equity**

*a) Common stock*

As of June 30, 2008, the Company had 501,531,865 outstanding shares of common stock, having a par value of Ps.1 per share. Holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Following is a summary of the activity in the Company's shares during the years presented:

	Shares issued	Common stock Par value	Paid-in-capital
<b>Balances as of June 30, 2005</b>	Ps. 162,784,579	Ps. 162,784,579	Ps. 78,175,196
Exercise of warrants	Ps. 28,668,581	Ps. 28,668,581	Ps. 24,918,614
Conversion of Convertible Notes into common shares	29,151,389	29,151,389	15,957,556
Changes of interests in equity investees and subsidiaries resulting from capital nature transactions between equity investees and subsidiaries and other shareholders			(12,134,376)
<b>Balances as of June 30, 2006</b>	Ps. 220,604,549	Ps. 220,604,549	Ps. 106,916,990
Exercise of warrants	Ps. 44,619,656	Ps. 44,619,656	Ps. 39,555,902
Conversion of Convertible Notes into common shares	44,352,015	44,352,015	25,307,891
Changes of interests in equity investees and subsidiaries resulting from capital nature transactions between equity investees and subsidiaries and other shareholders			(6,857,758)
<b>Balances as of June 30, 2007</b>	Ps. 309,576,220	Ps. 309,576,220	Ps. 164,923,025
Exercise of old-warrants	Ps. 5,855,178	Ps. 5,855,178	Ps. 5,306,325
Exercise of warrants	757,093	757,093	3,229,112
Conversion of Convertible Notes into common shares	5,343,374	5,343,374	3,175,417
Capital Increase (i)	180,000,000	180,000,000	711,052,360
Changes of interests in equity investees and subsidiaries resulting from capital nature transactions between equity investees and subsidiaries and other shareholders			(8,498,388)
<b>Balances as of June 30, 2008</b>	Ps. 501,531,865	Ps. 501,531,865	Ps. 879,187,851

(i)

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In March 2008, the Company issued 180 million shares of common stock with a face value of Ps.1 each entitled to one vote per share. The Company raised net proceeds of US\$881.1 million, both in the local and international markets, through the issuance equivalent to US\$1.60 or Ps. 5.0528 per share.

Additionally, for each subscribed share, each shareholder received at no additional cost a warrant entitling the holder to purchase 0.33333333 new shares at a price of US\$1.68 per each share to be acquired. Thus, the Company issued 180 million warrants entitling the holder to purchase a total of 60 million additional shares. Warrants mature May 22, 2015 and may be exercised between the 17th and the 22nd day of February, May, September and November of any year through 2015. Warrants are listed on the Buenos Aires Stock Exchange under the symbol CREW2 and on the Nasdaq under the symbol CRESW .

Proceeds from the issuance, net of issuance expenses, amount to Ps.881.1 million, while the tax effect of issuance expenses amounted to Ps.9.9 million. Proceeds were allocated to shares and warrants issued based on the fair market value estimated upon subscription. The portion of the proceeds allocated to warrants amounting to Ps.115.2 million was recorded as additional paid-in capital. As of June 30, 2008, 2,271,290 warrants were exercised; consequently, 757,093 shares of common stock were issued for Ps.4.0 million.

### ***b) Inflation adjustment of common stock***

As discussed in Note 2.d), the Company's financial statements were prepared on the basis of general price-level accounting which reflects changes in the purchasing power of the Argentine peso in the historical financial statements until February 28, 2003. Accordingly, the inflation adjustment related to common stock was appropriated to an inflation adjustment reserve, which forms part of shareholders' equity. According to

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**5. Shareholders equity (continued)**

***b) Inflation adjustment of common stock (continued)***

Argentine rules and regulations, the balance of the inflation adjustment reserves may be applied only towards the issuance of common stock to shareholders of the Company.

***c) Paid-in capital***

The Company records changes of interests in equity investees and/or subsidiaries, resulting from capital nature transactions between the equity investees and/or subsidiaries and other shareholders, to paid-in capital within shareholders equity. During the year ended June 30, 2006 as a result of the dilutive effect of old-warrants and conversion rights exercised by other shareholders, the Company recorded a loss of Ps.12.1 million as paid in capital.

During the year ended June 30, 2007 as a result of the dilutive effect of old-warrants and conversion rights exercised by other shareholders, the Company recorded a loss of Ps.8.5 million, as paid in capital. Additionally, due to the dilution in Cactus s interest from issuance of shares to a new shareholder, the Company recorded a gain of Ps.1.7 million, as paid-in capital.

During the year ended June 30, 2008, as a result of the dilutive effect of warrants and conversion rights of IRSA exercised by other shareholders, the Company recorded a loss of Ps.8.5 million as paid-in capital.

The portion of the proceeds allocated to Warrants amounting to Ps.115.2 million was recorded as additional paid-in capital.

***d) Restrictions on distribution of profits***

In accordance with the Argentine Corporations Law and the Company s by-laws, 5% of the net and realized profit for the year calculated in accordance with Argentine GAAP plus (less) prior year adjustments must be appropriated by resolution of shareholders to a legal reserve until such reserve equals 20% of the Company s outstanding capital. This legal reserve may be used only to absorb losses. The Company can only appropriate and pay, direct or indirectly, either cash nor in kind dividends up to the amount of US\$5.0 million, in accordance with Credit Suisse agreement.

***e) Reserve for new developments***

Pursuant to a resolution of the Inspección General de Justicia, the accumulated retained earnings balance of the period before computation of the net income/loss of the period and after computation of equity transactions (i.e. payment of dividends) must be allocated to a special reserve labeled as Reserve for new developments . This allocation has no impact on the total shareholders equity of the Company.

**6. Derivative financial instruments**

The Company uses derivative financial instruments to manage its exposure to commodity risks and foreign-exchange risks. These financial instruments consist mainly of crop future contracts, put and call option contracts, and foreign currency future contracts. The counterparties to these instruments generally are major financial institutions. In entering into these contracts, the Company has assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Company does not expect any losses as a result of counterparty defaults. As described in Note 3.s), derivative financial instruments are recognized at fair value as either assets or liabilities in the consolidated balance sheet. Changes in the fair market value of the derivative instruments are reported in earnings. Margin deposits and premiums paid related to outstanding future and option contracts are recorded as other receivables on the consolidated balance sheet.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**6. Derivative financial instruments (continued)**

As of June 30, 2008 and 2007, the Company had open commodity crop future contracts amounting to US\$9.3 million and US\$12.1 million, respectively. At June 30, 2008 and 2007, these contracts covered a notional amount of 41,700 and 62,245 tons, respectively, of various crops, including soybean, wheat, sunflower and corn. Futures contracts are used in combination with put and call option contracts principally to take advantage of market fluctuations, which provide more favorable pricing opportunities. At June 30, 2008 and 2007, the Company opened call and put options that strike at weighted average prices per ton of US\$173.5 and US\$208.6 covering notional amounts of 7,620 tons of corn and 202,514 tons of various crops, including soybean, wheat and corn, respectively. The open options at June 30, 2008 mature at various dates through May 2009. The Company recognized a loss from commodity-crop-based contract activity of Ps.(14.5) million, Ps. (3.1) million and Ps.(0.3) million for the years ended June 30, 2008, 2007 and 2006, respectively.

The Company recorded gains and losses associated with these commodity based contracts in Unrealized gain (loss) on inventories - Crops, raw material and MAT in the income statement.

During fiscal year 2008, the Company had future contracts outstanding to purchase US\$87.3 million and to sell US\$59.5 million at an average price of Ps.3.08 per US\$ maturing through July 2008. During fiscal year 2007, the Company had future contracts outstanding to purchase US\$4.0 million and to sell US\$10.5 million at an average price of Ps.3.15 per US\$ maturing through May 2007. As of June 30, 2007 the Company had no future contracts outstanding. The Company recognized a loss of Ps.0.48 million and a gain of Ps.0.8 million during the year ended June 30, 2008 and June 30, 2007 respectively, in connection with these contracts.

The Company recorded gains and losses associated with these foreign exchange contracts in Financial Results, net in the income statement.

Derivative financial instruments involve, to a varying degree, elements of market and credit risk. The market risk associated with these instruments resulting from price movements is expected to offset the market risk of the underlying transactions, assets and liabilities, being hedged. The counterparties to the agreements relating to the Company's futures and options contracts consist of a number of major institutions with high credit ratings. The Company does not believe that there is a significant risk of nonperformance by these counterparties because the Company continually monitors the credit rating of such counterparties, and limits the financial exposure and the amounts of agreements entered into with any one financial institution. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed the obligations of the Company to the counterparties.

**7. Additional information on assets and liabilities**

The breakdown of main assets and liabilities as of June 30, 2008 is as follows:

	To mature in 1 <sup>st</sup> Quarter	To mature in 2 <sup>nd</sup> Quarter	To mature in 3 <sup>rd</sup> Quarter	To mature in 4 <sup>th</sup> Quarter	To mature in greater than 1 year	No fixed term	Total
<b>Assets</b>							
Investments	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 485,644,707	Ps. 485,644,707

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Trade accounts receivables, net	35,792,871						35,792,871
Other receivables	14,820,291	16,185,942	1,937,508	5,650,641	7,048,582	51,112,555	96,755,519
	Ps. 50,613,162	Ps. 16,185,942	Ps. 1,937,508	Ps. 5,650,641	Ps. 7,048,582	Ps. 536,757,262	Ps. 618,193,097

	To mature in 1 <sup>st</sup> Quarter	To mature in 2 <sup>nd</sup> Quarter	To mature in 3 <sup>rd</sup> Quarter	To mature in 4 <sup>th</sup> Quarter	To mature in greater than 1 year	No fixed term	Total
<b>Liabilities</b>							
Trade accounts payable	Ps. 49,315,406	Ps.	Ps.	Ps.	Ps.	Ps. 224,122	Ps. 49,539,528
Short-term and long-term debt	23,411,789	24,461,875				147,726,545	195,600,209
Salaries and social security payable	5,476,040	852,192	81,057				6,409,289
Taxes payable	1,330,266	8,993,932				41,817,828	52,142,026
Other liabilities	339,764					427,582	767,346
Provisions						1,803,330	1,803,330
	Ps. 79,873,265	Ps. 34,307,999	Ps. 81,057	Ps.	Ps.	Ps. 191,999,407	Ps. 306,261,728



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(In Argentine Pesos, except as otherwise indicated)

**7. Additional information on assets and liabilities (continued)**

	Accruing interest at a fixed rate		Accruing interest at a variable rate		Not accruing interest		Total
	Current	Non-Current	Current	Non-Current	Current	Non-Current	
<b>Assets</b>							
Investments	Ps. 10,746,000	Ps.	Ps. 473,927,681	Ps.	Ps. 618,766	Ps. 352,260	Ps. 485,644,707
Trade accounts receivable, net					35,792,871		35,792,871
Other receivables	5,998,405	7,048,582	33,138,241		16,254,063	34,316,228	96,755,519
	Ps. 16,744,405	Ps. 7,048,582	Ps. 507,065,922	Ps.	Ps. 52,665,700	Ps. 34,668,488	Ps. 618,193,097
<b>Liabilities</b>							
Trade accounts payable	Ps. 4,698,370	Ps.	Ps.	Ps.	Ps. 44,841,158	Ps.	Ps. 49,539,528
Short-term and long-term debt	194,687,880				912,329		195,600,209
Salaries and social security payable					6,409,289		6,409,289
Taxes payable					10,324,198	41,817,828	52,142,026
Other liabilities					473,960	293,386	767,346
Provisions						1,803,330	1,803,330
	Ps. 199,386,250	Ps.	Ps.	Ps.	Ps. 62,960,934	Ps. 43,914,544	Ps. 306,261,728

**8. Balances and transactions with related parties**

The balances with related parties as of June 30, 2008 and 2007 is as follows:

Related Parties	Trade accounts receivable, net		Other receivables				Trade accounts payable		Other liabilities	
	Current 2008	Current 2007	Current 2008	Current 2007	Non-Current 2008	Non-Current 2007	Current 2008	Current 2007	Current 2008	Current 2007
Alto Palermo S.A.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 178,341	Ps. 3,374,758	Ps. 1,075,643	Ps.	Ps.
RSIA Inversiones y Representaciones S.A.				106,903		41,117	85,405	124,752		
Cactus Argentina S.A.	1,206,691	1,069,777	3,391,603	4,266,771		4,100	88,134	669,346		
Agro-Uranga S.A.			56,410	511,221						
BrasilAgro Companhia Brasileira			305,949	30,537						

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de Propiedades Agrícolas										
Advances to employees			237,749	225,994						
Directors			991	735				285,600	81,600	
Comercializadora de los Altos S.A.										
Ex-Alto City.Com S.A.)	933	933								
Inversora Bolivar S.A.							185,256	40,508		
Estudio Zang, Bergel & Viñes							893,152	328,551		
Fundación IRSA							1,073,000	1,800,000		
Consultores Asset Management S.A.			1,280,709							2,817,990
FYO minority shareholders									134,196	134,196
Shopping Alto Palermo S.A.							2,681			
Inversiones Financieras del Sur S.A			160,177							
CYRSA S.A.							39,948			
<b>Total</b>	<b>Ps. 1,207,624</b>	<b>Ps. 1,070,710</b>	<b>Ps. 5,433,588</b>	<b>Ps. 5,142,161</b>	<b>Ps. 223,558</b>	<b>Ps. 5,742,334</b>	<b>Ps. 4,038,800</b>	<b>Ps. 419,796</b>	<b>Ps. 3,033,790</b>	

The transactions with related parties as of June 30, 2008, 2007 and 2006 is as follows:

Related Parties	Fees for shared services and expenses			Income for shared services and expenses			2008	Fees 2007	2006
	2008	2007	2006	2008	2007	2006			
Alto Palermo S.A.	Ps. (4,924,283)	Ps. (3,276,365)	Ps. (1,782,707)	Ps. 1,870,339	Ps. 1,096,466	Ps. 497,716	Ps.	Ps.	Ps.
SA Inversiones									
representaciones S.A.	(4,683,853)	(863,329)	(407,388)	947,229	318,063	182,948			
tarjeta Shopping S.A.				112,752	32,009	3,104			
Alto City.Com S.A.					5,713				
Inversora Bolivar S.A.									
Estudio Zang, Bergel & Viñes									
Fundación IRSA									
Consultores Asset Management S.A.				14,751	46,281		(2,170,983)	(5,484,697)	(3,836,470)
CYRSA S.A.				5,047					
<b>Total</b>	<b>Ps. (9,608,136)</b>	<b>Ps. (4,139,694)</b>	<b>Ps. (2,190,095)</b>	<b>Ps. 2,950,118</b>	<b>Ps. 1,498,532</b>	<b>Ps. 683,768</b>	<b>Ps. (2,170,983)</b>	<b>Ps. (5,484,697)</b>	<b>Ps. (3,836,470)</b>

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**8. Balances and transactions with related parties (continued)**

Related Parties	Rent Expenses			Donations			Legal services		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Alto Palermo S.A.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.
IRSA Inversiones y Representaciones S.A.									
Tarjeta Shopping S.A.									
Inversora Bolivar S.A.	(212,311)	(229,455)	(115,198)						
Estudio Zang, Bergel & Viñes							(656,900)	(353,614)	(248,668)
Fundación IRSA						(1,600,000)			
Consultores Asset Management S.A.									
<b>Total</b>	<b>Ps. (212,311)</b>	<b>Ps. (229,455)</b>	<b>Ps. (115,198)</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps. (1,600,000)</b>	<b>Ps. (656,900)</b>	<b>Ps. (353,614)</b>	<b>Ps. (248,668)</b>

Pursuant to the terms of a consulting agreement with Consultores Asset Management S.A. ( CAM ) CAM provides the Company advisory services on matters related to capital investments in all aspects of the agriculture business. A shareholder and director of the Company is the owner of 85% of the capital stock of CAM, while Cresud's first vice Chairman of the Board holds the other 15% of its capital stock. The Company pays CAM an annual fee equivalent to 10% of the after-tax net income for these services. Fees totaled Ps.2.2 million and Ps.5.5 million for the years ended June 30, 2008 and 2007, respectively.

During the years ended June 30, 2006, 2005 and 2004 the Company invested in shares and convertible notes of IRSA. IRSA is a real estate company engaged directly or indirectly through subsidiaries and joint ventures in real estate activities in Argentina. Certain shareholders and/or directors of the Company are also shareholders and/or directors of IRSA.

In order to achieve a more efficient allocation of corporate resources, during the years ended June 30, 2008, 2007 and 2006, IRSA and its subsidiaries provided the Company corporate services in the areas of institutional relations, finance and human resources, amounting to Ps.2.8 million, Ps.3.3 million and Ps.0.9 million, respectively. In the same way, the Company provided corporate services to IRSA and its subsidiaries for Ps.2.14 million, Ps.0.7 million and Ps.0.3 million during the fiscal years ended June 30, 2008, 2007 and 2006, respectively.

Since November 2001, the Company leased office space under a cancelable operating lease from IRSA and its subsidiaries. Rent expense was recognized ratably over the lease term. Rent expense for the years ended June 30, 2008, 2007 and 2006 amounted to Ps.0.2 million, Ps.0.2 million and Ps.0.12 million, respectively.

From time to time, the Company donates money to Fundación IRSA, a charitable, not-for-profit organization, the director of which is Eduardo S. Elsztain, a significant shareholder and the Chairman of the Board of Directors of the Company, and Mr. Elsztain's wife serves as the President of Fundación IRSA. The Company made no donations to Fundación IRSA during fiscal year ended June 30, 2008 and 2007, however during the years ended June 30, 2006 donations amounted to Ps. 1.6 million. In addition, at June 30, 2008 and 2007 the Company has recognized a liability for the unconditional promise to give cash to Fundación IRSA for Ps.1.1 million and Ps.1.8 million, respectively which is included within trade

accounts payable .

During the years ended June 30, 2008, 2007 and 2006, the law firm Zang, Bergel & Viñes provided the Company legal services amounting Ps.0.7 million, Ps.0.3 million and Ps.0.2 million, respectively. Certain directors of the Company are partners of the law firm.

During October and November 2002, Inversiones Financieras del Sur S.A. ( IFISA ) subscribed US\$ 22.6 million of the Company's Convertible Notes. IFISA is a Uruguayan holding company, which holds approximately 32.5 % of the Company's common stock at June 30, 2008, and for which a shareholder and director of the Company may be deemed beneficial owner by virtue of his voting power.

At June 30, 2007 certain directors and other shareholders were also holders of Convertible Notes, totaling US\$0.04 million. For the year ended June 30, 2008, convertible notes were full converted.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**9. Issuance of Convertible Notes**

In October 2002, the Company issued US\$50.0 million of 8% convertible notes due 2007 (the Convertible Notes ) with non-detachable warrants to acquire additional shares of common stock (the old-warrants ). The issuance of Convertible Notes was approved by the shareholders on March 8, 2002 and by the CNV and the Buenos Aires Stock Exchange on October 1, 2002. The Convertible Notes are convertible, at anytime, at the option of the holder, into a fixed number of common shares at an original conversion price of US\$0.5078, which can only be adjusted as a result of anti-dilution provisions. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of US\$0.6093 per share. The exercise price of the old-warrants is also adjusted as a result of anti-dilution provisions. No proceeds were allocated to the conversion feature and old-warrants. Proceeds from the issuance of the Convertible Notes were partially used to purchase IRSA Convertible Notes (See Note 4.b) (iii)).

From 2003 through November 14, 2007, an amount of 49,910,874 Convertible Notes were converted into 98,288,372 shares of common stock increasing the Company s shareholders equity of Ps.152.1 million.

During this period, an amount of 49,867,018 old-warrants were exercised and consequently, 98,202,054 shares of common stock were issued for Ps.182.9 million. The Convertible Notes matured November 14, 2007. As of date, 89,126 Convertible Notes were pending conversion and were settled in cash. An amount of 132,982 warrants expired unexercised.

**10. Segment information**

The Company is required to disclose segment information in accordance with RT 18. RT 18 establishes standards for reporting information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) (CODM) in deciding how to allocate resources and assess performance. The statement also establishes standards for related disclosures about a company s products and services, geographical areas and major customers.

The Company is primarily engaged in agricultural operations, which are subject to risk, including market prices, weather conditions and environmental concerns. However, from time to time sell properties to profit from real estate appreciation opportunities and which, in the judgment of management, are surplus to the Company s primary operations. Gain on the sale of properties is presented in a separate line within operating income in the consolidated statement of income.

For the years ended June 30, 2008, 2007 and 2006, the Company s principal operations were located in Argentina, the country of domicile. As discussed in Note 2.g), in March 2006, the Company formed BrasilAgro to replicate the Company s business in Brazil. As of June 30, 2008, BrasilAgro has acquired its first seven properties, which represent 145,327 hectares. Gains or losses on this equity investee are included in the Non Operating Segment.

The Company conducts business in five business segments, organized primarily on a product-line basis, with each segment offering a variety of different but interrelated products:

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The Crops Segment includes the planting and harvesting and sale of fine and coarse grains and oilseeds, including wheat, corn, soybeans and sunflowers.

The Beef Cattle Segment consists of the raising and fattening of beef cattle from the Company's own cattle stock and the purchase and fattening of beef cattle for sale to meat processors.

The Milk Segment consists of the production of milk for sale to dairy companies.

The Feed lot Segment includes the cattle feeding operation. See below for changes in presentation.

Others Segment consists of services and leasing of the Company's farms to third parties and brokerage activities.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**10. Segment information (continued)**

Through December 31, 2006, the Feed Lot Segment included the proportionate share of the cattle feedlot operations through its joint venture in Cactus. The performance of the Feed Lot Segment was evaluated based on gross profit less selling expenses plus unrealized gains or losses on inventories. As from January 1, 2007, the Company's equity interest in Cactus decreased to 24% and was deconsolidated. Thus, gains or losses from feed lot operations are shown as gains or losses from equity investees. The CODM still evaluates the results from feed lot operations separately from the other gains or losses from equity investees included in the Non-Operating Segment. However the performance is now measured as for the other equity investees of the Company by the gain or loss from the equity investee.

The Non-Operating Segment includes gains or losses from equity investees (excluding gain or loss from Cactus) and depreciation for corporate assets.

The Company evaluates the performance of its business segments based on gross profit less selling expenses plus unrealized gains or losses on inventories. The column titled "Total" represents the addition of the segment gains or losses from the Crops, Beef Cattle, Milk and Others Segments plus the gain or loss from the equity investee in Cactus. Excluded from the total are the gains or losses from the other equity investees of the Company included in the Non-Operating Segment. Accounting policies of the five reportable segments are the same as those described in the summary of significant accounting policies. Intercompany transactions between segments, if any, are eliminated. See Note 20.II.d, for a discussion of significant customers.

Financial information for each segment follows:

Year ended June 30, 2008:

<b>Income statement data</b>	<b>Crops</b>	<b>Beef Cattle</b>	<b>Milk</b>	<b>Feed lot</b>	<b>Others</b>	<b>Non Operating (i)</b>	<b>Total</b>
Production income	Ps. 117,473,605	Ps. 23,926,925	Ps. 18,420,338	Ps.	Ps.	Ps.	Ps. 159,820,868
Cost of production	(82,150,711)	(19,316,000)	(14,283,089)				(115,749,800)
Sales.	86,870,493	32,431,928	17,492,552		25,785,987		162,580,960
Cost of sales	(75,948,518)	(30,038,217)	(17,629,859)		(17,379,224)		(140,995,818)
Unrealized (loss) / gain on inventories	(10,877,719)	6,721,830	1,813,324				(2,342,565)
Selling expenses	(11,241,239)	(1,378,986)	(163,275)		(1,713,623)		(14,497,123)
Gain on equity investees				(473,934)		38,891,141	(473,934)
Segment gain	24,125,911	12,347,480	5,649,991	(473,934)	6,693,140		48,342,588
Operating Margin (ii)	11.8%	21.9%	15.7%		26.0%		15.0%
Depreciation	(3,421,031)	(1,268,270)	(164,885)		(1,002,205)	(617,456)	(6,473,847)

**Balance Sheet  
Data**

**Assets (iii)** Ps. 299,705,535 Ps. 173,433,405 Ps. 37,320,801 Ps. 10,995,209 Ps. 5,633,894 Ps. 1,542,671,345 Ps. 2,069,760,189

- (i) Not included in the segment gain.
- (ii) Segment gain divided by the sum of production income and sales.
- (iii) Includes Ps.925.6 million related to equity interests in IRSA, BrasilAgro, Cactus and Agro Uranga. Remaining assets comprise cash and banks, current investments, trade account receivables, other receivables and intangible assets.

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(In Argentine Pesos, except as otherwise indicated)

**10. Segment information (continued)**Year ended June 30, 2007:

<b>Income statement data</b>	<b>Crops</b>	<b>Beef Cattle</b>	<b>Milk</b>	<b>Feed lot</b>	<b>Others</b>	<b>Non Operating (i)</b>	<b>Total</b>
Production income	Ps. 72,426,012	Ps. 19,462,410	Ps. 10,911,397	Ps.	Ps.	Ps.	Ps. 102,799,819
Cost of production	(51,538,292)	(15,050,438)	(8,476,391)				(75,065,121)
Sales.	53,401,376	31,966,582	9,730,929	3,102,229	12,116,372		110,317,488
Cost of sales	(47,350,203)	(30,272,710)	(9,730,929)	(2,784,315)	(6,737,019)		(96,875,176)
Unrealized (loss) / gain on inventories	(3,926,654)	4,195,377	845,483	62,083			1,176,289
Selling expenses	(7,779,324)	(1,155,190)	(78,466)		(958,911)		(9,971,891)
Gain on equity investees						40,198,825	
<b>Segment gain</b>	15,232,915	9,146,031	3,202,023	379,997	4,420,442		32,381,408
Operating Margin (ii)	12.1%	17.8%	15.5%	12.2%	36.5%		15.2%
<b>Depreciation</b>	(2,032,714)	(1,324,148)	(431,035)		(164,730)	(506,440)	(4,459,067)
<b>Balance Sheet Data</b>							
<b>Assets (iii)</b>	Ps. 207,607,195	Ps. 165,295,847	Ps. 28,954,741	Ps. 11,166,028	Ps. 1,736,875	Ps. 657,119,730	Ps. 1,071,880,416

(i) Not included in the segment gain.

(ii) Segment gain divided by the sum of production income and sales.

(iii) Includes Ps.436.6 million related to equity interests in IRSA, BrasilAgro, Cactus and Agro Uranga. Remaining assets comprise cash and banks, current investments, trade account receivables, other receivables and intangible assets.

Year ended June 30, 2006:

<b>Income statement data</b>	<b>Crops</b>	<b>Beef Cattle</b>	<b>Milk</b>	<b>Feed lot</b>	<b>Others</b>	<b>Non Operating (i)</b>	<b>Total</b>
Production income	Ps. 37,005,907	Ps. 20,452,655	Ps. 7,892,462	Ps.	Ps.	Ps.	Ps. 65,351,024
Cost of production	(34,635,590)	(18,780,372)	(5,845,360)				(59,261,322)
Sales.	61,659,566	33,713,479	7,892,462	2,721,377	6,353,777		112,340,661
Cost of sales	(52,948,920)	(32,993,523)	(7,892,462)	(2,318,102)	(3,257,448)		(99,410,455)
Unrealized (loss) /	1,054,094	2,979,122	(144,941)	13,530			3,901,805

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gain on inventories							
Selling expenses	(8,657,797)	(1,026,535)	(51,782)	(53,852)	(361,486)		(10,151,452)
Gain on equity investees						22,140,997	
<b>Segment gain</b>	3,477,260	4,344,826	1,850,379	362,953	2,734,843		12,770,261
Operating Margin (ii)	3.5%	8.0%	11.7%	13.3%	43.0%		7.2%
<b>Depreciation</b>	(2,071,635)	(1,385,720)	(540,989)	(304,637)	(78,714)	(730,392)	(5,112,088)
<b>Balance Sheet Data</b>							
<b>Assets (iii)</b>	Ps. 133,840,099	Ps. 147,615,752	Ps. 20,382,880	Ps. 3,641,461	Ps. 3,903,962	Ps. 561,271,730	Ps. 870,655,884

- (i) Not included in the segment gain.
- (ii) Segment gain divided by the sum of production income and sales.
- (iii) Includes Ps.391.5 million related to equity interests in IRSA, BrasilAgro and Agro Uranga. Remaining assets comprise cash and banks, current investments, trade account receivables, other receivables and intangible assets.

### 11. Income tax

As described in Note 3.m) the Company accounts for income tax using the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

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(In Argentine Pesos, except as otherwise indicated)

**11. Income tax (continued)**

Income tax expense for the years ended June 30, 2008, 2007 and 2006 consists of the following:

	2008	2007	2006
Current income tax expense	Ps. 464,406	Ps. 537,680	Ps. 2,025,251
Deferred income tax expense	(180,333)	7,837,415	3,406,580
<b>Income tax expense</b>	<b>Ps. 284,073</b>	<b>Ps. 8,375,095</b>	<b>Ps. 5,431,831</b>

As mentioned in Note 2.a) the Company has elected not to recognize the deferred tax liability associated with the inflation adjustment on fixed assets and other non-monetary assets, amounting to Ps.15.4 million as of June 30, 2008. This deferred tax liability, if recorded, would reverse as follows:

Reversal period	Total
1 year	249,892
2 years	103,296
3 years	101,631
More than 3 years	1,557,742
No specific period	13,416,642
<b>Total</b>	<b>15,429,203</b>

Income tax expense for the years ended June 30, 2008, 2007 and 2006 differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income as a result of the following:

	2008	2007	2006
Income tax expense at statutory tax rate on pretax income	Ps. 8,224,496	Ps. 20,305,028	Ps. 13,446,311
Donations	16,212	5,428	415,208
Inflation adjustment	667,911	1,455,265	1,477,786
Gain on equity investees	(13,446,022)	(14,069,588)	(7,749,349)
Loss on the sale of shares	660,663		
Personal asset tax	1,602,717	850,085	622,933
Others	2,558,096	(171,123)	(2,781,058)
<b>Income tax expense (*)</b>	<b>Ps. 284,073</b>	<b>Ps. 8,375,095</b>	<b>Ps. 5,431,831</b>

(\*) As of June 30, 2008, includes Ps. 9,935,499 related to the tax effect on expenses incurred for issuing the Company's warrants and shares mentioned in note 5.a) that has been disclosed as Paid-in capital in the statement of changes in shareholders' equity.

The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities at June 30, 2008 and 2007 are presented below:

	<b>2008</b>	<b>2007</b>
Foreign currency	Ps. 8,058,199	Ps. 372,955
Tax loss carryforwards	14,795,683	3,395,688
Provisions and others	1,765,471	571,710
<b>Net deferred tax assets</b>	<b>Ps. 24,619,353</b>	<b>Ps. 4,340,353</b>
	<b>2008</b>	<b>2007</b>
Other receivables	Ps. (43,796,465)	Ps. (335,936)
Property and equipment	(21,033,247)	(18,602,711)
Inventories	(309,753)	
Other		
<b>Net deferred tax liability</b>	<b>Ps. (65,139,465)</b>	<b>Ps. (54,976,297)</b>

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**11. Income tax (continued)**

In assessing the recoverability of deferred income tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Based on the current expiration period of tax loss carryforwards (5 years), the ultimate realization of the deferred income tax assets for income tax purposes is considered more likely than not.

As of June 30, 2008 the Company and its subsidiaries had accumulated income tax loss carryforwards of approximately Ps.42.2 million, which, on an individual entity basis, may be offset against future years taxable income in accordance with income tax law. Such tax loss carryforwards expire at various dates through 2010 to 2013.

Minimum presumed income tax credits booked by the Company, which were pending use as of the year-end, amount to Ps.20.1 million and under current regulations, they may be compensated with taxable income for future years according to the following detail:

Origination year	Amount	Expiration Year
2000	6,664	2010
2001	7,189	2011
2002	9,107	2012
2003	3,164	2013
2004	11,371	2014
2005	81,247	2015
2006	2,023,365	2016
2007	5,458,481	2017
2008	12,556,204	2018

**12. Earnings per share**

The following tables set forth the computation of basic and diluted net income per common share under Argentine GAAP for all periods presented:

	2008	Year ended June 30, 2007	2006
<b>Numerator:</b>			
Net income available to common shareholders	Ps. 22,948,038	Ps. 49,362,269	Ps. 32,883,276
Plus (less): income (loss) impact of assumed conversions:			
Interest expense on Convertible Notes		2,718,240	8,276,255
Foreign currency exchange loss on Convertible Notes		158,117	7,412,011
Income tax effects		(938,914)	(5,121,040)
Management fee		(193,744)	(1,056,723)
Net income available to common shareholders plus assumed conversions	Ps. 22,948,038	Ps. 51,105,968	Ps. 42,393,779

<b>Denominator:</b>			
Weighted-average number of shares outstanding	368,466,065	247,149,373	170,681,455
Plus: incremental shares of assumed conversions:			
Warrants	16,834,050		
Old-warrants (i)		35,501,861	78,126,966
Convertible Notes (i)		38,563,158	72,405,971
Adjusted weighted-average number of shares	Ps. 385,300,115	Ps. 321,214,392	Ps. 321,214,392

(i) Convertible Notes and Old-warrants are no longer outstanding at June 30, 2008.

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**12. Earnings per share (continued)**

	Year ended June 30,		
	2008	2007	2006
<b>Basic and diluted EPS:</b>			
Basic net income per common share	Ps. 0.062	Ps. 0.20	Ps. 0.19
Diluted net income per common share	0.059	0.16	0.13

**13. Supplementary cash flow information**

The following table reconciles the balances included as cash and banks and current investments in the consolidated balance sheet to the total amounts of cash and cash equivalents at the beginning and end of the period shown in the consolidated statements of cash flows:

	As of June 30,		
	2008	2007	2006
Cash and banks	Ps. 47,795,227	Ps. 46,930,644	Ps. 25,997,361
Current investments	485,292,447	39,841,438	6,223,788
Effect of Cactus desconsolidation		939,275	
Total cash and banks and current investments as per balance sheet	533,087,674	87,711,357	32,221,149
Less: Items not considered cash and cash equivalents			
- Government bonds and notes	(93,116)	(121,529)	(3,123,140)
- Mortgage bonds	(622,960)	(1,027,284)	(1,334,180)
- Interest of IRSA Convertible Notes		(379,408)	(386,779)
- IRSA Non-Convertible Notes	(11,285,167)		
<b>Cash and cash equivalents as shown in the statement of cash flows</b>	<b>Ps. 521,086,431</b>	<b>Ps. 86,183,136</b>	<b>Ps. 27,377,050</b>

**14. Exagrind S.A. San Rafael farm against Tali Sumaj and other damages and losses**

Exagrind S.A. has filed a lawsuit against Inversiones Ganaderas S.A. (IGSA) on claims for damages and losses produced by a fire in San Rafael farm, which is close to Tali Sumaj, Province of Catamarca. The fire took place on September 6, 2000.

The estimated amount of the legal action is Ps.2.9 million at the date the claim was filed.

In turn, IGSA filed an extraordinary appeal with the High Court of the Province of Catamarca, requesting to be given the remainder term to answer the lawsuit as, at the time of revoking the first instance judge decision that postponed the terms to answer until a new notice was dispatched, such period had not yet expired. The management of IGSA is awaiting the decision of the High Court of the Province of Catamarca.

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Additionally, in March 2007 -under the request of Exagrind S.A.- the court in charge of the case seized an inhibition of assets. This measure was lifted in June 2007 and a real estate on attachment has been accepted in replacement.

### **15. Restricted assets**

As of June 30, 2008, the amount of 1,834,860 ADR s of IRSA Inversiones y Representaciones S.A. are included in Non-Current Investments which availability is restricted as a result of the loan contracted for financing the Brazil investment as mentioned in Note 4. h) (ii) to these financial statements.

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**Notes to the Consolidated Financial Statements (continued)**

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**15. Restricted assets (continued)**

The San Pedro establishment was included in fixed assets as of June 30, 2008. Such establishment has a mortgage on a fraction of its land to guarantee the payment for the purchase. To date, the amount of US\$ 1.5 million is owed for such acquisition.

In agreement with Note 14 to the consolidated financial statements, on June 4, 2007 a prejudgement attachment was seized on the Tali Sumaj land owned by the Company in substitution for a more burdensome measure that had been previously ordered.

**16. Compensation plan for executive management**

The Company has a defined contribution plan covering its managers in Argentina. The Plan was effective from January 1, 2006. Employees may begin participation voluntarily on monthly enrollment dates. Participants may make pre-tax contributions to the Plan of up to 2.5% of their monthly salary (Base Contributions) and pre-tax contributions of up to 15% of their annual bonuses (Extraordinary Contributions). Under the Plan, the Company matches employee contributions to the plan at a rate of 200% for Base Contributions and 300% for Extraordinary Contributions. Contribution expense was Ps.0.15 million and Ps.0.12 million for the years ended June 30, 2008 and June 30, 2007, respectively. Participant contributions are held in trust as required by law. Individual participants may direct the trustee to invest their accounts in authorized investment alternatives. Company contributions are also held in trust. Participants or their assignees, as the case may be, may have access to the 100% of the Company contributions under the following circumstances:

- (i) ordinary retirement in accordance with applicable labor regulations;
- (ii) total or permanent incapacity or disability;
- (iii) death.

In case of resignation or termination without good cause, the manager will get the amounts arising out of the Company's contribution only if he or she has participated in the Plan for at least 5 years.

**17. Granted Guarantees**

In the ordinary course of business, FyO guarantees certain brokerage transactions. Under the agreement, FyO guarantees the performance of the producer in case it does not comply with the physical delivery. The Company has recourse against the non-performing party. As of June 30, 2008, the value of transacted merchandise for which guarantees were granted amounted to Ps. 14.1 million. As of the date of these financial statements, there were no non-performing parties under the agreements for which the Company had to respond as guarantor. As of the date of these financial statements, the value of transacted merchandise for which guarantees were granted amounted to Ps. 3.6 million.

**18. Securities loan**

On May 28, 2008, IGSA sold to Agrology S.A. its equity interest in IRSA representative of 1,218,260 shares of common stock and 2,065,653 Global Depositary Receipts ( GDRs ) for Ps.96.0 million. Due to such sale, IGSA assigned Agrology S.A. the securities loan agreement with Inversiones Financieras del Sur S.A. executed on March 12, 2008, by which it was granted 790,631 Global Depositary Shares (GDRs) represented by Global Depositary Receipts representative of 10 book-entry shares of common stock, with a face value of PS.1 per share, of IRSA, which are free of any encumbrance and are freely available for Agrology

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,**

**Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**18. Securities loan (continued)**

This loan does not imply transferring any political or economic rights related to the GDRs, which will be held by Agrology. As regards exercising the political rights (vote), the Parties agreed that the company will grant a power of attorney to Inversiones Financieras del Sur S.A. with the respective voting instructions. As regards dividends, Inversiones Financieras del Sur S.A. commits itself to transferring forthwith to Agrology the funds related to this item.

This loan will accrue interest at a monthly rate equivalent to 3-month LIBOR, plus 150 basis points. It will be effective for 30 days and may be renewed for periods, up to a maximum of 360 days.

**19. Subsequent events**

***a) Treasury stock***

On August 26, 2008, the Company's board of directors decided to acquire proprietary shares under section 68, Law No. 17,811 and CNV regulations for a maximum amount of Ps.30.0 million or 10,000,000 shares of common stock.

As of December 17, 2008, the Company acquired a total of 21,026,719 shares of common stock for the total amount of US\$14.1 million.

***b) Agropecuaria Cervera Memorandum of understanding to renegotiate the concession agreement***

On July 2, 2008, ACER entered into a Memorandum of Understanding (MOU) of the concession agreement for the northern and southern areas of the real estate property of Salta Forestal S.A. pursuant to which certain concession terms were renegotiated. The MOU changed the payment terms of the concession fee from a fixed amount to a variable amount starting in 2009.

The original concession area comprised 162,000 hectares of which 30,000 hectares were originally considered as unusable for agricultural purposes under the concession. On August 29, 2008, the Memorandum of Understanding was approved by Decree No. 3,766 of the Executive Power of the Province of Salta.

***c) Purchase and sale of farms***

On July 24, 2008, the Company completed the sale of the 1,829 hectares of the El Recreo farm, located in the Province of Catamarca. The transaction was closed at US\$0.36 million, which were paid as follows: US\$0.12 million at the time of the sales deed and the balance of US\$0.24 million to be paid in two annual and consecutive installments plus interest equivalent to the Libor rate plus 3%.

On July 28, 2008, the Company acquired Las Londras farm, a 4,566 hectare property located in the Province of Guarayos, Bolivia for an aggregate purchase price of US\$11.4 million, of which US\$1.1 million was paid. The remainder will be paid off as follows: US\$3.8 million on the day the agreement is notarized; US\$ 4.0 million on the first anniversary of the agreement; and US\$2.5 million on the second anniversary of the agreement. The financing does not accrue stated interest.

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On July 28, 2008, the Company acquired San Cayetano and San Rafael farms, a 883 hectare and a 2,969 hectare properties located in the Province of Guarayos, Bolivia for an aggregate purchase price of US\$8.9 million out of which US\$0.9 million was paid. The remainder will be paid off as follows: US\$2.9 million on the day the agreement is notarized; US\$3.1 million fixed on the first anniversary of the agreement; and US\$1.9 million on the second anniversary of the agreement. The financing does not accrue stated interest.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**19. Subsequent events (continued)**

*c) Purchase and sale of farms (continued)*

On July 28, 2008, the Company acquired La Fon Fon farm, a 3,748 hectare property located in the Province of Obispo Santiesteban, Bolivia for an aggregate purchase price of US\$ 8.6 million out of which US\$ 1.4 million was paid. The remainder will be paid off as follows: US\$2.3 million on the day the agreement is notarized; US\$3.0 million on the first anniversary of the agreement; and US\$1.9 million on the second anniversary of the agreement. The financing does not accrue stated interest.

On September 5, 2008, the Company signed the deed for the purchase of 10,910 hectares of the Estancia Carmen farm, located in the Province of Santa Cruz, adjacent to the Company 8 de Julio farm. The transaction was agreed for a price of US\$0.7 million, which have been fully paid.

On October 7, 2008, the Company executed a preliminary sales agreement without transfer of possession in connection with 1,658 hectares of the Los Pozos establishment located in the Province of Salta. The agreed sales price was US\$0.5 million, US\$0.3 million of which have been already paid. The balance is payable upon execution of the title deed, scheduled for April 1, 2009.

*d) Formation of Joint Venture in Paraguay*

On September 3, 2008, the Company entered into a Joint Venture Agreement (the Agreement) with an unrelated party, Carlos Casado S.A. (Casado), an Argentine-based corporation owner of large land extensions in Paraguay. The Agreement called for a formation of a 50-50 corporate joint venture. In a series of transactions part of the Agreement, the Company acquired from Casado an aggregate 20,965 hectares in Paraguay for total consideration of US\$ 5.3 million, and subsequently contributed the land to the joint venture. Casado also contributed land to the joint venture and granted a call option for the purchase of up to 100,000 hectares of rural land. The joint venture was formed for the purpose of conducting agricultural, livestock, forestry and other activities in Paraguay. Furthermore, the Company and the joint venture entered into a 10-year (automatically renewable for additional like terms) Advisory Agreement pursuant to which the Company performs agricultural advisory services to the venture.

*e) Acquisition of IRSA shares and consolidation of financial statements*

From July 1, 2008 to December 17, 2008 we acquired 68,712,005 additional shares of IRSA on the open market for US\$ 47.4 million. Thus, the Company's direct and indirect interest in IRSA through its affiliates amounts to 54.01%. Therefore, the Company consolidates IRSA as from that date.

*f) Settlement of payable to Credit Suisse International*

On October 24, 2008, the Company executed an agreement by which it settled the transaction previously agreed upon with Credit Suisse International on May 2, 2006, by means of the full payment of the unpaid balance under the transaction framework for a principal of US\$8.0 million. At the same time, the Company received from Credit Suisse International the amount of 1,834,860 GDR's from IRSA, which constituted the security for the previously mentioned transaction. Thus, the obligations from both parties were reciprocally settled, as well as the rights and

obligations resulting from such commercial relationship.

**g) Meeting of Shareholders**

The General and Extraordinary Shareholders Meeting held on October 31, 2008 approved the following:

Letters to the Shareholders and financial statements ended June 30, 2008.

Appropriating 5% on income for the year ended June 20, 3008 to the legal reserve.

Distributing cash dividends for Ps. 20,000,000 made available to shareholders as from November 10, 2008.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**19. Subsequent events (continued)**

**g) Meeting of Shareholders (continued)**

That income for the year be brought forward to the new year, empowering the Board to use the balance and the freely available reserves mentioned above, according to the company's needs, under current applicable regulations and subject to approval by the shareholders' meeting with the broadest powers to, among other uses, distribute dividends or decide on the acquisition of proprietary shares as provided by CNV (Comisión Nacional de Valores) Resolution No. 535, sec. 220, Argentine Business Associations Law, sec. 68, Law No. 17,811 and other relevant provisions in the CNV Standards effective at each time. Due to the financial crisis in the domestic and international markets clearly affecting the listed price of the Company shares, which do not respond to the Company's situation, it is imperative to protect the interests of shareholders preserving the listed prices.

That the shareholders' personal assets tax paid over by the Company as substitute taxpayer for Ps. 4,008,607 be fully absorbed by the Company as long as such decision is not amended by the shareholders' meeting's decision.

Renewing the delegation of powers to the Board to set the time and issuance currency, price, payment terms and conditions, interest rate and type, use of funds and other terms and conditions as approved by the shareholders meeting of October 31, 2006, for the issuance of corporate bonds within the global program under sec. 9, Law No. 23,576.

**h) Financial and capital market situation**

During the recent months, the world's principal financial markets have suffered the impact of volatility conditions as well as lack of liquidity, credit and uncertainty. Consequently, stock market rates showed a significant decline worldwide together with an evident economic slowdown. Although the majority of the countries took immediate action on the matter, the future prospects of the international markets is uncertain, as well as its direct effects on the market value of major financial assets, particularly equity and debt instruments.

As far as the impact in Argentina is concerned, stock markets also showed a pronounced downward trend in the price of equity and debt instruments, as well as increases in interest rates, country risk and foreign exchange rates and decreases in commodity prices. As of the date of these financial statements, these effects persist. Management is closely evaluating and monitoring the effects of the current liquidity crisis and will take all corrective actions as necessary.

In addition, the Company and its subsidiaries have experienced declines in their respective stock prices during the three months ended September 30, 2008 as compared to the prior quarter. Management believes that this decline is reflective of the current macro-economic state of the economy and is not related to the operating performance of the Company. Even though commodity prices have declined significantly, the Company's operating performance has not been significantly affected by the current credit crisis as of the date of these financial statements. Also, the Company's market value of their farmland properties has not been significantly affected as of the date of these financial statements. The Company notes that the stock prices have declined due to reasons unrelated to the Company's business fundamentals. As of the date of these financial statements, management believes that these declines are temporary.

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Furthermore, the Company had a 42.13% equity interest in IRSA as of June 30, 2008 and carried this investment under the equity method of accounting. In December 17, 2008, the Company increased its equity interest in IRSA to 54.01% therefore the Company consolidates IRSA as from that date. IRSA, in turn, has an equity investment in BHSA, thus, the Company's indirect investment in BHSA is 4.95% as of June 30, 2008 and 6.35% as of the date of these financial statements. BHSA recorded losses of Ps. 91.0 million for the year ended June 30, 2008. Moreover, for the three months ended September 30, 2008, BHSA recorded losses of Ps. 239.6

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**19. Subsequent events (continued)**

***h) Financial and capital market situation (continued)***

million and continued experiencing losses for the months of October and November of 2008. Such losses are primarily due to the decline in the market value of the Argentine government bonds BHSA received as compensation and held in its portfolio. In spite of these losses, BHSA remains well-capitalized in regards to regulatory guidelines as of June 30, 2008 and thereafter.

BHSA also experienced a significant decline in its stock price during the year ended June 30, 2008 and the three months ended September 30, 2008. Management believes that this decline is not reflective of the current operating performance of BHSA.

The Company considered several factors including, but not limited to, the following (1) the reasons for the decline in value (whether it is credit event, interest or market related); (2) the Company's ability and intent to hold the equity investment for a sufficient period of time to allow for recovery of value; (3) whether the decline is substantial for the Company; (4) the historical and anticipated duration of the events causing the decline in value and (5) the major fundamentals underlying the Company's business. The evaluation for other-than-temporary impairments is a quantitative and qualitative process, which is subject to various risks and uncertainties. As of the date of these financial statements, management believes that these declines are temporary and will continue to monitor market conditions and determine if any impairment to the carrying value of the investment is necessary.

In addition, one of the business segments of IRSA has been affected by the current credit crisis. The Consumer Financing segment includes the origination of consumer loans and credit card receivables and securitization activities.

Consumer loan and credit card receivables arise primarily under open-end revolving credit accounts used to finance purchases of goods and services offered by shopping centers, hypermarkets and street stores, and financing and lending activities through IRSA's indirect subsidiary Tarshop. IRSA's investment in Tarshop is held through IRSA's investment in Alto Palermo. These accounts have various billing and payment structures, including varying minimum payment levels and finance charge rates. Tarshop provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns and management judgment.

Due to the current credit crisis and other conditions, some customers experienced delays in payments and also uncollectibility rates increased during the year ended June 30, 2008. Moreover, delinquency and uncollectibility rates further increased as of September 30, 2008 and thereafter. Tarshop evaluated all available evidence and increased the level of the allowance for doubtful accounts which amounts to Ps.66.5 million as of June 30, 2008. The allowance for doubtful accounts was increased to Ps.83.7 million as of September 30, 2008. Tarshop is closely monitoring the delays, delinquency and uncollectibility rates.

Tarshop's generated a net loss of Ps.18.6 million for the year ended June 30, 2008. For the three months ended September 30, 2008, Tarshop generated an additional net loss of Ps.57.1 million. Subsequent to year-end, the Company contributed Ps.60 million and increased its interest from 80% to 93.4% as of November 30, 2008. The Company has committed to support Tarshop financially under a credit line up to a maximum amount of Ps.120 million, including Ps.86 million which were already contributed. Alto Palermo has taken several actions to enhance Tarshop's capital base from streamlining operations to closing redundant stores to revising and making credit criteria more stringent. The securitization market is still open and Tarshop completed securitization programs during the recent months with no disruptions. As of June 30, 2008, Tarshop's credit risk exposure is contractually limited to the subordinated retained interests representing Ps.156.8 million and Ps.19.4 million escrow reserves for losses. As of September 30, 2008, Tarshop's credit risk exposure is contractually limited to the subordinated retained interest representing Ps. 161.2 million and Ps. 17.9 million escrow reserves for losses. Due to the factors mentioned above, as of June 30, 2008, Tarshop

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has recorded an other-than-temporary impairment charge of Ps.12 million to the retained interests to reflect current fair value. For the three months ended September 30, 2008, no additional impairment related to the retained interests in securitized receivables was recorded.

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**Notes to the Consolidated Financial Statements (continued)**

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**19. Subsequent events (continued)**

***h) Financial and capital market situation (continued)***

As further discussed in Note 4.b)iii), the Company has a 14.39% equity investment in Brasilagro as of June 30, 2008 and carried this investment under the equity method of accounting. Brasilagro also experienced a significant decline in its stock price during the year ended June 30, 2008 and the three months ended September 30, 2008. Management believes that this decline is not reflective of the current operating performance of Brasilagro. In addition, the current market value of Brasilagro farmlands properties has not been significantly affected. As indicated above, the evaluation for other-than-temporary impairments is a quantitative and qualitative process, which is subject to various risks and uncertainties. The Company considered similar factors, as discussed above, including, but not limited to, the following (1) the reasons for the decline in value (whether it is credit event, interest or market related); (2) the Company's ability and intent to hold the equity investment for a sufficient period of time to allow for recovery of value; (3) whether the decline is substantial for the Company; (4) the historical and anticipated duration of the events causing the decline in value, and (5) the major fundamentals underlying the Company's business. As of the date of these financial statements, management believes that these declines are temporary and will continue to monitor market conditions and determine if any impairment to the carrying value of the investment is necessary.

***i) Securities Loan***

On August 6, 2008, Agrology executed a securities loan agreement with Inversiones Financieras del Sur S.A. by which 1,275,022 Global Depository Shares were granted, represented by GDRs representative of 10 shares of common book-entry shares with a face value of Ps.1 per share of IRSA. This agreement was executed under the same conditions as the agreement dated March 12 described in Note 18.

***j) Purchase of IRSA and APSA Notes***

As of November 25, 2008, the Company had acquired nominal value 25,210,000 of IRSA's 8.500% Series No. 1 Notes due 2017, for an average weighted price of US\$0.48 per Note, totaling US\$12.2 million.

As of the same date, the Company also acquired nominal value 5,000,000 of Alto Palermo S.A. (APSA)'s 7.875% Series No.1 Notes due 2017, for an average weighted price of US\$0.42 per Note, totaling US\$2.1 million.

**20. Differences between Argentine GAAP and US GAAP**

The consolidated financial statements of the Company have been prepared in accordance with Argentine GAAP and the regulations of the CNV, which differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the SEC.

As discussed in Notes 2.d) and 3.m), in order to comply with regulations of the CNV, the Company:

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i) discontinued inflation accounting as from February 28, 2003, however, such departure did not have a material effect on the Company's consolidated financial statements.

ii) recognized deferred income tax assets and liabilities on an undiscounted basis. This accounting practice represented a departure from Argentine GAAP but did not have a material effect on the consolidated financial statements for the year ended June 30, 2006. However, as further discussed in note 2.a), the CPCECABA issued revised accounting standards. One of these standards required companies to account for deferred income taxes on an undiscounted basis, thus aligning the accounting to that of the CNV. Since the CNV adopted the CPCECABA standards effective for the Company for the year ended June 30, 2007, there was no longer a difference on this subject between Argentine GAAP and the CNV regulations.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)****I. Differences in measurement methods**

The following reconciliation to US GAAP does not include the reversal of the adjustments to the consolidated financial statements for the effects of inflation through February 28, 2003, because the application of this standard represents a comprehensive measure of the effects of price level changes in the Argentine economy.

The principal differences, other than inflation accounting, between Argentine GAAP and US GAAP are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

Reconciliation of net income:	Year ended June 30,		
	2008	2007	2006
<b>Net income under Argentine GAAP</b>	<b>Ps. 22,948,038</b>	<b>Ps. 49,362,269</b>	<b>Ps. 32,883,276</b>
<b>US GAAP adjustments:</b>			
Effect of US GAAP adjustments on equity investees (Note 20.I.a))	4,155,767	246,437	(508,866)
Valuation of inventories (Note 20.I.b))	(5,669,360)	315,291	(91,202)
Deferred income tax (Note 20.I.c))	3,274,113	7,042,021	5,100,278
Elimination of gain on acquisition of minority interest (Note 20.I.d))	32,369	32,369	32,369
Available-for-sale securities (Note 20.I.e))	20,522,742	(192,693)	227,349
Accounting for convertible notes (Note 20.I.f))	(253,410)	(7,584,803)	(10,753,817)
Effect of US GAAP adjustments on management fee (Note 20.I.g))	725,938	114,421	599,389
Reversal of gain recognized for assets held for sale (Note 20.I.h))	(885,009)		
Accounting for warrants (Note 20.I.i))	(28,436,594)		
<b>Net income under US GAAP</b>	<b>Ps. 16,414,594</b>	<b>Ps. 49,335,312</b>	<b>Ps. 27,488,776</b>
<b>Earnings per share under US GAAP (Note 20.II.f)):</b>			
Basic net income per common share	Ps. 0.04	Ps. 0.20	Ps. 0.16
Diluted net income per common share	Ps. 0.04	Ps. 0.18	Ps. 0.15

Reconciliation of shareholders equity:	As of June 30,	
	2008	2007
<b>Total shareholders equity under Argentine GAAP</b>	<b>Ps. 1,762,338,131</b>	<b>Ps. 824,954,215</b>
<b>US GAAP adjustments:</b>		
Effect of US GAAP adjustments on equity investees (Note 20.I.a))	(57,864,475)	(45,798,635)
Valuation of inventories (Note 20.I.b))	(41,717,623)	(36,048,263)
Deferred income tax (Note 20.I.c))	1,182,415	(9,274,658)
Elimination of gain on acquisition of minority interest (Note 20.I.d))	(1,073,423)	(1,105,792)
Effect of changes in the classification of securities (Note 20.I.e))		169,983,032
Accounting for convertible notes (Note 20.I.f))		253,410
Reversal of gain recognized for assets held for sale (Note 20.I.h))	(885,009)	

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Accounting for warrants (Note 20.I.i)	(169,165,936)	
Effect of US GAAP adjustments on management fee (Note 20.I.g)	22,835,057	22,109,119
<b>Shareholders' equity under US GAAP</b>	<b>Ps. 1,515,649,137</b>	<b>Ps. 925,072,428</b>

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

Description of changes in shareholders' equity under US GAAP:	Year ended June 30,	
	2008	2007
<b>Shareholders' equity at the beginning of the year</b>	<b>Ps. 925,072,428</b>	<b>Ps. 614,066,773</b>
Cumulative effect of initial application of SAB 108 on IRSA investment (Note 20.I.a))		(1,002,835)
Issuance of common stock - par value	180,000,000	
Distribution of cash dividends	(8,250,000)	(5,500,000)
Exercise of Old-warrants - par value	5,855,178	44,619,656
Exercise of warrants - par value	757,093	
Conversion of notes into common shares - par value	5,343,374	44,352,015
Additional paid-in-capital-common shares	722,684,825	64,747,083
Additional paid-in-capital-warrants	1,532,015	116,710
Changes of interests in equity investees and subsidiaries resulting from capital nature transactions	(2,930,097)	(4,249,740)
Accounting for warrants	(142,182,968)	
Foreign currency translation	16,465,407	8,248,649
Reclassification of IRSA's Convertible Notes from Held-to-Maturity to Available-for-Sales	(169,983,032)	99,268,370
Change in other comprehensive income of equity investees	(21,789,898)	10,945,185
Change in unrealized holding gain on available-for-sale securities	(13,339,782)	125,250
Net income under US GAAP	16,414,594	49,335,312
<b>Shareholders' equity as of the end of the year</b>	<b>Ps. 1,515,649,137</b>	<b>Ps. 925,072,428</b>

**Description of reconciling items:**

**a) Effect of US GAAP adjustments on equity investees**

This reconciling item represents the aggregate effect of US GAAP adjustments related to the Company's equity investees. The Company's equity investees are IRSA, Agro Uranga, Brasilagro and Cactus as of June 30, 2008. The US GAAP adjustments related to the equity investees other than IRSA included herein were not significant for any of the periods presented and were mainly related to the valuation of inventories.

In addition to the adjustments related to the other equity investees, this reconciling item includes the adjustment related to the equity investment in IRSA, representing the net effect of (i) the different accounting treatment between Argentine GAAP and US GAAP given to the change in the method of accounting for the investment in IRSA from fair market value to the equity method of accounting; (ii) the differences in accounting treatment between Argentine GAAP and US GAAP to acquisitions of IRSA's shares by the Company; (iii) the impact of US GAAP adjustments to the shareholders' equity and net income of IRSA before application of the equity method for the investment, and (iv) differences in paid-in capital resulting from differences basis in the carrying amount of the investment.

These adjustments are further described below:

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(i) On March 31, 2002, under Argentine GAAP, the Company changed the method of accounting for the investment in IRSA from fair market value to the equity method of accounting. This change resulted in the recognition of a negative goodwill under Argentine GAAP. Negative goodwill is being amortized under the straight-line method over a period of 20 years.

Under US GAAP, the financial statements of prior periods were retroactively adjusted as required by APB Opinion N° 18, The Equity Method of Accounting for Investments in Common Stock ( APB 18 ), to reflect the investment under the equity method of accounting in a manner consistent with the accounting for a

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

**Description of reconciling items: (continued)**

*a) Effect of US GAAP adjustments on equity investees (continued)*

step acquisition of a subsidiary. As a result, the Company recorded each acquisition of shares under the purchase method of accounting and allocated the amount paid to the net assets acquired and liabilities assumed at the acquisition date based on fair value. As the fair value of the net assets acquired and liabilities assumed exceeded the cost of the acquisition, the Company reduced the amounts that otherwise would have been assigned to the acquired long-lived assets on a pro-rata basis by Ps.196.7 million.

The effect of this adjustment is primarily reflected in lower depreciation expense due to a lower fixed asset basis of IRSA and the reversal of the amortization of negative goodwill recognized under Argentine GAAP.

(ii) In addition, this reconciling item also includes the different accounting treatment of certain acquisitions of IRSA shares by the Company which occurred between the fiscal years 2005 and 2008. Certain acquisitions generated negative goodwill under Argentine GAAP. When negative goodwill existed, the Company reassessed the identification and valuing process of net assets acquired performed. If after reassessment, negative goodwill persisted, all intangible assets identified were subject to reduction. If after all intangible assets were reduced to zero an amount of negative goodwill remained, it was amortized under the straight-line basis over the weighted average useful life of the assets acquired. Under US GAAP, all long-lived assets (including intangible assets) were subject to pro rata reduction. As such, since the basis for long-lived assets differed between Argentine GAAP and US GAAP, depreciation and amortization differences existed.

(iii) Under both Argentine and US GAAP the Company's investment in IRSA is accounted for under the equity method of accounting. However, certain significant differences exist between Argentine GAAP and US GAAP amounts of shareholder's equity and net income reported by IRSA in its consolidated financial statements. As a result, the carrying value of the Company's investment in IRSA under US GAAP differs from the carrying value reported under Argentine GAAP. The principal differences between Argentine GAAP and US GAAP as they relate to IRSA are related to, among others, (a) the impact of US GAAP adjustments on IRSA's equity investees, (principally IRSA's investment in Banco Hipotecario S.A.) (b) the reversal of previously recognized impairment losses, (c) the reversal of gains from valuation of inventories at fair market value, (d) the accounting for real estate barter transactions, (e) the reversal of a gain recognized on troubled debt restructuring (f) the accounting for convertible notes, (g) securitization accounting, (h) deferred income taxes, (i) minority interest and (j) revenue recognition issues related to scheduled rent increases and brokerage commissions and (k) as of June 30, 2007 the impact of initial application of SAB 108.

(iv) In addition, during fiscal years 2008 and 2007, as a result of the dilutive effect of warrants and conversion rights exercised by other shareholders, under Argentine GAAP the Company recorded the loss effect of the change in interest in IRSA amounting to Ps.8.5 million and Ps.6.9 million, respectively, as paid-in capital within shareholders' equity. This accounting treatment is consistent with SAB Topic 5H and as such, no difference exists between Argentine GAAP and US GAAP in accounting for this transaction. However, during fiscal years 2008 and 2007, under US GAAP the change in interest in IRSA resulted in a loss effect of Ps.2.0 million and Ps.3.5 million, respectively, as a result of the differences between Argentine GAAP and US GAAP in the carrying value of the investment as discussed above.

***b) Valuation of inventories***

Under Argentine GAAP, livestock held for sale is recorded at selling prices less costs to sell. Livestock for dairy, breeding and/or developing is recorded at replacement cost as determined by agricultural appraisers.

Under US GAAP, dairy, breeding and developing livestock is recorded at the lower of cost or market, with costs removed from inventory on a first-in/ first-out basis. All direct and indirect costs of developing livestock, such as the purchase price, labor costs, feed, vaccines and veterinary fees are accumulated until the livestock reaches maturity or is sold. Dairy and breeding herd is depreciated using the straight-line method over the estimated useful life of five years.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

**Description of reconciling items: (continued)**

*c) Deferred income tax*

Under both Argentine GAAP and US GAAP, the Company records deferred income taxes using the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is not recoverable. This standard is similar to the principles of US GAAP set forth in Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes .

However, under Argentine GAAP, the Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes in accordance with Resolution MD No.11/2003 issued by the CPCECABA. Under US GAAP, the Company applies EITF 93-9, Application of FASB Statement No.109 in Foreign Financial Statements Restated for General Price-Level Changes , which requires such differences to be treated as temporary differences in calculating deferred income taxes.

In addition, this US GAAP adjustment includes the effect on deferred income taxes of other reconciling items, as appropriate.

*d) Elimination of gain on acquisition of minority interest*

Under Argentine GAAP, the Company recorded, during fiscal year 1999, a gain on the acquisition of the minority interest of Agro Riego (subsequently merged with and into the Company). Under US GAAP, such excess was recorded as a reduction in the values of the underlying non-current assets of Agro Riego and is being amortized over the estimated useful lives of such assets which is approximately 42 years.

*e) Available-for-sale securities*

Under Argentine GAAP, investments in IRSA Non-Convertible Notes, mutual funds, mortgage bonds and government bonds are carried at market value, with unrealized gains and losses recorded in income. Under US GAAP, pursuant to Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities ( SFAS No. 115 ), these investments are classified as available-for-sale securities and, accordingly, unrealized gains and losses are excluded from income and reported as a separate component of shareholders' equity. As of June 30, 2007, the IRSA's Convertible Notes were reclassified from held-to-maturity to available-for-sale. SFAS No. 115 also states that for individual available-for-sale securities, an enterprise shall determine whether a decline in fair value below the amortized cost basis is other

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than temporary. In such event, accumulated unrealized losses included in other comprehensive income shall be reclassified into the statement of income.

The Company's investments are considered available-for-sale as these securities could potentially be sold in response to needs for liquidity, changes in the availability of and the yield on alternative instruments or changes in funding sources or terms. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

**Description of reconciling items: (continued)**

*f) Accounting for convertible notes*

As discussed in Note 9, in October 2002, the Company issued US\$50.0 million of Convertible Notes with non-detachable warrants to acquire additional shares of common stock. In accordance with the agreement, the Convertible Notes are convertible at any time, at the option of the holder, into a fixed number of common shares. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of the warrant. Under Argentine GAAP, no proceeds were allocated to the conversion feature and non-detachable warrants associated with the Convertible Notes. Under US GAAP, the Company applied EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF No. 00-27), which addresses how a beneficial conversion amount should be measured when an entity issues a convertible instrument that, if converted, will result in the holder receiving common stock and other equity instruments of the issuer, such as warrants to acquire common stock of the issuer. In EITF No. 00-27, the Task Force reached a tentative conclusion that the intrinsic value of the conversion option should be computed based on a comparison of (a) the proceeds of the convertible instrument allocated to the common stock portion of the conversion option and (b) the fair value at the commitment date of the common stock to be received by the holder upon conversion. The excess of (b) over (a) is the intrinsic value of the embedded conversion option that should be recognized by the issuer at the issuance date for the convertible instrument. In EITF No. 00-27 the Task Force also reached a consensus that the Issue 98-5 model should be modified for convertible instruments that have a stated redemption date to require a discount resulting from recording a beneficial conversion option to be accreted from the date of issuance to the stated redemption date of the convertible instrument, regardless of when the earliest conversion date occurs. EITF 00-27 also states that the entire unamortized discount, if any, remaining at the date of conversion should be immediately recognized as interest expense. As a result of applying EITF 00-27, under US GAAP the Company allocated Ps.49.4 million of the proceeds received, representing the intrinsic value of the embedded beneficial conversion feature at the commitment date, to additional paid-in capital (Ps.32.3 million net of income tax). The resulting debt discount was recognized as expense over the term of the Convertible Notes. Upon conversion, warrants was recognized as additional paid-in capital and any unamortized discount is immediately recognized as interest expense. Net discount amortization recognized during the years ended June 30, 2006, 2007 and 2008 totaled Ps.11.6 million, Ps.7.6 million and Ps.0.3 million, respectively. These amounts include Ps.12.4 million, Ps.19.5 million and Ps.2.3 million of accelerated amortization recognized as a result of warrant conversions made during those years, respectively. As the Company's Convertible Notes are denominated in U.S. Dollars, the US GAAP adjustment also includes the elimination of exchange rate differences between the Argentine peso and the U.S. Dollar related to the debt discount. Foreign exchange losses reversed under US GAAP totaled Ps.(0.9) million, Ps.(0.07) million and Ps.(0.15) million during the years ended June 30, 2006, 2007 and 2008, respectively. The Convertible Notes matured November 14, 2007. As of November 14, 2007, 89,126 Convertible Notes were pending conversion and were settled in cash and 132,982 warrant expired unexercised.

From 2003 through November 14, 2007, an amount of 49,910,874 Convertible Notes were converted into 98,288,372 shares of common stock increasing the Company's shareholders' equity of Ps.152.1 million. During this period, an amount of 49,867,018 old-warrants were exercised and consequently, 98,202,054 shares of common stock were issued for Ps.182.9 million. As a result of the conversions and exercises of warrants, under US GAAP the Company has reclassified a net amount of Ps.0.5 million from additional paid-in capital to additional paid-in capital of warrants.

*g) Effect of US GAAP adjustments on management fee*

As discussed in Note 8, the Company entered into a Management Agreement with CAM, pursuant to which CAM provides agricultural advisory services and certain other administration services to the Company.

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**20. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

**Description of reconciling items: (continued)**

**g) *Effect of US GAAP adjustments on management fee (continued)***

The Company pays CAM an annual fee equivalent to 10% of the after-tax net income of the Company for these services. The reconciliation to US GAAP includes the effects of the US GAAP adjustments on management fee.

**h) *Reversal of gain recognized for asset held for sale***

Under Argentine GAAP, long-lived assets classified as held for sale are recognized at fair value less costs to sell when (a) there is a market for the transaction and the net realizable value can be determined by reference to market-based transactions for similar assets and (b) the sales price is reasonably assured by contract.

Under US GAAP as per SFAS No. 144 Accounting for the Impairment or Disposal of Long-lived Assets (FAS 144), a long-lived asset could be classified as held for sale in the period in which all of the following criteria are met: (a) management, having the authority to approve the action, commits to a plan to sell the asset; (b) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; (c) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (d) the sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale, within one year; (e) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; (f) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Long-lived assets classified as held for sale are measured at the lower of its carrying amount or fair value less costs to sell.

As discussed in Note 19.c., the Company completed the sale of 1,829 hectares of El Recreo farm in July 2008. This farm was classified as held for sale under Argentine GAAP and recognized at fair value less costs to sell. Therefore, a gain of Ps.0.9 million was recorded as of June 30, 2008. Under US GAAP, the farm was also classified as an asset held for sale since the conditions for recognition were met. However, as required by FAS 144, the asset was valued at its carrying amount.

**i) *Accounting for Warrants***

As discussed in Note 5.a), the Company issued 180 million warrants as part of the issuance of common stock. Under Argentine GAAP, proceeds from the issuance were allocated to the shares and warrants issued based on the relative fair market value estimated upon subscription. The fair value of the warrants was calculated using the Black-Scholes method as of the date of issuance. Under Argentine GAAP, the warrants were considered an equity instrument and the portion of the proceeds allocated to the warrants was recorded as additional paid-in capital. The warrant agreement requires that the Company file, and use best efforts to cause to be declared and keep effective, a registration statement covering the issuance of the shares underlying the warrants. However, the warrant agreement fails to specify the remedies, if any, that would be available to

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warrant holders in the event there is no effective registration statement covering the issuance of shares underlying the warrants. Under US GAAP, the accounting of the warrants as a derivative liability is required under EITF No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock due to the absence in the warrant agreement of provisions addressing the exercise of the warrants in the absence of an effective registration statement. Under EITF No. 00-19, the registration of the common stock underlying the warrants is not within the Company's control. In addition, under EITF No. 00-19, in the absence of explicit provisions to the contrary in the warrant agreement, the Company must assume that it could be required to settle the warrants on a net-cash basis, thereby necessitating the treatment of the potential settlement obligation as a liability. Under the provisions of EITF No. 00-19, a contract designated as a liability must be carried at full fair value on a company's balance sheet, with any changes in fair value recorded in the

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**Notes to the Consolidated Financial Statements (continued)**

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**20. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

**Description of reconciling items: (continued)**

*i) Accounting for Warrants (continued)*

company's results of operations. Under US GAAP, the proceeds were allocated first to the warrants on a full fair value basis with the residual allocated to common stock. The fair value of the warrants was Ps.115.2 million as of the date of issuance. The US GAAP adjustment to equity represents the reclassification of additional paid-in capital to liability for such amount. The US GAAP adjustment to income represents the change in the fair value of the warrants as of June 30, 2008. Also, an amount of Ps. 1.4 million of warrants were exercised as of June 30, 2008. As such, this amount was reclassified from liabilities to equity.

*j) Accounting for uncertainty in income taxes*

On July 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 addresses the accounting and disclosure of uncertain tax positions. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for a position in accordance with FIN 48 and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit.

As of the adoption of FIN 48 at July 1, 2007, the Company did not have any liability for unrecognized tax benefits. Furthermore, the adoption of FIN 48 did not result in any net liability for unrecognized tax benefits.

The Company's principal taxable jurisdiction is Argentina. At any point in time, the Company may have tax audits underway at various stages of completion. The Company evaluates the tax positions and establishes liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained, despite the Company's belief that the underlying tax positions are fully supportable. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law, and closing of statute of limitations. Such adjustments are reflected in the tax provision as appropriate.

The Company has tax years open ranging from 2003 and forward. The Company is generally not able to reliably estimate the ultimate settlement amounts until the close of an audit.

**II. Additional disclosure requirements**

*a) Statement of income classification differences*

Should a US GAAP income statement be presented, certain items shown in some line items of the income statement under Argentine GAAP would have to be reclassified to affect other line items. The following reclassifications are intended to present Argentine GAAP numbers using a different criterion of classification under US GAAP. The numbers included below are not US GAAP numbers.

(i) Proportionate consolidation of Cactus

As discussed in Note 2.c), the Company accounted for its investment in Cactus under the proportionate consolidation method under Argentine GAAP. Effective January 1, 2007, the Company's interest in Cactus decreased to 24.0%.

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**Notes to the Consolidated Financial Statements (continued)**

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**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

***a) Statement of income classification differences (continued)***

Accordingly, the Company deconsolidated Cactus and prospectively applied the equity method of accounting for this investment. Under US GAAP, since the Company did not exercise control over the subsidiary, proportionate consolidation was not appropriate and the equity method of accounting was used for all periods presented as disclosed in Note 20.II.m).

(ii) Adoption of RT No. 22 Agricultural Activities

Effective July 1, 2006, under Argentine GAAP, the Company applied RT No. 22 Agricultural Activities which established specific measurement and disclosure standards for the Company's business. The adoption of this standard did not have an impact on the Company's financial position and results of operations. There was no change in the determination of total gross profit and operating income of the Company. Rather it expanded the Company's disclosures and changed the format of the Company's income statement above gross profit. RT No. 22 requires that a change in fair value less estimated point-of-sale costs of a biological asset be included in net profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the enterprise. Prior to the adoption of RT No. 22, the production income was presented as a reduction in the cost of sales of the Company. Under US GAAP, the production income relating to their transformation and/or development directly affects the cost of these assets and is not shown separately. However, there would be no change in total gross profit.

(iii) Unrealized gains or losses on inventories

Under Argentine GAAP, unrealized gains or losses on inventories are segregated and shown in a separate line within operating income. Under US GAAP, these amounts would be included as part of cost of sales.

As a result of these differences in classification, gross profit under US GAAP would have been Ps.57.6 million, Ps.42.1 million and Ps.22.0 million for the years ended June 30, 2008, 2007 and 2006, respectively.

(iv) Operating income

Under Argentine GAAP, the Company reflected gains on the sale of farms as a separate line within operating income; under US GAAP, such gains would be included as other income. Additionally under Argentine GAAP, the Company reflected management fees shareholders personal assets tax and others and allowance for doubtful accounts as non-operating expenses; under US GAAP, management fees shareholders personal assets tax and others and allowance for doubtful accounts would be included as operating expenses.

Should gains or losses on the sale of farms and management fees shareholders personal assets tax and others and allowance for doubtful accounts be reclassified out of and into operating income, respectively, operating income under Argentine GAAP would have been Ps.17.3 million, Ps.6.0 million and Ps.(4.6) million for the years ended June 30, 2008, 2007 and 2006, respectively.

*b) Balance Sheet classification differences*  
*Inventories*

Under Argentine GAAP, the Company has classified the livestock for dairy production and other purposes not related to its sale as non-current inventory. Under US GAAP, this amount would be recorded as property and equipment on the consolidated balance sheet.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

***Proportional consolidation***

In addition, until June 30, 2006 under Argentine GAAP the Company consolidated on a pro-rata basis the accounts of Cactus. Under US GAAP consolidation was not appropriate since the Company did not exercise control over the subsidiary.

***c) Disclosure about fair value of financial instruments***

Under Argentine GAAP, there are no specific rules regarding disclosure of fair value of financial instruments.

Under US GAAP Statement of Financial Accounting Standards No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of credit risk ( SFAS No. 105 ), requires reporting entities to disclose certain information about financial instruments with off-balance sheet risk of accounting loss. Statement of Financial Accounting Standards No.107, Disclosures About Fair Value of Financial Instruments , ( SFAS No. 107 ), requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Financial instruments include such items as to cash and cash equivalents, investments in debt and equity securities, accounts receivable and other instruments. Statement of Financial Accounting Standards No. 119, Disclosure about Derivative Financial Instruments and fair value of Financial Instruments ( SFAS 119 ), requires reporting entities to disclose certain information for derivative financial instruments. SFAS No.133 superseded SFAS No. 105 and SFAS No. 119 and amended SFAS No. 107 to include in SFAS No. 107 the disclosure requirements of credit risk concentrations from SFAS No. 105. See Note 20.II.d), for details of concentration of credit risk.

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information, where available, quoted market prices are used. In other cases, fair values are based on estimates using other valuation techniques, such as discounting estimated future cash flows using a rate commensurate with the risks involved or other acceptable methods. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, prepayments, discount rates, estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company's fair values should not be compared to those of other companies.

Under this statement, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amount presented does not represent the underlying value of the Company. For certain assets and liabilities, the information required under this statement is supplemental with additional information relevant to an understanding of the fair value.

The methods and assumptions used to estimate the fair values of each class of financial instruments as of June 30, 2008 and 2007 are as follows:

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The fair value of certain financial assets carried at cost, including cash, accounts receivable, deposits and other short-term receivables is considered to approximate their respective carrying values due to their short-term nature.

The fair value of trade accounts payable and other short-term liabilities is considered to approximate their carrying values due to their short-term nature.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,**

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**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*c) Disclosure about fair value of financial instruments (continued)*

The fair value of IRSA's Convertible Notes was Ps.207.5 million at June 30, 2007. Such fair value was determined based on the market price of the shares assuming full conversion of the notes at year-end plus the estimated fair value of the warrants that should be issued by the Company upon conversion considering that the market will be able to absorb such volume. On November 14, 2007, IRSA Convertible Notes matured.

The Company carries available-for-sale securities, consisting of investments in IRSA Non-Convertible Notes, mutual funds, mortgage bonds, and government bonds at fair value. The fair value of these instruments was determined using quoted market prices.

Derivative financial instruments are reported at their fair values on the consolidated balance sheets. The fair values are based upon quoted market prices or estimated future prices including estimated carrying costs corresponding with the future delivery period, if any.

The fair value of the Company's investment in IRSA and BrasilAgro was Ps.1,087 million and Ps.736 million as of June 30, 2008 and 2007, respectively.

The fair value of the warrants issued in March 2008 was Ps.142.2 million as of June 30, 2008.

The fair value of short-term debt is considered to approximate its carrying value due to its short-term nature.

The fair value of the long-term note receivables is considered to approximate its carrying value due to its variable interest rate.

The fair value of the Company's Convertible Notes was Ps.62.4 million at June 30, 2007. Such fair value was determined based on the market price of the shares assuming full conversion of the notes at year-end plus the estimated fair value of the warrants that should be issued by the Company upon conversion considering that the market will be able to absorb such volume. The Convertible Notes matured November 14, 2007.

*d) Concentration of credit risk*

Financial instruments that potentially expose the Company to concentrations of credit risk consist mainly of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents principally in domestic and foreign financial institutions and investments of high credit rating. The Company's policy is designed to limit exposure to any one institution. As of June 30, 2008 and 2007, approximately, Ps.46.3 million and Ps.46.5 million included in the cash balances were held with 30 and 31 institutions, respectively. The Company has not experienced any significant losses in such accounts.

The Company's accounts receivable are derived primarily from sales of crops to independent purchasers, live beef cattle to local meat processing companies and milk products to domestic dairy companies, as further described below. The Company performs credit evaluations of its customers and generally does not require collateral. The Company does not believe that significant credit risk exists at June 30, 2008 and 2007 due to the diversity of its customer base. However, as of June 30, 2008 and 2007, ten customers account for more than 61% and 71% of the Company's consolidated revenues, respectively. Furthermore, as of June 30, 2008 and 2007, only three customers, Cargill, Mastellone S.A. (Mastellone) and Monsanto S.A.I.C. accounts for more than 37% and 44% of the Company's consolidated revenues, respectively.

Mastellone is the only customer of milk production of the Company. Mastellone is the largest dairy company in Argentina. Sales to Mastellone amounted to Ps.17.5 million, Ps.9.7 million and Ps.7.9 million for the years ended June 30, 2008, 2007 and 2006, respectively, representing 11.8%, 8.9% and 7.0% of the



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**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

**d) Concentration of credit risk (continued)**

Company's consolidated revenues, for those years, respectively. Although management believes that the Company will be able to continue to sell its milk production to Mastellone on favorable terms, there can be no assurance that the Company would be able to maintain this relationship. Although management believes that other large dairy producers would be willing and able to purchase the Company's milk production, there can be no assurance that the Company could timely locate alternative customers to sell its products at prices comparable to those paid by its current major customers. The Company negotiated with Mastellone the prices of raw milk on a monthly basis in accordance with domestic supply and demand. The prices of the milk are sell is mainly based on the percentage of fat and protein that it contains and the temperature at which it is cooled and obtain from milk also raises or drops based on the content of bacteria and somatic cells.

The Company sell crops production mainly to exporters and manufacturers that process the raw materials to produce meal and oil, products that are sent to the export markets. The Argentine crop market is characterized by a few purchasers and a great number of sellers. Although most of the purchasers are international companies with strong financial conditions, it cannot assure you that this situation will remain the same in the future or that this market will not get more concentrated in the future.

The Company may not be able to maintain or form new relationships with customers or others who provide products and services that are important to Company's business.

**e) Statement of cash flows**

Under Argentine GAAP, the Company is required to present the statement of cash flows in the primary financial statements in accordance with Technical Resolution No. 9, ( RT No. 9 ), as amended. Guidance prescribed by RT No. 9 is similar in most respects to the guidelines set forth in SFAS No. 95, Statements of Cash Flows ( SFAS No. 95 ).

Under US GAAP, the total amounts of cash and cash equivalents at the end of the year shown in the consolidated statement of cash flows are required to be the same amounts as similarly titled line items shown in the consolidated balance sheets, at those dates. Note 13 to the consolidated financial statements includes a reconciliation between the balances included as cash and banks in the consolidated balance sheets to the total amounts of cash and cash equivalents at the end of the year shown in the consolidated statement of cash flows.

As described in Note 3.b), under Argentine GAAP, the Company considers all highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents. Therefore, there are no differences in the type of items considered as cash equivalents under US GAAP. However, as discussed in Note 2.c), under Argentine GAAP, the Company consolidated the accounts of Cactus on a pro rata basis through January 1, 2007. Under US GAAP, proportionate consolidation was not appropriate since the Company did not exercise control over this investment. As a result, differences exist between the amount of cash and cash equivalents reported in the primary financial statements and the amount of cash and cash equivalents that would be reported in a statement of cash flows prepared under US GAAP using Argentine GAAP numbers. In addition, cash flows from operating, investing and financing activities would be different in a statement of cash flows prepared under US GAAP using Argentine GAAP numbers since each line item would exclude the pro rata equity interest of the accounts of Cactus.

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Under Argentine GAAP, cash flows from purchasing and selling of current investments were reported as operating activities whereas these transactions would be classified as cash flows from investing activities for US GAAP purposes.

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**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*e) Statement of cash flows (continued)*

The following table presents the cash flows from operating, investing and financing activities as well as the effects of inflation accounting and exchange rate changes on cash and cash equivalents that would be reported in the statement of cash flows using Argentine GAAP numbers but following the guidelines prescribed by SFAS No. 95. Therefore, the effect of the elimination of the proportionate consolidation has not been considered in the preparation of the following reconciliation:

	<b>Year ended June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net cash used in operating activities	Ps. (74,565,968)	Ps. (62,359,968)	Ps. (3,839,611)
Net cash (used in) provided by investing activities	(652,330,059)	5,295,891	(133,000,622)
Net cash provided by financing activities	917,832,807	115,813,757	92,250,539
Effects of exchange rate changes	(1,717,448)	56,406	4,504,258
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>Ps. 189,219,332</b>	<b>Ps. 58,806,086</b>	<b>Ps. (40,085,436)</b>

Differences exist between cash flows from operating, investing and financing activities reported in the primary financial statements and the cash flows from operating, investing and financing activities that would be reported under SFAS No. 95. Due to the difference in the definition of cash and cash equivalents, cash flows from purchasing and selling of mutual funds would be reported as cash flows from investing activities following SFAS 95 provisions.

*f) Earnings per share*

As described in Note 3.u), under Argentine GAAP the Company is required to disclose earnings per share information in accordance with RT 18 for all periods presented. Note 12 to the consolidated financial statements disclose the computation of basic and diluted net income per common share under Argentine GAAP. Guidance set forth in RT 18 is similar to the basic principles set forth in SFAS No. 128 Earnings per Share (SFAS No.128) although certain differences exist.

Under US GAAP, basic and diluted earnings per share are presented in conformity with SFAS No. 128.

Under Argentine GAAP, the Company has considered the dilutive effects of outstanding warrants, using the if converted method as applicable. Under US GAAP, dilutive options or warrants that are issued during a period or that expire or are cancelled during a period must be included in the weighted average number of shares outstanding for purposes of computing diluted EPS for the period that they were outstanding. Additionally, dilutive options or warrants exercised during the period must be included in the weighted average number of shares outstanding for

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purposes of computing diluted EPS for the period prior to actual exercise. Thereafter, the shares issued will be included in the weighted average calculation of shares outstanding used for both basic and diluted EPS. Under US GAAP, the Company applied the treasury-stock method, and consequently, the weighted-average number of potential common stock during the years ended June 30, 2006, 2007 and 2008 would have been 100,054,688, 57,899,863 and 3,003,208 shares, respectively. Diluted net income per common share under Argentine GAAP for the years ended June 30, 2006, 2007 and 2008, using the treasury-stock method, would have been Ps.0.1566, Ps.0.1670 and Ps. 0.0615, respectively.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*f) Earnings per share (Continued)*

The following tables set forth the computation of basic and diluted net income per common share under US GAAP for all periods presented:

	2008	Year ended June 30, 2007	2006
<b>Numerator:</b>			
Net income available to common shareholders	Ps. 16,414,594	Ps. 49,335,312	Ps. 27,488,776
Plus (less): income (loss) impact of assumed conversions:			
Interest expense on convertible debt	88,383	10,310,294	19,923,566
Foreign currency exchange gain	136,710	150,866	6,518,517
Income tax effects	(78,782)	(3,414,783)	(8,631,354)
Management fee	(14,631)	(704,638)	(1,781,073)
Net income available to common shareholders plus assumed conversions	Ps. 16,546,274	Ps. 55,677,051	Ps. 43,518,432
	2008	Year ended June 30, 2007	2006
<b>Denominator:</b>			
Weighted-average number of shares outstanding	Ps. 368,466,065	Ps. 247,149,373	Ps. 170,681,455
Plus: incremental shares of assumed conversions:			
Convertible Notes	1,650,056	35,586,137	72,405,971
Old-warrants (i)	1,353,152	22,321,932	27,724,412
Warrants (i)	16,970,575		
Adjusted weighted-average number of shares	Ps. 388,439,848	Ps. 305,057,442	Ps. 270,811,838
<b>Basic and diluted EPS:</b>			
Basic net income per common share	Ps. 0.04	Ps. 0.20	Ps. 0.16
Diluted net income per common share	0.04	0.18	0.15

- (i) Potential common shares related to these instruments have been calculated using the treasury-stock method as required by US GAAP.

***g) Risks and uncertainties***

Fresh produce is vulnerable to adverse weather conditions including windstorms, floods, drought and temperature extremes, which are quite common but difficult to predict. Fresh produce is also vulnerable to crop and beef cattle diseases and pests. These factors may result in lower sales volume and increased costs, but may also restrict supplies and lead to an increase in prices for fresh produce.

The Company's earnings are sensitive to fluctuations in the volatile market prices for its products. Sales prices for crops are based on the market prices quoted in the Argentine grain exchanges, which largely reflect world commodity prices. Beef cattle prices are based on the major Argentine auction markets for cattle and are primarily determined by domestic supply and demand. Milk prices are also determined on the basis of domestic supply and demand.

As with any agribusiness enterprise, the Company's business operations are predominantly seasonal in nature. The harvest and sale of crop (corn, soybean and sunflower) generally occurs from February to June. The harvest of wheat generally occurs from December to January. Other segments of the Company's business, such as its cattle and milk sales, and its forestry activities, tend to be more successive than seasonal in nature.

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

***g) Risks and uncertainties (continued)***

The Company's investment in IRSA is subject to risks common to investments in commercial and residential properties in general, many of which are not within IRSA's control. Any one or more of these risks might materially and adversely affect IRSA's business, financial condition or results of operations. The yields available from equity investments in real estate depend on the level of sales or rental income generated and expenses incurred. In addition, other factors may affect the performance and value of a property adversely, including local economic conditions where the properties are located, macroeconomic conditions in Argentina and the rest of the world, competition from other real estate developers, IRSA's ability to find tenants, tenant default or rescission of leases, changes in laws and governmental regulations (including those governing usage, zoning and real property taxes), changes in interest rates (including the risk that increased interest rates may result in decreased sales of lots in the residential development properties) and the availability of financing. IRSA may also be unable to respond effectively to adverse market conditions or may be forced to sell one or more of its properties at a loss because the real estate market could be relatively illiquid. Certain significant expenditures, such as debt service, real estate taxes, and operating and maintenance costs, generally are not reduced in circumstances resulting in a reduction in income from the investment. It is possible that these or other factors or events will impede IRSA's ability to respond to adverse changes in the performance of its investments, causing a material decline in IRSA's financial condition or results of operations. Given the relative size of the investment in IRSA, any such declines could have a material adverse effect on the Company's financial condition and results of operations.

In addition, the investment in IRSA is subject to risks relating to IRSA's hotel operations and consumer financing activities. Risks related to hotel operations mainly relate to competition, travel-related patterns and macro-economic conditions in general. Risks related to consumer financing mainly relate to delinquency and uncollectibility rates and changes in financial regulations.

See Note 19.h) for a description of subsequent events related to the IRSA investment related to the recent market crisis.

***h) Lease commitments***

The Company has obligations under cancelable operating leases, primarily for farmland as well as its office facilities. Generally, land leases have initial terms of one or two year. Certain agricultural land leases provide for contingent increases in minimum rentals based on production targets. Lease payments under a portion of the Company's operating leases are based on crop-sharing agreements. Under crop-sharing agreements, leases are paid in kind based upon an agreed-upon percentage of the crops harvested. Land leases expense forms part of the total cost of production of the Company. Substantially all of the leases provide that the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased assets.

Total rent expense, including rents related to land leases, was Ps.23.1 million, Ps.13.6 million and Ps.9.7 million for the years ended June 30, 2008, 2007 and 2006, respectively.

*i) Equity investments*

The investments in Agro-Uranga S.A., IRSA, BrasilAgro and Cactus Argentina S.A. are accounted for using the equity method, wherein the investment is recorded at the amount of the underlying equity in the net assets of the investments and adjusted to recognize the Company's share of the undistributed earnings or losses. The Company's share of the income of these affiliates was Ps.38.4 million and Ps.40.2 million for the years ended June 30, 2008 and 2007, respectively, and its investment in these companies totaled Ps.925.6 million at June 30, 2008 and Ps.436.6 million at June 30, 2007.



**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)****II. Additional disclosure requirements (continued)***i) Equity investments (continued)*

The Company's share of undistributed earnings of Agro-Uranga S.A. totaled Ps.12.4. million at June 30, 2008 and Ps.9.1 million at June 30, 2007. The Company's share of undistributed earnings of IRSA totaled Ps.54.8 million at June 30, 2008 and Ps.107.1 million at June 30, 2007. IRSA, BrasilAgro and Cactus had no undistributed earnings. Summarized financial information under Argentine GAAP of these affiliates is as follows:

<b>Agro-Uranga S.A.</b>	<b>2008</b>	<b>2007</b>
	Ps. (000)	Ps. (000)
Current assets	Ps. 32,196	Ps. 21,924
Non-current assets	6,764	6,895
Total assets	Ps. 38,960	Ps. 28,819
Current liabilities	Ps. 13,431	Ps. 9,161
Non-current liabilities	249	354
Total liabilities	Ps. 13,680	Ps. 9,515
Shareholders' equity	Ps. 25,280	Ps. 19,304
Production	Ps. 19,994	Ps. 14,095
Sales	Ps. 54,270	Ps. 31,826
Gross profit	Ps. 31,932	Ps. 19,981
Net income	Ps. 12,399	Ps. 9,089
<b>IRSA</b>	<b>2008</b>	<b>2007</b>
	Ps. (000)	Ps. (000)
Current assets	Ps. 893,842	Ps. 1,175,790
Non-current assets	3,578,130	2,969,109
Total assets	Ps. 4,471,972	Ps. 4,144,899

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Current Liabilities	Ps. 742,267	Ps. 652,082
Non-Current Liabilities	1,348,812	1,395,693
<b>Total liabilities</b>	<b>Ps. 2,091,079</b>	<b>Ps. 2,047,775</b>
Minority interest	Ps. 456,715	450,410
<b>Shareholders equity</b>	<b>Ps. 1,924,178</b>	<b>Ps. 1,646,714</b>
Revenues	Ps. 1,084,242	Ps. 738,756
Gross profit	Ps. 594,581	Ps. 427,109
Net income	Ps. 54,875	Ps. 107,097

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*i) Equity investments (continued)*

<b>BrasilAgro</b>	<b>2008</b>	<b>2007</b>
	Ps. (000)	Ps. (000)
Current assets	Ps. 740,753	Ps. 817,088
Non-current assets	451,560	263,274
Total assets	Ps. 1,192,313	Ps. 1,080,362
Current Liabilities	Ps. 55,086	Ps. 128,350
Non current Liabilities	Ps. 21,801	31,779
Total liabilities	Ps. 76,887	Ps. 160,129
Shareholders equity	Ps. 1,115,426	Ps. 920,233
Net income	Ps. 25,978	Ps. 39,055
<b>Cactus Argentina</b>	<b>2008</b>	<b>2007</b>
	Ps. (000)	Ps. (000)
Current assets	Ps. 34,197	Ps. 29,029
Non-current assets	40,359	40,463
Total assets	Ps. 74,556	Ps. 69,492
Current Liabilities	Ps. 40,603	Ps. 41,909
Non current Liabilities	2,011	3,150
Total liabilities	Ps. 42,614	Ps. 45,059
Minority interest	Ps. 260	Ps. 161
Shareholders equity	Ps. 31,682	Ps. 24,272
Revenues	Ps. 152,468	Ps. 63,813

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Gross profit	Ps.	18,092	Ps.	3,890
Net loss	Ps.	(1,975)	Ps.	(1,285)

*j) Investments in debt and equity securities*

In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company has classified mutual funds, its investments in IRSA Non-Convertible Notes, its investments in mortgage and government bonds as available-for-sale securities. The following are additional disclosure requirements in accordance with SFAS No. 115:

*Available-for-sale securities*

The Company has classified the following investments in marketable securities as available for sale and, as such, the securities are carried at fair value. Unrealized gains and losses determined to be temporary are recorded as other comprehensive income, net of related deferred taxes, until realized. Unrealized losses determined to be other than temporary are recognized in the period the determination is made. As of the date of these financial statements, the Company has not determined any unrealized losses to be other than temporary.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*j) Investments in debt and equity securities (continued)*

The cost and estimated fair values of marketable securities available for sale at June 30, 2008, 2007 and 2006 were as follows:

Instrument	Cost	2008		Fair value
		Unrealized gain	Unrealized loss	
Mutual Funds (i)	492,133,918	44	(18,842,758)	473,291,204
Mortgage bonds	619,438	3,522		622,960
Government bonds (i)	94,044		(928)	93,116
IRSA Non-Convertible Notes (i)	12,683,116		(1,397,949)	11,285,167
<b>Total</b>	<b>505,530,516</b>	<b>3,566</b>	<b>(20,241,635)</b>	<b>485,292,447</b>

Instrument	Cost	2007		Fair value
		Unrealized gain	Unrealized loss	
IRSA Convertible notes	37,495,408	169,983,032		207,478,440
Mutual Funds	38,103,287	209,930		38,313,217
Mortgage bonds	980,026	47,258		1,027,284
Government bonds	94,044	27,485		121,529
<b>Total</b>	<b>76,672,765</b>	<b>170,267,705</b>		<b>246,940,470</b>

Instrument	Cost	2006		Fair value
		Unrealized gain	Unrealized loss	
Mutual Funds	1,189,663	9,728		1,199,391
Mortgage bonds	1,294,808	39,372		1,334,180
Government bonds	3,082,357	40,783		3,123,140
<b>Total</b>	<b>5,566,828</b>	<b>89,883</b>		<b>5,656,711</b>

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(i) Unrealized loss position for less than 12 months.

Gross gains of Ps. 3.2 million, Ps. 2.2 million and Ps. nil for the years ended June 30, 2008, 2007 and 2006, respectively, were realized on those sales.

In evaluating whether a security was other than temporarily impaired, the Company considered the severity and length of time impaired for each security in a loss position and other qualitative data.

At June 30, 2008, mutual funds, government bonds and IRSA Non-Convertible Notes have been in a continuous unrealized loss position for less than 12 months. These unrealized losses are not deemed to be other than temporarily impaired. The Company has the ability and intent to hold these securities for reasonable period of time to allow for recovery of value.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

**k) Comprehensive income**

On July 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes guidelines for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Accumulated other comprehensive income is presented below, net of income tax benefit/expense:

	Year ended June 30,		
	2008	2007	2006
Net income under US GAAP	Ps. 16,414,594	Ps. 49,335,312	Ps. 27,488,776
Other comprehensive gain (loss):			
Changes in other comprehensive income items of equity investees	(21,789,898)	10,945,185	4,275,352
Foreign currency translation in the investee of BrasilAgro	16,465,407	8,248,649	(6,650,419)
Reclassification of IRSA's Convertible Notes from Held-to-Maturity to Available-for-Sales	(169,983,032)	99,268,370	70,714,662
Unrealized holding (loss) gain on available-for-sale securities outstanding at the end of the year (net of income tax of Ps.7,182,960, Ps. (67,443), and Ps.79,572 for fiscal years 2008, 2007 and 2006, respectively)	(13,339,782)	125,250	(147,777)
<b>Comprehensive income</b>	<b>Ps. (172,232,711)</b>	<b>Ps. 167,922,766</b>	<b>Ps. 95,680,594</b>
		<b>As of June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Accumulated other comprehensive income	Ps. 7,066,561	Ps. 195,713,866	Ps. 77,126,412

**l) Recently issued accounting standards**

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements. This statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The key changes to current practice are (1) the definition of fair value, which focuses on an exit price rather than an entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions and credit standing and (3) the expanded disclosures about fair value measurements. This statement does not require any new fair value measurements.

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SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

**1) Recently issued accounting standards (continued)**

The FASB has issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 which defers the provisions of SFAS 157 relating to nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, to clarify the provisions of SFAS 157 relating to valuing a financial asset when the market for that asset is not active. This FSP will be effective upon issuance of SFAS 157.

Therefore SFAS 157 will be effective for the Company's year ended June 30, 2009 as it relates to financial assets and liabilities currently recorded or disclosed at fair value and SFAS 157 will be effective for the Company's year ended June 30, 2010 as it relates to non financial assets and liabilities.

The Company has not finalized the assessment of SFAS 157 as it relates to the financial assets and liabilities currently recorded or disclosed at fair value, although is not expected to materially affect how the Company determines fair value, but it may result in certain additional disclosures.

In February 2007, the FASB issued SFAS No. 159 ( SFAS 159 ), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Therefore SFAS 159 will be effective for the Company's year ended June 30, 2009. The Company has not yet decided whether or not it would elect to measure any of its current eligible financial assets or liabilities at fair value upon adoption.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ( SFAS 141R ), Business Combinations. SFAS 141R expands the original guidance's definition of a business. It broadens the fair value measurement and recognition to all assets acquired, liabilities assumed and interests transferred as a result of business combinations. SFAS 141R requires expanded disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore SFAS 141R will be effective for the Company for business combinations made on or after July 1, 2009. While the Company has not yet finalized the full evaluation of potential impact of this statement, the Company expects the adoption of SFAS 141R to have a material effect on the accounting for future acquisitions of businesses and properties.

In December 2007, the FASB issued SFAS No. 160 ( SFAS 160 ), Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS 160 requires that a noncontrolling interest in an unconsolidated entity be reported as equity and any losses in excess of an unconsolidated entity's equity interest be recorded to the noncontrolling interest. The statement requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS 160 is effective for annual periods beginning after December 15, 2008. Therefore SFAS 160 will be effective for the Company's year ended June 30, 2010 and many provisions will be applied retrospectively. The

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Company is currently evaluating the impact SFAS 160 will have on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 ( SFAS 161 ), Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged, as amended by FASB Staff Position No. FAS 133-1 and FIN 45-4 (see below) on December 31, 2008. Therefore SFAS 161 will be effective for the Company s year ended June 30, 2010. The Company is currently evaluating the impact SFAS 161 will have to the disclosures included in the consolidated financial statements.

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**Notes to the Consolidated Financial Statements (continued)**

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**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

**1) Recently issued accounting standards (continued)**

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3 ( FSP FAS 142-3 ), Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal and extension assumptions used to determine the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of assets considered in a business combination. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. Therefore FSP FAS 142-3 will be effective for the Company's year ended June 30, 2010. The Company is currently evaluating the impact FSP FAS 142-3 will have on the consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1 ( FSP APB 14-1 ), Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB 14-1 will require that the initial debt proceeds from the sale of convertible and exchangeable debt instruments be allocated between a liability component and an equity component in a manner that will reflect the effective nonconvertible borrowing rate. The resulting debt discount would be amortized using the effective interest method over the period the debt is expected to be outstanding as additional interest expense. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. Therefore FSP APB 14-1 will be effective for the Company's year ended June 30, 2010 and will require retroactive application. The Company is currently evaluating the impact FSP FAS 142-3 will have on the consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162 ( SFAS 162 ), The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in presenting financial statements in conformity with generally accepted accounting principles in the United States. The Company believes that the adoption of this standard on its effective date will not have a material effect on the consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1( FSP EITF 03-6-1 ), Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. FSP EITF 03-6-1 considers unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities. These participating securities shall be included in the computation of earnings per share pursuant to the two-class method under FASB Statement No. 128. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Therefore FSP EITF 03-6-1 will be effective for the Company's year ended June 30, 2010. All prior-period earnings per share data presented shall be adjusted retrospectively. The Company is currently evaluating the impact FSP EITF 03-6-1 will have on the consolidated financial statements.

In September 2008, the FASB issued FASB Staff Position No. FAS 133-1 and FIN 45-4 ( FSP FAS 133-1 ), Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. FSP FAS 133-1 requires disclosures by sellers of credit derivatives; additional disclosures on current status of payment/performance risk of guarantees and clarified the effective date of SFAS 161. FSP FAS 133-1 is effective for reporting periods (annual or interim) ending after November 15, 2008. Therefore FSP FAS 133-1 will be effective for the Company's year ended June 30, 2010. The Company is currently evaluating the impact FSP FAS 133-1 will have on the consolidated financial statements.



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**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

***l) Recently issued accounting standards (continued)***

In June 2008, the Emerging Issues Task Force (EITF) of the FASB issued EITF Issue No. 07-5, ( EITF 07-5 ) Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock . This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. Therefore, EITF 07-5 will be effective for the Company's year ended June 30, 2010. The guidance in this Issue shall be applied to outstanding instruments as of the beginning of the fiscal year in which this Issue is initially applied. The cumulative effect of the change in accounting principle shall be recognized as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of this Issue and the amounts recognized in the statement of financial position at initial application of this Issue. The amounts recognized in the statement of financial position as a result of the initial application of this Issue shall be determined based on the amounts that would have been recognized if the guidance in this Issue had been applied from the issuance date of the instrument(s). However, in circumstances in which a previously bifurcated embedded conversion option in a convertible debt instrument no longer meets the bifurcation criteria in Statement 133 at initial application of this Issue, the carrying amount of the liability for the conversion option (that is, its fair value on the date of adoption) shall be reclassified to shareholders' equity. Any debt discount that was recognized when the conversion option was initially bifurcated from the convertible debt instrument shall continue to be amortized. Paragraphs 12 and 13 of this Issue shall not result in a transition adjustment at the effective date because that guidance is consistent with guidance previously contained in Issue 01-6, which is nullified by this Issue. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided. The Company is currently evaluating the impact EITF 07-5 will have on the consolidated financial statements.

In November 2007, the EITF issued EITF Issue No. 07-6, ( EITF 07-6 ) Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, When the Agreement Includes a Buy-Sell Clause . This Issue is effective for new arrangements entered into and assessments performed in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is not permitted. Therefore EITF 07-6 will be effective for the Company's year ended June 30, 2009. For purposes of the transition guidance, assessments are any assessment performed pursuant to Statement 66 after the effective date of this Issue for arrangements accounted for under the deposit, profit-sharing, leasing, or financing methods for reasons other than the existence of a buy-sell clause. The Company is currently evaluating the impact EITF 07-6 will have on the consolidated financial statements.

***m) Pro-rata consolidation of Cactus***

As discussed in Note 2.c), the Company accounted for its investment in Cactus under the proportionate consolidation method under Argentine GAAP.

Effective January 1, 2007, the Company's interest in Cactus decreased to 24.0%.



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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**20. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*m) Pro-rata consolidation of Cactus (continued)*

Accordingly, the Company deconsolidated Cactus and prospectively applied the equity method of accounting for this investment. Under US GAAP, since the Company did not exercise control over the subsidiary, proportionate consolidation was not appropriate and the equity method of accounting was used for all periods presented as disclosed in Note 20.

Presented below is the consolidated condensed information of the Company at June 30, 2006 considering Cactus as an equity investee (see Note 2.c)):

	As reported	2006 Elimination of Cactus accounts	Inclusion of Cactus as an equity investee	As adjusted
Current assets	Ps. 94,982,864	Ps. (2,963,663)	Ps.	Ps. 92,019,201
Non-current assets	775,673,020	(2,378,030)	4,431,650	777,726,640
<b>Total assets</b>	<b>870,655,884</b>	<b>(5,341,693)</b>	<b>4,431,650</b>	<b>869,745,841</b>
Current liabilities	101,909,091	(794,493)		101,114,598
Non-current liabilities	142,321,331	(115,550)		142,205,781
<b>Total liabilities</b>	<b>244,230,422</b>	<b>(910,043)</b>		<b>243,320,379</b>
Current Translation Adjustments	(6,650,419)			(6,650,419)
Minority interest	559,871			559,871
<b>Shareholders equity</b>	<b>Ps. 632,516,010</b>	<b>Ps. (4,431,650)</b>	<b>Ps. 4,431,650</b>	<b>Ps. 632,516,010</b>

**21. Other financial statement information**

The accompanying tables present additional statement disclosures required under Argentine GAAP. This information is not a required part of the financial statements under US GAAP; however, these tables include information necessary to comply with the valuation and qualifying accounts schedule requirements of the Securities and Exchange Commission.

- a. Property and equipment
- b. Intangible assets
- c. Investments
- d. Allowances and provisions
- e. Cost of sales
- f. Cost of production
- g. Foreign currency assets and liabilities
- h. Other expenses

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**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**21. Other financial statements information (continued)***a) Property and equipment*

Principal asset	Value at the beginning of year	Additions and/or transfers	Deductions and/or transfers	Value at the end of year	Rate %	Depreciation			Accumulated at the end of the year	Net carrying value as of June 30, 2008	Net carrying value as of June 30, 2009
						Accumulated at the beginning of year	Decrease of the year	Current year			
Buildings	Ps. 165,705,340	Ps. 5,649,417	Ps. 2,193,739	Ps. 169,161,018		Ps.	Ps.	Ps.	Ps.	Ps. 169,161,018	Ps. 165,705,340
Buildings - fences	7,039,919	483,578	339,656	7,183,841	3	1,282,469	54,212	223,889	1,452,146	5,731,695	5,751,141
Buildings - printing	4,984,248	1,315,529	193,019	6,106,758	5	1,324,441	68,416	232,964	1,488,989	4,617,769	3,659,248
Buildings - fa fields	3,730,764	1,959,596		5,690,360	12-25-50	1,740,283		592,864	2,333,147	3,357,213	1,722,148
Buildings - constructions	30,793,614	3,735,880	54,632	34,474,862	2	3,271,366	8,446	649,128	3,912,048	30,562,814	27,784,614
Buildings -inery	11,287,083	774,867	182,728	11,879,222	10	7,752,898	182,020	742,944	8,313,822	3,565,400	3,533,822
Buildings - ecles	2,432,123	271,381	74,219	2,629,285	20	1,380,273	55,363	398,416	1,723,326	905,959	1,051,376
Buildings - s	210,421	17,453	2,990	224,884	10	162,242	2,712	11,146	170,676	54,208	48,676
Buildings - ture and ment	1,240,115	137,994	8,245	1,369,864	10	913,828	7,536	88,857	995,149	374,715	326,068
Buildings - als and ng lanes	944,420	65,471	23,867	986,024	3	175,296	3,396	29,960	201,860	784,164	764,164
Buildings - s	2,185,824	357,245		2,543,069	10	816,673		180,610	997,283	1,545,786	1,365,176
Buildings - ities	13,745,648	2,076,299		15,821,947	10-20-33	6,765,779	264	1,082,118	7,847,633	7,974,314	6,972,204
Buildings - ounter ment	2,551,108	364,019	40,804	2,874,323	20	1,444,381	25,010	602,024	2,021,395	852,928	1,100,467
Buildings - olants	1,277,416			1,277,416	5	464,374		74,492	538,866	738,550	812,048
Buildings - tructions	8,746,010	9,835,141	7,480,333	11,100,818						11,100,818	8,746,010
Buildings - rogress nces to	295,767	1,709,727	295,767	1,709,727						1,709,727	295,767
Buildings - iers											
Buildings - t											
Buildings - acts-	109,157	32,833	50,930	91,060						91,060	109,157
Buildings - t											
Buildings - acts raw											
Buildings - rials (3)	4,320,000			4,320,000	3			144,000	144,000	4,176,000	4,320,000
Buildings - ovements											
Buildings - rd											
Buildings - es											
Buildings - ings	11,834,652	26,282,291	18,117,723	19,999,220	3	19,765		667,830	687,595	19,311,625	11,814,862
Buildings - as of											
Buildings - 30, 2008	Ps. 273,433,629	Ps. 55,068,721	Ps. 29,058,652	Ps. 299,443,698		Ps. 27,514,068	Ps. 407,375	Ps. 5,721,242	Ps. 32,827,935	Ps. 266,615,763	Ps. 273,433,629
Buildings - as of											
Buildings - 30, 2009	Ps. 246,383,511(1)	Ps. 50,575,370	Ps. 23,525,252	Ps. 273,433,629		Ps. 23,895,844	Ps. 714,898	Ps. 4,333,122(2)	Ps. 27,514,068	Ps. 246,383,511	Ps. 245,918,629

- (1) The difference is generated by the effect of Cactus consolidation reversion up to December 31, 2006. (See Note 2.c)).
- (2) The difference between current depreciation and the amount shown in Note 21. h) (Ps.0.1 million) is generated by the effect of Cactus consolidation reversion up to December 31, 2006. (See Note 2.c))
- (3) See Note 3.i)

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**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**21. Other financial statement information (continued)***b) Intangible assets*

Principal Account	Value at the beginning of year	Additions and/ or transfers	Value at the end of year	Rate %	Amortization		Net carrying value as of June 30, 2008	Net Carrying value as of June 30, 2007	
					Accumulated at the beginning of year	Accumulated at the end of year			
Concession received	Ps. 23,581,646		Ps. 23,581,646		Ps.	Ps. 752,605	Ps. 752,605	Ps. 22,829,041	Ps. 23,581,646
Development expenditures	1,410,368		1,410,368	33.33	1,410,368		1,410,368		
Organization expenses	448,818		448,818		448,818		448,818		
Brands and patents	18,938		18,938		18,938		18,938		
Total as of June 30, 2008	Ps. 25,459,770	Ps.	Ps. 25,459,770		Ps. 1,878,124	Ps. 752,605	Ps. 2,630,729	Ps. 22,829,041	
Total as of June 30, 2007	Ps. 25,459,770	Ps.	Ps. 25,459,770		Ps. 1,878,124	Ps.	Ps. 1,878,124		Ps. 23,581,646

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**21. Other financial statement information (continued)***c) Investments*

Type and characteristics of the securities	Carrying value as of June 30, 2008	Carrying value as of June 30, 2007
<b>Current investments</b>		
Mutual funds		
Bank of New York Hamilton Fund in Dollars	Ps. 146,303,888	Ps. 37,946,618
Banco Río Special Fund in Pesos	79,599	366,599
Macro Pionero in Pesos	46,279	
Deutsche Managed Dollar Fund	245,683,963	
Credit Suisse Overnight in Dollars	59,956,710	
Credit Suisse Overnight in Euros	21,220,765	
	Ps. 473,291,204	Ps. 38,313,217
Notes and Convertible Notes		
Subsidiaries, related companies Law No. 19,550 Section 33 and related parties,		
Interest on IRSA Convertible Notes 2007 (US\$):	Ps. 11,285,167	Ps. 379,408
IRSA Non-Convertible Notes (US\$)	93,116	121,529
Global 2010 Bonds	622,960	1,027,284
Mortgage Bonds		
	Ps. 12,001,243	Ps. 1,528,221
<b>Total current investments</b>	Ps. 485,292,447	Ps. 39,841,438

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**21. Other financial statement information (continued)***d) Allowances and provisions*

Items	Opening Balances	Increases for the year	Decreases for the year	Applications	Closing Balances
<b><u>2008</u></b>					
Deducted from assets					
Allowance for doubtful accounts	Ps. 372,359	Ps. 78,084	Ps. (69,423)	Ps.	Ps. 381,020
<b>Total deducted from assets</b>	<b>Ps. 372,359</b>	<b>Ps. 78,084</b>	<b>Ps. (69,423)</b>	<b>Ps.</b>	<b>Ps. 381,020</b>
Included in non-current liabilities					
Provision for lawsuits and contingencies	Ps. 1,747,606	Ps. 55,724(2)	Ps.	Ps.	Ps. 1,803,330
<b>Total included in non-current liabilities</b>	<b>Ps. 1,747,606</b>	<b>Ps. 55,724</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps. 1,803,330</b>
<b><u>2007</u></b>					
Deducted from assets					
Allowance for doubtful accounts	Ps. 374,830	Ps.	Ps.	Ps. (2,471)	Ps. 372,359
<b>Total deducted from assets</b>	<b>Ps. 374,830</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps. (2,471)</b>	<b>Ps. 372,359</b>
Included in non-current liabilities					
Provision for lawsuits and contingencies	Ps. 69,343	Ps. 1,702,390	Ps. (24,127)	Ps.	Ps. 1,747,606
<b>Total included in non-current liabilities</b>	<b>Ps. 69,343(1)</b>	<b>Ps. 1,702,390</b>	<b>Ps. (24,127)</b>	<b>Ps.</b>	<b>Ps. 1,747,606</b>
<b><u>2006</u></b>					
Deducted from assets					
Allowance for doubtful accounts	Ps. 386,344	Ps. 68,616	Ps. (25,000)	Ps. (55,130)	Ps. 374,830
<b>Total deducted from assets</b>	<b>Ps. 386,344</b>	<b>Ps. 68,616</b>	<b>Ps. (25,000)</b>	<b>Ps. (55,130)</b>	<b>Ps. 374,830</b>
Included in non-current liabilities					
Provision for lawsuits and contingencies	Ps. 104,198	Ps. 79,695	Ps.	Ps.	Ps. 183,893

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Total included in non-current liabilities	Ps.	104,198	Ps.	79,695	Ps.	Ps.	Ps.	183,893
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- (1) The difference is generated by the effect of Cactus consolidation reversion up to December 31, 2007. (See Note 2.c).
- (2) Included in other income and expenses in the statements of income.

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**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**21. Other financial statement information (continued)***e) Cost of sales*

	For the year ended June 30,		
	2008	2007	2006
Inventories at the beginning of the year	Ps. 100,764,800	Ps. 75,645,207	Ps. 87,391,271
Unrealized gain on inventories Beef cattle	6,728,977	4,257,460	2,992,652
Unrealized gain on inventories Crops	(877,210)	(2,010,254)	1,054,094
Production income (1)	156,299,822	101,055,658	65,425,191
Transfer of inventory to property and equipment	(713,836)	(122,253)	(229,139)
Transfer of inventory to cost of sales		(964,412)	(1,594,806)
Transfer of unharvested crops to expenses	(6,868,949)	(4,941,124)	(5,870,788)
Recovery of inventories			395,903
Purchases	21,546,809	21,087,591	21,827,647
Operating expenses (Note 21.h))	9,530,524	5,656,116	3,663,637
Inventories at the end of the year	(145,415,119)	(102,788,813)	(75,645,207)
 Cost of Sales	 Ps. 140,995,818	 Ps. 96,875,176	 Ps. 99,410,455

- (1) Includes income from change in value of cattle Ps.23.9 million as of June 2008, Ps.9.5 million as of June 2007 and Ps.20.5 million as of June 30, 2006 .
- (1) Includes income from change in value of grains Ps.114.7 million as of June 2008, Ps.71.9 million as of June 30, 2007, Ps. 37.0 million as of June 30, 2006.
- (1) Includes income from change in value of milk Ps.17.7 million as of June 2008, Ps.9.7 million as of June 30, 2007 and Ps.7.9 million as of June 30, 2006.
- (1) Includes income from change in value of others Ps.0.1 million as of June 30, 2006.

*f) Cost of production*

	For the year ended June 30,		
	2008	2007	2006
Inventories at the beginning of the year	Ps. 20,040,927	Ps. 15,650,704	Ps. 11,678,847
Unrealized gain on inventories Beef cattle	1,806,177	845,483	(144,941)
Unrealized gain on inventories Crops	4,511,008	1,204,344	
Transfer of inventory to property and equipment	(1,200,223)	(1,338,206)	(550,208)
Transfer of inventory to cost of production		964,412	551,891
Transfer of unharvested crops to expenses	(40,163,079)	(23,591,040)	(14,834,459)
Recovery of inventories			(395,903)

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Purchases	54,189,354	24,360,991	18,965,547
Production	3,521,046	1,744,161	
Operating expenses (Note 21.h)	115,267,775	75,265,199	59,641,252
Inventories at the end of the year	(42,223,185)	(20,040,927)	(15,650,704)
Cost of production	Ps. 115,749,800	Ps. 75,065,121	Ps. 59,261,322

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**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**21. Other financial statement information (continued)***g) Foreign currency assets and liabilities*

Item	June 30, 2008			June 30, 2007	
	Type and amount of foreign currency	Current exchange rate \$	Amount in local currency Pesos	Type and amount of foreign currency	Amount in local currency Pesos
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and banks					
Cash and banks in dollars	US\$ 390,350	2.985	Ps. 1,165,196	US\$ 12,837,960	Ps. 39,194,292
Cash and banks in Brazilian Reais	R\$ 2,946	1.690	4,472	R\$ 2,584	3,643
Cash and banks in Euros	1,876	4.701	8,821		
Cash and banks in Yen	JPY 1,547,500,000	0.028	43,570,946	JPY	
Investments					
Mutual funds (US\$)	US\$ 151,405,213	2.985	451,944,561	US\$ 12,429,289	37,946,618
Mutual funds (EUR)	4,514,000	4.701	21,220,765		
Interest of IRSA Convertible Notes	US\$			US\$ 122,667	379,408
IRSA Non-Convertible Notes	US\$ 3,780,625	2.985	11,285,167		
Trade accounts receivable	US\$ 1,543,923	2.985	4,608,610	US\$ 208,981	638,020
Other receivables					
Collateralized	US\$ 2,073,236	2.985	6,188,608	US\$ 2,291,261	6,995,220
Guarantee deposits, premiums collected (paid) and margin deposits receivable from brokers	US\$ 393,392	2.985	1,174,275	US\$ 918,904	2,805,415
Subsidiaries, related companies Law 19,550 Section 33 and related parties:					
IRSA S.A.	US\$			US\$ 34,563	106,903
Inversiones Financieras del Sur S.A	US\$ 53,661	2.985	160,177	US\$	
Others	US\$			US\$ 20,000	61,860
<b>Non-Current Assets</b>					
Other receivables					
Collateralized	US\$ 2,361,334	2.985	7,048,582	US\$ 4,290,164	13,097,871
Subsidiaries, related companies Law 19,550 Section 33 and related parties:					
Alto Palermo S.A.	US\$			US\$ 57,660	178,341
IRSA S.A.	US\$			US\$ 13,294	41,117
Cactus Argentina S.A.	US\$			US\$ 1,326	4,100
Others	US\$			US\$ 7,330	22,673
Investments					
IRSA Convertible Notes	US\$			US\$ 12,000,000	37,116,000

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<b>US\$</b>	US\$ 162,001,734	483,575,176	US\$ 45,233,399	138,587,838
<b>R\$</b>	R\$ 2,946	4,472	R\$ 2,584	3,643
	4,515,876	21,229,586		
<b>JPY</b>	JPY 1,547,500,000	43,570,946	JPY	
<b>Total Assets</b>		Ps. 548,380,180		Ps. 138,591,481

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**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**21. Other financial statement information (continued)***g) Foreign currency assets and liabilities (continued)*

Item	June 30, 2008			June 30, 2007	
	Type and amount of foreign currency	Current exchange rate \$	Amount in local currency Pesos	Type and amount of foreign currency	Amount in local currency Pesos
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade accounts payables					
Suppliers	US\$ 4,129,904	3.025	Ps. 12,492,961	US\$ 4,278,537	Ps. 13,233,514
Accruals	US\$ 1,227,649	3.025	3,713,638	US\$ 206,984	640,202
Short term debt					
Local Banks	US\$ 6,915,026	3.025	20,917,954	US\$ 5,552,260	17,173,139
Foreign Banks	US\$ 8,086,570	3.025	24,461,875	US\$	
Interest Convertible Notes 2007	US\$			US\$ 28,648	88,608
Convertibles Notes 2007	US\$			US\$ 2,768,826	8,563,979
Subsidiaries, related companies Law 19,550					
Article 33 and related parties:					
Directors	US\$			US\$ 33,676	104,160
<b>Non-Current Liabilities</b>					
Trade accounts payables					
Accruals	US\$			US\$ 79,609	246,231
Long term debt					
Loans	US\$			US\$ 8,000,000	24,744,000
<b>Total Liabilities</b>	US\$ 20,359,149		Ps. 61,586,428	US\$ 20,948,540	Ps. 64,793,833

**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**21. Other financial statement information (continued)****h) Other expenses**

Items	Expenses			Total	Total	Total
	Operating	Selling	Administrative	for the year ended June 30, 2008	for the year ended June 30, 2007	for the year ended June 30, 2006
Directors fees	Ps. 1,687,630	Ps. 1,302,247	Ps. 1,302,247	Ps. 1,302,247	Ps. 402,554	Ps. 248,124
Fees and payments for services	1,687,630		5,927,893	7,615,523	4,834,574	3,759,657
Salaries and wages and social security contributions	13,420,873	139,554	13,310,096	26,870,523	18,568,151	11,824,018
Taxes, rates and contributions	843,541	482	1,166,792	2,010,815	1,596,714	876,834
Gross sales tax		2,207,339		2,207,339	1,169,682	686,731
Office and administrative expenses	397,784	1,760	2,420,372	2,819,916	1,451,685	1,163,182
Bank commissions and expenses	235,140		1,356	236,496	75,507	33,725
Depreciation of fixed assets (4)	5,117,011		604,231	5,721,242	4,459,067	5,112,088
Amortization of intangible assets	752,605			752,605		
Vehicle and travelling expenses	1,178,823	57,570	665,231	1,901,624	952,349	1,002,336
Spare parts and repairs	3,916,500		1,472	3,917,972	3,397,194	1,922,383
Insurance	331,611		103,732	435,343	354,054	288,360
Employees maintenance	731,419	140	471,666	1,203,225	666,828	493,395
Livestock expenses (1)	11,371,071	1,215,911		12,586,982	9,559,490	13,364,810
Dairy farm expenses (2)	9,723,500	78,252		9,801,752	5,141,541	4,178,375
Agricultural expenses (3)	69,928,877	10,417,731		80,346,608	53,187,270	38,357,299
Feed lot expenses					451,093	581,329
Silo expenses	29,746			29,746	62,004	87,691
Coal expenses						202
Agropecuaria Cervera expenses	2,898,395			2,898,395		66,178
FyO expenses	47,342	72,425		119,767	71,099	75,524
Advertising expenses			13,693	13,693		
Other	2,175,784	305,960	114,707	2,596,451	1,120,438	894,407
Lease of machinery and equipment	2,027		70	2,097		
Safety and hygiene expenses	8,620			8,620		
Total for the year ended June 30, 2008	Ps. 124,798,299	Ps. 14,497,124	Ps. 26,103,558	Ps. 165,398,981		
Total for the year ended June 30, 2007	Ps. 80,921,315	Ps. 9,971,891	Ps. 16,628,088		Ps. 107,521,294	

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Total for the year ended  
June 30, 2006

Ps. 63,304,889 Ps. 10,151,452 Ps. 11,560,307

Ps. 85,016,648

- (1) Includes cattle food and additives, lodging, animal health and others.
- (2) Includes cattle food and additives, animal health and others.
- (3) Includes seeds, agrichemical, irrigation, services hired, land leases and others.
- (4) The difference between this amount and current depreciation shown in Note 21.a) (Ps 0.1 million) is generated by the effect of Cactus consolidation reversion up to December 31, 2006 (See Note 2.c)).

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

IRSA Inversiones y Representaciones Sociedad Anónima

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders equity and of cash flows present fairly, in all material respects, the financial position of IRSA Inversiones y Representaciones Sociedad Anónima and its subsidiaries at June 30, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2008 in conformity with accounting principles generally accepted in Argentina. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit for the year ended June 30 2008). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 28 to the consolidated financial statements.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PRICE WATERHOUSE & Co. S.R.L.

By /s/ Andrés Suarez (Partner)  
Andrés Suarez  
Buenos Aires, Argentina

December 30, 2008

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Balance Sheets****as of June 30, 2008 and 2007**

(Amounts in thousands, except share data and as otherwise indicated)

	2008	2007
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and banks (Notes 4.a. and 29.e.)	Ps. 161,748	Ps. 218,356
Investments (Notes 4.b. and 29.e.)	383,444	638,351
Accounts receivable, net (Notes 4.c. and 29.e.)	186,017	172,733
Other receivables and prepaid expenses (Notes 4.d. and 29.e.)	109,031	110,975
Inventories (Note 4.e.)	53,602	35,375
<b>Total current assets</b>	893,842	1,175,790
<b>Non-Current Assets</b>		
Accounts receivable, net (Notes 4.c. and 29.e.)	10,395	42,442
Other receivables and prepaid expenses (Notes 4.d. and 29.e.)	140,314	81,202
Inventories (Note 4.e.)	129,178	220,828
Investments (Notes 4.b. and 29.e.)	833,373	673,273
Fixed assets, net (Note 29.a.)	2,530,141	2,027,311
Intangible assets, net (Note 29.b.)	8,612	2,822
<b>Subtotal Non-Current Assets</b>	3,652,013	3,047,878
Negative goodwill, net	(73,883)	(78,769)
<b>Total non-current assets</b>	3,578,130	2,969,109
<b>Total Assets</b>	Ps. 4,471,972	Ps. 4,144,899
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade accounts payable (Notes 4.f. and 29.e.)	Ps. 242,063	Ps. 195,870
Mortgages payable (Notes 4.l. and 29.e.)	2,919	17,538
Customer advances (Notes 4.g. and 29.e.)	104,584	88,810
Short-term debt (Notes 4.i. and 29.e.)	187,234	196,655
Salaries and social security payable (Note 4.h.)	33,955	26,841
Taxes payable (Notes 4.j. and 29.e.)	76,708	64,712
Other liabilities (Notes 4.k. and 29.e.)	94,804	61,656
<b>Total current liabilities</b>	742,267	652,082
<b>Non-Current Liabilities</b>		
Trade accounts payable (Notes 4.f. and 29.e.)	55,140	40,942
Mortgages payable (Notes 4.l. and 29.e.)	1,538	4,557
Customer advances (Note 4.g.)	98,797	63,908



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Long-term debt (Notes 4.i. and 29.e.)	1,119,726	1,217,866
Taxes payable (Note 4.j.)	35,327	29,556
Other liabilities (Notes 4.k. and 29.e.)	38,284	38,864
<b>Total non-current liabilities</b>	<b>1,348,812</b>	<b>1,395,693</b>
<b>Total Liabilities</b>	<b>2,091,079</b>	<b>2,047,775</b>
Minority interest	456,715	450,410
<b>SHAREHOLDERS EQUITY</b>	<b>1,924,178</b>	<b>1,646,714</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>Ps. 4,471,972</b>	<b>Ps. 4,144,899</b>

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

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Income****for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Revenues	Ps. 1,084,242	Ps. 738,756	Ps. 577,680
Costs (Note 29.d)	(489,661)	(311,647)	(243,831)
<b>Gross profit</b>	<b>594,581</b>	<b>427,109</b>	<b>333,849</b>
Gain from recognition of inventories at net realizable value	2,832	20,737	9,063
Selling expenses	(163,986)	(113,709)	(60,105)
Administrative expenses	(179,994)	(141,427)	(96,882)
<b>Subtotal</b>	<b>(341,148)</b>	<b>(234,399)</b>	<b>(147,924)</b>
Net (loss) income from retained interest in securitized receivables (Note 16)	(1,261)	3,254	2,625
Gain from operations and holdings of real estate assets, net (Note 7)	2,670	2,568	12,616
<b>Operating income</b>	<b>254,842</b>	<b>198,532</b>	<b>201,166</b>
Amortization of negative goodwill, net	1,638	(1,472)	(1,080)
(Loss) gain on equity investees	(13,209)	40,026	41,657
Financial results, net (Note 8)	(76,742)	4,099	(40,926)
Other expenses, net (Note 9)	(5,642)	(14,100)	(18,263)
<b>Income before taxes and minority interest</b>	<b>160,887</b>	<b>227,085</b>	<b>182,554</b>
Income tax and MPIT	(78,112)	(87,539)	(58,791)
Minority interest	(27,900)	(32,449)	(27,190)
<b>Net income</b>	<b>Ps. 54,875</b>	<b>Ps. 107,097</b>	<b>Ps. 96,573</b>
<b>Earnings per share (Note 18):</b>			
Basic net income per share	Ps. 0.10	Ps. 0.24	Ps. 0.25
Diluted net income per share	Ps. 0.10	Ps. 0.20	Ps. 0.23

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

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Changes in Shareholders' Equity****for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

	Shareholders' contributions				Legal reserve (Note 5.d.)	Reserve for new developments (note 5.d.)	Retained earnings (Accumulated deficit)	Shareholders equity
	Common stock (Note 5.a.)	Inflation adjustment of common stock (Note 5.b.)	Additional paid-in-capital (Note 5.a.)	Total				
<b>Balances as of June 30, 2005</b>	Ps. 357,267	Ps. 274,387	Ps. 676,171	Ps. 1,307,825	Ps. 19,447	Ps.	Ps. (75,043)	Ps. 1,252,229
Conversion of debt into common shares	55,961		37,360	93,321				93,321
Exercise of warrants	22,220		21,423	43,643				43,643
Accumulated losses absorption of approved by shareholders meeting held November 29, 2005			(75,043)	(75,043)			75,043	
Net income for the year							96,573	96,573
<b>Balances as of June 30, 2006</b>	Ps. 435,448	Ps. 274,387	Ps. 659,911	Ps. 1,369,746	Ps. 19,447	Ps.	Ps. 96,573	Ps. 1,485,766
Conversion of debt into common shares	16,641		11,252	27,893				27,893
Exercise of warrants	12,880		13,078	25,958				25,958
Appropriation of retained earnings approved by shareholders meeting held October 31, 2006					4,829	91,744	(96,573)	
Net income for the year							107,097	107,097
<b>Balances as of June 30, 2007</b>	Ps. 464,969	Ps. 274,387	Ps. 684,241	Ps. 1,423,597	Ps. 24,276	Ps. 91,744	Ps. 107,097	Ps. 1,646,714
Conversion of debt into common shares	34,582		24,591	59,173				59,173
Exercise of warrants	79,125		84,291	163,416				163,416
Appropriation of retained earnings approved by shareholders meeting held October 10, 2007					5,355	101,742	(107,097)	

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Net income for the year								54,875	54,875
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<b>Balances as of June 30, 2008</b>	Ps. 578,676	Ps. 274,387	Ps. 793,123	Ps. 1,646,186	Ps. 29,631	Ps. 193,486	Ps. 54,875	Ps. 1,924,178
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The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Cash Flows****for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

	2008	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income for the year	Ps. 54,875	Ps. 107,097	Ps. 96,573
Adjustments to reconcile net income to net cash flows from operating activities:			
Income tax and MPIT	78,112	87,539	58,791
Depreciation and amortization	116,631	98,299	81,313
Minority interest	27,900	32,449	27,190
Accruals for director's fees	15,658	14,464	13,778
Allowances and provisions	75,745	38,612	23,916
Loss (gain) on equity investees	13,209	(40,026)	(41,657)
Gain from operations and holdings of real estate assets, net	(2,670)	(2,568)	(12,616)
Financial results	6,566	(39,716)	24,252
Gain from recognition of inventories at net realizable value	(2,832)	(20,737)	(9,063)
Goodwill impairment		635	
Gain from sale of inventories	(14,541)		(44,020)
Changes in certain assets and liabilities, net of non-cash transactions and the effects of acquisitions:			
(Increase) decrease in current investments	(22,721)	(29,833)	10,279
Increase in non-current investments	(1,400)	(35,587)	(26,433)
Increase in accounts receivable, net	(121,069)	(79,732)	(80,339)
(Increase) decrease in other receivables and prepaid expenses, net	(51,089)	(79,555)	8,128
Decrease in inventories	129,729	28,967	25,070
(Increase) decrease in intangible assets	(1,619)	(762)	112
Increase in trade accounts payable	40,755	65,148	55,980
Decrease in customer advances, salaries and social security payable and taxes payable	(30,408)	(12,759)	(28,378)
Increase (decrease) in other liabilities	1,489	9,622	(2,157)
Increase in accrued interest	7,613	21,542	13,966
<b>Net cash provided by operating activities</b>	<b>319,933</b>	<b>163,099</b>	<b>194,685</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of businesses and assets net of cash acquired (i)	(419,020)	(56,093)	(4,231)
Acquisition of undeveloped parcels of land	(17,225)	(9,297)	(62,082)
Acquisition of fixed assets	(332,454)	(410,080)	(54,119)
Increase in equity investees and non-current investments	(23,892)		(1,618)
Decrease in minority interest		(41,013)	(7,251)
Guarantee deposit		9,111	(8,610)
Sale of IRSA Telecommunications N.V.			1,719
Advance payments for the acquisition of shares	(683)	(3,995)	
Loans granted to related parties			(375)
Cash collected from insurance claims	4,677	593	
<b>Net cash used in investing activities</b>	<b>(788,597)</b>	<b>(510,774)</b>	<b>(136,567)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			

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Proceeds from settlement of swap agreement			1,190
Increase in short-term and long-term debt	183,485	1,199,675	45,066
Payment of short-term and long-term debt	(48,950)	(292,158)	(82,474)
Exercise of warrants	163,416	25,958	43,642
Dividends paid by subsidiaries to minority shareholders	(24,332)	(23,175)	(12,715)
Payment of seller financing of Mendoza Plaza Shopping S.A.			(5,150)
Decrease in mortgages payable	(18,425)	(18,042)	(25,561)
Settlement of debt with related companies			(765)
Re purchase of debt	(138,583)		
Capital contribution by minority owners in related parties	32,534		
<b>Net cash provided by (used in) financing activities</b>	<b>149,145</b>	<b>892,258</b>	<b>(36,767)</b>
Net (decrease) increase in cash and cash equivalents	(319,519)	544,583	21,351
Cash and cash equivalents as of the beginning of the year	708,523	163,940	142,589
Cash and cash equivalents as of the end of the year	Ps. 389,004	Ps. 708,523	Ps. 163,940

- (i) Includes Ps. 228.3 million for the acquisition of the República Building (asset acquisition). See Note 2.g. for details.  
The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Cash Flows****for the years ended June 30, 2008, 2007 and 2006 (continued)**

(Amounts in thousands, except share data and as otherwise indicated)

	2008	2007	2006
<b>Supplemental cash flow information:</b>			
<b>Cash paid during the year for:</b>			
Interest paid	Ps. 125,063	Ps. 43,968	Ps. 51,342
Income tax paid	63,743	17,603	11,440
<b>Non-cash investing and financing activities:</b>			
Conversion of debt into common shares	Ps. 59,174	Ps. 27,893	Ps. 93,322
Increase in inventory through a decrease in undeveloped parcels of land			33,006
Liquidation of interest in credit card receivables	56,573	8,873	10,364
Increase in fixed assets through a decrease in undeveloped parcels of land		66,958	1,626
Increase in inventory through a decrease in fixed assets			1,422
Increase in fixed assets through an increase in other receivables		12,161	348
Increase in undeveloped parcels of land through an increase in accounts payable	5,445		
Increase in fixed assets through a decrease in inventory		1,521	293
Increase in other receivables through a decrease in fixed assets			71
Increase in other receivables through a decrease in intangible assets			12
(Decrease) Increase in fixed assets through an (increase) decrease in other investments	(49,872)	59,912	8
Increase in intangible assets through a decrease in fixed assets			6
Decrease in undeveloped parcels of land through an increase in inventories	9,223		
Transfer of inventories to long-term investment	705		
Increase in non current investment through an increase in long-term debt	23,212	27,522	
Increase in fixed assets through an increase in accounts payable	1,069		
Increase in accounts receivable through a decrease in inventories	365		
Increase in costs of issuance of debt through an increase in trade accounts payables		1,691	
Increase in short-term and long-term debt through a decrease in other liabilities		2,614	
Decrease in inventory through a decrease in mortgages payables		3,632	
Seller financing for acquisition of subsidiaries and minority interest	9,090	27,522	
Increase in long-term investment through a decrease in other receivables	3,995		
Increase in fixed assets through an increase in mortgages payable		8,649	
	2008	2007	2006
<b>Acquisitions of business or net assets:</b>			
Cash and cash equivalents		29,417	
Fair market value of inventories		66,057	
Fair market value of fixed assets acquired (i)	405,446	158,549	
Fair market value of intangible assets acquired (i)	6,533		
Fair market value of other assets acquired	5,398	5,661	4,320
Fair market value of liabilities assumed (i)	(13,028)	(47,491)	(89)
Net assets acquired	404,349	212,193	4,231
Minority interest	20,049	(36,029)	
Goodwill (negative goodwill)	3,712	(10,036)	
Purchase price	428,110	166,128	4,231
Seller financing	(9,090)	(80,618)	

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Purchase price paid	419,020	85,510	4,231
Less: cash and cash equivalents acquired		(29,417)	
Net cash paid for the acquisition	419,020	56,093	4,231

- (i) Includes Ps. 229.9 million, Ps. 0.6 million and Ps. 2.2 million relating to the fair market value of fixed and intangible assets acquired and liabilities assumed for the acquisition of República Building (asset acquisition). See Note 2.g. for details.  
The accompanying notes are an integral part of these consolidated financial statements.

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**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**1. Organization and description of business**

IRSA Inversiones y Representaciones Sociedad Anónima ( IRSA ), is a real estate company incorporated under the laws of Argentina which, through its investments in subsidiaries and joint ventures (IRSA and subsidiaries are collectively referred hereinafter as the Company ), is primarily involved in (i) the acquisition and development of residential properties primarily for sale and the acquisition of undeveloped land reserves either for future development or sale, (ii) the acquisition, development and operation of office and other non-shopping center properties primarily for rental purposes, (iii) the acquisition, development and operation of shopping center properties, (iv) the acquisition and operation of luxury hotels, (v) the origination of consumer loans and credit card receivables and securitization activities and (vi) other non-core activities. The Company is the only Argentine real estate company whose shares are listed and traded on both the Buenos Aires Stock Exchange ( BASE ) and the New York Stock Exchange ( NYSE ).

**2. Preparation of financial statements**

**a. Basis of presentation**

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles used in Argentina, as set forth by the Federación Argentina de Consejos Profesionales de Ciencias Económicas ( FACPCE ) and implemented, adapted, amended, revised and/or supplemented by the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires ( CPCECABA ) (collectively Argentine GAAP ). In addition, the Company must comply with the regulations of the *Comisión Nacional de Valores* ( CNV ), the National Securities Commission in Argentina. Argentine GAAP and the regulations of the CNV, as applicable, differ in certain significant respects from generally accepted accounting principles in the United States of America ( US GAAP ). Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission ( SEC ). A description of the significant differences between Argentine GAAP and US GAAP as they relate to the Company are set forth in Note 28 to these consolidated financial statements.

Additionally as discussed in Note 3.n. in order to comply with regulations of the CNV, the Company recognized deferred income taxes on an undiscounted basis. This accounting practice represented a departure from Argentine GAAP but did not have a material effect on the consolidated financial statements for the year ended June 30, 2006. As further discussed in Note 2.d., in December 2005 and January 2006, the CPCECABA issued revised accounting standards. One of these standards required companies to account for deferred income taxes on an undiscounted basis, thus aligning its accounting practices with that of the CNV. Since the CNV adopted the CPCECABA standards effective for the Company for the fiscal year ended June 30, 2007, there was no longer a difference on this subject between Argentine GAAP and the CNV regulations.

As discussed in Note 2.c., in order to comply with the regulations of the CNV, the Company discontinued inflation accounting as from February 28, 2003. Since Argentine GAAP required companies to discontinue inflation adjustments only as from October 1, 2003, the application of CNV resolution represented a departure from Argentine GAAP. However, due to low inflation rates during the period from March to September 2003, such a departure has not had a material effect on the consolidated financial statements.

**b. Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries over which the Company has effective control. Investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method. Investments in joint ventures and/or jointly controlled operations in which the company exercises joint control are accounted for under the

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proportionate consolidation method. All significant intercompany balances and transactions have been eliminated in consolidation.

In accordance with Argentine GAAP, the presentation of the parent company's individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes.

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)****b. Basis of consolidation (continued)**

A description of the subsidiaries over which the Company has effective control and joint control, with their respective percentage of capital stock owned, is presented as follows:

	Percentage of capital stock owned as of June 30, (i)		
	2008	2007	2006
<b>Controlled and jointly controlled companies</b>			
Ritelco S.A. ( Ritelco )	100.00%	100.00%	100.00%
Palermo Invest S.A. ( Palermo Invest ) (iii) and (iv)	100.00%	100.00%	66.67%
Abril S.A. ( Abril ) (ii) and (iii)			83.33%
Pereiraola S.A. ( Pereiraola ) (ii)	100.00%	100.00%	83.33%
Baldovinos S.A. ( Baldovinos ) (ii)			83.33%
Hoteles Argentinos S.A. ( Hoteles Argentinos )	80.00%	80.00%	80.00%
Patagonian Investment S.A. ( Patagonian Investment ) (v)	100.00%	100.00%	
Alto Palermo S.A. ( APSA )	63.34%	62.48%	61.54%
Llao Llao Resorts S.A. ( LLR )	50.00%	50.00%	50.00%
Rummaala S.A. ( Rummaala ) (iii)	50.00%	100.00%	
Canteras Natal Crespo S.A. ( Canteras Natal Crespo )	50.00%	50.00%	43.18%
CYRSA S.A. ( CYRSA ) (vi)	50.00%	100.00%	
Solares de Santa María S.A. ( Solares de Santa María ) (iii)	90.00%	90.00%	
Inversora Bolívar S.A.( Inversora Bolívar )	100.00%	100.00%	66.67%
Quality Invest S.A. (iii)	100.00%		
E-Commerce Latina S.A. ( E-Commerce ) (iii)	100.00%		
Financel Communications S.A. (iii)	80.00%		

- (i) Percentage of equity interest owned has been rounded and does not consider the effects of the potential conversion of irrevocable contributions into common shares.
- (ii) Equity interests in Pereiraola are held 50% directly by IRSA and 50% indirectly through its subsidiary Inversora Bolívar. Equity interests in Abril and Baldovinos were held 50% directly by IRSA and 50% indirectly through its subsidiary Inversora Bolívar. In the fiscal year ended June 30, 2007, Baldovinos was merged with and into Inversora Bolívar. In the fiscal year June 30, 2007 IRSA transferred the shares of Abril (See Note 2.g. for details)
- (iii) See Note 2.g. for details.
- (iv) Equity interest in Palermo Invest is held 98% directly by IRSA and 2% indirectly through Patagonian Investment.
- (v) Formed on July 21, 2006.
- (vi) Formed on April 13, 2007 to develop specific projects. See Note 2.g.

**Proportionate consolidation**

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The Company exercises joint control over Metroshop (through APSA), Canteras Natal Crespo, Rummaala and CYRSA. As required by Technical Resolution No. 21 – Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions ( RT No. 21 ), under Argentine GAAP, the Company accounted for these investments under the proportionate consolidation method. Accordingly, these financial statements reflect the Company’s pro rata equity interest in these investments on a line-by-line basis.

### **c. Presentation of financial statements in constant Argentine pesos**

On August 22, 1995, the Argentine government issued Decree No. 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995 in accordance with CNV resolutions and Argentine GAAP, the Company began accounting for its financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, the financial statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical financial statements. The financial statement information of periods prior to August 31, 1995 was restated to pesos of general purchasing power as of August 31, 1995. The August 31, 1995 balances, adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

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**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**c. Presentation of financial statements in constant Argentine pesos (continued)**

However, as a result of the inflationary environment in Argentina in 2002, the CPCECABA approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements as from January 1, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are to be considered stated in currency as of December 31, 2001.

On July 16, 2002, the Argentine government issued a decree, instructing the CNV to issue the necessary regulations for the acceptance of financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency.

However, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003.

Since Argentine GAAP required companies to discontinue inflation accounting as from October 1, 2003, the application of the CNV resolution represented a departure from Argentine GAAP. However, due to the low level of inflation rates during the period from March to September 2003, such a departure did not have a material effect on the consolidated financial statements.

**d. Adoption by the CNV of CPCECABA accounting standards**

The CNV issued General Resolutions 485 and 487 on December 29, 2005 and January 26, 2006, respectively adopting, with certain modifications, the new accounting standards previously issued by the CPCECABA through its Resolution CD 93/2005. The standards were effective for the Company for the year ended June 30, 2007.

The most significant changes included in the accounting standards adopted by the CNV related to (i) changes in the impairment test of long-lived assets, (ii) changes to deferred income tax accounting and (iii) accounting of deferred income taxes on a non-discounted basis.

Under the new standards, the carrying value of a long-lived asset is considered impaired by a company when its value in use or its net realizable value, whichever is greater, is less than its carrying value. Value in use is determined by the expected cash flows from the assets discounted at a rate commensurate with the risk involved. Net realizable is determined by the selling price of the assets costs to sell.

The new standards provided for the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements. The new accounting standard mandated companies to treat these differences as temporary differences but allowed a one-time accommodation to continue treating these differences as permanent at the time of adoption of the standard. As a result, the Company elected to continue treating differences as permanent. Should the inflation adjustment be treated as a temporary difference for deferred income tax purposes, the shareholders' equity as of June 30, 2008 would have decreased approximately Ps. 155.4 million with a corresponding effect of Ps. 20.6 million and Ps. 176.0 million in the in statement of

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income of the year ended June 30, 2008 and retained earnings, respectively.

In accordance with the Company's Management the potential effect that the new accounting standards would have in its subsidiary Banco Hipotecario S.A. would not be significant on the amount of the Company's investment.

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**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**e. Reclassifications**

Certain reclassifications of prior year's information have been made to conform to the current year presentation. The reclassifications had no impact on previously reported net income, net income per share, shareholders' equity or cash flows.

**f. Functional currency and reporting currency**

The Company's functional and reporting currency is the Argentine Peso. Solely for the convenience of the reader certain amounts are alternatively expressed in Argentine Pesos or US Dollars in the notes to the financial statements. Translations should not be construed as a representation that the amounts shown could have been, or could be, converted into US Dollars at that or any other rate.

**g. Significant acquisitions, dispositions and development of businesses**

In the preparation of these consolidated financial statements, unless otherwise indicated, the operating results of all acquired businesses have been included in the Company's consolidated financial statements since the date of the respective acquisition.

**Year ended June 30, 2008**

**Financel Communications S.A.**

In August 2007, the Company together with an unrelated party, Prisma Investments S.A., formed Financel Communications S.A. ( Financel ) for the purpose of creating innovative solutions for collections and payments through the use of cell phones. Financel together with Tarjeta Shopping S.A. (a subsidiary of APSA) and CTI Móvil (a cell phone company in Argentina) created Compra Móvil , a cell phone purchase system by which CTI cell users would be able to complete purchase transactions in a quick and secure fashion. As of the date of these financial statements, Financel has not started operations yet.

**Quality Invest S.A.**

In August 2007, the Company formed Quality Invest S.A. for the purpose of investing in different individual or corporate businesses, as well as, transacting with financial instruments except for transactions which would require registration of the company under the law for financial institutions. As of the date of these financial statements, Quality Invest has not started operations yet.

**Exercise of option**

In August 2007, APSA exercised the option to purchase a 75% interest in a company engaged in the development of a cultural, recreational and entertainment complex in the Palermo neighborhood in Buenos Aires. APSA paid US\$ 0.6 million for the option and is accounted for under non current investments. The purchase is subject to certain approvals by the regulatory authorities which have not been obtained as of the date of these financial statements. Should the approvals be obtained, APSA committed to invest approximately US\$ 24.4 million.

**Barter transaction agreement**

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In October 2007, APSA entered into a barter agreement with an unrelated party Condominios del Alto S.A. pursuant to which APSA bartered a plot of land located in Rosario, Province of Santa Fe for future 15 apartments and 15 parking spaces of the total units to be constructed on the land. Under this agreement, APSA will have a 14.85% and 15% of the total square meters covered by the apartments and garages, respectively. The total fair value of the transaction is US\$ 1.1 million. Upon signing of the agreement, Condominios del Alto S.A. paid APSA US\$ 15 and assumed certain obligations. Condominios del Alto S.A. (i) guaranteed the transaction by the assumption of a first degree mortgage on the land in favor of APSA for US\$ 1.1 million; (ii) established a security insurance of which APSA will be assignor of the insured amount of US\$ 1.6 million; and (iii) the shareholders of Condominios del Alto S.A. assumed a personal guarantee of the obligations of Condominios del Alto S.A. up to the amount of US\$ 0.8 million.

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**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**g. Significant acquisitions, dispositions and development of businesses (continued)**

**Acquisition of Soleil Factory shopping center business**

On December 28, 2007, APSA entered into an agreement with INCSA, an unrelated party, for the acquisition of Soleil Factory shopping center business, for an aggregate purchase price of US\$ 20.7 million, of which US\$ 8.1 million were paid. The transaction is subject to certain suspensive conditions. Upon fulfillment of the conditions and transfer of the business, the remaining balance of the purchase price amounting to US\$ 12.6 million will accrue fixed interest at 5% per year. This balance will be paid in seven annual and consecutive installments starting on the first anniversary of the signing of the contract. As part of the same agreement, APSA entered into an offer to acquire, construct and operate a shopping center on land property of INCSA located in San Miguel de Tucumán, Province of Tucumán, in the northwest of Argentina. This transaction is also subject to the completion of the Soleil Factory transaction among other suspensive conditions. The parties determined the value of this transaction to be US\$ 1.3 million, of which a de minimis amount was paid in January 2008.

**Acquisition of plot of land**

On June 24, 2008, APSA purchased from Dowler Company S.A, an unrelated party, a plot of land located at Beruti street No. 3351/3359 in the vicinity of the Alto Palermo shopping mall. The purchase price was US\$ 17.8 million of which, as of the date of these financial statements, US\$ 8.9 million was paid. The unpaid balance will be paid in two annual and consecutive installments of US\$ 4.4 million due on February 2009 and 2010. The plot of land was mortgaged in favor of Dowler Company S.A..

**Acquisition of 50% of Bank Boston building.**

In August 2007, the Company acquired a 50% interest in the building (including in place leases) known as Bank Boston Tower, a 31,670 sq. meter property located in Buenos Aires, for total consideration of US\$ 54 million. The acquisition has been accounted for as a business acquisition.

**Offer for the acquisition of Uruguayan company.**

In May 2008, the Company offered to acquire an Uruguayan company owner of several plots of land in Montevideo, Uruguay for approximately US\$ 7 million. The Company intends to develop an urban project on the site. As of the date of these financial statements, the transaction has not been closed yet.

**Acquisition of a plot of land in Luján**

In May 2008, IRSA entered into a preliminary purchase contract with transfer of possession with Birafriends S.A. (an unrelated party) for the acquisition of a plot of land in Luján, Province of Buenos Aires, for a total purchase price of US\$ 3.0 million. IRSA paid US\$ 1.2 million and the remaining balance will be paid at the time of the signing of the deed. On December 2008, IRSA assigned the preliminary purchase contract to Cresud. Cresud will pay the remaining balance at the time of the signing of the deed, and will also refund IRSA the amount the Company paid at the time of the signing of the preliminary purchase.

**Barter transaction with CYRSA**

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The Company signed with CYRSA a deed of exchange for US\$ 12,600 by which IRSA handed over to CYRSA a plot of land in the Caballito neighborhood. On its part, CYRSA committed itself to build a housing real estate development in such plot. In a first stage two buildings will be constructed and a third future building will be developed in the second stage, upon CYRSA's election. As consideration CYRSA will pay US\$ 120 and the balance will be cancelled by handing over 25% of the functional units of the buildings to be constructed in the plot of land. If CYRSA decides not to construct the third building by June 2010, then IRSA will receive the functional unit having the right to over-raise the future third building. To guarantee the compliance with its obligations CYRSA has mortgaged the plot of land in the amount of US\$ 12,600. This transaction generated a gross result before taxes of Ps. 29,100, which was eliminated in accordance with the ownership of CYRSA S.A. On July 31, 2008, the title deed to the land was executed.

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**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**g. Significant acquisitions, dispositions and development of businesses (continued)**

**Acquisition of Museo Renault**

In December 2007 the Company acquired certain functional units (including in place lease) of the Palacio Alcorta (also known as Museo Renault ) real estate for the total consideration of US\$ 3,200. The acquisition has been accounted for as a business acquisition.

**Acquisition of minority interest in Mendoza Plaza Shopping S.A.**

On September 29, 2004, upon executing the agreement to purchase the capital stock of Mendoza Plaza Shopping S.A., APSA signed an agreement with Inversiones Falabella Argentina S.A. ( Falabella ), the remaining minority shareholder of Mendoza Plaza Shopping S.A., pursuant to which, among other things, Falabella had the irrevocable right to sell to APSA (put option) its ownership interest in Mendoza Plaza Shopping S.A. for a total consideration of US\$ 3.0 million.

On June 30, 2008, Inversiones Falabella Argentina S.A. formally notified the put exercise previously granted by which this company sells to APSA 2,062,883 nonendorsable, registered share of common stock, Class A, with face value of Ps. 1 each and with 5 voting rights per share and 2,062,883 nonendorsable, registered shares of common stock, Class B, with face value of Ps. 1 each and with 1 voting rights per share, thus acquiring 5% of the share on behalf of Shopping Alto Palermo S.A. ( SAPSA ).

Total shares acquired represent 14.6% of the capital stock of Mendoza Plaza Shopping S.A. at the price of US\$ 3.0 million established in the respective option agreement (equivalent to Ps. 9.1 million). Such price was fully paid in by APSA on July 2, 2008, when the respective deed to close between both companies was executed.

The shares acquired on behalf of SAPSA were transferred to such company on July 2, 2008 by means of a Shares Assignment Agreement and the amount paid of US\$ 1.0 million will be returned to APSA on October 2, 2008.

**Sale of Bouchard building**

On January 9, 2008, the Company sold to Techint Compañía Técnica Internacional S.A.C.I. (Techint) an undivided 29.85% interest in the building known as Bouchard Plaza Building including in-place lease contracts for an aggregate price of US\$ 34.4 million. The gain on the sale was Ps. 19 million.

**Acquisition of Patio Olmos**

In November 2006, APSA acquired from the Provincial Government of Cordoba a property known as Edificio Ex Escuela Gobernador Vicente de Olmos ( Olmos ) located in Córdoba, Argentina for an aggregate purchase price of Ps. 32.5 million, of which APSA made a down payment of Ps. 9.7 million as of that date. The property, which is located in the City of Córdoba, is a 5,147 square meter four-story building. The property is leased to an unrelated party who exploits the building as a shopping center. APSA did not acquire any rights to the shopping center business. The transaction was pending certain approvals which were obtained in September 2007 when the deed was signed and remaining balance paid.

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As part of the agreement, two spaces of the building aggregating 931 sq. meters had been reserved for public use from governmental authorities until 2032. Thus, APSA was unable to exploit the space through that date. However, in November 2007, the Government enacted a law declaring the spaces as for public use and subject to expropriation procedures for the spaces subject to payment of Ps. 0.5 million. APSA challenged the valuation before the corresponding authorities. As of the date of these financial statements, expropriation has not taken place and final payment has not been negotiated.

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**2. Preparation of financial statements (continued)**

**g. Significant acquisitions, dispositions and development of businesses (continued)**

**Acquisition of Edificio República.**

In April 2008, the Company acquired a building known as República Building, a property located in Buenos Aires. The Company paid US\$ 70.2 million partially financed by a mortgage loan from Banco Macro for an amount of US\$ 33.6 million accruing interest at a fixed rate of 12% per annum and payable in five equal, annual and consecutive installments as from April 2009. The Company consulted with the Argentine Antitrust Commission whether or not this transaction should be reported as a transaction regarded as infringing antitrust laws. The Commission resolved unfavorably and the Company challenged this ruling judicially. As of the date of these financial statements, there was no final sentence as to this matter.

**Commercialization of Dique III**

**Plot 1c) Dique III**

In September 2004, the Company and Desarrollos y Proyectos Sociedad Anónima ( DYPSA ) signed a commitment of barter contract whereby the Company delivered DYPSA plot 1c) of Dique III in exchange for receiving, within a maximum term of 36 months, housing unit, parking lots and parking spaces, representing in the aggregate 28.50% of the square meters built in the building constructed by DYPSA. The transaction amounted to US\$ 8,030. As a guaranty for the transaction, DYPSA set up a first degree mortgage for US\$ 8,030 plot in favor of IRSA. During the fiscal year DYPSA transferred to the Company the possession of all of the individual storage spaces and parking lots in a total amount of US\$ 487, corresponding to the barter for the plot 1c). The Company signed preliminary sales agreements for certain units to be received which were valued at its net realizable value. The increase for this method of valuation amounted to Ps. 21,012; of which Ps. 2,618 and Ps. 18,394 were recorded as of June 30, 2008 and 2007, respectively.

**Plot 1e) Dique III**

In June 2006, the Company and DYPSA signed a barter contract whereby the Company delivered DYPSA plot 1e) of Dique III in exchange for receiving, within a maximum term of 36 months, house units, parking and storages representing in the aggregate 31.50% of the square meters built in the building to be constructed by DYPSA. The value of the transaction to amount of US\$ 13,530. In November 2007, the Company and DYPSA resolved the substitution of the mentioned exchange for a payment of US\$ 18,250, which was fully collected as of June 30, 2008. The gain on the substitution was Ps. 14.8 million.

**Purchase of additional shares of APSA**

During the fiscal year ended June 30, 2008 the Company acquired 672,639 shares of APSA for a total amount of Ps. 7,071. As a result of this transaction, as of the date of these financial statements, IRSA's ownership interest in APSA is 63.34%.

**Year ended June 30, 2007**

Acquisition of plots of land in Bariloche

In December 2006, LLR acquired from an unrelated party a plot of land located in Bariloche in the Province of Río Negro, Argentina, for an aggregate purchase price of US\$ 7,000. The company paid US\$ 4,200 in cash and the remaining US\$ 2,800 was financed through the assumption of a first-degree mortgage on the property. The mortgage, bearing interest at a fixed rate of 7% per annum, will be payable in 36 monthly installments of US\$ 86 each, beginning on January 14, 2007.

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(Amounts in thousands, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**g. Significant acquisitions, dispositions and development of businesses (continued)**

**Acquisition of additional interest in Palermo Invest**

In October 2006, the Company acquired the remaining 33,33% of Palermo Invest from GSEM/AP Holdings, L.P. for an aggregate purchase price of US\$ 18,000. Palermo Invest is a corporation whose main activity is the purchase and holding of equity securities of entities which principal businesses are real estate and investment in equity securities and other form of investment. The transaction was financed US\$ 9,000 in cash and US\$ 9,000 through a note payable in three annual installments of US\$ 3.0 million each, beginning on October 4, 2007. The note will accrue interest at a fixed rate of 9% per annum.

**Acquisition of plot of land in Vicente López and creation of CYRSA**

On January 16, 2007, the Company acquired the total shares of the company named Rummaala, the main asset of which was a plot of land located in Vicente López, Province of Buenos Aires. The purchase price was US\$ 21,172, payable as follows: (i) US\$ 500 in cash paid in April 2006; (ii) US\$ 3,752 in cash and (iii) by delivering certain units of the building to be constructed in the plot of land owned by Rummaala in the amount of US\$ 16,920, within a 4-year term as from the approval date of the plans by the related authorities or when the facilities be vacated, whichever last occurs. As security for compliance with the construction of the future building and transfer of the future units, the shares acquired were pledged. Simultaneously with the above transaction, Rummaala acquired a plot of land adjacent to its own property in the amount of US\$ 15,000, payable as follows: (i) US\$ 500 in cash paid in April 2006; (ii) by delivering certain units of buildings Cruceros I and II owned by the Company in the amount of US\$ 1,247 and (iii) by delivering certain units of the building to be constructed in the land acquired in the amount of US\$ 13,253, within a 40-month term considered as from the approval date of the plans by the related authorities or when the facilities be vacated, whichever last occurs. As security for compliance with the construction of the future building and transfer of the future units, the Company's property located at Suipacha 652 was mortgaged.

In April, 2007, the Company constituted CYRSA S.A., to have a legal entity that allows developing a specific project together with one or more investors having the required knowledge and expertise. In August 2007, Cyrela Brazil Realty S.A. Empreendimentos e Participações ( CYRELA ) is incorporated with the ownership of 50% of CYRSA capital stock.

In the same act, the Company contributed 100% of the shareholding of Rummaala S.A. and the liability in kind related to the acquisition of the plot of land to CYRSA in the amount of Ps. 21,500 and CYRELA contributed Ps. 21,500 (amount equivalent to the net value of the shares contributed by the Company).

The Company has subscribed with CYRELA an agreement, by which through CYRSA, operating under the name IRSA- CYRELA will start developing housing units in the Argentine Republic.

During May and June 2008 the Company (through Rummaala) continued the marketing process of the building units to be constructed on the plot referred to above called "Horizons". Certain clients have made advances by means of signing preliminary sales contracts for 96% of the units to be marketed, which are disclosed in customer advances.

The sales price in the preliminary sales contracts consist of a fixed portion and a variable portion that will be determined according to future construction expenses. The buyer can choose from the following purchase plans:

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- The balance is cancelled in installments and is fully paid at the time of transfer and signature of the deeds.
- The balance can be partially cancelled by the time of transfer and signatures of the deeds, with the remaining balance financed for 90 months, with the units mortgaged as security.

The Company has committed to transfer the functional units by February, 2011.

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**2. Preparation of financial statements (continued)**

**g. Significant acquisitions, dispositions and development of businesses (continued)**

**Panamerican Mall Project**

In June 2006, APSA acquired from an unrelated party, Phillips Argentina S.A., a 28,741 square meters plot of land (the Phillips land ) located in Saavedra, a neighborhood in the northern area of Buenos Aires, for an aggregate purchase price of US\$ 17.9 million. APSA developed a project for the construction of a mall including a hypermarket, a movie theatre complex and office and/or residential buildings. For that purpose, in December 2006, APSA entered into a Construction, Management and Commercialization Agreement with an unrelated party, Centro Comercial Panamericano S.A. ( CCP ). APSA incorporated Panamerican Mall S.A. ( PAMSA ) for this purpose. APSA contributed cash and the Phillips land to PAMSA amounting to Ps. 158.3 million. APSA acquired from CCP an adjacent property amounting to Ps. 36.9 million through cash and 20% of the stock of PAMSA. In addition, APSA and CCP committed to make capital contributions amounting to US\$ 37.8 million and US\$ 9.4 million, respectively, to complete the project.

During the fiscal year ended June 30, 2008, APSA and CCP made irrevocable contributions to PAMSA for Ps. 87.5 million and Ps. 21.9 million, respectively.

**Córdoba Shopping**

On December 27, 2006, APSA acquired 100% interest in the Cordoba Shopping Villa Cabrera located in Cordoba, Argentina, owned by Empalme S.A.I.C.F.A.I.G. ( Empalme ). The property, which is located in the Villa Cabrera neighborhood of the city of Cordoba, is a 35,000 square meter shopping center comprising 106 stores, a 12 movie theatre complex and a 1,500 vehicle parking lot.

The interest was acquired for US\$ 13.3 million. APSA paid US\$ 5.3 million in cash and financed the remaining portion of the purchase price in four equal installments of US\$ 2.0 million each due every six months as from December 2007. This financing accrues interest at a fixed rate of 6% per annum. The unpaid balance was collateralized by a pledge on the shares of Empalme in favor of the sellers. Governmental approval was obtained in December 2006. Subsequent to year end, on December 11, 2008, the fourth installment was paid.

APSA's purchase of Empalme has been accounted for following the guidance in Technical Resolution No. 18 (RT No. 18), as explained in Note 3.i. The purchase price was allocated based on the fair value of each component. However, since the sum of the individual fair values of the identifiable tangible and intangible assets exceeded the purchase price paid, negative goodwill exists. Under Argentine GAAP, when negative goodwill exists after an acquiring entity initially assigns values to all assets acquired and liabilities assumed, RT No. 18 states that the entity must first reassess whether all acquired assets and assumed liabilities have been identified and properly valued. If an amount of negative goodwill still results after this reassessment, intangible assets acquired (including above and below market leases, in-place leases and tenant relationships, as applicable), are subject to reduction. If after all of these intangible assets are reduced to zero and an amount of negative goodwill still remains, the remaining unallocated negative goodwill is amortized under the straight-line method over the weighted average useful life of the main tangible assets acquired.

**Incorporation of Solares de Santa María Sale of Santa María del Plata and sale of shares**

In May 2007, the Company formed Solares de Santa María ( Solares ) and contributed cash in the amount of Ps. 310,000. Solares acquired the Ex Ciudad Deportiva Boca Juniors (Santa María del Plata) plot of land located in Buenos Aires for US\$ 100,000. On June 26, 2007, the Company

sold in commission a 10% interest in Solares to Israel Sutton Dabbah.

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(Amounts in thousands, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**g. Significant acquisitions, dispositions and development of businesses (continued)**

**Transfer of the administration of Abril**

On May 24, 2006, the Company revised the May 4, 2005 proposal submitted to the Residents Subcommission of Abril Club de Campo (the Club) pursuant to which the Company would transfer the Club's management and shares of Abril to the residents (the Letter of Offer). The proposal included monetary and non monetary renderies to be done by the company.

- 1- Contribute cash to Abril for Ps. 650 and repave the Club's roads and streets;
- 2- Transfer to Abril of two plots of land;
- 3- Pay severance to one dismissed employee of Abril;
- 4- Grant Abril a free and perpetual right of way and covenant not to build on certain premises;
- 5- Settle unpaid municipal taxes claimed by the Municipality where the Club is located if higher than amounts recognized as of September 30, 2005.

In June 2007, after compliance of the Letter of Offer, IRSA transferred the shares of Abril to a trust. The trustee, as instructed by the residents of the Club, elected three directors of the Board of Directors of Abril. The mentioned transaction transferred Abril S.A. shareholding to the owners of plots of land of Abril Club de Campo.

**Acquisition of additional shares of Canteras Natal Crespo**

In a series of transactions between December 2006 and January 2007, the Company increased its ownership interest in Canteras Natal Crespo to 55.93% for an aggregate purchase price of US\$ 645. Subsequently, in April 2007, the Company sold 5.93% to ECIPSA for US\$ 312. The Company's interest in Canteras Natal Crespo is 50% as of the date of these financial statements.

**Acquisition of the Bouchard Building**

On March 15, 2007, the Company acquired from an unrelated party a 33,324 square meter office building and the related lease contracts known as Bouchard Building for an aggregate purchase price of US\$ 84,100. The transaction was fully paid in cash as of the date of these financial statements. In April 22, 2008 the notice of the operation was filed with the Argentine Antitrust Authority. As of the date of these financial statements the Commission has not issued the resolution yet.

Acquisition of the Dock Del Plata Building

In June 2005, the Company entered into a Credit Default Swap Agreement (the Agreement ) with Credit Suisse International ( CSI ) pursuant to which the Company, provided certain conditions were met, would acquire a mortgage receivable for US\$ 10,000 on a 8,900 square meter office building known as Dock del Plata Building located in Puerto Madero, Buenos Aires. As guarantee for the Agreement, the Company paid a deposit US\$ 4,000. The Agreement was rescinded in November 2006 and the guarantee deposit was released. The Company executed the mortgage and acquired the building (including in place leases) for US\$ 8,800 (using US\$ 4,000 of the deposit guarantee plus available cash of US\$ 4,800).

Year ended June 30, 2006

Investment in IRSA Telecomunicaciones N.V. (ITNV)

On August, 2005, a share purchase agreement was entered into by and between ITNV, Ritelco and Dolphin Fund PLC (another shareholder of ITNV) whereby ITNV acquired all the common shares held by those shareholders for US\$ 0.147 per share. The amount of this transaction was US\$ 850, of which US\$ 604 correspond to Ritelco. On that date, ITNV cancelled the total amount of the transaction.

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**2. Preparation of financial statements (continued)**

**g. Significant acquisitions, dispositions and development of businesses (continued)**

**Acquisition of Canteras Natal Crespo**

During the fiscal year ended June 30, 2006, the Company acquired from Ecipsa Holding S.A. (ECIPSA), a 43.18% equity interest in Canteras Natal Crespo. Such shares have equal percentage of votes. The total amount agreed for such purchase was US\$ 1,541.

Canteras Natal Crespo is a company located in the Province of Cordoba, Argentina, which primary operations are the development of own or third-party plots, countries, sale or rent of plots of land, real estate and house-building.

**Purchase of additional shares and convertible notes of APSA**

During the fiscal year ended June 30, 2006 the Company acquired 759,393 shares of APSA for a total amount of Ps. 4,300. As a result of this transaction, the Company's ownership interest in APSA increased from 60.69% to 61.54%.

**Sale of the Alcorta Plaza plot of land**

On December 22, 2005, APSA subscribed a preliminary purchase contract with possession, by which the Company sold to RAGHSA S.A. the plot of land denominated Alcorta Plaza for a total price of US\$ 7.7 million. On March 13, 2006 the deed title of the building was registered and a first privilege degree mortgage guarantee was established on certain functional units to be used as offices and garages of the building property of RAGHSA S.A., located in Buenos Aires. The mortgage amounted to US\$ 4.4 million. The agreed terms and conditions of payment were determined in four installments of US\$ 1.9 million and 7.5% annual interest on the balance. During December, 2007, the last installment was collected.

**h. Use of estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting years. Significant estimates include those required in the accounting for barter transactions, gain from recognition of inventories at net realizable value, provisions for allowances and contingencies, impairment of long-lived assets, depreciation and amortization, current value of assets acquired in business combination and assets acquisition, deferred income asset and asset tax credit. Future actual results could differ from those estimates and evaluations made at the date of preparation of these financial statements.

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**3. Significant accounting policies**

The following is a summary of significant accounting policies followed by the Company in the preparation of these consolidated financial statements.

**a. Revenue recognition**

The Company primarily derives its revenues from domestic office and shopping center leases, the development and sale of properties, hotel operations, origination of consumer loans and credit card receivables and other non-core activities. See Note 6 for details on the Company's business segments.

**Development and sale of properties**

The Company records revenue from the sale of properties when all of the following criteria are met:

- (i) the sale has been consummated;
- (ii) the Company has determined that the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property;
- (iii) the Company's receivable is not subject to future subordination; and

(iv) the Company has transferred to the buyer the risk of ownership, and does not have a continuing involvement in the property. The Company uses the percentage-of-completion method of accounting with respect to sales of development properties under construction effected under fixed-priced contracts. Under this method, revenue is recognized based on the ratio of costs incurred to total estimated costs applied to the total budget cost. The Company does not commence revenue and cost recognition until such time as the decision to proceed with the project is made and construction activities have begun.

The percentage-of-completion method of accounting requires company's management to prepare budgeted costs (i.e. the estimated costs of completion) in connection with sales of properties and/or units. All changes to estimated costs of completion are incorporated into revised estimates during the contract period.

**Leases and services from office and other buildings**

Leases with tenants are accounted for as operating leases. Tenants are charged a monthly rent. Rental income is recognized on a straight-line basis over the term of the lease and unpaid rents are included in accounts receivable in the accompanying consolidated balance sheets.

Leases and services from shopping center operations

Leases with tenants are accounted for as operating leases. Tenants are generally charged a rent which consists of the higher of (i) a monthly base rent (the Base Rent ) and (ii) a specified percentage of the tenant s monthly gross retail sales (the Percentage Rent ) (which generally ranges between 4% and 10% of tenant s gross sales). Furthermore, pursuant to the rent escalation clause in most leases, the tenant s Base Rent generally increases between 7% and 12% each year during the term of the lease. For the years ended June 30, 2008, 2007 and 2006, the majority of the tenants were charged with the Percentage Rent.

Certain lease agreements contain provisions, which provide for rents based on a percentage of sales or based on a percentage of sales volume above a specified threshold. The Company determines the compliance with specific targets and calculates the additional rent on a monthly basis as provided for in the contracts. Thus, these contingent rents are not recognized until the required thresholds are exceeded.

Generally, the Company s lease agreements vary from 36 to 120 months. Law No. 24,808 provides that tenants may rescind commercial lease agreements after the initial six months, upon not less than 60 days written notice, subject to penalties which vary from one to one and a half months rent if the tenant rescinds during the first year of its lease, and one month of rent if the tenant rescinds after the first year of its lease.

The Company also charges its tenants a monthly administration fee relating to the administration and maintenance of the common area and the administration of contributions made by tenants to finance promotional efforts for the overall shopping centers operations. The administration fee is prorated among the tenants according to their leases, which varies from shopping center to shopping center. Administration fees are recognized monthly when earned.

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**3. Significant accounting policies (continued)**

**a. Revenue recognition (continued)**

In addition to rent, tenants are generally charged admission rights, a non-refundable admission fee that tenants may be required to pay upon entering into a lease and upon lease renewal. Admission right is normally paid in one lump sum or in a small number of monthly installments. Admission rights are recognized using the straight-line method over the life of the respective lease agreements.

The Company also derives revenues for parking lot fees charged to visitors. Parking revenues are recognized as services are performed.

**Lease agent operations**

In September 2000, APSA completed the acquisition of the 99.99% equity interest of Fibesa S.A. (Fibesa). Fibesa acts as the leasing agent bringing together the Company and potential lessees for the retail space available in certain of the Company's shopping centers. Fibesa's revenues are derived primarily from success fees paid by tenants calculated as a percentage of the final rental income value for both the lessee and the Company. Revenues related to success fees are recognized at the time that the transaction is successfully concluded. A transaction is considered successfully concluded when both parties have signed the related lease contract.

**Consumer Financing**

The Company, through APSA subsidiary Tarshop S.A. (Tarshop) is engaged in the origination of consumer loans and credit card transactions and securitization of corresponding receivables. Revenues from credit card transactions are primarily comprised of (i) merchant discount fees which are recognized when transactional information is received and processed by the Company; (ii) data processing services which consist of processing and printing cardholders statement of accounts, and which are recognized as services are provided; (iii) life and disability insurance charges to cardholders which are recognized on an up-front basis, and (iv) interest income generated by financing and lending activities. Revenue from financing and lending activities are comprised of interest income which is recognized on an accrual basis. For securitization activity see Note 16 for details.

**Hotel operations**

The Company recognizes revenues from its rooms, catering, and restaurant facilities as earned on the close of each business day.

**b. Cash and cash equivalents**

For purposes of the statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of time deposits with original maturities of less than three months at date of purchase and mutual funds. Mutual funds are considered to be cash equivalents by reference to the frequency with which liquidity is available according to current Argentine GAAP guidance and practice.



**c. Investments**

**(i) Current**

Current investments primarily include mutual funds, time deposits, government bonds and mortgage bonds. Time deposits are valued at cost plus accrued interest at year-end. Mutual funds, government bonds and mortgage bonds are carried at market value at year-end.

Unrealized gains and losses on these investments are included within Financial results, net in the accompanying consolidated statements of income.

Current investments also include retained interests in securitized receivables pursuant to the securitization programs of Tarshop (See Note 16) and the retained interest in securitized mortgage receivables (See Note 15).

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(Amounts in thousands, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)**

**c. Investments (continued)**

(ii) Non-current

a) Equity investments

The Company has an 11.76% investment in Banco Hipotecario S.A. ( BHSA ). This investment is accounted for under the equity method due to the significant influence of the Company on the decisions of BHSA and to the intention of holding the investment permanently. In accordance with regulations of the *Banco Central de la República Argentina* ( BCRA ) and also as imposed by the agreements signed by BHSA as a result of its financial debt restructuring process, there are certain restrictions on the distribution of profits by BHSA. The Company also has a 5.10% investment in Banco de Crédito y Securitización S.A. ( BACSA ).

The financial statements of BHSA and BACSA are prepared in accordance with BCRA standards. For the purpose of valuation of the investment in the Company adjustments necessary to adequate the financial statements to Argentine GAAP have been considered.

b) Retained interests in securitization programs

Non-current investments also include the non-current portion of the Company's retained interests in securitized receivables (evidenced as Certificates of Participation or CPs ) and trust debt securities ( TDFs ) pursuant to the securitization programs of credit card and personal loans receivables (See Note 16 for details).

This balance also includes a residual amount related to a retained interests in securitized mortgage receivables pursuant to the securitization programs entered into by the Company back in 2001 (see Note 15).

c) Undeveloped parcels of land

The Company acquires undeveloped land in order to provide an adequate and well-located supply for its residential and office building operations. The Company's strategy for land acquisition and development is dictated by specific market conditions where the Company conducts its operations.

Land held for development and sale and improvements are stated at cost (adjusted for inflation as described in Note 2.c.) less allowances for impairment or estimated fair market value, whichever is lower. Land and land improvements are transferred to inventories or fixed assets, as appropriate, when the Company determines that the properties are to be marketed for sale, when construction commences or the land is leased.

The carrying amount does not exceed their respective estimated recoverable value at the end of this year.

During the years ended June 30, 2002 and 2003 the Company recognized significant impairment. As permitted by Argentine GAAP, due to increases in fair market values, these impairment charges were subsequently reversed during the years ended June 30, 2004 through the current

fiscal year. Impairment charges and subsequent reversals are included in the line item Gain from operations and holdings of real estate assets, net in the income statement. The balance of allowance for impairment of undeveloped parcels of land amounts to Ps. 360, Ps. 458 and Ps. 1,758 for the years ended June 30, 2008, 2007 and 2006, respectively. See Note 3.t. for details on accounting for impairment losses.

**d. Inventories**

Inventories are comprised primarily of properties held for development and sale and to a lesser extent other minor inventories from hotel operations. A property is classified as held for sale upon determination by the Board of Directors that the property is to be marketed for sale in the normal course of business.

Residential, office and other non-retail properties completed or under construction are stated at acquisition or construction cost (adjusted for inflation as described in Note 2.c.) less allowances for impairment or estimated fair market value, whichever is lower. The Company records impairment losses for certain inventories which have market values lower than costs. Costs include land and land improvements, direct construction costs, construction overhead cost, interest on indebtedness and real estate taxes.

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**3. Significant accounting policies (continued)**

**d. Inventories (continued)**

Inventories on which the Company received down payments that fix the sales price and the terms and conditions of the contract provide reasonable assurance the closing of the transaction and realization of the gain are valued at net realizable value. See Gain from recognition of inventories at net realizable value in the consolidated statements of income.

Properties held for sale are classified as current or non-current based on the estimated date of sale and the time at which the related receivable is expected to be collected by the Company.

In addition, inventory includes receivables representing the rights to receive certain property units. The units relating to the projects called Caballito (CYRSA) , Caballito (Koad) , Benavidez , Rosario and Dique III have been valued at acquisition or construction cost, as applicable.

During the years ended June 30, 2002, 2003 and 2005, the Company recognized significant impairment losses. As permitted by Argentine GAAP, due to increases in fair market values, these impairment charges were subsequently reversed partially during the years ended June 30, 2004 until 2007. Impairment charges and subsequent reversals are included in the line item Gain from operations and holdings of real estate assets, net in the income statement. The balance of allowance for impairment of inventory amounts to Ps. 1,111, Ps. 1,140 and Ps. 2,229 for the years ended June 30, 2008, 2007 and 2006, respectively. See Note 3.t. for details on accounting for impairment losses.

**e. Fixed assets, net**

Fixed assets, net are comprised primarily of rental properties (including shopping centers), hotels and other property and equipment held for use by the Company.

**Rental properties (including shopping centers)**

Rental properties are carried at cost (adjusted for inflation as described in Note 2.c.), less accumulated depreciation and allowances for impairment. Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, which are estimated between 10 to 30 years for office buildings and related improvements and between 19 and 31 years for shopping centers. Expenditures for maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are capitalized and depreciated over their estimated remaining useful lives. At the time depreciable assets are retired or otherwise disposed of, the cost and the accumulated depreciation and allowances for impairment of the assets are removed from the accounts and any profit or loss is recognized. The Company capitalizes financial costs (interest and foreign exchange differences) on long-term construction projects. Capitalized financial costs amounted to Ps. 10,509 Ps. 7,100 and Ps. 2,100 for the years ended June 30, 2008, 2007 and 2006, respectively, mainly in connection with the construction of the Panamerican Mall and Shopping Alto Rosario.

During the year ended June 30, 2002, 2003 and 2005 the Company recognized significant impairment losses. As permitted by Argentine GAAP, due to increases in fair market values, these impairment charges were subsequently reversed partially during the years ended June 30, 2003 through the current fiscal year. Impairment charges and subsequent reversals are included in the line item Gain from operations and holdings of real estate assets, net in the income statement. The balance of allowance for impairment of fixed assets amounts to Ps. 4,974. Ps. 7,613 and Ps.

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11,723 for the years ended June 30, 2008, 2007 and 2006, respectively.

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(Amounts in thousands, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)****e. Fixed assets, net (continued)**

## Other property and equipment

Other property and equipment are carried at cost (adjusted for inflation as described in Note 2.c.), less accumulated depreciation at the end of the year. Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, as specified below:

Asset	Estimated useful life (years)
Leasehold improvements	Lesser of lease term or asset useful life
Facilities	Between 10 and 20
Machinery and equipment	10
Vehicles	5
Software	3
Computer equipment	3
Furniture and fixtures	Between 5 and 10
Other	10

**f. Intangible assets, net**

Intangible assets are carried at cost, adjusted for inflation (as described in Note 2.c.), less accumulated amortization.

## Preoperating and organization expenses

Represents primarily expenses incurred relating to pre-opening activities of certain shopping centers and development projects. These expenses are amortized on a straight-line basis over a three-year period commencing upon the opening of the shopping center or the sale of the project.

## Trademarks

Fees and expenses related to the registration of trademarks are amortized on a straight line basis over 10 years.

## Above and below market leases and in-place leases

See Note 3.g. for details on accounting for these intangibles.

**g. Business combinations**

Acquisitions are accounted for under the purchase method of accounting. Under the purchase method of accounting, the Company allocates the purchase price of properties to tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Technical Resolution No. 18. In making estimates of fair values for the purpose of allocating purchase price, management utilized a number of sources. The Company also considers information about each property obtained as a result of our pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of tangible and intangible assets acquired. The Company allocates a portion of the purchase price to tangible assets including the fair value of the building on an as-if-vacant basis and to land determined either by real estate tax assessments, third-party appraisals or other relevant data. Generally the Company determines the as-if-vacant value by using a replacement cost method. Also, a portion of the purchase price is allocated to above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease. The capitalized above-market and below-market lease values are amortized as a reduction of or an addition to rental income over the remaining noncancelable terms of the respective leases. Should a tenant terminate its lease, the unamortized portion of the lease intangibles would be charged or credited to income. A portion of the purchase price is also allocated to the value of leases acquired and management utilizes independent sources or

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**3. Significant accounting policies (continued)**

**g. Business combinations (continued)**

management's determination of the relative fair values of the respective in-place lease values. The Company's estimates of value are made using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods, considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. The Company also estimates costs to execute similar leases including leasing commissions, legal expenses and other related costs. Other intangible assets acquired may include tenant relationships which are valued based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the respective tenant. The Company has not identified any lessee with whom it has developed a type of relationship allowing the recognition of an intangible asset.

**h. Negative goodwill, net**

Negative goodwill, net represents the net effect of goodwill and negative goodwill arising out of business combinations.

**(i) Negative goodwill:**

When the sum of the individual fair values of the identifiable tangible and intangible assets exceeds the purchase price paid, negative goodwill exists. Under Argentine GAAP, when negative goodwill exists after an acquiring entity initially assigns values to all assets acquired and liabilities assumed, RT No. 18 states that the entity must first reassess whether all acquired assets and assumed liabilities have been identified and properly valued. If an amount of negative goodwill still results after this reassessment, intangible assets acquired (including above and below market leases, in-place leases and tenant relationships, as applicable), are subject to reduction. If after all of these intangible assets are reduced to zero and an amount of negative goodwill still remains, the remaining unallocated negative goodwill is amortized under the straight-line method over the weighted average useful life of the main tangible assets acquired.

**(ii) Goodwill:**

Goodwill represents the excess of cost over the fair value of net identifiable assets and is amortized under the straight-line method over the weighted average useful life of the main tangible assets acquired.

The carrying amount does not exceed their respective estimated recoverable value at the end of this year.

**i. Other receivables and liabilities**

Certain other receivables and liabilities (value added tax, cash reserves and guarantee deposits) have been measured based on the best estimate of the amount receivable and payable, respectively, discounted at the interest rate that reflect the time-value of money and the estimate specific



transactions risks at the time of incorporation to assets and liabilities, respectively. The remaining other receivables and liabilities have been valued at their nominal value plus interest, if any.

**j. Financial receivables and payables**

Financial receivables and payables have been valued at the amount deposited and collected, respectively, net of operating costs, plus accrued interests based on the interest rate estimated at the time of the transaction. In the case, the Company has the intention and feasibility of selling financial receivables after the year-end, those receivables are valued at their net realizable value.

**k. Accounts receivable and trade accounts payable**

Accounts receivable and trade accounts payable have been valued at the price applicable to spot operations at the time of the transaction plus accrued interest based on the internal rate of return.

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**3. Significant accounting policies (continued)**

**l. Liabilities in kind related to barter transactions**

Obligations to deliver units to be built are valued at the higher of (i) the cost of construction of the units to deliver plus additional costs to transfer the assets to the creditor, or (ii) the value of the barter agreed by the parties. Liabilities in kind are disclosed in the Trade accounts payable .

**m. Related party balances and other transactions**

Receivables and payables with related parties generated by financial transactions and other sundry transactions have been valued in accordance with the terms agreed by the parties.

**n. Income tax**

The subsidiaries of the Company calculate their income taxes on a separate basis. The Company did not either calculate or pay income taxes on a consolidated basis for any of the years presented. The statutory income tax rate was 35% for all the years presented.

The Company records income taxes using the deferred tax method required by Technical Resolution No. 17 Overall Considerations for the Preparation of Financial Statements ( RT 17 ). Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is not recoverable.

As discussed in note 2.d. the Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes.

In accordance with CNV regulations, deferred tax assets and liabilities have not been discounted. Since Argentine GAAP required (for the Company's fiscal year ended June 30, 2006) the accounting for deferred tax assets and liabilities on a discounted basis, the application of the CNV resolution represented a departure from generally accepted accounting principles until the Company's fiscal year ended June 30, 2006. However, such a departure did not have a significant effect on the 2006 consolidated financial statements. As from July 1, 2006, there is no such difference between CNV regulations and Argentine GAAP, as discussed in Note 2.d..

**o. Minimum Presumed Income Tax (MPIT)**

The company and its subsidiaries are subject to the Minimum Presumed Income Tax Law ( Impuesto a la Ganancia Mínima Presunta or MPIT ). The MPIT is calculated on an individual entity basis at the statutory tax rate of 1%, and is based upon the taxable assets of each Argentine entity as of the end of the year. This tax is complementary to Income Tax and the Company is required to pay the greater of the income tax or the MPIT. Any excess of the MPIT over the income tax may be carried forward and recognized as a payment on account of any excess of income tax over MPIT occurring within the subsequent ten years. In the opinion of that the Company will utilize such asset against future taxable

income charges within the next ten years and, as a result, the Company has recognized the accumulated MPIT charge within Other current and non-current receivables, as appropriate, in the accompanying consolidated balance sheet. This tax credit has been recorded at its nominal value.

**p. Customer advances**

Customer advances represent payments received in advance in connection with the sale and lease of certain properties and have been valued at the amount collected.

**q. Mortgage payables**

Mortgage payables includes the debt assumed in the acquisition of Bouchard 710 and LLR (see Notes 13 and 2.g., respectively, for details) and have been valued at the amount collected net of expenses plus accrued interests based on the interest rate estimated at the time of the transaction.

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**3. Significant accounting policies (continued)**

**r. Provisions for allowances and contingencies**

The Company provides for losses relating to mortgage, lease and other accounts receivable. The allowance for losses is recognized when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the terms of the agreements. The allowance is determined on a one-by-one basis considering the present value of expected future cash flow or the fair value of collateral if the loan is collateral dependent, when applicable. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the assessments. Management has considered all events and/or transactions that are subject to reasonable and normal methods of estimations, and the consolidated financial statements reflect that consideration.

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving tax claims and labor. The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and the Company's lawyers' experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs, which could have a material effect on the Company's future results of operations and financial condition or liquidity.

At the date of issuance of these financial statements Company's Management understands that there are no elements to foresee other potential contingencies having a negative impact on these financial statements.

**s. Advertising expenses**

The Company generally expenses advertising and promotion costs as incurred.

Advertising and promotion expenses were approximately Ps. 37,375, Ps. 31,720 and Ps. 19,495 for the years ended June 30, 2008, 2007 and 2006, respectively.

**t. Impairment of long-lived assets**

The Company periodically evaluates the carrying value of its long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying value of a long-lived asset is considered impaired by the Company when its value in use or its net realizable value, whichever is greater, is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the greater of the value in use or the net realizable value. Value in use is determined by the expected cash flows from the assets discounted at a rate commensurate with the risk involved. Net realizable value is determined by the selling price of the assets less costs to sell.

Under Argentine GAAP, the impairment loss is recorded in the income statement against a liability account. This liability account is a contra account to fixed assets or undeveloped parcels of land or inventories, which means that it is presented on the balance sheet as a direct reduction from the book value of these assets to arrive at the carrying value at any particular point in time. The liability account is depreciated over the useful life of the related asset decreasing depreciation expense each period. Under Argentine GAAP, a previously recognized impairment loss should only be reversed when there is a subsequent change in estimates used to compute the value in use or its net realizable value, whichever is

greater. In that event, the new carrying amount of the asset should be the lower of its value in use or its net realizable value, whichever is greater, or the net carrying amount the asset would have had if no impairment had been recognized. Both the impairment charge and the impairment reversal are recognized in earnings in the period in which they are incurred.

**u. Vacation expenses**

Vacation expenses are fully accrued in the period the employee renders services to earn such vacation.

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**3. Significant accounting policies (continued)**

**v. Derivative financial instruments**

As part of its risk management strategy, the Company may use derivative financial instruments. In entering into these contracts, the Company assumes the risk that might arise from the possible inability of counter parties to meet the terms of their contracts. The Company does not expect any losses as a result of counterparty defaults. The Company applies Technical Resolution No. 20 ( RT No. 20 ), Accounting for Derivative Instruments and Hedging Activities , which establishes accounting and reporting standards for derivative instruments and for hedging activities. RT No. 20 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and how it is designated. RT No. 20 prescribes that changes in the fair value of effective cash flow hedges are deferred as a separate component of the balance sheet and subsequently reclassified into earnings when the hedged items affect earnings. Gains and losses from fair value hedges are recognized in earnings in the period of any changes in the fair value of the related recognized asset or liability. Gains and losses on derivative instruments that are not designated as a hedging instrument are recognized in earnings in the period of change.

The Company also engages in trading of certain financial instruments. For details on the Company s derivative instruments activity, see Note 14.

**w. Monetary assets and liabilities**

Monetary assets and liabilities are disclosed at their face value, adding or deducting the corresponding financial results.

**x. Earnings per share**

The Company is required to disclose earnings per share information for all years presented. Basic earnings per share ( basic EPS ) are computed by dividing the net income available to common shareholders for the years by the weighted-average number of common shares outstanding during the year. Diluted earnings per share ( diluted EPS ) are computed by dividing the adjusted net income for the year by the weighted-average number of common shares and potential common shares outstanding during the year.

In computing diluted EPS, income available to common shareholders used in the basic EPS calculation is adjusted to add back the after-tax amount of interest recognized for the year with respect to any debt convertible to common stock. Additional adjustments are made for any other income or loss items that would result from the assumed conversion of potential common shares. The weighted-average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Diluted EPS is based on the most advantageous conversion rate or exercise price over the entire term of the instrument from the standpoint of the security holder. The calculation of diluted EPS excludes potential common shares if their effect is anti-dilutive. For the fiscal year ended June 30, 2008 the Company does not have convertible debt and warrants outstanding. For the year ended June 30, 2007 and 2006 the Company considered the dilutive effect of outstanding warrants and convertible debt in calculating diluted EPS.

**y. Debt issuance costs**

Expenses incurred in connection with the issuance of debt are amortized over the term of the debt, applying effective interest method. Debt issuance costs are classified within short-term or long-term debts, as appropriate. In the case of redemption or conversion of these debts, the related expenses are amortized using the accelerated depreciation method. Amortization of debt issuance costs are included within Financial

results, net in the accompanying statements of income as a greater financing expense.

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(Amounts in thousands, except share data and as otherwise indicated)

**4. Details of balance sheet accounts****a. Cash and banks:**

	As of June 30,	
	2008	2007
Bank accounts	Ps. 154,260	Ps. 213,478
Cash on hand	5,861	4,067
Checks to be deposited	1,627	811
	Ps. 161,748	Ps. 218,356

**b. Investments:**

	As of June 30,	
	2008	2007
<b>Current</b>		
Mutual funds (iv)	Ps. 150,123	Ps. 600,919
Time deposits	138,232	5,024
Retained interests in securitized receivables (i)	57,106	22,104
U.S. Treasury Bonds	24,448	
Government bonds	21,429	6,620
TDFs (i)	2,243	
Other investments		1,505
Mortgage bonds issued by BHSa (see Note 11)	1,286	2,073
Retained interest in securitized mortgage receivables (ii)		106
Allowance for impairment of CPs (i)	(11,423)	
	Ps. 383,444	Ps. 638,351
<b>Non-Current</b>		
<b>Equity investments:</b>		
Banco Hipotecario S.A.	Ps. 289,298	Ps. 301,672
Manibil S.A.	23,508	
Banco de Crédito y Securitización S.A.	5,444	5,181
Advance payments for the acquisition of shares	6,383	1,108
Others	40	40
<b>Retained interests in securitization programs:</b>		
Retained interests in securitized receivables (i)	111,675	55,683
Retained interest in securitized mortgage receivables (ii)	653	687



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Allowance for impairment of CPs (i)		(577)	
<b>Undeveloped parcels of land (iii):</b>			
Santa María del Plata	135,785		135,785
Puerto Retiro (Note 13)	54,498		54,861
Terreno Beruti plots of land (Note 2.g.)	52,030		
Caballito (v) (Note 13)	36,696		36,681
Patio Olmos (Note 2.g.)	32,944		
Pereiraola	21,717		21,717
Torres Rosario	17,093		16,111
Air space Supermercado Coto Agüero 616	13,143		13,143
Luján (Note 2.g.)	9,510		
Canteras Natal Crespo	5,555		5,559
Pilar	3,408		3,408
Torre Jardín IV	3,030		3,010
Padilla 902	101		94
Caballito plot of land			9,223
Others	11,439		9,310
		Ps. 833,373	Ps. 673,273

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****b. Investments (continued)**

- (i) As part of its credit card and personal loans securitization programs, Tarshop transfers credit card and personal loans receivables to trusts in exchange for cash and certificates representing undivided interests in such receivables. Trusts debt securities represent debt certificates (TDFs) issued by trusts which are valued at amortized cost. Retained interests in transferred credit card and personal loans receivables represent equity certificates (CPs) issued by trusts which are accounted for under the equity method of accounting (See Note 16 for details).
- (ii) Represents retained interests in the Company's securitization program described in Note 15.
- (iii) Shown net of allowances for impairment losses mentioned in Note 3.c.
- (iv) As of June 30, 2008 and 2007 includes an amount of Ps.61,099 and Ps.115,776, respectively, relates to investment in mutual funds which has not been considered as cash equivalents for purposes of the statement of cash flow. See Note 19 for additional details.
- (v) This asset is restricted in relation to certain tax claims.

**c. Accounts receivable, net:**

	As of June 30,	
	2008	2007
<b>Current</b>		
Consumer financing receivables (Tarshop)	Ps. 116,972	Ps. 86,329
Leases and services receivables	59,903	51,083
Checks to be deposited	52,244	31,626
Debtors under legal proceedings (i)	29,550	24,905
Pass-through expenses receivables (ii)	14,843	15,342
Hotel receivables	10,076	7,910
Receivables with collection agents (Tarshop)	3,829	3,110
Related parties (Note 11)	1,730	910
Receivables from the sale of properties (iii) (iv)	1,591	7,594
Less:		
Allowance for doubtful accounts (Note 29.c.)	(104,721)	(56,076)
	Ps. 186,017	Ps. 172,733
<b>Non-Current</b>		
Consumer financing receivables (Tarshop)	Ps. 9,684	Ps. 42,532
Leases and services receivables	2,117	977
Receivables from the sale of properties (iv)	550	888
Less:		

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Allowance for doubtful accounts (Note 29.c.)	(1,956)	(1,955)
	Ps. 10,395	Ps. 42,442

- (i) Comprised of Ps. 1.4 million and Ps. 1.3 million related to mortgage receivables and Ps. 28.1 million and Ps. 23.6 million related to leases receivables, as of June 30, 2008 and 2007, respectively.
- (ii) Represents receivables for common area maintenance and other operating expenses charged to tenants of shopping centers.
- (iii) As of June 30, 2007 corresponds mainly to the balance of the receivable for the sale of the Alcorta Plaza's land. During December 2007, the last installment of US\$ 1,900 was collected, plus interests.
- (iv) Include fixed-rate mortgage receivables from several borrowers. At June 30, 2007, the amount due from the largest individual borrower was Ps. 328 at a contractual interest rate of 10% (see Note 28.II. s.).

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(Amounts in thousands, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****d. Other receivables and prepaid expenses:**

	As of June 30,	
	2008	2007
<b>Current</b>		
Receivables from the sale of shares	Ps. 27,527	Ps. 26,652
Related parties (Note 11)	26,582	11,984
Prepaid expenses and services	21,892	16,918
MPIT	7,799	16,595
Miscellaneous debtors (iii)	6,891	7,861
Guarantee deposits re. securitization programs (Note 16)	6,497	2,926
Value Added Tax ( VAT )	1,811	17,640
Receivable for third party services offered in Tarshop stores	1,578	966
Income tax prepayment	1,208	978
Gross revenue tax prepayment	840	1,242
Guarantee deposits (i)	508	1,208
Guarantee of defaulted credits (Note 23)	457	785
Others	5,441	5,220
	Ps. 109,031	Ps. 110,975
<b>Non-Current</b>		
Deferred income tax (Note 17)	Ps. 70,055	Ps. 25,402
VAT	31,064	10,637
MPIT	23,536	21,251
Guarantee deposits re. securitization programs (Note 16)	12,931	18,976
Guarantee of defaulted credits (Note 23)	3,178	3,096
Mortgage receivable (ii)	2,208	2,208
Allowance for doubtful mortgage receivable (ii)	(2,208)	(2,208)
Gross revenue tax prepayment.	1,173	1,154
Guarantee deposits	392	606
Related parties (Note 11)	4	84
Others	3,568	779
Less:		
Present value other receivables	(5,587)	(783)
	Ps. 140,314	Ps. 81,202

- (i) At June 30, 2008 the balance is mainly comprised of restricted cash of Ps. 0.4 million related to deposits required as collateral for certain labor lawsuits/claims of the Company.

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- (ii) Corresponds to a loan granted to an unaffiliated third party, which is collateralized by a mortgage on certain properties. During fiscal year 2001, this debtor filed for bankruptcy. As a result, the Company has recognized an allowance for the entire balance based on the opinion of its legal counsel.
  - (iii) As of June 30, 2007 includes a loan granted by the Company for Ps. 3,995 to the shareholders of Baicom Networks S.A. ( Baicom ). At the same time the Company signed a purchase option with the shareholders of Baicom due on December 4, 2007 for Ps. 3,995 which represented 50% of Baicom shares. As of June 30, 2008 the Company had exercised the option referred to above. The amount of the option is included, as of June 30, 2008 in Non-Current investments.
- .

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(Amounts in thousands, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****e. Inventories:**

	As of June 30,	
	2008	2007
<b>Current</b>		
Plot 1 c) Dique III (i)	Ps. 42,485	Ps. 13,068
Abril / Baldovinos	4,377	2,646
San Martín de Tours	1,158	3,929
Dock 13 Puerto Madero	1,250	1,595
Torres de Rosario (v)		6,338
Benavidez (iii)		2,722
Other inventories	4,332	5,077
	Ps. 53,602	Ps. 35,375
<b>Non-Current</b>		
Horizons (vi)	Ps. 64,300	Ps. 115,623
Caballito (iv)	22,663	22,663
Credit from barter transaction of Caballito (CYRSA) (Note 2.g.)	18,970	
Benavidez (iii)	9,995	7,273
Caballito plot of land	5,201	
Credit from barter transaction of Rosario	3,379	
Abril / Baldovinos	3,352	6,662
San Martín de Tours	728	
Dock 13 Puerto Madero	317	
Plot 1 e) Dique III (ii)		41,808
Plot 1 c) Dique III (i)		26,799
Other inventories	273	
	Ps. 129,178	Ps. 220,828

- (i) On September 2004, the Company and Desarrollos y Proyectos Sociedad Anónima ( DYPSA ) signed a commitment of barter contract whereby the Company delivered DYPSA plot 1c) of Dique III in exchange for receiving, within a maximum term of 36 months, housing unit, parking lots and parking spaces, representing in the aggregate 28.50% of the square meters built in the building constructed by DYPSA. The transaction amounted to US\$ 8,030. As a guaranty for the transaction, DYPSA set up a first degree mortgage for US\$ 8,030 plot in favor of IRSA. During the fiscal year DYPSA transferred to the Company the possession of all of the individual storage spaces and parking lots in a total amount of US\$ 487. The Company signed preliminary sales agreements for certain units to be received which were valued at its net realizable value. The increase for this method of valuation amounted to Ps. 21,012; of which Ps. 2,618 and Ps. 18,394 were recorded as of June 30, 2008 and 2007, respectively.

(ii)

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On June 2006, the Company and DYPSA signed a barter contract whereby the Company delivered DYPSA plot 1e) of Dique III in exchange for receiving, within a maximum term of 36 months, house units, parking and storages representing in the aggregate 31.50% of the square meters built in the building to be constructed by DYPSA. The value of the transaction to amount of US\$ 13,530. In November 2007, the Company and DYPSA resolved the substitution of the mentioned exchange for a payment of US\$ 18,250, which was fully collected as of June 30, 2008.

- (iii) On May 21, 2004, the Company sold to Desarrolladora El Encuentro S.A. (DEESA) an undeveloped parcel of land located in Benavidez, Province of Buenos Aires, in exchange for US\$ 980 in cash and 110 residential plots to be subdivided by DEESA in the acquired land which were valued at US\$ 3,000. As a guarantee of the obligations assumed for this transaction, DEESA set up a first mortgage on the acquired land in favor of the Company amounting to US\$ 3,000 of guarantee for the transaction.
- (iv) On May 4, 2006, the Company entered into a barter agreement with an unrelated party, Koad S.A. (Koad) pursuant to which the Company exchanged an undeveloped parcel of land of its property for the future delivery of units of property in a building complex to be constructed by Koad on the land. Both parties valued the transaction in US\$ 7,500. As consideration for the transaction, Koad made a down payment of US\$ 50 and will settle the remaining balance through the delivery of 118 apartments and 55 parking units within a maximum period of 1,188 days. However, the final number of units to be received is subject to certain adjustments, depending on completion of milestone dates contemplated in the agreement. Koad encumbered with a mortgage the plot subject to this transaction in the amount of US\$ 7,450 and constituted insurance for US\$ 2,000 and is going to constitute another one for US\$ 500 at the time the units are transferred. During the fiscal year, the building was included in the Pre-apartments Regime and the complementary deed was signed. Such deed includes a detail of the units to be received by the Company.
- (v) Valued at net realizable value.
- (vi) See note 2.g.

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(Amounts in thousands, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****f. Trade accounts payable:**

	As of June 30,	
	2008	2007
<b>Current</b>		
Suppliers (i)	Ps. 197,150	Ps. 161,162
Accruals	38,645	34,094
Related parties (Note 11)	1,099	614
Other	5,169	
	Ps. 242,063	Ps. 195,870
<b>Non-Current</b>		
Suppliers	Ps. 55,140	Ps. 40,901
Related parties (Note 11)		41
	Ps. 55,140	Ps. 40,942

(i) As of June 30, 2008 and 2007, includes accounts payable to merchants for credit card operations of Ps. 166.9 million and Ps. 152.1 million, respectively.

**g. Customer advances:**

	As of June 30,	
	2008	2007
<b>Current</b>		
Customers advances (iii)	Ps. 48,243	Ps. 26,898
Admission rights (Note 3.a)	34,906	30,563
Lease advances (i)	21,206	28,839
Related parties (Note 11)	229	
Advance for the sale of Torres Rosario plot of land (ii)		2,510
	Ps. 104,584	Ps. 88,810

**Non-Current**



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Admission rights (Note 3.a.)	Ps. 48,613	Ps. 35,531
Lease advances (i)	36,457	28,377
Customer advances (iii)	13,727	
	Ps. 98,797	Ps. 63,908

- (i) Lease advances include (a) the current and non-current balances of Ps. 0.3 million and Ps. 3.4 million as of June 30, 2008 respectively, and Ps. 1.2 million and Ps. 3.7 million as of June 30, 2007, respectively, received from Hoyts Cinemas ( Hoyts ) at the time of the construction of the movie theater complexes at the Abasto and Alto Noa shopping centers. These advances accrue interest at the six-month LIBOR plus 2-2.25%. As of June 30, 2008 the six-month LIBOR was 3.1%. Lease advances are settled overtime against lease expense owed by the lessees,(b) Ps. 17.8 million and Ps. 16.9 million, as of June 30, 2008 and 2007, respectively, received from NAI International II, Inc. at the time of the construction of a movie theater complex and a portion of parking facilities in the Cordoba Shopping and (c) Ps. 3.7 million received from Wal-Mart Argentina SRL to secure a 30-year lease in the Panamerican Mall project which is currently under construction.
- (ii) As of June 30, 2007 corresponded to an advance payment of Euros 600 received from Villa Hermosa S.A.
- (iii) Include payments received under preliminary sale contracts for under-construction units of Horizons project

**h. Salaries and social security payable:**

	As of June 30,	
	2008	2007
Provision for vacation and bonuses	Ps. 24,754	Ps. 20,257
Salaries and social security payable	8,575	6,385
Other	626	199
	Ps. 33,955	Ps. 26,841

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(Amounts in thousands, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****i. Short-term and long-term debt:**

	As of June 30,	
	2008	2007
<b>Short-term debt</b>		
Bank loans (v)	Ps. 83,943	Ps. 12,021
Bank overdrafts including accrued interests	45,030	40,833
Mortgage loans (viii)	10,781	106
Seller financings (iv)	24,703	22,357
IRSA Non-Convertible Notes (i)	15,963	15,993
IRSA Convertible Notes (i)		59,083
APSA Non-Convertible Notes (ii)	4,832	6,413
APSA Convertible Notes (ii) (Note 11)	2,144	2,126
HASA collateralized loan (Note 23)	1,910	1,228
Debt issuance costs (vi)	(875)	(910)
Debt issuance costs (vii)	(1,197)	(1,016)
Uncollateralized Loan Agreement (iii)		14,636
Collateralized Notes (iii)		23,785
	Ps. 187,234	Ps. 196,655
<b>Long-term debt</b>		
APSA Non-Convertible Notes (ii)	Ps. 511,420	Ps. 525,180
APSA Convertible Notes (ii) (Note 11)	46,856	47,910
IRSA Non-Convertible (i)	453,750	463,950
HASA collateralized loan (Note 23)	16,102	17,900
Seller financing (iv)	9,075	76,841
Debt issuance costs (vii)	(4,605)	(4,823)
Debt issuance costs (vi)	(6,705)	(7,580)
Uncollateralized Loan Agreement (iii)		35,164
Bank loans (v)	81,402	6,133
Mortgage loans (viii)	12,431	
Collateralized Notes (iii)		57,191
	Ps. 1,119,726	Ps. 1,217,866

(i) See Note 10 for additional details.

(ii) In May 2007, APSA issued an aggregate amount of US\$ 170.0 million of non-convertible notes (the APSA Non-Convertible Notes) under the Global Program for up to US\$ 200.0 million authorized by the CNV on April 19, 2007. The APSA Non-Convertible Notes were issued at par in two series. Out of the total amount, US\$ 120.0 million were issued as Series I of APSA Non-Convertible Notes due May 11, 2017

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( Series I ) and Ps. 154.0 million (equivalent to US\$ 50.0 million) were issued as Series II of APSA Non-Convertible Notes due June 11, 2012 ( Series II ). Series I bear interest at a fixed rate of 7.875% per annum and Series II bear interest at a fixed rate of 11.0% per annum. Series I pay interest in cash semi-annually in arrears on May 11 and November 11 of each year as from November 11, 2007. On May 11, 2008 the second interest installment was paid for US\$ 4.7 million. Series II pay interest in cash semi-annually in arrears on June 11 and December 11 of each year as from December 11, 2007. On June 11, 2008 the second interest installment was cancelled for Ps. 8.5 million. Principal on the Series I is fully paid at maturity while principal on the Series II is paid semi-annually in seven equal and consecutive installments beginning on June 11, 2009. During the fiscal year, APSA repurchased 1,818,000 Series II Notes for US\$ 1.5 million. This transaction resulted in a gain of Ps. 0.9 million, disclosed in the line item Gain on repurchase of debt in Financial results, net.

On July 19, 2002, APSA, issued an aggregate amount of US\$ 50.0 million of uncollateralized convertible notes (the APSA Convertible Notes ) in exchange for cash and the settlement of certain liabilities. The issuance was approved by the meeting of shareholders on December 4, 2001 and subsequently by the CNV on March 15, 2002. The issuance was authorized for listing on the Buenos Aires Stock Exchange on July 8, 2002. Proceeds from the issuance were used to repay certain short-term debt aggregating Ps. 27.3 million and the redemption of previously issued APSA Senior Notes for a principal amount of Ps. 52.8 million. The APSA Convertible Notes accrue interest at a fixed annual interest rate of 10%, are convertible at any time at the option of the holder into common shares of APSA of Ps. 0.10 par value per share and originally matured on July 19, 2006. A meeting of noteholders resolved to extend the maturity date of the APSA Convertible Notes through July 19, 2014 although the remaining terms and conditions were left unchanged. Argentine GAAP requires that an exchange of debt instruments with substantially different terms be considered a debt extinguishment

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**4. Details of balance sheet accounts (continued)****i. Short-term and long-term debt (continued)**

and that the old instrument be derecognized. Argentine GAAP clarifies that from a debtor's perspective, an exchange of debt instruments between, or a modification of a debt instrument by, a debtor and a creditor shall be deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. The new debt instrument should be initially recorded at fair value and that amount should be used to determine the debt extinguishment gain or loss to be recognized. Fair value should be determined by the present value of the future cash flows to be paid under the terms of the new debt instrument discounted at a rate commensurate with the risks of the debt instrument and time value of money. If it is determined that the original and new debt instruments are not substantially different, then a new effective interest rate is to be determined based on the carrying amount of the original debt instrument and the revised cash flows. Based on the analysis performed, the Company concluded that the instruments were not substantially different and accordingly, the old instrument was not derecognized. The outstanding balance was reclassified as non-current in these consolidated financial statements. During fiscal years 2007 and 2006, holders of approximately US\$ 0.01 million and US\$ 0.05 million Convertible Notes exercised their conversion rights and, as a result, APSA issued 101,580 and 1,539,000 common shares, respectively. During fiscal year 2008 the holders of the Convertible Notes didn't exercised their conversion rights and, as a result, APSA didn't issue any shares of common stock. As of June 30, 2008 holders of Convertible Notes have exercised their right to convert ordinary shares for a total of US\$ 2.8 million. The outstanding balance of the APSA Convertible Notes as of June 30, 2008 amounts to US\$ 47.2 million, of which US\$ 31.7 million is held by IRSA. Accordingly, balances shown reflect amount held by third parties after intercompany eliminations. Subsequent to year end, on July 21, 2008 the twelfth interest installment was cancelled by an amount of US\$ 2.3 million.

- (iii) The Collateralized Notes and the Uncollateralized Loan Agreement were paid as of June 30, 2008. As of June 30, 2007 the balances related to (i) current and non current portion of the Collateralized Notes originally due November 2009 and (ii) the current and non current portion of the Uncollateralized Loan Agreement originally due November 2009.
- (iv) As of June 30, 2008 the balance mainly includes: (a) Ps. 6,053 corresponding to the amount owed for the acquisition of Empalme S.A.I.C.F.A. y G. This loan accrues interest at 6% per annum, payable in 4 installments of US\$ 2,000 each, due on June 25, 2007; December 22, 2007; June 19, 2008 and December 16, 2008. On December 11, 2008 the fourth principal installment was paid; (b) US\$ 6.0 million related to the purchase of 33.33% of the shareholding of Palermo Invest S.A. (See note 2.g.) and (c) US\$ 3,000 related to the debt for purchase of additional interest in Mendoza Plaza Shopping S.A. (See note 2.g.).
- (v) The outstanding balance at June 30, 2008 includes mainly the following loans:
  - (a) Several loans of APSA's subsidiary Tarshop, maintained with Industrial de Azul, Standard Bank, Itaú Buen Ayre, Ciudad de Buenos Aires, CMF, BST, BNP Paribas, Supervielle and Comafi banks.
  - (b) Debt for purchase of Edificio República (See note 2.g.).
- (vi) Related to IRSA non-convertible notes.
- (vii) Related to APSA non-convertible notes.
- (viii) As of June 30, 2008 relates to the debt for the purchase of Beruti plot of land, which is guaranteed by a mortgage over the plot of land. As of June 30 2007, under current debt, it included a debt from Shopping Neuquén S.A. which was guaranteed by a mortgage over the plot of land.

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**4. Details of balance sheet accounts (continued)****j. Taxes payable:**

	As of June 30,	
	2008	2007
<b>Current</b>		
Income tax provision, net	Ps. 39,638	Ps. 38,743
VAT payable	17,578	9,912
MPIT	3,558	1,661
Gross revenue tax	3,442	4,226
Provision for tax on shareholders' personal assets	2,850	3,163
Income tax withholdings	685	5,520
VAT withholdings	418	178
Other	8,539	1,309
	Ps. 76,708	Ps. 64,712
<b>Non-Current</b>		
Deferred income tax (Note 17)	Ps. 31,065	Ps. 27,300
Gross revenue tax	4,262	2,256
	Ps. 35,327	Ps. 29,556

**k. Other liabilities:**

	As of June 30,	
	2008	2007
<b>Current</b>		
Loans with shareholders of related parties	Ps. 39,166	Ps. 19,909
Accrual for directors fees (Note 11) (iii)	13,821	13,089
Payables to Nationals Parks Administration (Note 21)	10,189	
Related parties (Note 11)	6,036	4,874
Provision for donations committed (Note 11)	4,656	4,363
Derivative financial instruments (Note 14)	4,600	
Below market leases (Note 3.g.)	3,811	
Guarantee deposits	3,666	4,029
Provision for contingencies (Note 29.c.) (i)	1,787	7,595
Contributed leasehold improvements (ii)	1,015	526
Others	6,057	7,271

	Ps. 94,804	Ps. 61,656
<b>Non-Current</b>		
Loans with shareholders of related parties	Ps. 10,588	Ps. 10,826
Contributed leasehold improvements (ii)	10,055	10,421
Provision for contingencies (Note 29.c.) (i)	7,899	12,732
Below market leases (Note 3.g.)	5,390	
Guarantee deposits	4,049	2,851
Related parties (Note 11)	20	20
Others	568	2,150
Less:		
Present value other liabilities	(285)	(136)
	Ps. 38,284	Ps. 38,864

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- (i) This reserve relates to labor, tax and other miscellaneous matters. This balance also includes reserves the claims related to Shopping Neuquén further discussed in Note 20. In the opinion of management and based on consultation with external legal counsel, the Company has established provisions for amounts which are probable of adverse occurrence and which, according to estimates developed by the Company's legal counsel, would meet all related contingencies and corresponding fees relating to these claims. The classification of contingency reserves as non-current liabilities was based on a review of the current facts and circumstances and consultation with external legal counsel. Management reassesses these matters as new facts are brought into management's attention.

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(Amounts in thousands, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****j. Other liabilities (continued)**

- (ii) Contributed leasehold improvements relate to improvements made by tenants in Abasto Shopping Center and Mendoza Plaza Shopping. Contributed leasehold improvements are recorded as fixed assets based on construction costs incurred with a corresponding deferred liability. Contributed leasehold improvements are amortized to income over the term of lease. Such amortization, net of the related depreciation of the leasehold improvement, was not significant for the years ended June 30, 2008 and 2007.
- (iii) Net of advances for Ps. 1,837 and Ps. 1,375 for the years ended June 30, 2008 and 2007.

**l. Mortgage payables**

	As of June 30,	
	2008	2007
<b>Current</b>		
Mortgage payable Llao Llao (Note 13)	Ps.2,919	Ps.2,783
Mortgage payable Bouchard 710 (i)		14,755
	Ps.2,919	Ps.17,538
<b>Non-Current</b>		
Mortgage payable Llao Llao	Ps.1,538	Ps.4,557
	Ps.1,538	Ps.4,557

- (i) As of June 30, 2008 the mortgage for the purchase of the Bouchard 710 Building was totally paid.

**5. Shareholders equity****a. Common stock**

As of June 30, 2008, the Company had 578,676,460 authorized and outstanding shares of common stock, having a par value of Ps. 1.0 per share. Holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Following is a detail of the activity during the years ended June 30, 2006, 2007 and 2008:

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	Common Stock			Approved by		Date of registration
	Shares issued	Par value	Additional paid-in-capital	Body	Date	
<b>Balances as of June 30, 2006</b>	Ps.435,448,510	Ps.435,448	Ps.659,911			November 29, 2006, February 28, June 26, 2007. 11,412 shares are pending registration
Conversion of debt into common shares (Note 10.a)	16,640,658	16,641	11,252	Board of Directors Meeting	September, 29, 2006, January 11, April 11, June 29 2007	
Exercise of warrants (Note 10.a)	12,879,988	12,880	13,078			
<b>Balances as of June 30, 2007</b>	Ps.464,969,156	Ps.464,969	Ps.684,241			
Conversion of debt into common shares	34,582,162	34,582	24,591	Board of Directors Meeting	October 1, 2007 December 3, 2007	November 30, 2007 March 12, 2008
Exercise of warrants	79,125,142	79,125	84,291			
<b>Balances as of June 30, 2008</b>	Ps.578,676,460	Ps.578,676	Ps.793,123			

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**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**5. Shareholders equity (continued)**

**b. Inflation adjustment of common stock**

As mentioned in Note 2.c. the Company's consolidated financial statements were prepared on the basis of general price-level accounting which reflected changes in the purchase price of the peso in the historical financial statements through February 28, 2003. The inflation adjustments related to common stock and treasury stock were appropriated to inflation adjustment reserves that form part of shareholders' equity. According to CNV Rules, the balances of the inflation adjustment reserves may be applied only towards the issuance of common stock to shareholders of the Company.

**c. Restriction on the distribution of profits**

In accordance with the Argentine Corporations Law and the Company's By-laws, 5% of the net and realized profit for the year calculated in accordance with Argentine GAAP plus (less) prior year adjustments must be appropriated by resolution of the shareholders to a legal reserve until such reserve equals 20% of the Company's outstanding capital (including inflation adjustment). This legal reserve may be used only to absorb losses.

**d. Reserve for new developments**

Pursuant to a resolution of the Inspección General de Justicia, companies should indicate the intended use of the accumulated retained earnings balance of the period. Accordingly, a special reserve labeled as Reserve for New Developments is created. The accumulated retained earnings balance is transferred to this equity account. This reclassification has no impact on the total shareholders equity of the Company.

**6. Segment information**

The Company is required to disclose segment information in accordance with RT 18. RT 18 establishes standards for reporting information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. The statement also establishes standards for related disclosures about a company's products and services, geographical areas and major customers. The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting. Accordingly, the Company has six reportable segments. These segments are Development and Sale of Properties, Office and Other Non-Shopping Center Rental Properties, Shopping Centers, Consumer Financing (formerly known as Credit Card Operations), Hotel Operations and Financial Operations and Others.

A general description of each segment follows:

**Development and Sale of Properties**

This segment includes the operating results of the Company's construction and ultimate sale of residential buildings business.

Office and Other Non-Shopping Center Rental Properties

This segment includes the operating results of the Company's lease and service revenues of office space and other non-retail building properties from tenants.

Shopping Centers

This segment includes the operating results of the Company's shopping centers principally comprised of lease and service revenues from tenants.

Consumer Financing

This segment was formerly known as Credit Card Operations. The Company modified its name to better reflect the nature of operations included in this segment. However, there was no change in the way the business is managed and reviewed. This segment includes the origination of loans and credit card receivables and related securitization programs.

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(Amounts in thousands, except share data and as otherwise indicated)

**6. Segment information (continued)****Hotel Operations**

This segment includes the operating results of the Company's hotels principally comprised of room, catering and restaurant revenues.

**Financial Operations and Others**

This segment primarily includes revenues and associated costs generated from the sale of equity securities, other securities-related transactions and other non-core activities of the Company. This segment also includes the gains or losses on in equity investees of the Company relating to the banking activity.

Inter-segment transactions, if any, are accounted for at current market prices. The Company evaluates performance of its segments and allocates resources to them based on operating income. The Company is not dependent on any single customer.

The accounting policies of the segments are the same as those described in Note 3.

As of and for the year ended June 30, 2008:

	<b>Development and Sale of Properties</b>	<b>Office and Other Non- Shopping Center Rental Properties (a)</b>	<b>Shopping Centers</b>	<b>Consumer Financing (c)</b>	<b>Hotel Operations</b>	<b>Financial Operations and Others</b>	<b>Total</b>
Revenues	Ps. 196,811	Ps. 100,989	Ps. 345,395	Ps. 291,030	Ps. 148,847	Ps. 1,170	Ps. 1,084,242
Costs	(150,894)	(25,818)	(99,175)	(129,025)	(84,220)	(529)	(489,661)
<b>Gross profit</b>	<b>45,917</b>	<b>75,171</b>	<b>246,220</b>	<b>162,005</b>	<b>64,627</b>	<b>641</b>	<b>594,581</b>
Gain from valuation of inventories at net realizable value	2,832						2,832
Selling expenses	(7,696)	(3,458)	(24,809)	(111,415)	(16,608)		(163,986)
Administrative expenses	(21,849)	(22,028)	(39,150)	(66,988)	(29,979)		(179,994)
Net loss from retained interest in securitized receivables				(1,261)			(1,261)
Gain from operations and holdings of real estate assets, net	66	2,604					2,670
<b>Operating income (loss)</b>	<b>19,270</b>	<b>52,289</b>	<b>182,261</b>	<b>(17,659)</b>	<b>18,040</b>	<b>641</b>	<b>254,842</b>
Amortization of goodwill	488	1,782	(390)	(242)			1,638

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Loss on equity investees	(1,065)		(33)		(23)	(12,088)	(13,209)
Financial results, net	(8,502)	(10,069)	(23,585)	(375)	(5,884)	(28,327)	(76,742)
Other (expenses) income, net			4,975	3,800	(5,713)	(8,704)	(5,642)
<b>(Loss) Income before taxes and minority interest</b>	<b>10,191</b>	<b>44,002</b>	<b>163,228</b>	<b>(14,476)</b>	<b>6,420</b>	<b>(48,478)</b>	<b>160,887</b>
Income tax and MPIT	1,820	1,679	(74,992)	(1,522)	(4,010)	(1,087)	(78,112)
Minority interest	1		(36,347)	7,458	863	125	(27,900)
<b>Net (loss) income</b>	<b>12,012</b>	<b>45,681</b>	<b>51,889</b>	<b>(8,540)</b>	<b>3,273</b>	<b>(49,440)</b>	<b>54,875</b>
Acquisitions of fixed assets and intangible assets	3,118	442,585	250,887	6,822	40,077		743,489
Depreciation and amortization (b)	577	24,908	73,185	1,888	13,283		113,841
Non-current investments in affiliated companies						318,250	318,250
Operating assets	436,392	999,060	1,642,341	113,052	233,613		3,424,458
Non-operating assets	26,519	57,433	62,649	21,068	18,426	861,419	1,047,514
<b>Total assets</b>	<b>Ps. 462,911</b>	<b>Ps. 1,056,493</b>	<b>Ps. 1,704,990</b>	<b>Ps. 134,120</b>	<b>Ps. 252,039</b>	<b>Ps. 861,419</b>	<b>Ps. 4,471,972</b>
Operating liabilities	25,530	100,430	250,957	205,671	33,115		615,703
Non-operating liabilities	247,320	209,399	662,174	75,714	199,813	80,956	1,475,376
<b>Total liabilities</b>	<b>Ps. 272,850</b>	<b>Ps. 309,829</b>	<b>Ps. 913,131</b>	<b>Ps. 281,385</b>	<b>Ps. 232,928</b>	<b>Ps. 80,956</b>	<b>Ps. 2,091,079</b>

(a) Includes offices, commercial and residential premises.

(b) Included in operating income.

(c) Formerly known as Credit Card Operations .

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(Amounts in thousands, except share data and as otherwise indicated)

**6. Segment information (continued)**As of and for the year ended June 30, 2007:

	Development and Sale of Properties		Office and Other Non-Shopping Center Rental Properties (a)	Shopping Centers	Consumer Financing (c)	Hotel Operations	Financial Operations and Others	Total
	Ps.	75,751	Ps. 55,683	Ps. 270,266	Ps. 212,965	Ps. 122,681	Ps. 1,410	Ps. 738,756
Revenues								
Costs		(57,823)	(16,699)	(91,112)	(76,251)	(68,960)	(802)	(311,647)
<b>Gross profit</b>		<b>17,928</b>	<b>38,984</b>	<b>179,154</b>	<b>136,714</b>	<b>53,721</b>	<b>608</b>	<b>427,109</b>
Gain from valuation of inventories at net realizable value		20,737						20,737
Selling expenses		(12,846)	(4,376)	(22,346)	(61,966)	(12,175)		(113,709)
Administrative expenses		(19,624)	(16,827)	(32,717)	(45,366)	(26,893)		(141,427)
Net income from retained interest in securitized receivables					3,254			3,254
(Loss) Gain from operations and holdings of real estate assets, net		(18)	1,845	741				2,568
<b>Operating income</b>		<b>6,177</b>	<b>19,626</b>	<b>124,832</b>	<b>32,636</b>	<b>14,653</b>	<b>608</b>	<b>198,532</b>
Amortization of goodwill		286	1,044	(2,802)				(1,472)
(Loss) Gain on equity investees		(491)		(818)		(412)	41,747	40,026
Financial results, net		(7,088)	(6,256)	(28,190)	825	(5,268)	50,076	4,099
Other (expenses) income, net				(6,382)	3,034	160	(10,912)	(14,100)
<b>(Loss) Income before taxes and minority interest</b>		<b>(1,116)</b>	<b>14,414</b>	<b>86,640</b>	<b>36,495</b>	<b>9,133</b>	<b>81,519</b>	<b>227,085</b>
Income tax and MPIT		(11,786)	(1,987)	(40,798)	(15,455)	(3,102)	(14,411)	(87,539)
Minority interest		(4)	(326)	(22,000)	(8,719)	(1,400)		(32,449)
<b>Net (loss) income</b>		<b>(12,906)</b>	<b>12,101</b>	<b>23,842</b>	<b>12,321</b>	<b>4,631</b>	<b>67,108</b>	<b>107,097</b>
Acquisitions of fixed assets and intangible assets		2,895	263,104	157,857		57,115		480,971
Depreciation and amortization (b)		39	16,256	67,046	1,297	12,358		96,996
Non-current investments in affiliated companies							306,853	306,853
Operating assets		508,742	675,321	1,336,166	139,657	202,113		2,861,999
Non-operating assets		30,516	24,662	39,073	18,771	6,318	1,163,560	1,282,900

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Total assets	Ps. 539,258	Ps. 699,983	Ps. 1,375,239	Ps. 158,428	Ps. 208,431	Ps. 1,163,560	Ps. 4,144,899
Operating liabilities	31,472	83,073	199,616	165,713	23,304		503,178
Non-operating liabilities	278,615	247,763	734,370	44,722	153,117	86,010	1,544,597
Total liabilities	Ps. 310,087	Ps. 330,836	Ps. 933,986	Ps. 210,435	Ps. 176,421	Ps. 86,010	Ps. 2,047,775

- (a) Includes offices, commercial and residential premises.
- (b) Included in operating income.
- (c) Formerly known as Credit Card Operations .

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(Amounts in thousands, except share data and as otherwise indicated)

**6. Segment information (continued)**As of and for the year ended June 30, 2006:

	Development and Sale of Properties	Office and Other Non-Shopping Center Rental Properties (a)	Shopping Centers	Consumer Financing (c)	Hotel Operations	Financial Operations and Others	Total
	Ps. 103,966	Ps. 30,565	Ps. 215,003	Ps. 122,969	Ps. 103,763	Ps. 1,414	Ps. 577,680
Revenues							
Costs	(54,200)	(8,987)	(77,382)	(43,933)	(57,971)	(1,358)	(243,831)
<b>Gross profit</b>	<b>49,766</b>	<b>21,578</b>	<b>137,621</b>	<b>79,036</b>	<b>45,792</b>	<b>56</b>	<b>333,849</b>
Gain from valuation of inventories at net realizable value	9,063						9,063
Selling expenses	(1,797)	(1,020)	(15,700)	(30,900)	(10,688)		(60,105)
Administrative expenses	(12,807)	(11,315)	(25,837)	(25,925)	(20,998)		(96,882)
Net income from retained interest in securitized receivables				2,625			2,625
Gain from operations and holdings of real estate assets, net	52	2,619	9,499		446		12,616
<b>Operating income</b>	<b>44,277</b>	<b>11,862</b>	<b>105,583</b>	<b>24,836</b>	<b>14,552</b>	<b>56</b>	<b>201,166</b>
Amortization of goodwill			(856)	(224)			(1,080)
(Loss) Gain on equity investees			(1,599)		146	43,110	41,657
Financial results, net	(5,383)	(4,579)	(23,273)	106	(1,935)	(5,862)	(40,926)
Other expenses, net			(9,636)	(125)	(415)	(8,087)	(18,263)
<b>Income before taxes and minority interest</b>	<b>38,894</b>	<b>7,283</b>	<b>70,219</b>	<b>24,593</b>	<b>12,348</b>	<b>29,217</b>	<b>182,554</b>
Income tax and MPIT	(2,053)	(2,451)	(40,220)	(8,238)	(3,852)	(1,977)	(58,791)
Minority interest		(1,077)	(14,582)	(7,374)	(4,157)		(27,190)
<b>Net income</b>	<b>36,841</b>	<b>3,755</b>	<b>15,417</b>	<b>8,981</b>	<b>4,339</b>	<b>27,240</b>	<b>96,573</b>
Acquisitions of fixed assets and intangible assets	619	320	29,524	3,586	20,070		54,119

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Depreciation and amortization (b)	253	7,903	62,337	815	9,671		80,979
Non-current investments in affiliated companies			129			265,082	265,211
Operating assets	386,740	359,725	1,139,767	74,148	145,796		2,106,176
Non-operating assets	49,624	46,158	18,536	10,655	13,310	495,662	633,945
<b>Total assets</b>	<b>Ps. 436,364</b>	<b>Ps. 405,883</b>	<b>Ps. 1,158,303</b>	<b>Ps. 84,803</b>	<b>Ps. 159,106</b>	<b>Ps. 495,662</b>	<b>Ps. 2,740,121</b>
Operating liabilities	15,183	52,688	129,653	97,969	21,281		316,774
Non-operating liabilities	81,414	72,126	243,303	13,272	59,030	18,447	487,592
<b>Total liabilities</b>	<b>Ps. 96,597</b>	<b>Ps. 124,814</b>	<b>Ps. 372,956</b>	<b>Ps. 111,241</b>	<b>Ps. 80,311</b>	<b>Ps. 18,447</b>	<b>Ps. 804,366</b>

(a) Includes offices, commercial and residential premises.

(b) Included in operating income.

(c) Formerly known as Credit Card Operations .

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(Amounts in thousands, except share data and as otherwise indicated)

**7. Gain from operations and holdings of real estate assets, net:**

	2008	Year ended June 30, 2007	2006
Gain from operations and holdings of real estate assets, net	Ps. 2,670	Ps. 2,568	Ps. 12,616
	Ps. 2,670	Ps. 2,568	Ps. 12,616

**8. Financial results, net:**

	2008	Year ended June 30, 2007	2006
<b>Generated by assets:</b>			
Interest income	Ps. 42,169	Ps. 22,197	Ps. 12,312
Foreign exchange gain (loss)	1,386	(4,893)	21,546
Gain on derivative instruments (Note 14)	(2,689)	665	2,942
Interest on discounting assets	(4,807)	(31)	456
Net unrealized (loss) gain on investments and others	(31,330)	53,441	10,782
	Ps. 4,729	Ps. 71,379	Ps. 48,038
<b>Generated by liabilities:</b>			
Interest expense and others (Note 29.f.)	Ps. (100,220)	Ps. (66,642)	Ps. (49,710)
Foreign exchange gain (loss)	19,246	(749)	(39,274)
Gain on repurchase of debt (Note 29.f.)	116		
Interest on discounting liabilities	(613)	111	20
	(81,471)	(67,280)	(88,964)
<b>Financial results, net</b>	Ps. (76,742)	Ps. 4,099	Ps. (40,926)

**9. Other expenses, net:**

	2008	Year ended June 30, 2007	2006
<b>Other income:</b>			
Recovery of allowance for doubtful accounts and lawsuit, net	Ps. 6,215	Ps.	Ps. 8

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Gain on cancellation of liabilities	3,015	3,127	
Easement income (i)			2,428
Other	1,172	1,892	822
	Ps. 10,402	Ps. 5,019	Ps. 3,258
<b>Other expenses:</b>			
Provision for contingencies	Ps. (6,684)	Ps. (3,031)	Ps. (373)
Tax on shareholders' personal assets	(5,885)	(7,110)	(5,848)
Donations	(6,850)	(7,390)	(2,921)
Recovery (loss) on fire damages (net of insurance recoveries)	2,646	1,773	(5,788)
Unreimbursed expenses	2,002	(298)	(1,743)
Unrecoverable VAT	(1,098)	(2,252)	(2,743)
Other	(175)	(811)	(2,105)
	(16,044)	(19,119)	(21,521)
<b>Other expenses, net</b>	Ps. (5,642)	Ps. (14,100)	Ps. (18,263)

- (i) As of June 30, 2006, the charge relates to the termination of the easement agreement with Riocruz S.C.S. On February 2, 1999, Mendoza Plaza Shopping S.A. had entered into an easement agreement with one anchor tenant, C&A, for an aggregate purchase price of US\$ 2.9 million. Easement revenue was amortized to income under the straight-line method over the term of the agreement. In September 2005, Mendoza Plaza Shopping S.A. acquired from Riocruz S.C.S. the retail space where the C&A store was located, and consequently, the easement agreement was terminated.

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**IRSA Inversiones y Representaciones Sociedad Anónima**

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**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**10. Issuance of IRSA Notes**

**a) IRSA Convertible Notes**

On November 21, 2002, the Company issued US\$ 100,000 of 8% convertible notes due November 2007 (the IRSA Convertible Notes ) with non-detachable warrants to acquire additional shares of common stock (the Warrants ) in exchange for US\$ 85,000 in cash and the settlement of certain liabilities (See Note 4.i.). In accordance with the agreement, the IRSA Convertible Notes were convertible, at any time, at the option of the holder, into a fixed number of common shares of the Company. The agreement provided for an original conversion price of US\$ 0.55713, which only could be adjusted as a result of anti-dilution provisions. Once converted, the holder had the right to acquire an additional equal number of shares at the exercise price of US\$ 0.66856 per share. The exercise price of the warrants was also adjusted as a result of anti-dilution provisions. Under Argentine GAAP no proceeds were allocated to the conversion feature and warrants. Proceeds from the issuance of the IRSA Convertible Notes were mainly used to the settlement and restructuring of the debts outstanding at that date and for working capital needs. As a result of the distribution of treasury shares approved by the shareholders in November 2002, effective December 20, 2002 the conversion price and the warrants exercise price was decreased to US\$ 0.54505 and to US\$ 0.65406, respectively.

During the years ended June 30, 2003, 2004, 2005, 2006, 2007 and 2008, certain holders of IRSA Convertible Notes (aggregating US\$ 99,900) exercised their conversion rights and, as a result, the Company issued 12,531 shares, 23,734,388 shares, 52,448,952 shares, 55,961,675 shares 16,640,658 and 34,582,162 shares of common stock, respectively. During the years ended June 30, 2004, 2005, 2006, 2007 and 2008 the Company also issued 183,296,821 shares of common stock in exchange for US\$ 119,900 in cash as a result of the exercise of warrants.

The IRSA Convertible Notes were fully paid as of June 30, 2008.

**b) IRSA Non-Convertible Notes**

In February 2007, the Company issued US\$ 150,000 of non-convertible notes (the IRSA Non-Convertible Notes ) due February 2017 under the Global Program for up to US\$ 200,000 authorized by the CNV in December 2006. The IRSA Non-Convertible Notes bear interest at a fixed rate of 8.5% per annum. The IRSA Non-Convertible Notes pay interest in cash semi-annually in arrears on February 2 and August 2 of each year, beginning on August 2, 2007. Principal on the IRSA Non-Convertible Notes is fully paid at maturity.

The IRSA Non-Convertible Notes contain certain customary covenants including restrictions to pay dividends in accordance with certain limits.

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(Amounts in thousands, except share data and as otherwise indicated)

**11. Balances and transactions with related parties**

The following is a summary of the balances and transactions with related parties:

Company	Relation	Description of Transaction / caption	Income (loss) included in the statement of income for the year ended June 30,			Balance receivable (payable) as of June 30,		
			2008	2007	2006	2008	2007	
Comercializadora Los Altos S.A.	Subsidiary of E-Commerce Latina S.A., an equity investee of the Company	Sales and developments	Ps.	Ps.	Ps.	2	Ps.	Ps.
BHSA	Equity investee of the Company (i) (vii)	Other receivables and prepaid expenses (current)					7	113
		Investments (current)					1,286	2,073
		Results from holding and operations		12	49			
		Interests and exchange differences	(2)					
		Short-term debt (current) (APSA Convertible Notes)					(1)	(1)
		Long-term debt (non-current) (APSA Convertible Notes)					(22)	(22)
		Other liabilities (current)					(29)	(56)
BACSA	Equity investee of the Company and subsidiary of BHSA (i)	Accounts receivable, net (current)					18	56
Cresud S.A.C.I.F. y A.	Shareholder of the Company	Accounts receivable, net (current)					765	430
		Other receivables and prepaid expenses (current)					4,335	1,895
		Trade accounts payable (current)					(621)	(232)
		Trade accounts payable (non-current)						(41)
		Other liabilities (current)					(830)	(919)
		Short and long-term debt - IRSA Convertible Notes						(37,495)

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		Accrued interest		(2,960)	(7,124)		
		Sales and developments	1,198	2,146	607		
		Interests and exchange differences	1				
		Cost of services		(390)			
Dolphin Fund PLC	Related party (iii)	Accrued interest		1,400			
		Investments (current)				58,072	96,687
		Results from holding and operations	(37,800)	46,817	(32)		

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(Amounts in thousands, except share data and as otherwise indicated)

**11. Balances and transactions with related parties (continued)**

Company	Relation	Description of Transaction / caption	Income (loss) included in the statement of income for the year ended June 30,			Balance receivable (payable) as of June 30,	
			2008	2007	2006	2008	2007
Estudio Zang (legal advisory)	Shareholders of law firm are directors of the Company	Cost of legal services	Ps. (3,820)	Ps. (3,286)	Ps. (1,612)		
		Other receivables and prepaid expenses (current)				14	
		Other liabilities (current)				(278)	
		Trade accounts payable (current)				(264)	(303)
Fundación IRSA	(iv)	Donations	(4,805)	(2,543)	(2,597)		
		Sales and developments			14		
		Other liabilities (current) - Provision for donations committed				(4,656)	(4,363)
		Accounts receivable, net (current)				14	14
		Other receivables and prepaid expenses (current)				5	4
		Accounts receivable, net (current)				47	
Puerto Retiro S.A.	Equity investee of the Company (i)	Other receivables and prepaid expenses (current)				26	
Cactus S.A.	Subsidiary of Cresud S.A.	Other receivables and prepaid expenses (current)				10	5
Futuros y Opciones.com S.A.	Subsidiary of Cresud S.A.	Other receivables and prepaid expenses (current)				4	1
Managers, Directors and other staff of the Company	(ii)	Accounts receivable, net (current) - Director s Guarantee deposits				1	101
		Other receivables and prepaid expenses (current)				1,598	1,266
		(Personnel loans)				4	84

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Other receivables and prepaid expenses (non-current) (Personnel loans)				
Trade accounts payable (current)			(31)	(78)
Other liabilities (current)				(931)
Expenses to be recovered	(422)	(520)	8	
Interest and exchange differences	13	(5)	(7)	

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(Amounts in thousands, except share data and as otherwise indicated)

**11. Balances and transactions with related parties (continued)**

Company	Relation	Description of Transaction /caption	Income (loss) included in the statement of income for the year ended June 30,			Balance receivable (payable) as of June 30,	
			2008	2007	2006	2008	2007
Consultores Assets Management S.A.	(v)	Accounts receivable, net (current)	Ps.	Ps.	Ps.	Ps.	193
		Other receivables and prepaid expenses (current)				16	48
Museo de los Niños	Related party	Other receivables and prepaid expenses (current)				143	57
		Accounts receivable, net (current)				21	21
Parque Arauco S.A.	Shareholder of APSA	Accrued interest	(3,720)	(4,887)	(7,787)		
		Short-term debt (current) (APSA Convertible Notes)				(2,142)	(2,124)
		Long-term debt (non-current) (APSA Convertible Notes)				(46,804)	(47,856)
Directors	Related party	Other liabilities (current), - Accrual for directors fees				(13,821)	(13,089)
		Administrative expenses	(8,613)	(14,727)	(14,859)		
		Short-term debt (current) (APSA Convertible Notes)				(1)	(1)
		Other receivables and prepaid expenses (current)				107	
		Long-term debt (non-current) (APSA Convertible Notes)				(30)	(32)
		Accounts receivable, net (current)					72
		Other liabilities (current)					(519)
		Customer advances (current)				(229)	
		Other liabilities (non-current)				(20)	(20)
						57	23



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Canteras Natal Crespo S.A.	Equity investee of the Company (vi)	Accounts receivable, net (current)		
		Other receivables and prepaid expenses (current)	577	
		Other liabilities (current)		(223)
		Other receivables and prepaid expenses (current)		275
		Trade accounts payable (current)		(1)
		Interest and exchange differences	45	
CYRSA S.A.	Equity investee of the Company (vi)	Accounts receivable, net (current)	545	
		Other receivables and prepaid expenses (current)	712	
		Trade accounts payable (current)	(183)	
		Other liabilities (current)	(88)	
		Interest and exchange differences	43	
Metroshop S.A.	Equity investee of APSA (vi)	Other receivables and prepaid expenses (current)	19,028	8,320
		Other liabilities (current)	(4,811)	(2,226)

- (i) The Company is a shareholder of BHSA, BACSA and Puerto Retiro S.A.
- (ii) The Company provided loans and advances to employees, the balances of which amounted to Ps. 1,602 and Ps. 1,350 as of June 30, 2008 and 2007, respectively. Such balances are to be repaid via scheduled payroll deductions.
- (iii) An open-ended investment fund which is related to our chairman Eduardo Elsztain.
- (iv) A not-for-profit organization whose chairman is Eduardo Elsztain.
- (v) A shareholder and director of Cresud (Shareholder of the Company) is the owner of 85% of the capital stock of Consultores Asset Management S.A. ( CAM ). Remaining 15% is owned by Cresud s first vice chairman of the Board.
- (vi) The Company exercises joint control over Metroshop (through APSA), Canteras Natal Crespo, Rummaala and CYRSA.
- (vii) Includes BHSA Directors.

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(Amounts in thousands, except share data and as otherwise indicated)

**11. Balances and transactions with related parties (continued)**

Company	Relation	Description of transaction	Sale of goods and/or services for			Purchase of goods and/or services for		
			year ended June 30, 2008	year ended June 30, 2007	year ended June 30, 2006	year ended June 30, 2008	year ended June 30, 2007	year ended June 30, 2006
BACSA	Equity investee of the Company and subsidiary of BHSA	Expenses recovery	48	48				
Cresud S.A.C.I.F. y A.	Shareholder of the Company	Shared services	526	734	257	783	173	116
Cresud S.A.C.I.F. y A.	Shareholder of the Company	Expenses recovery	331	130	150	164	145	66
Fundación IRSA	(i)	Director's fees		14	14			
Consultores Assets Management S.A.	(ii)	Expenses recovery	49	50	34			
Personnel	Employees	Interests		9	8			

- (i) A not-for-profit organization whose chairman is Eduardo Elsztain.
- (ii) A shareholder and director of Cresud (Shareholder of the Company) is the owner of 85% of the capital stock of CAM. Remaining 15% is owned by Cresud's first vice chairman of the Board.

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**12. Additional information on assets and liabilities**

The breakdown of main assets and liabilities as of June 30, 2008 is as follows:

	To mature in 3 months	To mature between 4 and 6 months	To mature between 7 and 9 months	To mature between 10 and 12 months	To mature in greater than 1 year	Past due	No fixed term		Total
							Current	Non-Current	
<b>Assets</b>									
Investments	Ps. 298,236	Ps. 18,917	Ps. 13,405	Ps. 2,068	Ps. 111,098	Ps. 11,845	Ps. 38,973	Ps. 325,326	Ps. 819,868
Accounts receivable, net	48,997	25,983	17,293	12,865	10,395	80,379	500		196,412
Other receivables and prepaid expenses	58,781	38,392	3,762	4,078	28,317	379	3,639	111,997	249,345
	Ps. 406,014	Ps. 83,292	Ps. 34,460	Ps. 19,011	Ps. 149,810	Ps. 92,603	Ps. 43,112	Ps. 437,323	Ps. 1,265,625
<b>Liabilities</b>									
Trade accounts payable	Ps. 179,340	Ps. 40,904	Ps. 1,361	Ps. 1,302	Ps. 48,515	Ps. 7,666	Ps. 11,490	Ps. 6,625	Ps. 297,203
Customer advances	30,256	39,015	14,058	16,727	94,587	2,746	1,782	4,210	203,381
Salaries and social security payable	27,696	2,825	2,092	36		1,085	221		33,955
Mortgage payables	711	723	736	749	1,538				4,457
Short and long term debt	119,261	21,927	11,653	26,066	1,119,726	8,236	91		1,306,960
Taxes payable	21,240	48,368	3,725	3,373	5,295	2		30,032	112,035
Other liabilities	8,030	30,055	1,176	4,458	30,014	381	50,702	8,272	133,088
	Ps. 386,534	Ps. 183,817	Ps. 34,801	Ps. 52,711	Ps. 1,299,675	Ps. 20,116	Ps. 64,286	Ps. 49,139	Ps. 2,091,079

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	Accruing interest at a fixed rate		Accruing interest at a variable rate		Not accruing interest		Total
	Current	Non-Current	Current	Non-Current	Current	Non-Current	
<b>Assets</b>							
Investments	Ps. 140,542	Ps.	Ps. 132,782	Ps.	Ps. 110,120	Ps. 436,424	Ps. 819,868
Accounts receivable, net	654	266	17,263	283	168,100	9,846	196,412
Other receivables and prepaid expenses	1,676	261	1,596	3,178	105,759	136,875	249,345
	Ps. 142,872	Ps. 527	Ps. 151,641	Ps. 3,461	Ps. 383,979	Ps. 583,145	Ps. 1,265,625
<b>Liabilities</b>							
Trade accounts payable	Ps.	Ps. 5,444	Ps. 41	Ps.	Ps. 242,021	Ps. 49,697	Ps. 297,203
Customer advances		3,443	300		104,284	95,354	203,381
Salaries and social security payable	1,819		24,016		8,120		33,955
Mortgage payables	2,919	1,538					4,457
Short and long term debt	131,959	1,124,141	32,910		22,364	(4,414)	1,306,960
Taxes payable	604	2,111	2		76,102	33,216	112,035
Other liabilities	16,114	10,383	14,976	482	63,714	27,419	133,088
	Ps. 153,415	Ps. 1,147,060	Ps. 72,245	Ps. 482	Ps. 516,605	Ps. 201,272	Ps. 2,091,079

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**13. Restricted assets**

In the ordinary course of business, certain assets of the Company have been restricted for various reasons.

As of June 30, 2008, these restrictions are as follows:

- (i) In a series of transactions, which occurred between 1999 and 2000, the Company acquired from an unrelated party, 50 % of Puerto Retiro S.A.C.I. y N, whose sole asset is an undeveloped parcel of land in Retiro, Buenos Aires. Prior to the acquisition by the Company, Puerto Retiro had acquired land from Tandanor S.A. ( Tandanor ), a formerly state-owned entity, which had been acquired by Inversora Dársena Norte S.A. ( Indarsa ) in 1991 through a privatization process. The Argentine Government sustained Indarsa had not cancel the outstanding balance of the purchase price of Tandanor, and as a result petitioned the bankruptcy of Indarsa. Since the sole asset of Indarsa was its ownership interest in Tandanor, the Argentine Government was seeking to extend the bankruptcy procedures to any company or individual, which, according to its view, acted as a group, and therefore, in this process requested the bankruptcy of Puerto Retiro and other companies and individuals. In this connection, the bankruptcy court for the Buenos Aires District issued an order restraining the ability of Puerto Retiro to sell or dispose in any manner the land acquired from Tandanor. The Company is vigorously defending against this case. Management and legal advisors of the Company estimate that there are legal and technical issues sufficient to consider that the request for bankruptcy will be denied by the court. However, taking the circumstances into account and the progress of the legal action, this position cannot be considered final. The Company's investment in Puerto Retiro amounts to Ps. 54.5 million at June 30, 2008.

- (ii) The Company mortgaged the following properties under certain obligations:

Property	Net Book Value as of June 30, 2008
Suipacha 652	11,840
Plots of land in Bariloche	21,900
Sheraton Libertador Hotel	36,966
Caballito plot of land	5,201
Beruti plot of land	52,030
Edificio República	228,767

- (iii) The Company has pledged shares of Rummaala and Empalme under certain obligations.
- (iv) Certain investments, cash and cash equivalents and accounts receivable of the Company were restricted aggregating less than Ps. 2.0 million in total.
- (v) Certificates of Participation (retained interest in securitization programs) aggregating Ps. 68.8 million were pledged under certain obligations.

- (vi) As part of the securitization program a portion of the proceeds amounting to Ps. 19.4 million was retained by the trustee and maintained as a cash reserve to serve as collateral for the payment of amounts due of TDFs. Cash reserves flow back to tarshop on a monthly basis according to a schedule until all TDFs are fully paid.

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**14. Derivative financial instruments**

According to the Company's risk management strategy, the Company entered into certain derivative transactions to minimize financial costs. The Company did not apply hedge accounting for these transactions.

Liabilities originated from Derivative financial instruments relate to foreign-currency forward contracts, as follows:

<b>Forwards contracts</b>	<b>Bank</b>	<b>Amount</b>	<b>Maturity</b>	<b>Loss</b>
<b>Open transactions</b>				
Purchase of US\$	Citibank	2,000	10.31.08	Ps. (325)
Purchase of US\$	Citibank	7,000	01.30.09	(1,020)
Purchase of US\$	Itau	9,000	01.30.09	(1,369)
Purchase of US\$	Santander	2,000	07.31.08	(350)
Purchase of US\$	Santander	4,000	10.31.08	(656)
Purchase of US\$	Santander	6,000	01.30.09	(880)
Subtotal				Ps. (4,600)
<b>Closed transactions</b>				500
Loss from derivative instruments				Ps. (4,100)

From time to time the Company may enter into derivative financial instruments for trading purposes. During the current fiscal year the Company subscribed future purchase of gold contracts.

As of June 30, 2008, the Company does not have derivative instruments agreements outstanding nor does it have any guarantee.

As of June 30, 2007 the Company had 30 contracts for the purchase of 100 ounces of gold due in December 2007 at an average market price of US\$ 0.7. As guarantee for such contracts, the Company had deposits in the amount of US\$ 81 (equivalent to Ps. 247).

During the years ended June 30, 2008, 2007 and 2006, the Company recognized Ps. 2,689 loss, Ps. 665 gain and Ps. 2,942 gain related to these contracts

**15. Mortgage receivable securitization**

In December 2001, the Company, and certain subsidiaries on one side (hereinafter the Trustors) and Banco Sudameris Argentina S.A. (hereinafter the Trustee) agreed to set up the IRSA I Financial Trust. The Trustors sold their personal and real estate receivables, secured with mortgages or arising from bills of sale with the possession of the related properties, for the total amount of US\$ 26,586 to the Trustee, in exchange for (i) US\$ 10,000 cash (ii) US\$ 3,300 Class A Participation Certificates (iii) US\$ 2,600 Class B and C Participation Certificates, (iv) US\$ 10,686 Class D Participation Certificates.

As of June 30, 2008, the value of Class D Participation Certificates amounted to Ps. 653. Class A, B, and C Certificates have been totally amortized at year end.

**16. Tarshop credit card receivables securitization**

The Company has ongoing revolving year securitization programs through which Tarshop, a majority-owned subsidiary of APSA, transfers a portion of its customer credit card and personal loans receivable balances to master trusts that issue certificates to public and private investors.



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**16. Tarshop credit card receivables securitization (continued)**

Under the securitization programs, the trusts may issue two types of certificates representing undivided interests in the Trust *Títulos de Deuda Fiduciaria* ( TDF ) and *Certificados de Participación* ( CP ), which represent debt, and equity certificates, respectively. Interest and principal services are paid periodically to the TDF holders throughout the life of the security. CPs are subordinated securities which entitle the CP holders to share pro rata in the cash flows of the securitized credit card and personal loans receivables, after principal and interest on the TDFs and other fees and expenses have been paid. During the revolving period no payments are made to TDF and CP holders. Principal collections of the underlying financial assets are used by the Trust to acquire additional credit card and personal loans receivables throughout the revolving period. Once the revolving period ends, a period of liquidation occurs during which: (i) no further assets are purchased (ii) all cash collections are used to fulfill the TDF service requirements and (iii) the remaining proceeds are used to fulfill the CPs service requirements.

At the time of the securitization, Tarshop transfers credit card and personal loans receivables to the trust in exchange for cash and retained interests in the trust (CPs). Part of the proceeds is retained by the trustee and maintained as a cash reserve to serve as collateral for the payment of amounts due on the TDFs. Cash reserves flow back to Tarshop on a monthly basis according to a schedule until all TDFs are fully paid. Cash reserves are stated at cost and are classified as *Guarantee deposits* within the caption *Other receivables and prepaid expenses* in the accompanying consolidated balance sheets. CPs are carried at their equity value based on financial statements issued by the trusts and classified as *Investments* in the accompanying consolidated balance sheets. Gain or losses on CPs are reported as a component of *Net (loss) income from retained interest in securitized receivables* in the accompanying statements of income. Tarshop recognizes a result on the sale of receivables when the carrying value of transferred credit card and personal loans receivables differs from the amount of cash and CPs received. Results recognized on the sale of receivables are reported as a component of *Net (loss) income from retained interest in securitized receivables* in the accompanying statements of income. Expenses related to the securitization of receivables are expensed as incurred.

As of June 30, 2008 the Company has thirty one securitization programs outstanding, pursuant to which Tarshop has sold an aggregate amount of Ps. 1,440 million of its customer credit card and personal loans receivable balances to Trusts in exchange for Ps. 1,231.4 million in cash proceeds, Ps. 74.4 million variable rate interest TDFs, and Ps. 134.3 million nominal value subordinated CPs. Under the securitization programs, the Trusts issued Ps. 1,231.5 million TDFs which pay the variable interest rate published by Argentine Central Bank, known as *BADLAR* plus a spread between 2% and 4% for TDFs *A* and between 4% and 6% for TDFs *B*, with a floor in the range of 11.5% to 17% for TDFs *A* and 12.5% to 18% for TDFs *B*, a cap between 19% and 25% for TDFs *A* and from 19% to 26% for TDFs *B*. Additionally, one of the Trusts issued TDFs *A* at a fixed interest rate of 11.5%. Except for certain TDFs acquired by Tarshop as mentioned above, the TDFs were sold to other investors through a public offering in Argentina. As mentioned above, as a credit protection for investors, the trusts have established cash reserves for losses amounting to Ps. 19.4 million

**17. Income tax and MPIT**

The Company accounts for income taxes using the deferred tax method where by deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

Income tax expense for the years ended June 30, 2008, 2007 and 2006 consists of the following:

	2008	2007	2006
Current income and MPIT expense	Ps.114,480	Ps.49,751	Ps.51,858

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Deferred income tax expense	(36,368)	37,788	6,933
Income and MPIT expense	Ps. 78,112	Ps.87,539	Ps.58,791

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**17. Income tax and MPIT (continued)**

The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities at June 30, 2008 and 2007 are presented below:

	Balances as of beginning of year		Changes for the year (ii)		Balances at year-end
	Ps.		Ps.		Ps.
<b>Deferred tax assets (liabilities):</b>					
Cash equivalents		583		(583)	
Investments		(24,864)		18,882	(5,982)
Accounts receivable		9,641		(2,339)	7,302
Other receivables and prepaid expenses		59,563		4,445	64,008
Inventory		(26,849)		19,723	(7,126)
Fixed assets		(29,849)		(15,877)	(45,726)
Intangible assets		(202)		48	(154)
Short-term and long-term debt		(5,015)		272	(4,743)
Liabilities		9,474		7,759	17,816
Tax loss carryforwards (i)		8,965		10,658	19,623
Valuation allowance		(3,345)		(2,683)	(6,028)
<b>Net deferred income tax (liability) asset</b>	Ps.	(1,898)	Ps.	40,888	Ps. 38,990

- (i) As of June 30, 2008, the Company and its subsidiaries had accumulated tax loss carryforwards of Ps. 56,066, which expire at various dates through 2013.
- (ii) Includes the effect of deferred taxes of the acquisition of BankBoston Building, Museo Renault and Mendoza Plaza Shopping minority interest, which do not impact earnings of the year

Income tax expense for the years ended June 30, 2008, 2007 and 2006 differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income as a result of the following:

	Years ended June 30,		
	2008	2007	2006
Pretax income	Ps. 160,887	Ps. 227,085	Ps. 182,554
Statutory income tax rate	35%	35%	35%
Income tax expense at statutory tax rate on pretax income	56,310	79,480	63,894
Non-deductible expenses	22,816	5,888	4,416
Gain on equity investees	4,623	(14,009)	(14,580)
Change in valuation allowance	(9,645)	(32,019)	(14,453)
Inflation adjustment	6,352	35,449	17,566
Others, net	(2,344)	12,750	1,948

Income and MPIT expense	Ps. 78,112	Ps. 87,539	Ps. 58,791
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**18. Earnings per share**

The following tables set forth the computation of basic and diluted net income per share under Argentine GAAP for all years presented:

	2008	Year ended June 30, 2007	2006
<b>Numerator:</b>			
Net income available to common shareholders	Ps. 54,875	Ps. 107,097	Ps. 96,573
Plus: income impact of assumed conversions:			
Interest expense on convertible debt		6,174	11,832
Foreign currency exchange loss on convertible debt		38	10,836
Net income available to common shareholders plus assumed conversions	Ps. 54,875	Ps. 113,309	Ps. 119,241
<b>Denominator:</b>			
Weighted-average number of shares outstanding	Ps. 549,277	Ps. 444,904	Ps. 379,506
Plus: incremental shares of assumed conversions:			
Convertible debt and warrants		113,690	143,130
Adjusted weighted-average number of shares	Ps. 549,277	Ps. 558,594	Ps. 522,636
<b>Basic and diluted EPS:</b>			
Basic EPS	Ps. 0.10	Ps. 0.24	Ps. 0.25
Diluted EPS	Ps. 0.10	Ps. 0.20	Ps. 0.23

**19. Supplementary cash flow information**

The following table reconciles the balances included as cash and banks and current investments in the consolidated balance sheets to the total amounts of cash and cash equivalents at the beginning and end of the period shown in the consolidated statements of cash flows:

	2008	As of June 30, 2007	2006
Cash and banks	161,748	218,356	103,018
Current investments	383,444	638,351	130,420
<b>Total cash and banks and current investments as per balance sheet</b>	<b>545,192</b>	<b>856,707</b>	<b>233,438</b>
Less: Items not considered cash and cash equivalents			
- Mutual funds	61,099	115,776	54,241
- Retained interest in securitized mortgage receivables		106	184
- Government bonds	21,429	6,620	1,287
- Retained interests in securitized receivables	45,683	22,104	10,319
- Mortgage bonds issued by BHSA.	1,286	2,073	2,704

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- United States Treasury Bond	24,448		
- TDFs	2,243		
- Other investments		1,505	763
<b>Cash and cash equivalents as shown in the consolidated statement of cash flows</b>	<b>389,004</b>	<b>708,523</b>	<b>163,940</b>

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**20. Shopping Neuquén S.A.**

APSA's subsidiary, Shopping Neuquén S.A.'s sole asset is a 50,000 square meter undeveloped parcel of land located in Neuquén, Argentina, where APSA intends to develop a commercial project including the construction of a shopping center, a hypermarket and other compatible purposes.

On December 13, 2006, Shopping Neuquén S.A. entered into an agreement with the Municipality of Neuquén and with Province of Neuquén by which, mainly, the terms to carry out the commercial and residential venture were rescheduled and authorized Shopping Neuquén S.A. to transfer to third parties the title to the plots of land into which the property is divided, provided that it is not that one on which the Shopping Center will be built. Such agreement was subject to two conditions, both already complied with, consisting in the ratification of the agreement by means of an ordinance of the legislative body of the Municipality of Neuquén, and that the new architectonic project and the extension of the environmental impact research submitted were approved by such Municipality.

After having obtained the approval, Shopping Neuquén S.A. had a 150 days' term to submit the drafts of the architectonic project, such term maturing on February 17 of the current year. However, such drafts presentation took place prior to the referred date. Once the mentioned drafts are registered, which to the date of these financial statements has not occurred, Shopping Neuquén S.A. has to start the works within a 90 days' term.

The first stage of the work (contemplating the minimum construction of 21,000 square meters of the Shopping Center and 10,000 square meters of the hypermarket) should be concluded in a maximum 22 month term as from the construction starting date. In case of default in any of the covenants established in the agreement, the Municipality of Neuquén is entitled to terminate the agreement and carry out the actions that may be considered necessary for such respect.

The agreement referred to above put an end to the file called Shopping Neuquén S.A. against Municipalidad de Neuquén on Administrative Action under judicial procedure before the High Court of Neuquén.

**21. Llao Llao Resorts S.A,**

LLao Llao Holdings S.A. ( LLH ) (in liquidation process following the merger with and into the Company), predecessor of Llao Llao Resorts ( LLR ), as operator of the Llao Llao Hotel was sued in 1997 by the National Parks Administration ( NPA ), a governmental entity, seeking collection of US\$ 2,870 in Argentine External Debt Bonds ( EDB ) relating to the unpaid balance of the additional sales price. The Court of First Instance sustained the demand. The Company appealed the sentence but it was rejected by the Court of Appeals which demanded the Company to pay NPA an amount of US\$ 3,799 including interest, penalties and attorney's fees. In March 2004, LLH paid NPA \$9,156 in cash and Argentine EDBs. The plaintiff requested the court of original jurisdiction to initiate an incidental procedure for execution of sentence by performing a settlement through the Ministry of Economy, the procedure having being questioned by the Company. In view of the fact that the information provided was not sufficient to evaluate the amount settled by the Ministry of Economy, it was requested that the execution be suspended until there is a sentence on the complaint recourse filed with the National Supreme Court for the denial of the extraordinary recourse soliciting that the debt be converted to pesos ( pesification ).

On July 14, 2008 the Court of Appeal notified LLR that by means of a resolution dated June 18, 2008 it had confirmed the settlement approved by the court of original jurisdiction.

In accordance with the information provided by the attorneys in respect of this lawsuit, the amount to be recorded by virtue of the Court sentence amounts to Ps. 10,189 as of June 30, 2008, such amount being recorded in Other current liabilities Payable to National Parks Administration.





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**22. BHSA exposure to public sector**

As discussed in Note 3.c., the Company has a 11.76% equity interest in BHSA.

Following the Argentine crisis in December 2001 and to prevent widespread insolvencies, the Argentine Government pledged to provide offsetting compensation to banks. The general principles of the compensation scheme were to: (1) maintain the peso value of each bank's net worth, and (2) leave the banks hedged in terms of currency. To that end, the Argentine Government issued two types of bonds to banks. BHSA sought compensation in the amounts of US\$ 360,811 in BODEN 2012 compensation bonds and US\$ 832,827 in BODEN 2012 coverage bonds. In September 2002 and October 2005, the BCRA credited US\$ 344,050 and US\$ 16,761 in BODEN 2012 compensation bonds, respectively, as compensation. BODEN 2012 compensation bonds are US-dollar denominated bonds that the BCRA offered to affected banks at a discounted price of Ps. 1.40 plus CER indexation to US\$ 1.00, to compensate for the consequences of creating a mismatch between a bank's dollar and peso position as a result of the pesification in 2002. In September 2005, the subscription process for BODEN 2012 coverage bonds commenced. As of June 30, 2008, the subscription amounts to US\$ 773,533.

In addition, in July 2007 the Bank requested an advance of Ps. 83,012 (through Dossier 27.551/07) to purchase US\$ 59,294 in National Government Bonds in US Dollars Libor Due 2012 (BODEN 2012) pursuant to the provisions of Section 29, subsections f) and g) of Decree No. 905/02 of the Executive Branch and regulations.

In order to guarantee the advance to be received, the Bank submitted as collateral a) Secured Bonds (BOGAR) for a face value of Ps. 47,098 and b) Mortgage Securities granted customers of the non-financial private sectors, in Situation 1, equivalent to Ps. 26,163.

As of June 30, 2008, BHSA has an aggregate asset receivable position with the non-financial public sector amounting to Ps. 2,687,281. On the other hand, liabilities from BCRA amount to Ps. 199,154, representing advances to subscribe BODEN 2012 bonds. The net exposure to the public sector (without considering liquid assets in BCRA accounts) amounts to Ps. 2,488,126 and Ps. 3,053,622 as of June 30, 2008 and 2007, respectively. BHSA intends to use a portion of the assets receivable with the public sector towards the subscription of BODEN 2012 coverage bonds.

For the year ended June 30, 2007, a BCRA ruling established that the total exposure of any bank to the non-financial public sector must not be higher than 40% of the total bank's assets measured as of the last day of the last month prior to measurement date. For the year ended June 30, 2008, the BCRA reduced the limit to 35%. BHSA was in compliance with these limits for all years presented aggregating 26% and 32% as of June 30, 2008 and 2007, respectively.

**23. Hoteles Argentinos mortgage loan**

On January 5, 2001, the Extraordinary Shareholders Meeting of Hoteles Argentinos (HASA), subsidiary of the Company, entered into a long-term mortgage loan (the Mortgage Loan) with Bank Boston N.A. for US\$ 12,000, the proceeds of which were used to refinance existing debt. The loan was payable in 19 quarterly installments of US\$ 300 each and a final payment of US\$ 6,300 at maturity in January 2006. Following the crisis in Argentina, HASA defaulted on the loan after January 26, 2002. In March 2004, Bank Boston N.A. notified HASA of the loan assignment in favor of Marathon Master Fund Ltd. (MMF). In December 2004, the Company repurchased the loan from MMF and subsequently, in March 2005, sold the loan to Credit Suisse International (CSI). In April 2006, HASA and CSI entered into an agreement to revise the terms of the Mortgage Loan (the Revised Mortgage Loan). Under the Revised Mortgage Loan, HASA paid US\$ 2,000 as a partial payment. The remaining principal balance is payable as follows: US\$ 213 on March 15, 2008; US\$ 225 on September 15, 2008; US\$ 239 on March 15, 2009; US\$ 253 on September 15, 2009 and US\$ 5,070 on March 15, 2010. Interest was payable at a fixed rate of 12.07% per annum for the period March 15, 2006 through September 15, 2006. As from September 15, 2006, interest is payable semi-annually in arrears at a rate of six-month LIBO plus 7%. As part of the restructuring of the debt, a deed was signed between the Company and HASA's creditor, CSI, for the 80% of the value of the reorganized debt where the Company guarantees the fulfillment of HASA's debt. As a reward for the guarantee, the

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Company charges an interest at 6-month LIBOR plus 450 basis points. As of the date of these financial statements the two first installments were paid.

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**24. Damages in Alto Avellaneda**

On March 5, 2006, one of the shopping centers of APSA, Alto Avellaneda Shopping Mall was affected by a fire caused by an electrical failure in one of the stores. The fire produced no injuries to persons, or casualties, but caused significant damages to the property. The total area damaged by the fire represented 36 stores or 15.7% of the square meters built. The area was reopened for normal business between June and August 2006. APSA carries insurance coverage which covers fire damage. Days after June 30, 2007 part of the liquidation process related with the reconstruction work had been finished. As of the issuance date of these financial statements, the insurance liquidation process related with the insurance coverage previously mentioned has been finished. The final indemnification amount obtained and collected corresponding to this item amounts, as of the date of these financial statements, to Ps. 10.5 million.

**25. Compensation plan for executive management**

The Company has a defined contribution plan covering its key managers in Argentina. The Plan was effective from 01/01/2006. Employees may begin participation voluntarily on monthly enrollment dates. Participants may make pre-tax contributions to the Plan of up to 2.5% of their monthly salary (Base Contributions) and pre-tax contributions of up to 15% of their annual bonuses (Extraordinary Contributions). Under the Plan, the Company matches employee contributions to the plan at a rate of 200% for Base Contributions and 300% for Extraordinary Contributions. Contribution expense was Ps.0.4 million and Ps 0.2 million for the years ended June 30, 2008 and June 30, 2007, respectively. Participant contributions are held in trust as required by law. Individual participants may direct the trustee to invest their accounts in authorized investment alternatives. Company's contributions are also held in trust. Participants or their assignees, as the case may be, may have access to the 100% of the Company contributions under the following circumstances:

- (i) ordinary retirement in accordance with applicable labor regulations;
- (ii) total or permanent incapacity or disability; and
- (iii) death.

In case of resignation or termination without good cause, the manager may redeem the amounts contributed by the Company only if he or she has participated in the Plan for at least 5 years.

**26. Financing and occupation agreement with NAI Internacional II, INC.**

As discussed in Note 2.g, APSA acquired Empalme in December, 2006. Prior to APSA's acquisition, back in August 1996, Empalme had entered into a Financing and Occupancy Agreement with NAI INTERNACIONAL II, INC. ( NAI ) (the NAI Agreement ) pursuant to which NAI financed the construction of a movie theatre complex and a portion of parking facilities in the Cordoba Shopping for up to US\$ 8.2 million. The financing accrued interest at LIBOR plus 1.5%. As part of the NAI Agreement, NAI had the right to occupy a portion of the building for a period of 10 years as from the commencement of NAI operations in October 1997, renewable for four additional periods of 5 years each. Interest payments under the NAI Agreement were to be offset against the lease payments to be received from NAI. The NAI Agreement originally established that in the event that any outstanding loan balance remained unpaid after the total lease period (together with renewals and extensions), the NAI Agreement would be further extended for the lower of a 10-year period or the period necessary to settle the loan. Any unpaid outstanding balance after that extension was to be forgiven by NAI. In July 2002, following the Argentine crisis, the NAI Agreement was

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amended to, among other matters, (i) pesify the payments, (ii) establish a CER-adjustment indexing clause, and (iii) impose restrictions to Empalme and/or third parties on the use of the space occupied by NAI.

Principal owed as of June 30, 2008 and interest accrued through that date, due to the original loan agreement and respective amendments are disclosed in Customers advances - Lease and pass-through expenses advances for Ps. 17,8 million.

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**27. Subsequent events**

**Barter with CYRSA S.A.**

In July 2008 APSA entered into a barter agreement with CYRSA pursuant to which APSA, subject to certain closing conditions, would surrender to CYRSA its right to construct a building over a preexisting structure (owned by a third party) in exchange for a de minimis cash and 25% of the housing units in the future building. The total fair value of the transaction is US\$ 5.9 million.

**Acquisition of shareholdings of a Company**

On July 2, 2008, the Company acquired a 30% interest in Metropolitan 885 Third Avenue LLC ( Metropolitan ), a limited liability company organized under the laws of Delaware, United States of America. The main asset of Metropolitan is a 34 story building known as the Lipstick Building located at third avenue between 53rd and 54th streets in Manhattan, New York City. In addition to this asset, the acquired company also includes the debt related to this building. The purchase price paid was US\$ 22.6 million. The property has approximately 59,000 square meters of leasable space.

Also, the Company acquired the right (the put right ) to sell the 50% acquired in an exercisable period from 6 months after this transaction until 3 years anniversary of this transaction.

Additionally, the Company acquired the right of first offer to purchase the 60% of the 5% currently held by one of the shareholders of Metropolitan.

**Subsequent events Tarshop S.A.**

On July 30, 2008, Tarshop S.A. obtained a loan of Ps. 4,500 from Banco CMF S.A., payable in six, equal, monthly and consecutive installments, the first of which will fall due in February 2009. Such loan accrues interest at a variable rate.

In security of repayment, the Company created a security interest on the Certificate of the Financial Trust Shopping Card Series XXIX (certificates of participation).

On July 2, 2008 and August 15, 2008, Financial Trust Shopping Card Series 44 and 45, respectively, were placed. Until the close of fiscal year 2007, Financial Trust Shopping Card, under the non revolving form, were authorized to deduct from their income all amounts that were to be assigned as distribution of income. On August 1, 2008, the Official Bulletin published Decree No. 1.207/2008 that nullifies the previously mentioned tax benefit. As of the issuance date of the financial statements of Fideicomisos Financieros Tarjeta Shopping, the trustee (Banco de Valores S.A.) was analyzing the impact on such provision on the equity and cash flows. Financial Statements of Fideicomisos Financieros Tarjeta Shopping as of June 30, 2008, do not recognize the accounting effect of applying the previously mentioned amendments. Apart from that, Tarshop S.A. has considered such effect upon determining the recoverable values of their holding of Certificates of Participation.

**Ordinary and Extraordinary General Meeting of Shareholders held October 31, 2008**

The Ordinary and Extraordinary General Meeting of Shareholders held October 31, 2008 decided to approve the following items:

To apply 5% of the income for the year ended June 30, 2008 to the Legal Reserve;

That the balance of the income accounts of the year be carried forward, entitling the Board of Directors to use the balance and free availability reserves for the purposes that follow, among other: appropriate dividends or provide for the acquisition of own shares. All this due to the financial crisis shown in the national and international markets from were it is clear the impact on the quotation prices of the Company values, which certainly do not agree with the Company's reality. It is, therefore, essential to protect the shareholders interests from the sudden fluctuations of quotation prices;

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**27. Subsequent events (continued)**

That the tax on personal assets levied on the shareholders and paid by the Company in its capacity as substitute responsible for up to \$ 5,433, be fully absorbed by the Company as long as such decision is not modified by virtue of a meeting of shareholders;

The renewal of the delegation on the Board of Directors of the powers to establish the time and currency of issuance, terms, prices, form and payment conditions, type and rate of interest, destination of the funds and other terms and conditions in conformity with the issues approved by the Meeting of Shareholders held October 31, 2006, of the issuances of negotiable bonds within the global program under the terms of section 9 of Law 23,576.

**Meeting of Shareholders of APSA held on October 31, 2008**

On October 31, 2008 the Annual Meeting of Shareholders by majority resolved the following items:

Approval of the financial statements for the fiscal year ended June 30, 2008.

Appropriation of a cash dividend of Ps. 60,238 prior to deducting 5% from the results for legal reserve.

**Acquisition of Company' shares by Cresud S.A.C.I.F. y A.**

During the quarter and up to December 17, 2008, Cresud S.A.C.I.F. y A. ( Cresud , a Company shareholder) acquired 32,539,475 and 36,172,530 additional shares of the Company, respectively. Consequently, Cresud' share in the Company, either directly and indirectly through its subsidiary companies, amounts approximately to 47.76% and 54.01% as of September 30 and December 17, 2008, respectively. Therefore, as from October 2008 Cresud exercises control on the Company as it holds the necessary votes to form the social will in the ordinary meetings of shareholders in accordance with the terms of Technical Resolution 21.

**Financial and capital markets situation**

During the recent months, the world' s principal financial markets have suffered the impact of volatility conditions as well as lack of liquidity, credit and uncertainty. Consequently, stock market rates showed a significant decline worldwide together with an evident economic slowdown. Although the majority of the countries took immediate action on the matter, the future prospects of the international markets is uncertain, as well as its direct effects on the market value of major financial assets, particularly equity and debt instruments.

As far as the impact in Argentina is concerned, stock markets also showed a pronounced downward trend in the price of equity and debt instruments, as well as increases in interest rates, country risk and foreign exchange rates. As of the date of these financial statements, these effects persist. Management is closely evaluating and monitoring the effects of the current liquidity crisis and will take all corrective actions as necessary.

In addition, the Company and its subsidiaries have experienced declines in their respective stock prices during the three months ended September 30, 2008 as compared to the prior quarter. Management believes that this decline is reflective of the current macro-economic state of the economy and is not related to the operating performance of the Company. The stability of the Company' s shopping center and office

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buildings tenants (measured by the levels of occupancy as well as the delinquency or uncollectibility rates) as well as the market value of the Company's properties has not been significantly affected by the current credit crisis as of the date of these financial statements. The Company notes that the stock prices have declined due to reasons unrelated to the Company's business fundamentals. As of the date of these financial statements, management believes that these declines are temporary.

Furthermore, as discussed in Note 3.c., the Company has a 11.76 % equity interest in Banco Hipotecario as of June 30, 2008 and carried this investment under the equity method of accounting. Banco Hipotecario recorded losses of Ps. 91.0 million for the year ended June 30, 2008. Moreover, for the three months ended September 30, 2008, Banco Hipotecario recorded losses of Ps. 239.6 million and could record new losses for the rest of the fiscal year. Such losses are primarily due to the decline in the market value of the Argentine government bonds Banco Hipotecario received as compensation and held in its portfolio. In spite of these losses, Banco Hipotecario remains well-capitalized in compliance with regulatory guidelines as of June 30, 2008 and thereafter.

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**27. Subsequent events (continued)**

Banco Hipotecario also experienced a significant decline in its stock price during the year ended June 30, 2008 and the three months ended September 30, 2008. Management believes that this decline is not reflective of the current operating performance of Banco Hipotecario.

The Company considered several factors including, but not limited to, the following (1) the reasons for the decline in value (whether it is credit event, interest or market related); (2) the Company's ability and intent to hold the equity investment for a sufficient period of time to allow for recovery of value; (3) whether the decline is substantial for the Company; (4) the historical and anticipated duration of the events causing the decline in value and (5) the major fundamentals underlying of the Company's business. The evaluation of other-than-temporary impairments is a quantitative and qualitative process, which is subject to various risks and uncertainties. As of the date of these financial statements, management believes that these declines are temporary and will continue to monitor market conditions and determine if any impairment to the carrying value of the investment is necessary.

The Company's business segment affected by the current credit crisis is Consumer Financing. This segment includes the origination of consumer loans and credit card receivables and securitization activities through the indirect subsidiary Tarshop.

Consumer loan and credit card receivables arise primarily under open-end revolving credit accounts used to finance purchases of goods and services offered by the Company's shopping centers, hypermarkets and street stores, and financing and lending activities. These accounts have various billing and payment structures, including varying minimum payment levels and finance charge rates. The Company provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns and management judgment.

Due to the current credit crisis and other conditions, some customers experienced delays in payments and also uncollectibility rates increased during the year ended June 30, 2008. Moreover, delinquency and uncollectibility rates further increased as of September 30, 2008 and thereafter. The Company evaluated all available evidence and increased the level of the allowance for doubtful accounts which amounts to Ps. 66.5 million as of June 30, 2008. The allowance for doubtful accounts was increased to Ps. 83.7 million as of September 30, 2008. The Company is closely monitoring the delays, delinquency and uncollectibility rates.

Tarshop's generated a net loss of Ps. 18.6 million for the year ended June 30, 2008. For the three months ended September 30, 2008, Tarshop generated an additional net loss of Ps. 57.1 million. As discussed before, the Company contributed Ps. 60.0 million and increased its interest from 80% to 93.4% as of November 30, 2008. The Company has committed to support Tarshop financially under a credit line up to a maximum amount of Ps. 120.0 million, including a loan of Ps. 86 million already contributed. The Company is currently evaluating the appropriateness of capitalizing such loans.

The Company has taken several actions to enhance Tarshop's capital base from streamlining operations to closing redundant stores to revising and making credit criteria more stringent. The securitization market is still open and Tarshop completed securitization programs during the recent months with no disruptions. As of June 30, 2008, the Company's credit risk exposure is contractually limited to the subordinated retained interests representing Ps. 156.8 million and Ps. 19.4 million escrow reserves for losses. As of September 30, 2008, the Company's credit risk exposure is contractually limited to the subordinated retained interests representing Ps. 161.2 million and Ps. 17.9 million escrow reserves for losses. Due to the factors mentioned above, as of June 30, 2008, the Company has recorded an other-than-temporary impairment charge of Ps. 12.0 million to the retained interests to reflect its current fair value. For the three months ended September 30, 2008, no additional impairment charge related to the retained interests in securitized receivables was necessary.

**Irrevocable contributions to PAMSA**

As subsequent event, APSA and CCP made irrevocable contributions to PAMSA for Ps. 90.9 million and Ps. 19.7 million, respectively.

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The project contemplates the construction of a commercial center, a hypermarket, a multiplex cinema and an office and/or apartment building and represents one of the most important ventures to be started by APSA.

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**27. Subsequent events (continued)**

**Capital increase and loans in Tarshop S.A.**

As a consequence of the international financial context, a high volatility in interest rates and increases in the so-called systemic default has been noted, both having caused a negative impact on the performance and financing of the consumption financing business. The highest default levels provoked an increase in the subordination of financial trusts that, added to the modification of their tax treatment, to the higher interest rate for risk increasing and to certain deceleration of private consumption, generated the need to review the general and specific economic prospects of Tarshop S.A. activities.

To face the increasing volatility of the international financing market and to provide Tarshop S.A. with a capital base in line with the current market conditions, in September 2008 APSA decided to participate in a capital increase of Tarshop S.A. for up to Ps. 60 million by increasing the Tarshop S.A. shareholding from 80% to 93.4%.

Several measures were implemented since then to complement the financial support via the direct advising from APSA's management to Tarshop S.A. aiming at improving the performance of the latter by lightening the point of sale structure that would lead to 17% decrease of the payroll, the reduction of 13 point of sales and centralized areas leased by 10% of the total. The streamlining of resources included areas such as consulting services.

In line with the commercial actions other measures have been implemented, such as:

- (i) Structure redesigning of distribution channels.
- (ii) Changes in cash loans and direct financing plans at stores.
- (iii) Renegotiation of terms and conditions with member stores.

Subsequent to June 30, 2008 within the changing general environment and following the strategic plan implemented and carried out by APSA, loans were given to Tarshop S.A. in a total of Ps. 86 million with the purpose of improving its financial position taking into account that Tarshop S.A. develops trust activities and that such segment is undergoing quite a particular moment. APSA is currently evaluating the convenience of capitalizing such loans.

**Fideicomisos Financieros Tarjeta Shopping**

On July 2, 2008 and August 15, 2008, Financial Trust Shopping Card Series XLIV and XLV, respectively, were placed.

Until the end of fiscal year 2007, Fideicomisos Financieros Tarjeta Shopping, under the non revolving form, were authorized to deduct from their income all amounts that were to be assigned as distribution of income. On August 1, 2008, the Official Bulletin published Decree No. 1207/2008 that nullifies the previously mentioned tax benefit. As of the issuance date of the financial statements of Fideicomisos Financieros Tarjeta Shopping, the trustee (Banco de Valores S.A.) was analyzing the impact of such provision on the equity and cash flows.

Financial Statements of Fideicomisos Financieros Tarjeta Shopping as of June 30, 2008, do not recognize the accounting effect of applying the previously mentioned amendments. However, Tarshop S.A. has considered such effect upon determining the recoverable values of its holding over Certificates of Participation.

**Purchase of the Anchorena street building**

On August 7, 2008, the Company subscribed a preliminary purchase contract by which it acquired the functional units numbers one and two, covering a total surface area of 2,875,9 sq., located in Dr. Tomás Manuel de Anchorena street, numbers 665, 667, 669 and 671, between Tucumán and Zelaya streets. The total price agreed is US\$ 2.0 million to be paid as follows: i) US\$ 1.0 million were paid on account of the price at the time of signing the preliminary purchase contract; ii) US\$ 0.5 million will be paid on January 15, 2009; and iii) US\$ 0.5 million will be paid on March 15, 2009 at the time of taking possession and signing the final transfer deed document.

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**27. Subsequent events (continued)**

On August 7, 2008, the Company subscribed a preliminary sales contract by which it acquired the functional unit number three covering a surface area of 988 sq. located in Dr. Tomás Manuel de Anchorena street numbers 665, 667, 669 and 671, between Tucumán and Zelaya streets. The total price agreed is US\$ 1.3 million payable as follows: i) US\$ 0.3 million on account of the price paid at the time of the signature of the preliminary sales contract; ii) US\$ 0.5 million to be paid on January 15, 2009; and iii) US\$ 0.5 million will be paid on March 15, 2009 at the time of taking possession and signing the final transfer deed document.

**Barter transaction with Condominios del Alto S.A.**

On November 27, 2008, APSA entered into a barter agreement with an unrelated party Condominios del Alto S.A. pursuant to which APSA bartered a plot of land located in Rosario, Province of Santa Fe for future 42 apartments and 47 parking spaces of the total units to be constructed on the land. Under this agreement, APSA will have a 22% of the total square meters covered by the apartments and garages. The total fair value of the transaction is US\$ 2.3 million. As part of the agreement, Condominios del Alto S.A. will pay APSA US\$ 34,125 and assumed certain obligations. Condominios del Alto S.A. (i) guaranteed the transaction by the assumption of a first degree mortgage on the land in favor of APSA for US\$ 2.3 million; (ii) established a security insurance of which APSA will be assignor of the insured amount of US\$ 2.3 million; and (iii) the shareholders of Condominios del Alto S.A. assumed a personal guarantee of the obligations of Condominios del Alto S.A. up to the amount of US\$ 1.0 million.

**Repurchase of APSA Notes**

As subsequent event, APSA repurchased Series II Non-Convertible Notes for a face value of US\$ 3.0 million. Such repurchase generated an income of Ps. 2.5 million. Series II Non-Convertible Notes repurchased amount to US\$ 4.8 million.

On November 25, 2008, APSA reported the repurchase of Series I Non-Convertible Notes for a face value of US\$ 5.0 million for an average weighted price of US\$ 0.3978438 per Note and for a total amount of US\$ 2.0 million.

**IRSA's and Cresud's purchase of APSA Notes**

On November 25, 2008, Cresud S.A.C.I.F. y A. reported that, as of that date, it has acquired APSA's Series I Non-Convertible Notes for a face value of US\$ 5.0 million for an average weighted price of US\$ 0.4185 per Note and for a total amount of US\$ 2.1 million. As of the same date, IRSA acquired APSA's Series I Non-Convertible Notes for a face value of US\$ 8.0 million, for an average weighted price of US\$ 0.39820 per Note and for a total amount of US\$ 3.2 million.

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**BANCO HIPOTECARIO SA AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As of and for the twelve-month periods ended June 30, 2008, 2007 and 2006**

**(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

**28. Differences between Argentine GAAP and US GAAP**

The Company's consolidated financial statements have been prepared in accordance with Argentine GAAP and the regulations of the CNV, which differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and the Regulation S-X of the SEC.

Since Argentine GAAP required companies to discontinue inflation adjustments only as from October 1, 2003, the application of CNV resolution represented a departure from Argentine GAAP. However, due to low inflation rates during the period from March to September 2003, such a departure has not had a material effect on the consolidated financial statements.

In addition, in accordance with the CNV regulations, deferred income taxes have been accounted for on an undiscounted basis. The CNV resolution represented a departure from Argentine GAAP. Such departure did not have a significant impact on these consolidated financial statements. However, as previously discussed in Note 2.d., the CPCECABA issued revised accounting standards. One of these standards required companies to account for deferred income taxes on an undiscounted basis, thus aligning the accounting to that of the CNV. Since the CNV adopted the CPCECABA standards effective for the Company for the fiscal year ended June 30, 2007, there was no longer a difference on this subject between Argentine GAAP and the CNV regulations.

*I. Differences in measurement methods*

The following reconciliation to US GAAP does not include the reversal of the adjustments to the consolidated financial statements for the effects of inflation because the application of this standard represents a comprehensive measure of the effects of price level changes in the Argentine economy.

The principal differences, other than inflation accounting, between Argentine GAAP and US GAAP are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)****Reconciliation of net income:**

	Year ended June 30,		
	2008	2007	2006
	Ps. 54,875	Ps. 107,097	Ps. 96,573
<b>Net income under Argentine GAAP</b>			
<b>US GAAP adjustments:</b>			
Impact of US GAAP adjustments on equity investees (Note 28.I.(a))	9,979	4,229	23,753
Accounting for marketable securities (Note 28.I.(b))	45,238	(49,105)	(6,262)
Depreciation of fixed assets (Note 28.I.(c))	541	541	(1,210)
Pre-operating and organization expenses (Note 28.I.(d))	(1,061)	694	1,120
Depreciation and amortization expense (Notes 28.I.(e) and (g))	3,809	6,477	2,715
Securitization accounting (Note 28.I.(f))	4,455	2,101	(6,739)
Present-value accounting (Note 28.I.(h))	4,661	(87)	(333)
Reversal of previously recognized impairment losses (Note 28.I.(i))	1,572	1,905	(7,431)
Accounting for IRSA Convertible Notes (Note 28.I.(j))	(466)	(2,047)	(6,758)
Reversal of loss recognized on troubled debt restructuring (Note 28.I.(k))	6,908	3,756	3,081
Accounting for real estate barter transactions (Note 28.I.(l))	17,332		(44,172)
Reversal of loss (gain) from valuation of inventories at net realizable value (Note 28.I.(m))	145	(891)	(3,705)
Amortization of fees related to Series II of APSA Non-Convertible Notes (Note 28.I.(o))	209		
Software developed or obtained for internal use (Note 28.I.(p))	60	5	(101)
Accounting for increasing rate debt (Note 28.I.(q))		203	(9)
Reversal of capitalized foreign exchange differences (Note 28.I.(r))	5,786	(432)	
Debtor's accounting for a modification of APSA convertible debt instruments (Note 28.I.(s))	(132)	(161)	(18)
Revenue recognition - deferred commissions (Note 28.I.(t.1))	(3,324)	(2,132)	
Revenue recognition - scheduled rent increases (Note 28.I.(t.2))	5,341	4,554	
Deferred revenues - insurance & fees (Note 28.I.(t.3))	(17,122)	(5,330)	(8,219)
Deferred income tax (Note 28.I.(u))	1,869	48,486	40,068
Minority interest (Note 28.I.(v))	(18,559)	(16,641)	7,593
<b>Net income under US GAAP</b>	<b>Ps. 122,116</b>	<b>Ps. 103,222</b>	<b>Ps. 89,946</b>
<b>Earnings per share under US GAAP (Note 28.II.(i)):</b>			
Basic net income per common share	Ps. 0.222	Ps. 0.23	Ps. 0.24
Diluted net income per common share	Ps. 0.216	Ps. 0.20	Ps. 0.23

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)****Reconciliation of shareholders equity:**

	As of June 30,	
	2008	2007
<b>Total shareholders equity under Argentine GAAP</b>	<b>Ps. 1,924,178</b>	<b>Ps. 1,646,714</b>
<b>US GAAP adjustments:</b>		
Impact of US GAAP adjustments on equity investees (Note 28.I.(a))	(54,691)	(31,712)
Depreciation of fixed assets (Note 28.I.(c))	(9,150)	(9,691)
Pre-operating and organization expenses (Note 28.I.(d))	(4,370)	(3,309)
Mortgage payable with no stated interest rate (Note 28.I.(e))	(2,029)	(2,029)
Differences in basis related to purchase accounting (Note 28.I.(g.1))	48,197	48,197
Depreciation and amortization expense (Note 28.I.(e) and (g))	21,140	17,331
Securitization accounting (Note 28.I.(f))	(653)	3,361
Present-value accounting (Note 28.I.(h))	5,301	640
Reversal of previously recognized impairment losses (Note 28.I.(i))	(115,663)	(117,235)
Accounting for IRSA Convertible Notes (Note 28.I.(j))		466
Reversal of gain recognized on troubled debt restructuring (Note 28.I.(k))		(6,908)
Accounting for real estate barter transactions (Note 28.I.(l))	(42,506)	(59,838)
Reversal of gain from valuation of inventories at net realizable value (Note 28.I.(m))	(22,538)	(22,683)
Appraisal revaluation of fixed assets (Note 28.I.(n))	(3,953)	(3,953)
Amortization of fees related to Serie II of APSA Non-Convertible Notes (Note 28.I.(o))	209	
Software obtained for internal use (Note 28.I.(p))	(114)	(174)
Reversal of capitalized foreign exchange differences (Note 28.I.(r))	5,354	(432)
Debtors accounting for a modification of convertible debt instruments (Note 28.I.(s))	798	930
Revenue recognition - Deferred commissions (Note 28.I.(t.1))	(17,891)	(14,567)
Revenue recognition - Scheduled rent increases (Note 28.I.(t.2))	13,148	7,807
Deferred revenues - insurance & fees (Note 28.I.(t.3))	(32,151)	(15,029)
Deferred income tax (Note 28.I.(u))	(138,221)	(158,887)
Minority interest (Note 28.I.(v))	66,469	79,740
<b>Shareholders equity under US GAAP</b>	<b>Ps. 1,640,864</b>	<b>Ps. 1,358,739</b>

**Description of changes in shareholders equity under US GAAP:**

	For the year ended June 30,	
	2008	2007
<b>Shareholders equity under US GAAP at the beginning of the year</b>	<b>Ps. 1,358,739</b>	<b>Ps. 1,158,364</b>
Cumulative effect of the initial application of SAB No. 108		(3,755)
Issuance of common stock upon conversion of debt and exercise of warrants	113,707	29,521



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Additional paid-in-capital common stock	102,223	22,951
Additional paid-in-capital warrants	6,660	1,379
Unrealized (loss) gain on available-for-sale securities	(27,792)	30,945
Unrealized loss on retained interest in securitization programs	(1,830)	(174)
Unrealized (loss) gain on available-for-sale securities on equity investees	(32,958)	16,286
Net income under US GAAP	122,116	103,222
<b>Shareholders' equity under US GAAP at the end of the year</b>	<b>Ps. 1,640,864</b>	<b>Ps. 1,358,739</b>

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(a) Impact of US GAAP adjustments on equity investees**

Under Argentine GAAP, investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method. Under the equity method, the investment is recorded at original cost and periodically increased (decreased) by the investor's proportionate share of earnings (losses) of the investee and decreased by all dividends received from the investor by the investee. The Company applies its percentage ownership interest to the financial statements of its equity method investments prepared under Argentine GAAP. For purposes of this reconciliation, the Company has assessed the impact of US GAAP adjustments on the Argentine GAAP financial statements of its equity investees. US GAAP adjustments primarily relate to: (i) the accounting for the restructuring of its debts, (ii) the accounting for the acquisition of treasury shares and (iii) the accounting for loans loss reserves for reinstated loans.

For the year ended June 30, 2008, the equity investees of the Company are BHSA, BACSA and Manibil. Accordingly, the Company recognized a net gain of Ps. 10.0 million, Ps. 4.2 million and Ps. 23.8 million for the years ended June 30, 2008, 2007 and 2006, respectively.

**(b) Accounting for marketable securities**

Under Argentine GAAP, the Company's investments in mutual funds, government and mortgage bonds are carried at fair value, with unrealized gains and losses included in the statement of income.

Under US GAAP, the Company has classified these investments as available-for-sale and carried them at fair value with unrealized gains and losses, if any, included in stockholders' equity in accordance with Statement of Financial Accounting Standards No. 115 - Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). The Company's investments are considered available for sale as these securities could potentially be sold in response to needs for liquidity, changes in the availability of and the yield on alternative instruments or changes in funding sources or terms.

During the years ended June 30, 2008, 2007 and 2006, proceeds from the sale of available-for-sale securities were Ps. 4,455.9 million, Ps. 1,307.7 million and Ps. 316.3 million, respectively. Gross realized gain was Ps. 19.3 million, Ps. 8.8 million and Ps. 6.7 million for the years ended June 30, 2008, 2007 and 2006, respectively.

The Company has classified the following investments in marketable securities as available for sale and, as such, the securities are carried at fair value. Unrealized gains and losses determined to be temporary are recorded as other comprehensive income, net of related deferred taxes, until realized. Unrealized losses determined to be other than temporary are recognized in the period the determination is made. As of the date of these financial statements, the Company has not determined any unrealized losses to be other than temporary.

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**28. Differences between Argentine GAAP and US GAAP (continued)****(b) Accounting for marketable securities (continued)**

The cost and estimated fair values of marketable securities available for sale at June 30, 2008, 2007 and 2006 were as follows:

	Cost	Fair Value	Gross unrealized Gain	Gross unrealized Loss
<b>June 30, 2006</b>				
Mutual funds	Ps. 54,601	Ps. 58,267	Ps. 3,666	
Dolphin Fund	27,882	49,976	22,094	
Mortgage bonds	2,712	2,704		(8)(i)
Government bonds	1,254	1,287	33	
	Ps. 86,449	Ps. 112,234	Ps. 25,793	(8)
<b>June 30, 2007</b>				
Mutual funds	Ps. 496,440	Ps. 502,212	Ps. 5,772	
Dolphin Fund	27,882	96,687	68,805	
Mortgage bonds	2,069	2,073	4	
Government bonds	6,311	6,620	309	
	Ps. 532,702	Ps. 607,592	Ps. 74,890	
<b>June 30, 2008</b>				
Mutual funds	Ps. 89,732	Ps. 92,053	Ps. 2,378	(57)(i)
Dolphin Fund	27,882	58,070	30,188	
Mortgage bonds	1,199	1,286	87	
Government bonds	48,821	45,877		(2,944)(i)
	Ps. 167,634	Ps. 197,286	Ps. 32,653	(3,001)

(i) Unrealized loss position for less than 12 months.

In evaluating whether a security was other than temporarily impaired, the Company considered the severity and length of time impaired for each security in a loss position and other qualitative data.

At June 30, 2008, government bonds have been in a continuous unrealized loss position for less than 12 months. These unrealized losses are not deemed to be other than temporarily impaired. The Company has the ability and intent to hold these securities for reasonable period of time to allow for recovery of value.

**(c) Depreciation of fixed assets**

Prior to 2007, certain office and apartment buildings of the Company were being depreciated over a useful life of 50 years under Argentine GAAP. For US GAAP purposes, these buildings were being depreciated over a useful life of 40 years. Accordingly, the US GAAP adjustment reflected higher depreciation charges for US GAAP purposes. As a result of this adjustment, the net book value of these assets for US GAAP purposes differs from the book value for Argentine GAAP purposes. In the year ended June 30, 2007, independent appraisers reassessed the appropriateness of the useful lives of the Company's office buildings and other properties. As a result of the work, the remaining useful lives of certain of these properties were reduced and no difference exists in the remaining useful life of these assets between Argentine GAAP and US GAAP. However, due to the different cost base of fixed assets for Argentine GAAP and US GAAP purposes, a US GAAP reconciling item for depreciation still exists.

**(d) Pre-operating and organization expenses**

Under Argentine GAAP, the Company capitalizes certain costs related to pre-operating activities of the Company's shopping centers, residential projects and expenses incurred in the organization of subsidiaries. These expenses are generally amortized on a straight-line basis over periods ranging from 3 to 5 years commencing upon the opening of the shopping center and/or launching of a project. Under US GAAP, these expenses are charged to expense as incurred.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(e) Mortgage payable with no stated interest rate**

In 1991, the Company obtained a non-interest bearing mortgage with a face value of US\$ 3,300 to acquire a property (Suipacha 652/64). Under Argentine GAAP, the Company did not make any fair value adjustment for this non-interest bearing mortgage. Under US GAAP however, and in accordance with Accounting Principles Board ( APB ) Opinion No. 21, Interest on Receivables and Payables , the non-interest bearing mortgage held by the Company was recorded at the estimated market value of the note. The Company used an interest rate of 12%, which approximated its weighted-average borrowing rate, in determining the present value of this debt. This mortgage was fully repaid in November 1996. As a result, the carrying value of the acquired property was decreased by Ps. 2,000. This adjustment gives rise to differences in depreciation expense and is included in the line item Depreciation and amortization expense in the US GAAP reconciliation.

**(f) Securitization accounting**

As discussed in Notes 15 and 16, the Company has entered into securitization programs, through which the Company transferred a portion of its mortgage receivables and credit card receivables to the trusts in exchange for cash, debt certificates (TDFs) and retained interests in the trusts (CPs). Part of the proceeds is retained by the trustee and maintained as a cash reserve to serve as collateral for the payment of amounts due on the TDFs. Cash reserves flow back to the Company on a monthly basis according to a schedule until all TDFs are fully paid. In the past the Company remained the servicer on the accounts and received a fee for the services performed. Income from servicing activities was recognized as services were performed.

Under Argentine GAAP, the Company recognizes a result on the sale of receivables when the carrying value of transferred receivables differs from the amount of cash, TDFs and CPs received. Results recognized on the sale of receivables are reported as a component of Net (loss) income from retained interest in securitized receivables in the accompanying statements of income. Cash reserves are stated at cost and are classified within the caption Other receivables and prepaid expenses in the accompanying consolidated balance sheets. TDFs are valued at amortized costs and CPs are carried at their equity value based on financial statements issued by the trusts. TDFs and CPs are classified as investments in the accompanying consolidated balance sheets. Certain expenses associated with the securitization of receivables are capitalized and amortized over the term of the agreements.

Under US GAAP, the Company applies Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ( SFAS No. 140 ). SFAS No. 140 requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered. The proceeds of securitized financial assets are allocated to the assets sold, the servicing asset or liability and retained interest, based on their relative estimated fair values at the transfer date in determining the gain on the securitization transaction. SFAS No. 140 also requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service financial assets that have been securitized and amortize it over the period of estimated net servicing income or loss. As of June 30, 2008 the Company has recognized a servicing liability of Ps. 8.2 million due to the fact that Tarshop, resigned its right to collect the fee from the Trusts as compensation for the administration services of the credit card and personal loans receivables which met the requirements for sale accounting.

The retained interests in mortgage and credit card receivables are treated as debt securities classified as available-for-sale in accordance with SFAS No. 115 and are carried at fair value. At the time of securitization, the retained interest is initially recorded at the basis allocated in accordance with SFAS No. 140. This original cost basis is periodically adjusted to fair value, which is based on the discounted anticipated future cash flows on a cash out basis. The cash out method projects cash collections to be received only after all amounts owed to investors have been paid. Adjustments to fair value (net of related deferred income taxes) are recorded as a component of other comprehensive income. SFAS

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No. 115 also states that for individual securities classified as available-for-sale an enterprise shall determine whether a decline in fair value below the amortized cost basis is other than temporary. In such event, accumulated unrealized losses included in other comprehensive income shall be reclassified into the statement of income. Cash reserves are considered retained interests and as such they are considered in calculating the gain or loss on the sale of receivables under US GAAP.

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**28. Differences between Argentine GAAP and US GAAP (continued)****(f) Securitization accounting (continued)**

Provided below is an analysis of the securitization accounting adjustments, including a description of each significant component, where appropriate.

The US GAAP adjustments affecting shareholders' equity at June 30, 2008 and 2007 are as follows:

	<b>2008</b>	<b>2007</b>
Equity value as reported under Argentine GAAP (i) (ii)	Ps. 155,546	Ps. 74,145
Less: retained interests related to securitization programs that did not qualify as a sale under US GAAP	(50,893)	(14,379)
Equity value reported under Argentine GAAP of retained interests related to securitization programs that qualified as a sale under US GAAP (i)	Ps. 104,653	Ps. 59,766
Estimated fair market value of retained interests related to securitization programs that qualified as a sale under US GAAP	104,000	63,127
<b>US GAAP adjustment</b>	<b>Ps. (653)</b>	<b>Ps. 3,361</b>

(i) For the year ended June 30, 2008, under Argentine GAAP, the Company recognized an impairment loss to value the retained interests at fair value.

(ii) Excludes certificates under liquidation process (Ps. 1.9 million)

The US GAAP adjustments affecting net income as reported under Argentine GAAP for the years ended June 30, 2008, 2007 and 2006 are as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Reversal of results recognized under Argentine GAAP	Ps. 25,187	Ps. 3,394	Ps. 1,150
Recognition of results under US GAAP	(3,868)	(1,293)	(7,889)
Reclassification of unrealized losses (ii)	(16,864)		
<b>US GAAP adjustment</b>	<b>Ps. 4,455</b>	<b>Ps. 2,101</b>	<b>Ps. (6,739)</b>

- (ii) As provided by FAS 115, the Company determined that the decline in fair value below amortized cost is other-than-temporary. As such, the Company recognized an impairment loss of Ps. 24.0 million partially compensated by the recognition of the gain previously recorded in OCI for the year ended June 30, 2007 for Ps. 16.9 million.

Regarding receivables transferred in connection with the Company's securitization programs that qualified for sale treatment under US GAAP, neither the Company nor the trustee have responsibility over any shortfall or failure in collecting the receivables which are the source of cash payment for the TDF holders. Furthermore, the agreements relating to the securitization stipulate that the rights of the beneficiaries (TDF holders) will not be affected by any financial or liquidity failure of either the trustee or the Company. The agreements also state that the transfer qualifies as a non-recourse transfer of receivables since if receivables are not collected in full, neither the trustee nor the Company is obligated to use its own cash flows to cover any potential shortfall or collection failure.

During the years ended June 30, 2008, 2007 and 2006 proceeds from securitization programs were Ps. 589.4 million, 363.7 million and Ps. 193.9 million, respectively.



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**28. Differences between Argentine GAAP and US GAAP (continued)****(f) Securitization accounting (continued)**

The following summarizes the changes in the balance of the Company's retained interest under US GAAP for the years ended June 30, 2008, 2007 and 2006:

	Cost	Estimated Unrealized (loss) gain (i)	Fair value (ii)
<b>Balance at June 30, 2005</b>	Ps. 23,486	Ps. 3,602	Ps. 27,088
Increase in retained interest	10,833		10,833
Liquidation of retained interest	(11,999)		(11,999)
Unrealized loss		4,279	4,279
<b>Balance at June 30, 2006</b>	Ps. 22,320	Ps. 7,881	Ps. 30,201
Increase in retained interest	39,062		39,062
Liquidation of retained interest	(6,725)		(6,725)
Unrealized loss		589	589
<b>Balance at June 30, 2007</b>	Ps. 54,657	Ps. 8,470	Ps. 63,127
Increase in retained interest	69,134		69,134
Liquidation of retained interest	(2,927)		(2,927)
Unrealized gain/(loss)		(25,334)	(25,334)
Reclassifications of unrealized losses	(16,864)	16,864	
<b>Balance at June 30, 2008</b>	Ps. 104,000	Ps.	Ps. 104,000

(i) Unrealized gains for the years ended June 30, 2005, 2006 and 2007 were included as a component of Accumulated Other Comprehensive Income in shareholders' equity.

(ii) Unrealized losses for the year ended June 30, 2008 were included in earnings (losses).

As of June 30, 2007 and 2006, the gross net unrealized gain has been offset by a deferred tax loss of Ps 2,965, and Ps. 2,758, respectively.

The key economic assumptions used in measuring the fair value of retained interests at the time of and subsequent to a securitization are the estimated cash flows and the discount rate. The estimated cash flows have been discounted at rates that include charges for losses. The valuation models use information deriving from or that can be observed with market data.

The fair value is more accurately reflected through a quoted market price, if available. If a quoted market price is not available, fair value will be based on the quoted market price of a financial instrument with similar characteristics, the present value of estimated future cash flows or other valuation techniques, which are significantly affected by the assumptions used.

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The following represents the sensitivity of the current fair value of retained interest in securitizations at June 30, 2008 to changes to key assumptions:

	<b>Impact on fair value of a</b>	
	<b>5% interest rate increase</b>	<b>10% interest rate increase</b>
<b>Discount rate</b>	Ps. (1,828)	Ps. (6,542)

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. The Company's managed mortgage and credit card receivables consist of retained interests in mortgage and credit card receivable securitizations and investor's share of securitizations sold to unrelated parties without recourse. The Company records its retained interests in mortgage and credit card receivables securitizations on the consolidated balance sheet.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(g.1) Differences in basis relating to purchase accounting**

The reconciling item of Ps. 48.2 million relates to various adjustments related to purchase accounting for business combinations which occurred prior to 2005 resulting in a difference between the amount of goodwill recorded under Argentine GAAP and US GAAP.

In addition, as discussed in Note 3.g, under Argentine GAAP, the Company followed the guidance in RT No. 18 in accounting for business combination. The purchase price was allocated based on the fair value of each component. A portion of the purchase price was allocated to tangible assets considering the value of the property as if it were vacant. In addition, a portion of the purchase price was allocated to below-market leases and in-place leases. No customer relationships were identified as part of the place leases. For the acquisitions of Empalme, the remaining 33% interest in Palermo Invest, and Bouchard 551 and Dock del Plata buildings consummated during the year ended June 30, 2007, the sum of the individual fair values of the identifiable tangible and intangible assets exceeded the respective purchase price paid. Under Argentine GAAP, the amount of negative goodwill was fully allocated to reduce the value of intangible assets acquired to zero. The remaining amount of negative goodwill is amortized under the straight-line method over the remaining weighted average useful life at the main tangible assets acquired. Under US GAAP, upon acquisitions of real estate, the Company also assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, and allocates purchase price based on these assessments. There is no difference between US GAAP and Argentine GAAP in the purchase price allocation process. However, under US GAAP, when negative goodwill exists, eligible assets (tangible and intangible) are subject to pro rata reduction. Accordingly, under US GAAP, a liability for below-market leases and intangible assets for in-place leases amounting to Ps. 28.6 million and Ps. 23.0 million, respectively, were recognized. The fair value of below market leases is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis.

Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. There is no USGAAP adjustment to equity for this item. The US GAAP adjustment to net income as described in note 28.I.(g.2) represents the net effect of (i) reversing the amortization of the negative goodwill recorded under Argentine GAAP; (ii) lower depreciation charges on fixed assets under US GAAP, (iii) amortization charges for intangible assets recognized under US GAAP and (iv) amortization of below-market leases.

Also, in 2006 APSA acquired an additional 2.7% in ERSA. Under Argentine GAAP, the unallocated portion of negative goodwill is amortized over the average remaining useful lives of tangible assets acquired, mainly the shopping center property. Under US GAAP, a pro rata reduction was performed following the guidance in SFAS No. 141. This reduction resulted in lower depreciation charges under US GAAP. Since the amortization of negative goodwill under Argentine GAAP equals the lower depreciation charge of the assets acquired under US GAAP (after pro rata reduction), there is no effect in the US GAAP reconciliation.

As further discussed above, due to certain differences in purchase accounting for acquisitions prior to 2005, goodwill under Argentine GAAP differed from goodwill under US GAAP. In addition, amortization of goodwill under US GAAP ceased effective June 30, 2002. Total goodwill under US GAAP as of adoption of FAS 142 was Ps.82.1 million.

Subsequent acquisitions through June 30, 2007 did not generate additional goodwill under either US GAAP or Argentine GAAP. For the year ended June 30, 2008 goodwill under US GAAP increased Ps. 10.0 million due to the acquisitions completed during fiscal year 2008 (see Note 2.g. for details)

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As required by paragraph 26 of SFAS 142, following an acquisition, initial annual goodwill impairment testing should be performed within 12 months of the acquisition date. Therefore, the Company has not yet performed goodwill impairment testing related to the acquisitions completed in 2008 as of June 30, 2008.

In accordance with the requirements of SFAS 142, the Company does not amortize goodwill. SFAS 142 requires the Company to periodically test for goodwill impairment, at least annually, or sooner if evidence of possible impairment arises. The Company performs its annual impairment testing as of June 30, using a two-step process that begins with an estimation of the fair values of the reporting units that have goodwill.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(g.1) Differences in basis relating to purchase accounting (continuing)**

Step 1 of impairment testing consists of determining and comparing the fair value of a reporting unit to the carrying value of the reporting unit. If step 1 is failed for a reporting unit, indicating a potential impairment, the Company is required to complete step 2, which is a more detailed test to calculate the implied fair value of goodwill, and compare that value to the carrying value of the goodwill. If the carrying value of goodwill exceeds its implied fair value, an impairment loss is required to be recorded.

The Company performed step 1 impairment tests of recorded goodwill as of June 30, 2008 amounting to Ps. 82.1 (excluding goodwill generated for the fiscal 2008 acquisitions which will be tested after year-end as discussed above). The step 1 tests indicated that the fair values of the reporting units, calculated primarily using discounted expected future cash flows, exceeded their carrying values as of the test dates. Accordingly, step 2 of the impairment tests was not required to be performed for those reporting units, and no impairment charges were necessary.

In addition, the broader stock market has experienced significant price and volume fluctuations in recent months. This volatility has affected the market price of the Company's securities for reasons unrelated to its operating performance. The Company believes that the fact that its market capitalization is trading below book value is not indicative of its operating performance and is not related to its business fundamentals. Moreover, since step 1 of the goodwill impairment test performed as of June 30, 2008 resulted in the fair value of the reporting units being higher for a large percentage than the respective carrying values, the Company believes an interim impairment testing of goodwill is not necessary. The Company continues to monitor current market conditions, which may trigger interim impairment testing analysis at any given point in time.

**(g.2) Purchase accounting - Amortization and depreciation expense**

This reconciling item includes adjustments related to purchase accounting for business combinations which occurred prior to 2005 resulting in a difference between the amount of goodwill recorded under Argentine GAAP and US GAAP. The differences in the carrying amount of goodwill between Argentine GAAP and US GAAP of Ps. 48.2 million gave rise to differences in amortization expense under US GAAP until June 30, 2002. Effective July 1, 2002, the Company adopted SFAS No. 142 and, as such, discontinued amortization of this goodwill as from that date.

In addition, under Argentine GAAP, goodwill is amortized under the straight-line method generating amortization expense of Ps. 14.4 million for the years ended June 30, 2008, 2007 and 2006. Under US GAAP, amortization expense recorded was reversed for all periods presented.

In addition, the differences in the carrying amount of fixed assets, intangible assets and liabilities (below-market leases) acquired between Argentine GAAP and US GAAP and the reversing of the amortization of the negative goodwill recorded under Argentine GAAP as described above gave rise (i) amortization charges for intangible assets recognized under US GAAP, (ii) higher amortization of deferred revenues (below-market leases), (iii) lower (higher) depreciation charges on fixed assets and (iv) reversing the amortization of the negative goodwill recorded under Argentine GAAP, amounting to a net lower effect of Ps. 0.8 million, Ps. 2.3 million and Ps. (2,7) million during fiscal years 2008, 2007 and 2006, respectively.

**(h) Present-value accounting**

As indicated in Note 3.i., under Argentine GAAP, certain other tax receivables and liabilities are measured at present-values as of year-end. Under US GAAP, present valuing or discounting of these assets and liabilities is precluded.

**(i) Reversal of previously recognized impairment losses**

Under Argentina GAAP previously recognized impairment losses can be reversed. Amounts reversed in 2008, 2007 and 2006 amounted to Ps. 2.7 million, Ps. 2.6 million and Ps. 13.0 million, respectively, given rise to higher depreciation charges under Argentine GAAP. Under US GAAP, reversal of a previously recognized impairment loss is prohibited. When an impairment loss is recognized, the adjusted carrying amount of the asset becomes the new cost basis, which is depreciated over the remaining useful life of the asset. Depreciation expense reversed under US GAAP for the years ended June 30, 2008, 2007 and 2006 amounted to Ps. 4.3 million, Ps. 4.4 million and Ps. 5.6 million, respectively, and are shown netted against the reversal impairment losses under Argentine GAAP.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(j) Accounting for IRSA Convertible Notes**

As discussed in Note 10.a., in November 2002, the Company issued US\$ 100,000 of IRSA Convertible Notes with non-detachable warrants to acquire additional shares of common stock. In accordance with the agreement, the IRSA Convertible Notes are convertible, at any time, at the option of the holder, into a fixed number of common shares. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of the warrant. Under Argentine GAAP purposes, no proceeds were allocated to the conversion feature and non-detachable warrants.

Under US GAAP, the Company applied EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF No. 00-27), which address how a beneficial conversion amount should be measured when an entity issues a convertible instrument that, if converted, will result in the holder receiving common stock and other equity instruments of the issuer, such as warrants to acquire common stock of the issuer. In EITF No. 00-27, the Task Force reached a tentative conclusion that the intrinsic value of the conversion option should be computed based on a comparison of (a) the proceeds of the convertible instrument allocated to the common stock portion of the conversion option and (b) the fair value at the commitment date of the common stock to be received by the holder upon conversion. The excess of (b) over (a) is the intrinsic value of the embedded conversion option that should be recognized by the issuer at the issuance date for the convertible instrument. In EITF No. 00-27 the Task Force also reached a consensus that the Issue 98-5 model should be modified for convertible instruments that have a stated redemption date to require a discount resulting from recording a beneficial conversion option to be accreted from the date of issuance to the stated redemption date of the convertible instrument, regardless of when the earliest conversion date occurs. EITF 00-27 also states that the entire unamortized discount, if any, remaining at the date of conversion should be immediately recognized as interest expense.

As a result of applying EITF 00-27, under US GAAP the Company allocated Ps. 36,191 of the proceeds received, representing the intrinsic value of the embedded beneficial conversion feature at the commitment date, to additional paid-in capital (Ps. 23,524 net of income tax). The resulting debt discount is being recognized as expense over the term of the IRSA Convertible Notes. Upon conversion, warrants are recognized as additional paid-in capital and any unamortized discount is immediately recognized as interest expense. Total discount amortization recognized during the years ended June 30, 2008, 2007 and 2006 totaled Ps. 469 Ps. 2,039 and Ps. 7,338, respectively (included accelerated amortization recognized as a result of conversions made during those years). As IRSA Convertible Notes are denominated in U.S. Dollars, the US GAAP adjustment also includes the elimination of exchange rate differences between the Argentine peso and the U.S. Dollar related to the debt discount. Foreign exchange gain (losses) reversed under US GAAP totaled Ps. (3) Ps. 8 and Ps. (580) during the years ended June 30, 2008, 2007 and 2006, respectively.

During the years ended June 30, 2008, 2007, 2006, 2005 and 2004 the holders of IRSA Convertible Notes for a total amount issued, exercised its conversion rights and, as a result, the Company issued 34,582,162, 16,640,658, 55,961,675, 52,448,952, and 23,734,388 shares of common stock, respectively. Upon conversion, during the years ended June 30, 2008, 2007, 2006, 2005, 2004 and 2003 the Company issued US\$ 18.9 million, US\$ 9.1 million, US\$ 30.5 million, US\$ 28.6 million, US\$ 12.9 million and US\$ 0 million of warrants, of which US\$ 43.1 million, US\$ 7 million, US\$ 12.1 million and US\$ 30.5 million were exercised during fiscal year ended June 30, 2008, 2007, 2006 and 2005, respectively. As a result of the conversions and exercises of warrants, under US GAAP the Company has reclassified in 2008 and 2007 a net amount of Ps. 6,659 and Ps. 1,379, respectively from additional paid-in capital of common stock to additional paid-in capital of warrants. As of June 30, 2008 the remaining balance of IRSA's Convertible Notes have been fully paid.

**(k) Reversal of gain recognized on trouble debt restructuring**

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Under Argentine GAAP, the restructuring of debts occurred in November 2002 was treated as an exchange of debt instruments with substantially different terms. As a result, the Company removed the original loans from the consolidated balance sheet and recognized the new debt instruments at their present value discounted at an 8% market interest rate. Gain on restructuring recorded in fiscal year 2003 amounted to Ps. 36.5 million (Ps. 31.7 million net of related expenses). Under Argentine GAAP the Company also recognized a gain of Ps. 7.6 million from interest expense reductions.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(k) Reversal of gain recognized on trouble debt restructuring (continuing)**

For US GAAP purposes, the restructuring of the debt was accounted for in accordance with SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings ( SFAS 15 ), as the creditors made certain concessions due to the financial difficulties of the Company. SFAS No. 15 requires that a comparison be made between the future cash outflows associated with the new debt instruments (including interest), and the recorded amount of the payables at the time of restructuring. Gain on trouble debt restructuring is only recognized when the carrying amount of the payable at the time of restructuring exceeds the total future cash payments specified by the new debt terms. Since the total future cash outflows associated with the new debt instruments exceeded the carrying value of the old debts, no gain on restructuring was recorded under US GAAP. As a result, the carrying amount of the new debt instruments under US GAAP is greater than the amount recorded under Argentine GAAP and a new effective interest rate was determined, which equates the present value of the future cash payments specified by the new debt instruments with the carrying amount of the old debts. Under US GAAP, expenses incurred in a trouble debt restructuring are recorded in earnings.

As discussed in Note 4.i.(iii) the Company fully paid all of the restructured obligations. Therefore the unrealized gain was fully recognized under USGAAP as of June 30, 2008. The adjustment to interest expense recognized under Argentine GAAP according to the new effective interest rate totaled Ps. 6.9 million, Ps. 3.8 million and Ps. 3.1 million for the years ended June 30, 2008, 2007 and 2006, respectively. As the Company's new debt instruments are denominated in US Dollars, the US GAAP adjustment also includes the recognition of exchange rate differences related to the difference in the carrying amount of the debts. Foreign exchange gains (losses) recorded under US GAAP were not significant for any of the periods presented.

**(l) Accounting for real estate barter transactions**

In the ordinary course of business, the Company enters into certain non-monetary transactions with third parties pursuant to which the Company sells parcels of land held for sale in exchange for cash and/or other real estate properties. See Note 2.g. for details of the transactions.

Under Argentine GAAP, these transactions are recorded based on the fair value of the assets involved and, as a result, a gain or loss is recognized at the time of the exchange. As a result, under Argentine GAAP, the Company recorded gains of Ps. 14,700 and Ps. 44,172 for the years ended June 30, 2008 and June 30, 2006, respectively. No barter transactions were consummated for the year ended June 30, 2007.

Under US GAAP, the Company applied the provisions of Statement of Financial Accounting Standards (SFAS) No. 153, Exchanges of Non-monetary Assets An Amendment of APB Opinion No. 29. SFAS 153 amends APB Opinion No. 29 (Opinion 29), Accounting for Non-monetary Transactions, which was issued in 1973. The amendments made by SFAS 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for non-monetary exchanges of similar productive assets and replaced it with a broader exception for exchanges of non-monetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The provisions in SFAS 153 are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, thus are effective for all non-monetary exchanges entered into by the Company for the years ended on and after June 30, 2006.

Under SFAS 153 the Company determined that all of its barter transactions have commercial substance and therefore the transactions must be measured at fair value.

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In certain barter transactions, the Company does not receive a down payment or receives a down payment which is less than 10% of the sales price. In those cases, the Company follows the deposit method prescribed under FAS 66. Under the deposit method the Company does not recognize profit, nor records a receivable and continues to report the property and related liabilities in its balance sheet even if the liability has been assumed by the buyer. The Company discloses that those items are subject to a sales contract. Therefore, under US GAAP, the gains recognized under Argentine GAAP were reversed.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(l) Accounting for real estate barter transactions (continuing)**

However, for the year ended June 30, 2008, the US GAAP adjustment represents the net effect of (i) the reversal of the Ps. 14.7 million recognized under Argentine GAAP and (ii) the recognition of a gain of Ps. 32.0 million related to a prior year barter transaction which was not completed as originally planned.

This latter transaction dated back to the year ended June 30, 2006 when the Company recognized a gain under Argentine GAAP and reversed it for US GAAP purposes due to not meeting FAS 66 criteria (this reversal forms part of the Ps. 44.2 million reconciling item for 2006). No activity occurred during fiscal year 2007. In fiscal year 2008, this transaction was completed by the counterparty surrendering cash in lieu of the future real estate property. Thus the Company recognized the gain on consummation of this transaction in 2008.

Prior to the adoption of SFAS No. 153, under US GAAP, the Company applied the provisions APB Opinion No. 29, Accounting for Non-monetary Transactions ( APB 29 ). APB 29 stated that exchanges of real estate held for sale in the ordinary course of business in exchange for real estate to be sold in the same line of business are transactions not resulting in a culmination of the earnings process (referred to as like-kind exchanges). The recognition of gain on like-kind exchanges depends on whether monetary consideration is received and, if so, how much. If no monetary consideration is involved in the exchange, the property received is recorded at the book value of the property given up and no gain is recorded in the exchange. If monetary consideration is involved in the exchange, the recognition of gain depends on whether the amount of the monetary consideration is less than 25% of the fair value of the exchange. When monetary consideration is less than 25%, the Company should recognize a portion of any gain on the transaction in the ratio of cash received to total consideration (cash plus fair value of the asset received). If monetary consideration is 25% or more of the exchange, the transaction should be allocated between the monetary and nonmonetary component based on the relative fair values of the components at the time of the transaction. Any loss on the exchange should be recognized immediately.

Under US GAAP the barter transactions entered into by the Company prior to July 1, 2005 were accounted for as follows:

The Company recorded the exchange of Cruceros in 2004 at its fair market value since the Company incurred a loss of Ps. 763 in the exchange. As a result no difference existed in accounting for this transaction between Argentine and US GAAP.

In connection with the exchange of Benavidez in 2004, as monetary consideration represented less than 25% of the fair value of the exchange, the Company recognized a pro-rata gain amounting to Ps. 226. As a result, the US GAAP adjustment represents the partial reversal of the gain recognized under Argentine GAAP amounting to Ps. 907.

The Company recorded the exchange of plot 1c) of Dique III in 2005 at the book value of the land given up, thus not recording any gain on the exchange. As a result, the US GAAP adjustment represents the reversal of the gain recognized under Argentine GAAP amounting to Ps. 14,985 in fiscal year ended June 30, 2007.

**(m) Reversal of the gain from valuation of inventories at net realizable value**

In the ordinary course of business, the Company may enter into promissory sales contracts to sell housing units for which the respective transfer title deeds have not been consummated at year-end. However, as the Company received advance payments fixing the sales prices and the terms

and conditions of the contracts provide reasonable assurance of the closing of the transaction and the realization of the gain, under Argentine GAAP the Company valued these inventories at net realizable value. Under US GAAP, inventories are valued at cost. As such, the US GAAP adjustment represents the net effect of (i) reversal of the gain recognized under Argentine GAAP in 2008, 2007 and 2006 for non consummated transactions and the (ii) recognition of the gain under US GAAP from deeds executed in 2008, 2007 and 2006. In addition in 2006 the Company recognized an exchange gain difference in connection with the receivable recorded under Argentine GAAP in an amount of Ps. 1,741, which under US GAAP was reversed and recognized in 2007 together with the sale of the property.

**(n) Appraisal revaluation of fixed assets**

Under Argentine GAAP, APSA recognized a parcel of land acquired prior to June 30, 1986 at its appraised value as of such date. This appraisal increased the carrying value of the land by Ps. 4.0 million. Under US GAAP, this parcel of land was recorded at original cost.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(o) Amortization of fees related to Series II of APSA Non Convertible Notes**

Under Argentine GAAP, fees and expenses relating to Serie II of APSA Non Convertible Notes are amortized on a straight-line method over the term of the agreement. Under US GAAP, following SFAS No. 91 such costs are amortized over the same period using the effective interest method. Since the issuance of the APSA Non- Convertible Notes occurred in May 2007, the amount of the adjustment for the year ended June 30, 2007 was not significant.

**(p) Software developed or obtained for internal use**

Under Argentine GAAP, the Company capitalized certain costs related to software developed as obtained for internal use, which would be expensed under US GAAP pursuant to the provisions of Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1). The US GAAP adjustment for the year 2006, 2007 and 2008 represents the effect net of (i) expenses such costs and (ii) reversal of depreciation charges previously capitalized costs under Argentine GAAP and expenses under US GAAP.

**(q) Accounting for increasing rate debt**

The syndicated loan discussed in Note 4.i.(iv), accrued interest at a fixed rate of 7.875% per annum during the first year and Encuesta variable rate plus 3% thereafter. The outstanding balance of the syndicated loan was fully paid in April 2007. Under Argentine GAAP, interest was recognized based on the interest rate applicable to each interest period. Under US GAAP, the Company followed the guidance in EITF 86-15, Increasing Rate Debt. In EITF 86-15, the Task Force reached a consensus that the borrower's periodic interest cost should be determined using the interest method based on the estimated outstanding term of the debt. This loan was paid April 5, 2007

**(r) Reversal of capitalized foreign exchange differences**

Under Argentine GAAP, the Company capitalized financial costs comprising of interest and foreign exchange differences for the year ended June 30, 2007 and 2008 related to the PAMSA project. The Company did not capitalize any financial costs for the year ended June 30, 2006. Under US GAAP, the Company applied the provisions of Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost (SFAS No. 34), which requires interest capitalization on assets which have a period of time to get them ready for their intended use. Capitalization of foreign exchange differences is not allowed under SFAS No. 34. The US GAAP reconciling item represents the effect of reversing the foreign exchange differences capitalized under Argentine GAAP mainly related to the acquisition and construction of PAMSA for the years ended June 30, 2007 and capitalizing interest in the year ended June 30, 2008 for an amount of Ps. 0.4 million and Ps. 5.8 million, respectively.

**(s) Debtor's accounting for a modification of APSA convertible debt instruments**

As indicated in Note 4.i.(ii), in August 2002 APSA issued US\$ 50,000 of Convertible Notes. Under US GAAP, the Company applied APB 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants, which requires that no portion of the proceeds be allocated to the conversion feature if the convertible debt securities are convertible into common stock of the issuer at a specified price at the option of the holder and are sold at a price or have a value at issuance not significantly in excess of the face amount. In considering the accounting treatment

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of the Convertible Notes under US GAAP the Company took account of the guidance provided in EITF 98-5. This regulation, EITF 98-5, requires that embedded beneficial conversion features present in convertible securities be valued separately at issuance when the non-detachable conversion feature is in-the-money at the commitment date. The embedded beneficial conversion feature should be recognized and measured by allocating to additional paid-in capital a portion of the proceeds equal to the intrinsic value of that feature. That amount is calculated at the commitment date as the difference between the conversion price and the fair value of the common stock or other securities into which the security is convertible, multiplied by the number of shares into which the security is convertible (intrinsic value). As a result of the analysis the Company performed, no proceeds were allocated to the embedded conversion feature since it was out-the-money at the commitment date (i.e. the intrinsic value at the commitment date was zero).

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(s) Debtor's accounting for a modification of APSA convertible debt instruments (continued)**

As discussed in Note 4.i.(ii), the terms of the convertible debt instrument were modified to extend the maturity date through July 19, 2014. Argentine GAAP requires that an exchange of debt instruments with substantially different terms be considered a debt extinguishment and that the old debt instrument be derecognized. Argentine GAAP clarifies that from a debtor's perspective, an exchange of debt instruments between, or a modification of a debt instrument by, a debtor and a creditor shall be deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. The new debt instrument should be initially recorded at fair value and that amount should be used to determine the debt extinguishment gain or loss to be recognized. Fair value should be determined by the present value of the future cash flows to be paid under the terms of the new debt instrument discounted at a rate commensurate with the risks of the debt instrument and time value of money. If it is determined that the original and new debt instruments are not substantially different, then a new effective interest rate is to be determined based on the carrying amount of the original debt instrument and the revised cash flows. Based on the analysis performed, the Company concluded that the instruments were not substantially different and accordingly the old instrument was not derecognized. The outstanding balance was reclassified to non-current in these consolidated financial statements.

Under US GAAP, in November 2006, the EITF reached a final consensus in EITF Issue 06-6 Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments. EITF 06-6 reconsidered the original consensus in Issue 05-7 Accounting for Modification to Conversion Options Embedded in Debt Instruments and Related Issues that the change in fair value of an embedded conversion option should be included in the cash flow analysis under EITF Issue 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments, in determining whether a debt instrument has been modified or extinguished. This Issue considers the accounting for a modification of debt terms (or exchange in debt instruments) when a change in the fair value of an embedded conversion option has occurred or an embedded conversion option has been added or eliminated from the debt instrument. This Issue also amended the guidance in EITF Issue 96-19.

The consensus stipulates that, in evaluating whether a convertible debt instrument has been modified or extinguished, three aspects of the modification (or exchange of debt instruments) must be considered.

1. Change in cash flows: If the change in cash flows as prescribed by the analysis under Issue 96-19 is greater than 10% of the carrying value of the original debt instrument, the modification (or exchange of debt instruments) should be accounted for as an extinguishment. This test would not include any changes in fair value to the embedded conversion option.
2. Change in fair value of the embedded conversion option: If the change in the fair value of the embedded conversion option is greater than 10% of the carrying value of the original debt instrument immediately before the change (or exchange of debt instruments), the modification (or exchange) should be accounted for as an extinguishment.
3. Addition or removal of an embedded conversion option: The addition or removal of a substantive conversion option would automatically result in extinguishment accounting. Whether an embedded conversion option is substantive would be assessed as of the modification date and would be based on the definition of substantive in EITF Issue 05-1, Accounting for the Conversion of an

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### Instrument That Becomes Convertible upon the Issuer's Exercise of a Call Option.

Any one of the three criteria needs to be met to account for the modification of the debt instrument (or exchange of debt instruments) as an extinguishment. When the result of the three-pronged evaluation above results in a conclusion that a convertible debt instrument has been modified (and not extinguished), the Task Force affirmed as a final consensus that any increase in the fair value of the embedded conversion option should reduce the carrying value of the debt instrument (with a corresponding increase to additional paid-in capital), but any decrease in the fair value of the embedded conversion option is ignored.

Based on the analysis performed, neither of criteria 1, 2 or 3 above are met. Accordingly, the change of the debt instrument has not been accounted for as an extinguishment. Thus, the increase in the fair value of the conversion option reduced the carrying value of the debt instrument with a corresponding increase to additional paid-in-capital. This resulted in an increase in interest expense prospectively.



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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(t) Revenue recognition**

**Cumulative effect of the initial application of SAB No. 108**

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB No. 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provides guidance on quantifying financial statement misstatements. SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

SAB No. 108 was effective for the Company for the year ended June 30, 2007. Traditionally, there have been two widely recognized methods for quantifying the effects of financial statement misstatements: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. Prior to the Company's application of the guidance in SAB No. 108, the Company's management used the roll-over method for quantifying financial statement misstatements both for Argentine GAAP and US GAAP purposes.

In SAB No. 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it requires quantification of errors under both the iron curtain and the roll-over methods.

SAB No. 108 permitted existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of retained earnings. For the year ended June 30, 2007, under US GAAP, the Company elected to record the effects of applying SAB No. 108 using the cumulative effect transition method. The Company's management previously quantified these errors under the roll-over method and concluded that they were immaterial.

The total amount of the misstatements that have been corrected as of the date of adoption of SAB 108 (July 1, 2006) was Ps. (10.7) million (excluding the effects for minority interest and deferred income taxes amounting to Ps. 3.3 million and Ps. 3.6 million, respectively) and was related to the US GAAP adjustments for (i) deferred insurance and fees revenues; (ii) deferred commissions; and (iii) scheduled rent increases, further detailed below.

For purposes of the presentation for the year ended June 30, 2008, the Company has included the cumulative effect of these adjustments as part of the respective US GAAP adjustments described in Notes 28.I.(t.3), 28.I.(t.1) and 28.I.(t.2), respectively. The related effects for minority interest and deferred income taxes have also been included as part of the US GAAP adjustments described in Notes 28.I. (v). and 28.I.(u), respectively.

**(t.1) Deferred commissions**

Under Argentine GAAP, lease commissions earned are recognized at the time a transaction is successfully completed. A transaction is considered successfully concluded when both parties have signed the related lease contract. Upon adoption of SAB 108, (July 1, 2006), under US GAAP, lease commissions are deferred and amortized to income over the term of the respective leases. The US GAAP adjustment to equity

also includes the portion of the total cumulative effect of the initial application of SAB 108 related to this reconciling item.

**(t.2) Scheduled rent increases**

Under Argentine GAAP, revenue from non-cancelable leases subject to rent escalation clauses is recognized when the escalated payment is due rather than recognizing the effects of the scheduled rent increases under the straight-line method over the lease term. Upon adoption of SAB 108, (July 1, 2006), under US GAAP, the Company applied the provisions of SFAS No. 13 and FTB 85-3 and accordingly, recognized escalated rental revenue under the straight-line method over the term of the leases. The US GAAP adjustment to equity also includes the portion of the total cumulative effect of the initial application of SAB 108 related to this reconciling item.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(t.2) Scheduled rent increases (continued)**

In the determination of the US GAAP adjustment, the Company considered the definition of lease term in paragraph 5(f) of FAS 13. All lease agreements are cancelable pursuant to Law 23,091 as amended by Law 24,808. This law provides that after an initial six-month period tenants may rescind commercial lease agreements upon 60 days' written notice by incurring non-significant monetary penalties (cancellations are subject to one-and-a-half month's rent if rescinded during the first year of the lease and one month's rent if rescinded after the first year of the lease).

Paragraph 5(f) of FAS 13 provides that a lease that is cancelable (a) only upon the occurrence of some remote contingency, (b) only with the permission of the lessor, (c) only if the lessee enters into a new lease with the same lessor or (d) only if the lessee incurs a penalty in such amount that continuation of the lease appears, at inception, reasonably assured shall be considered noncancelable for purposes of this definition.

Based on the provisions of paragraph 5(f) of FAS 13, the Company concluded that, even though the lease are cancelable, lessees would incur significant economic penalties if these agreements were to be rescinded prior to maturity. The Company considered that these economic penalties are of such an amount that continuation of the lease agreements by lessees appear to be reasonably assured at the inception of the respective agreements.

The Company reached this conclusion based on the factors mentioned in paragraph 5(o) of FAS 13, including (i) the geographical location and accessibility of the Company's properties; (ii) the nature and tenure of tenants, (iii) limited availability of identical space in certain neighborhoods; (iv) the tenants' brand image and other competitive considerations; (v) tenants' significant expenses in renovation, maintenance and improvements

The Company believes that all of the above mentioned factors represent significant non-contractual penalties for the lessees which support the Company's view that it is reasonably assured at the inception of lease agreements that such leases will not be rescinded prior to maturity even though they are cancelable as permitted by law.

**(t.3) Deferred revenues insurance & fees**

Under Argentine GAAP, the Company, accounts for revenues from life and disability insurance and origination fees on an up-front basis. Upon adoption of SAB 108, (July 1, 2006), under US GAAP, life and disability insurance and origination fees are recognized to income on a straight-line basis over the term of the respective receivables. The US GAAP adjustment to equity also includes the portion of the total cumulative effect of the initial application of SAB 108 related to this reconciling item.

**(u) Deferred income tax**

The Company accounts for income taxes using the liability method under both Argentine GAAP and US GAAP. Argentine GAAP is similar to the guidance in SFAS No. 109 Accounting for Income Taxes. However, as discussed in Note 2.e, following CNV Resolutions 485 and 487, the Company elected to continue treating the differences between book basis and inflation-adjusted basis of non-monetary balance sheet items as permanent for deferred income tax calculation purposes.

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Under US GAAP, the Company applies EITF 93-9, Application of FASB Statement No.109 in Foreign Financial Statements Restated for General Price-Level Changes , which requires such differences to be treated as temporary differences in calculating deferred income taxes.

In addition, the US GAAP adjustment includes the effect on deferred income taxes of the foregoing reconciling items, as appropriate.

**(v) Minority interest**

This adjustment represents the effect on minority interest of the reconciling items, as appropriate.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(w) Adoption of FIN 48, accounting for uncertainty in income taxes an interpretation of FASB statement no. 109**

On July 1, 2007, the company adopted FASB interpretation no. 48, accounting for uncertainty in income taxes an interpretation of FASB statement no. 109 (FIN 48). FIN 48 addresses the accounting and disclosure of uncertain tax positions. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for a position in accordance with FIN 48 and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit.

The adoption of FIN 48 did not result in an increase to the net liability for unrecognized tax benefits.

The total amount of unrecognized tax benefits as of the adoption of FIN 48 at July 1, 2007, was not significant. The company classified unrecognized tax benefits not expected to be paid in the next 12 months in other non-current liabilities.

The company's principal taxable jurisdiction is Argentina. At any point in time, the company may have tax audits underway at various stages of completion. The company evaluates the tax positions and establishes liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained, despite the company's belief that the underlying tax positions are fully supportable. Uncertain tax positions are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law, and closing of statute of limitations. Such adjustments are reflected in the tax provision as appropriate.

The Company has tax years open ranging from 2003 and forward. The Company is generally not able to reliably estimate the ultimate settlement amounts until the close of an audit.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

*II. Additional disclosure requirements*

**(a) Balance sheet classification differences**

Under Argentine GAAP, assets and liabilities are classified as current or non-current depending on their respective settlement dates. Under US GAAP, balance sheets of real companies generally do not present a classified balance sheet.

In addition, under Argentine GAAP the Company has classified the net deferred tax asset as of June 30, 2008 amounting to Ps. 39.0 million and the net deferred tax liability as of June 30, 2007 amounting to Ps. 1.9 million, as follows: Ps. 70.1 million and Ps. 25.4 million as of June 30, 2008 and 2007, respectively, as non-current other receivables and prepaid expenses; and Ps. 31.1 million and Ps. 27.3 million as of June 30, 2008 and 2007, respectively, as non-current taxes payable. Under US GAAP, the classification of deferred taxes is determined by the classification of the asset or liability for financial reporting to which the temporary difference is related. A temporary difference is related to an asset or liability if reduction of the asset or liability causes the temporary difference to reverse. For deferred tax balances not related to an asset or liability for financial reporting (e.g. tax loss carryforwards), the classification is based on the expected realization date. As of June 30, 2008 and 2007, Ps. 24.2 million and Ps. 13.7 million, respectively, would have been classified as current assets, and Ps. 87.7 million and Ps. 21.5 million, respectively, would have been classified as non-current assets. As June 30, 2008 and 2007 Ps. 2.1 million and Ps. 6.4 million, respectively, would have been classified as current liabilities and Ps. 70.9 million and Ps. 30.7 million, respectively, would have been classified as non-current liabilities.

Furthermore, under Argentine GAAP, deferred debt costs are shown as a deduction of the corresponding liability. Under US GAAP, and in accordance with Accounting Principles Board ( APB ) Opinion No. 21, Interest on Receivables and Payables , issue costs should be reported as deferred charges of Ps. 13,382.

As these differences have no effect on net income or on shareholders' equity, no reconciling items are presented for US GAAP purposes.

**(b) Statement of income classification differences**

Should a US GAAP income statement be presented, certain items shown in some line items of the income statement under Argentine GAAP would have to be reclassified to affect other line items. The following reclassifications are intended to present Argentine GAAP numbers using a different criterion of classification under US GAAP. The numbers included below are not US GAAP numbers.

***Revenues***

**Gross vs. net presentation**

As part of the lease agreements, tenants are required to pay their proportionate share of common area maintenance expenses. The Company does not charge any mark up on reimbursable costs. These expenses are incurred and paid by the Company and then passed through to tenants as reimbursable costs.

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Under Argentine GAAP, pass-through expenses, such as these reimbursable costs, are accounted for on a net basis and, as such, excluded from revenues and expenses in the consolidated financial statements. However, Note 29.f shows the total amount of expenses passed through to tenants by expense category with the corresponding offsetting amount therefore having no impact in the consolidated costs of the Company. No amount is shown as revenues.

Under US GAAP, the Company accounts for pass-through revenue and expenses in accordance with Emerging Issues Task Force, or EITF, Issue 01-14, Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred, and include these costs incurred as a component of revenue and as a component of operating expenses in the statement of income. These costs, which are pass-through expenses to tenants included in both revenues and expenses were Ps. 181.2, Ps. 134.4 million and Ps. 107.3 million for the years ended June 30, 2008, 2007 and 2006, respectively. As these expenses are fully reimbursed, without mark-up, by the tenants, there is no impact on operating income, net income, EPS, cash flows or the balance sheet.

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)****(b) Statement of income classification differences (continued)**

Should the EITF 01-14 be applied to the Argentine GAAP income statement, net revenues under Argentine GAAP would have been Ps. 1,265.4 million, Ps. 873.1 million and Ps. 685.0 million for the years ended June 30, 2008, 2007 and 2006, respectively.

***Operating income***

Under US GAAP, certain income and expense items included in the Argentine GAAP financial statements of the Company within Other expenses, net would have been included in the determination of operating income. In addition, under Argentine GAAP, the recovery of certain allowances and provisions has been included within Other expenses, net. Under US GAAP, such items would have been classified as a reversal to the amounts in the line items which were originally recorded.

Should certain other expenses, financial results and the recovery of allowances and provisions be reclassified into/out of operating income, as applicable, operating income under Argentine GAAP would have been Ps. 263.3 million, Ps. 201.3 million, and Ps. 194.7 million for the years ended June 30, 2008, 2007 and 2006, respectively.

**(c) Maturities of long-term debt**

Aggregate annual maturities during the next years (excluding current portion and capitalized costs of issuance of debt See Note 28.II.(a)), as of June 30, 2008, are as follows:

2010	Ps. 102,108
2011	64,309
2012	64,309
Thereafter 2013	900,311
	Ps. 1,131,037

(1) Not including deferred debt issuance costs in the amount of Ps. 11,310.

**(d) Operating leases**

This note discloses operating leases information of the Company and its controlled and jointly controlled subsidiaries:

- *Operating lease information:*



Leases and services from office and other buildings

The Company enters into cancelable commercial leases with its tenants for terms ranging from three to five years, with most leases having terms of no more than 5 years. Tenants are charged a base rent on a monthly basis. No contingent rentals were recorded for the years ended June 30, 2008, 2007 and 2006.

Leases and services from shopping center operations

The Company enters into cancelable commercial leases with its tenants for terms ranging from three to ten years, with most leases having terms of no more than five years. Tenants are generally charged a rent, which consists of the higher of (i) the base rent and (ii) the percentage rent (which generally ranges between 4% and 10% of the tenants sales). Furthermore, pursuant to the rent escalation clause in most leases, a tenant's base rent generally increases between 7% and 12% each year during the term of the lease. Included in lease revenues for the years ended June 30, 2008, 2007 and 2006 were contingent rentals of P.s 73.3 million, Ps. 51.9 million and Ps. 40.9 million, respectively. Even though the leases are cancelable by law, the Company considered them to be non-cancelable for these purposes. See Note 28.I.(t.2). for more information as to how the Company considered this definition.

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**28. Differences between Argentine GAAP and US GAAP (continued)****(d) Operating leases (leases)**

Minimum future rentals on cancelable leases as of June 30, 2008 for each of the five succeeding fiscal years are as follows:

2009	Ps. 180,711
2010	114,539
2011	48,933
2012	13,000
Thereafter 2013	14,401
	Ps. 371,584

**(e) Disclosure of related parties transactions**

The following additional disclosures of transactions with related parties are required under US GAAP:

- **Acquisition of IRSA Units by Cresud:** During November and December 2002, Cresud purchased 49.7 million Convertible Notes issued by us and during July and November 2003, Cresud purchased an additional 0.25 million Convertible Notes.

In May 2004 Cresud decided to exercise their option to convert 5.0 million aggregate principal amount of our Convertible Notes. As a result of this conversion, Cresud has received 9.2 million of our common shares.

In July 2004, Cresud purchased 0.35 million of convertible notes issued by us for US\$ 0.5 million.

On September 30, 2004, Cresud exercised 5.0 million of our Warrants for 9.2 ordinary shares at a total cost of US\$ 6 million.

In February 2006 and April 2006, Cresud purchased 5.0 million and 16.0 million of convertible notes issued by us for 9.2 million and 29.3 million ordinary shares.

In April 2006, Cresud converted 16.0 million of convertible notes issued by us for 29.3 million ordinary shares.

Between June 2007 and November 2007, 12.0 million convertible notes were exercised. In addition Cresud incremented its participation in the Company by acquisitions in the market.

As of June 30, 2008 Cresud owned 38.4% of our common shares

- **Donations:** For the years ended June 30, 2008, 2007, and 2006, the Company made unconditional promises to give money to two not-for-profit organizations, namely *Fundación IRSA* and *Museo de los Niños*, amounting Ps.4.8 million, Ps. 2.5 million and Ps. 4.3 million, respectively. Unconditional promises are paid in the subsequent year. A director and shareholder of the Company is the President of these organizations.

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- Lease agreements: Our principal executive offices are located at Bolívar 108, in the City of Buenos Aires. In the past we subleased a portion of our headquarters from Consultores Assets Management S.A. (formerly Dolphin Fund Management) pursuant to two lease agreements dated June 30, 1997. As of November 25, 2003 Dolphin Fund Management S.A has spun off in two companies. One of them is Consultores Assets Management S.A. and the other remains as Dolphin Fund Management S.A. In respect of Consultores Assets Management S.A., Eduardo Elsztain is the owner of 100% of its capital stock. Consultores Assets Management S.A. (formerly Dolphin Fund Management) leased such offices both from Elsztain e Hijos S.C.A., a company controlled by relatives of Eduardo S. Elsztain, our chairman, and also from Hamonet S.A., a company controlled by Fernando A. Elsztain, our director, and certain of his relatives.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(e) Disclosure of related parties transactions (continued)**

These lease and sublease agreements were cancelled on February, 2004 and a new lease agreement was signed by the Company, APSA, Cresud and Isaac Elsztein e Hijos S.C.A. We have leased our headquarters located in Bolivar 108, City of Buenos Aires pursuant to this agreement since March 2014. This lease has a term of 120 months and rent of Ps. 10.3 is payable monthly. The Company, APSA and Cresud each pay one-third of such rent in an amount of Ps. 3.4 each.

- Mutual investment fund: Since 1996, the Company has investments in Dolphin Fund Plc, an open ended investment fund which is related to the Company's directors. These investments are carried at market value as of year-end, with unrealized gains reported in earnings within Financial results, net in the accompanying consolidated statements of income.

The Company recognized net (loss) gains of Ps. (37.8) million; Ps. 46.8 million and Ps. 0.0 million for the years ended June 30, 2008, 2007 and 2006 respectively.

- Corporate services: In order to reduce administrative expenses and to achieve a more efficient allocation of corporate resources, a program for partial operating integration in the areas of Human Resources, Finance, Institutional Relations, Administration, Systems, Insurance, Purchasing, Contracts and Operations, among others, was implemented on June 30, 2003 by the Company, and its subsidiary APSA and Cresud (the Parties). This program was implemented to reduce operating costs by optimizing the individual administrative efficiencies of each Party.

On the basis of this program, the Parties entered into the Exchange of Operating Services Agreement on June 30, 2004, a two-year agreement (being renewed for an equal period of time unless any of the Parties decides to terminate it) by which tasks are performed by one or more Parties for the benefit of one or more other Parties in exchange for a fee to be paid primarily through the provision of services in other areas. Through this agreement, each party continues to maintain its strategies and commercial independence, while increasing operating efficiency.

In the ordinary course of business, the Company shares corporate services (finance, human resources, procurement, internal audit, systems, administration, etc.) with APSA and Cresud under an Exchange of Operating Services Agreement entered into by all three companies in 2004 and amended on August 2008. The Company pays a fee, primarily through the provision of services to the other parties.

- Legal services: During the years ended June 30, 2008, 2007 and 2006, the Company paid the law firm Zang, Bergel & Viñes an aggregate amount of Ps. 3.8 million, Ps. 3.3 million and Ps. 1.9 million, respectively, for legal services. Certain directors or alternative directors of the Company are partners of the law firm and an alternate director of the Company is off counsel of the law firm.

**(f) Disclosure about fair value of financial instruments**

Under Argentine GAAP, there are no specific rules regarding disclosure of fair value of financial instruments.

Under US GAAP, SFAS No. 105 requires reporting entities to disclose certain information about financial instruments with off-balance sheet risk of accounting loss. SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Financial instruments include such items as to cash and cash equivalents and accounts receivable and other instruments. SFAS No. 107 excludes from its

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disclosure requirements lease contracts and various significant assets and liabilities that are not considered to be financial instruments. SFAS No. 119 requires reporting entities to disclose certain information for derivative financial instruments. SFAS No. 133 superseded SFAS No. 105 and SFAS No. 119 and amended SFAS No. 107 to include in SFAS No. 107 the disclosure requirements of credit risk concentrations from SFAS No. 105. See Note 28.II. (g) for details of concentration of credit risk.

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Quoted market prices are used when available. In other cases, fair values are based on estimates using other valuation techniques, such as discounting estimated future cash flows using a rate commensurate with the risks involved or other acceptable methods. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, prepayments, discount rates, and estimates of future cash flows, future expected loss

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(f) Disclosure about fair value of financial instruments (continued)**

experience, and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company's fair values should not be compared to those of other companies.

Under this statement, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amount presented does not represent the underlying value of the Company. For certain assets and liabilities, the information required under this statement is supplemental with additional information relevant to an understanding of the fair value.

The methods and assumptions used to estimate the fair values of each class of financial instruments as of June 30, 2008 and 2007 are as follows:

**Cash and cash equivalents**

The Company considers all highly liquid investments with original maturities of three months or less, consisting of time deposits and mutual funds, to be cash and cash equivalents. The carrying amounts reported in the consolidated balance sheets approximate fair value.

**Marketable securities**

The fair value of marketable securities is based on quoted market prices for those or similar investments. Marketable securities are carried at fair value on the consolidated balance sheet.

**Mortgages and leases receivable, net**

The carrying value of mortgages and lease receivables reported in the consolidated balance sheet approximates its estimated fair value. All amounts that are assumed to be uncollectible within a reasonable time are written off and/or reserved.

**Retained interest in transferred mortgage, credit card and personal loans receivables**

Fair value is estimated by discounting anticipated future cash flows using a discount rate based on specific factors. The anticipated future cash flows are projected on a "cash out" basis to reflect the restriction of cash flows until the investors have been fully paid. As of June 30, 2008 and 2007, the fair value of retained interests in transferred mortgage and credit card receivables totaled Ps. 104.0 million and Ps. 61.6 million, respectively.

**Accounts payable**

The carrying amounts of accounts and notes payable reported in the consolidated balance sheets approximate their fair value.

Short-term debt

The carrying amounts of short-term debt reported in the consolidated balance sheets approximate fair value due to its short-term nature.

Long-term debt (includes current portion of the non-current item)

As of June 30, 2008 and 2007, except for the Convertible Notes issued by IRSA and Non-Convertible Notes of APSA and IRSA, the carrying amounts of long-term debt reported in the consolidated balance sheets approximate their fair value.

The fair value of APSA Convertible Notes was Ps 616.1 million and Ps. 794.3 million at June 30, 2008 and 2007, respectively. Such fair value was determined based on the market price of the shares assuming full conversion of the notes at year-end.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(f) Disclosure about fair value of financial instruments (continued)**

The fair value of IRSA Convertible Notes was Ps. 325.3 million at June 30, 2007. Such fair value was determined based on the market price of the shares assuming full conversion of the notes at year-end plus the estimated fair value of the warrants that should be issued by the Company upon conversion.

The fair value of IRSA Notes (see Note 10) was Ps. 341.7 million, Ps. 441.8 million at June 30, 2008 and 2007, respectively and was determined based on quoted market prices of the notes.

**Other receivables and other liabilities**

The carrying amounts of other receivables and other liabilities reported in the consolidated balance sheets approximate fair value.

**Options and future contracts to purchase foreign currency and metals**

The fair value of the futures contracts is based on the estimated amount at which they could be settled based on future market prices. The fair value of future contracts outstanding at June 30, 2008 and 2007 was Ps. 4.6 million and Ps. (0.13) million. Future contracts are reported at their fair market value on the consolidated balance sheet. There were no future contracts in 2006.

**Seller financings**

The fair value of the seller financings is estimated based on discounted cash flows using rates offered to the Company for debt of the same remaining maturities. The carrying value approximates fair value.

**(g) Credit risk**

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, accounts receivable, and short-term investments.

The Company places its cash and cash equivalents, investments, and other financial instruments with various high credit quality financial institutions, thus mitigating the amount of credit exposure to any one institution. The Company has not experienced any significant losses in such accounts.

The Company's accounts receivable are primarily derived from leases and services from the Company's shopping center and office buildings customers and origination of consumer loans and credit card receivables. The Company is not dependent on any single customer. Accounts receivable derived from leases and services are related to the Company's shopping center operations and rental of office buildings. The Company has not experienced any significant losses resulting from non-performance of any counterparty to the lease contracts.



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Consumer loan and credit card receivables arise primarily under open-end revolving credit accounts used to finance purchases of goods and services offered by the Company's shopping centers, hypermarkets and street stores, and financing and lending activities through the Company's indirect subsidiary Tarshop. These accounts have various billing and payment structures, including varying minimum payment levels and finance charge rates. The Company provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns and management judgment. Due to the current credit crisis and other conditions, some customers experienced delays in payments and also uncollectibility rates increased during the year ended June 30, 2008 and thereafter. As of June 30, 2008, the allowance for doubtful accounts increased Ps. 45.9 million, or 223.2 % as compared to June 30, 2007, which reflects current economic conditions and recent delinquency trends. As of September 30, 2008 the allowance for doubtful accounts increased Ps. 17.2 million, or 25.9% as compared to June 30, 2008, reflecting weakening economic environment affecting consumers and card members delinquencies and charge-offs. The Company is closely monitoring the delays, delinquency and uncollectibility rates.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(g) Credit risk (continued)**

As discussed in Note 16, as of June 30, 2008, the Company sold receivables aggregating Ps. 1,440.2 million through securitization programs outstanding, for which the Company's credit risk exposure is contractually limited to the subordinated CPs held by the Company representing Ps. 156.8 million and Ps. 19.4 million escrow reserves for losses. As of September 30, 2008, the Company's credit risk exposure is contractually limited to the subordinated CPs held by the Company representing Ps. 161.2 million and Ps. 17.9 million escrow reserves for losses. Due to the factors mentioned above, the Company has recorded an other-than-temporary impairment charge of Ps. 12.0 million to the CPs to reflect current fair value. For the three months ended September 30, 2008, no additional impairment charge related to the retained interests in securitized receivables was necessary.

**(h) Recently issued accounting pronouncements**

In September 2006, the FASB issued SFAS No. 157 ( SFAS 157 ), Fair Value Measurements. This statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The key changes to current practice are (1) the definition of fair value, which focuses on an exit price rather than an entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions and credit standing and (3) the expanded disclosures about fair value measurements. This statement does not require any new fair value measurements.

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

The FASB has issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 which defers the provisions of SFAS 157 relating to nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, to clarify the provisions of SFAS 157 relating to valuing a financial asset when the market for that asset is not active. This FSP will be effective upon issuance of SFAS 157.

Therefore SFAS 157 will be effective for the Company's year ended June 30, 2009 as it relates to financial assets and liabilities currently recorded or disclosed at fair value and SFAS 157 will be effective for the Company's year ended June 30, 2010 as it relates to non financial assets and liabilities.

The Company has not finalized the assessment of SFAS 157 as it relates to the financial assets and liabilities currently recorded or disclosed at fair value, although is not expected to materially affect how the Company determines fair value, but it may result in certain additional disclosures

In February 2007, the FASB issued SFAS No. 159 ( SFAS 159 ), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments

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and certain other items at fair value. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Therefore SFAS 159 will be effective for the Company's year ended June 30, 2009. The Company has not yet decided whether or not it would elect to measure any of its current eligible financial assets or liabilities at fair value upon adoption.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(f) Recently issued accounting pronouncements (continued)**

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ( SFAS 141R ), Business Combinations. SFAS 141R expands the original guidance's definition of a business. It broadens the fair value measurement and recognition to all assets acquired, liabilities assumed and interests transferred as a result of business combinations. SFAS 141R requires expanded disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore SFAS 141R will be effective for the Company for business combinations made on or after July 1, 2009. While the Company has not yet finalized the full evaluation of potential impact of this statement, the Company expects the adoption of SFAS 141R to have a material effect on the accounting for future acquisitions of businesses and properties.

In December 2007, the FASB issued SFAS No. 160 ( SFAS 160 ), Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. SFAS 160 requires that a noncontrolling interest in an unconsolidated entity be reported as equity and any losses in excess of an unconsolidated entity's equity interest be recorded to the noncontrolling interest. The statement requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS 160 is effective for annual periods beginning after December 15, 2008. Therefore SFAS 160 will be effective for the Company's year ended June 30, 2010 and many provisions will be applied retrospectively. The Company is currently evaluating the impact SFAS 160 will have on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 ( SFAS 161 ), Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged, as amended by FASB Staff Position No. FAS 133-1 and FIN 45-4 (see below) on December 31, 2008. Therefore SFAS 161 will be effective for the Company's year ended June 30, 2010. The Company is currently evaluating the impact SFAS 161 will have to the disclosures included in the consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3 ( FSP FAS 142-3 ), Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal and extension assumptions used to determine the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of assets considered in a business combination. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. Therefore FSP FAS 142-3 will be effective for the Company's year ended June 30, 2010. The Company is currently evaluating the impact FSP FAS 142-3 will have on the consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1 ( FSP APB 14-1 ), Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB 14-1 will require that the initial debt proceeds from the sale of convertible and exchangeable debt instruments be allocated between a liability component and an equity component in a manner that will reflect the effective nonconvertible borrowing rate. The resulting debt discount would be amortized using the effective interest method over the period the debt is expected to be outstanding as additional interest expense. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. Therefore FSP APB 14-1 will be effective for the Company's year ended June 30, 2010 and will require retroactive application. The Company is currently evaluating the impact FSP FAS 142-3 will have on the consolidated financial statements.

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In May 2008, the FASB issued SFAS No. 162 ( SFAS 162 ), The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in presenting financial statements in conformity with generally accepted accounting principles in the United States. The Company believes that the adoption of this standard on its effective date will not have a material effect on the consolidated financial statements.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(h) Recently issued accounting pronouncements (continued)**

In September 2008, the FASB issued FASB Staff Position No. FAS 133-1 and FIN 45-4 ( FSP FAS 133-1 ), Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. FSP FAS 133-1 requires disclosures by sellers of credit derivatives; additional disclosures on current status of payment/performance risk of guarantees and clarified the effective date of SFAS 161. FSP FAS 133-1 is effective for reporting periods (annual or interim) ending after November 15, 2008. Therefore FSP FAS 133-1 will be effective for the Company's year ended June 30, 2010. The Company is currently evaluating the impact FSP FAS 133-1 will have on the consolidated financial statements.

In June 2008, the Emerging Issues Task Force (EITF) of the FASB issued EITF Issue No. 07-5, ( EITF 07-5 ) Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock . This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. Therefore, EITF 07-5 will be effective for the Company's year ended June 30, 2010. The guidance in this Issue shall be applied to outstanding instruments as of the beginning of the fiscal year in which this Issue is initially applied. The cumulative effect of the change in accounting principle shall be recognized as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of this Issue and the amounts recognized in the statement of financial position at initial application of this Issue. The amounts recognized in the statement of financial position as a result of the initial application of this Issue shall be determined based on the amounts that would have been recognized if the guidance in this Issue had been applied from the issuance date of the instrument(s). However, in circumstances in which a previously bifurcated embedded conversion option in a convertible debt instrument no longer meets the bifurcation criteria in Statement 133 at initial application of this Issue, the carrying amount of the liability for the conversion option (that is, its fair value on the date of adoption) shall be reclassified to shareholders' equity. Any debt discount that was recognized when the conversion option was initially bifurcated from the convertible debt instrument shall continue to be amortized. Paragraphs 12 and 13 of this Issue shall not result in a transition adjustment at the effective date because that guidance is consistent with guidance previously contained in Issue 01-6, which is nullified by this Issue. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided. The Company is currently evaluating the impact EITF 07-5 will have on the consolidated financial statements.

In November 2007, the EITF issued EITF Issue No. 07-6, ( EITF 07-6 ) Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, When the Agreement Includes a Buy-Sell Clause . This Issue is effective for new arrangements entered into and assessments performed in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is not permitted. Therefore EITF 07-6 will be effective for the Company's year ended June 30, 2009. For purposes of the transition guidance, assessments are any assessment performed pursuant to Statement 66 after the effective date of this Issue for arrangements accounted for under the deposit, profit-sharing, leasing, or financing methods for reasons other than the existence of a buy-sell clause. The Company is currently evaluating the impact EITF 07-6 will have on the consolidated financial statements.

In September 2008, the FASB issued for comment revisions to SFAS No. 140 ( SFAS 140 ) Transfers of Financial Assets and Extinguishments of Liabilities and FASB Interpretation No. 46, as revised ( FIN 46R ), Consolidation of Variable Interest Entities. The changes proposed include a removal of the scope exemption from FIN 46R for QSPEs, a revision of the current risks and rewards-based FIN 46R consolidation model to a qualitative model based on control and a requirement that consolidation of VIEs be reevaluated on an ongoing basis. Although the revised standards have not yet been finalized, these changes may have a significant impact on the Company's consolidated financial statements as the Company may be required to consolidate QSPEs to which the Company has previously sold assets. In addition, the Company may also be required to consolidate other VIEs that are not currently consolidated based on an analysis under the current FIN 46R consolidation model. The

proposed revisions would be effective for fiscal years that begin after November 15, 2009.

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**28. Differences between Argentine GAAP and US GAAP (continued)****(i) Earnings per share**

As described in Note 3.y., under Argentine GAAP the Company is required to disclose earnings per share information in accordance with RT 18 for all periods presented. Note 18 to the consolidated financial statements disclose the computation of basic and diluted net income per common share under Argentine GAAP. Guidance set forth in RT 18 is similar to the basic principles set forth in SFAS No. 128 Earnings per Share (SFAS No.128) although certain differences exist.

Under US GAAP, basic and diluted earnings per share are presented in conformity with SFAS No. 128.

Under Argentine GAAP, the Company has considered the dilutive effects of outstanding warrants using the if converted method, as applicable. As of the year ended June 30, 2008 the Company does not have any convertible instruments and/or warrants outstanding. Under US GAAP, dilutive options or warrants that are issued during a period or that expire or are cancelled during a period must be included in the weighted average number of shares outstanding for purposes of computing diluted EPS for the period that they were outstanding. Additionally, dilutive options or warrants exercised during the period must be included in the weighted average number of shares outstanding for purposes of computing diluted EPS for the period prior to actual exercise. Thereafter, the shares issued will be included in the weighted average calculation of shares outstanding used for both basic and diluted EPS. Under US GAAP, the Company applied the treasury-stock method as required by US GAAP. Using the treasury-stock method, the weighted-average number of potential common stock would have been 21,195 shares, 95,918 shares and 139,100, for the years ended June 30, 2008, 2007 and 2006, respectively. Diluted net income per common share under Argentine GAAP for the years ended June 30, 2008, 2007 and 2006 using the treasury-stock method, would have been Ps. 0.22, Ps. 0.23 and Ps. 0.24, respectively.

The following tables set forth the computation of basic and diluted net income per common share under US GAAP for all periods presented:

	2008	Year ended June 30, 2007	2006
<b>Numerator:</b>			
Net income available to common shareholders	Ps. 122,116	Ps. 103,222	Ps. 89,946
Plus (less): income (loss) impact of assumed conversions:			
Interest expense on convertible debt	1,214	8,213	19,170
Foreign currency exchange gain on convertible debt	11	46	10,257
Income tax effects	(163)	(716)	(2,366)
Net income available to common shareholders plus assumed conversions	Ps. 123,178	Ps. 110,765	Ps. 117,007
<b>Denominator:</b>			
Weighted-average number of shares outstanding	Ps. 549,277	Ps. 444,904	Ps. 379,506
Plus: incremental shares of assumed conversions:			
Warrants (i)	13,527	49,317	46,985
Convertible Notes	7,668	46,601	92,115
Adjusted weighted-average number of shares	Ps. 570,472	Ps. 540,822	Ps. 518,606



**Earnings per share under US GAAP:**

Basic net income per common share	Ps.	0.222	Ps.	0.23	Ps.	0.24
Diluted net income per common share	Ps.	0.216	Ps.	0.20	Ps.	0.23

(i) Potential common shares related to the warrants have been calculated using the treasury-stock method as required by US GAAP.

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**28. Differences between Argentine GAAP and US GAAP (continued)**

**(j) Risks and uncertainties**

The Company is subject to certain business risks arising in connection with its operations which include, among others:

Risks associated with Argentine operations. A substantial part of the Company's operations and properties are located in Argentina. As a result, the Company financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina.

Risks associated with office and other buildings leases: The Company's lease revenues from its real estate operations may be adversely affected by (i) local or national economic conditions in the areas in which the properties are located, (ii) oversupply of office space or a reduction in demand for such space, (iii) increased competition from other real estate operators, (iv) changes in the ability of the Company or the tenants to provide for adequate maintenance and/or insurance, (v) increases in operating expenses, (vi) adverse changes in the regional or national economy, (vii) the bankruptcy or insolvency of, or a downturn in the business of, any of its major tenants, and/or (viii) the possibility that such tenants will not renew their leases as they expire. Unfavorable economic conditions could also result in the inability of tenants in certain sectors to meet their lease obligations and otherwise could adversely affect the Company's ability to attract and retain desirable tenants.

Risks associated with development properties activities: Include (i) the potential abandonment of development opportunities; (ii) construction costs may exceed the Company's original estimates, possibly making a project uneconomical; (iii) occupancy rates and rents at a newly completed project may be insufficient to make the project profitable; (iv) the Company's inability to obtain financing on favorable terms for the development of the project; (v) construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs; and (vi) the Company's inability to obtain, or the delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations; (vii) preconstruction buyers may default on their purchase contracts or units in new buildings may remain unsold upon completion of constructions. (viii) sales prices for residential units may be insufficient to cover development cost.

Risks associated with the hotel industry. The success of the Company's operated hotels will depend, in large part, upon the Company's ability to compete in areas such as access, location, quality of accommodations, room rate structure, quality and scope of food and beverage facilities and other services and amenities. The Company's hotels may face additional competition if other companies decide to build new hotels or improve their existing hotels such that they are more attractive to potential guests. In addition, the profitability of the Company's hotels depends on (i) the Company's ability to form successful relationships with international operators to run the hotels; (ii) changes in travel patterns, including seasonal changes; and (iii) taxes and governmental regulations which influence or determine wages, prices, interest rates, construction procedures and costs.

Shopping center operating risks: The development, administration and profitability of shopping centers are impacted by various factors including: the accessibility and the attractiveness of the area where the shopping center is located, the intrinsic attractiveness of the shopping center, the flow of people and the level of sales of each shopping center rental unit, increasing competition from internet sales, the amount of rent collected from each shopping center rental unit and the fluctuations in occupancy levels in the shopping centers. In the event that there is an increase in operational costs, caused by inflation or other factors, it could have a material adverse effect on the Company if its tenants are unable to pay their higher rent obligations due to the increase in expenses.

Since May 28, 1997, Law No. 24,808 provides that tenants may rescind commercial lease agreements after the initial six months upon not less than sixty days written notice, subject to penalties of only one-and-a-half months rent if the tenant rescinds during the first year of the lease, and one-month rent if the tenant rescinds after the first year of the lease. The exercise of such rescission rights could materially and adversely affect the Company.

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The Company's property is currently and will continue to be subject to risks incident to the ownership and operation of commercial real estate and residential development properties. The Company's lease sales from its real estate operations may be adversely affected by (i) local or national economic conditions in the areas in which the properties are located; (ii) oversupply of retail space or a reduction in demand for retail space; (iii) increased competition from other real estate operators; (iv) changes in the ability of the Company or the tenants to provide for adequate maintenance and/or insurance; (v) increases in operating expenses; and/or (vi) adverse changes in the regional or national economy. Other risks include the

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)****(j) Risks and uncertainties (continued)**

inability to collect rent due to bankruptcy or insolvency of tenants or otherwise, the need to periodically renovate, repair and release space and the costs thereof and the ability of a tenant to provide adequate maintenance and insurance. In addition, the failure to sell the property to be constructed (General Paz Project, Caballito Project, Coto Residential Project and Rosario Project), could have a material adverse effect on the Company.

An economic downturn in the areas in which the shopping centers are located might adversely affect the Company's sales (through bankruptcy of tenants and reduction in the shopping center sales due to lower variable income). Increases in operating costs due to inflation and other factors may result in some tenants being unable or unwilling to pay rent or expense increases. In addition, the Company has several tenants occupying space in more than one shopping center and, as a result, if any of such tenants should experience financial difficulties and cease paying rent, the Company's operating results could be adversely affected. Furthermore, as leases on properties expire, the Company may be unable to find new tenants or tenants may enter into new leases on terms that are less favorable to the Company. The failure to lease such properties could have a material adverse effect on the Company.

**Credit card operating risks:** Credit card operations are subject to federal legislation and regulation. From time to time, such legislation, as well as competitive conditions, may affect, among other things, credit card finance charges. While the Company cannot predict the effect of future competitive conditions and legislation or the measures the Company might take in response thereto, a significant reduction in the finance charges imposed by Tarshop would have an adverse effect on the Company. In addition, adverse changes in general Argentine economic conditions, including, but not limited to changes in regulations affecting capital market access, market volatility, higher interest rates and increases in delinquencies, charge-offs and personal bankruptcies have a negative effect on the Company.

**(k) Summarized financial information of unconsolidated equity investees**

Equity investments in unconsolidated affiliated companies where the Company exercises significant influence, generally representing between 20% and 50% of the capital stock in such companies, have been accounted for under the equity method.

The Company's share of the income of these affiliates was Ps. 13.2 loss in 2008, Ps. 40.0 million gain in 2007 and Ps. 41.7 million gain in 2006, and its investment in these companies totaled Ps. 318.2 million and Ps. 306.9 million at June 30, 2008 and 2007, respectively.

Summarized financial information in accordance with Central Bank's policies which prescribe the reporting and disclosure requirements for banks and financial institutions in Argentina (Argentine Banking GAAP) of BHSA a significant equity investee (on a 100% basis) is as follows:

	As of and for the year ended June 30,			
	2008		2007	
Current assets	Ps.	(i)	Ps.	(i)
Non-current assets		(i)		(i)

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Total assets	10,572,332	10,167,649
Current liabilities	(i)	(i)
Non-current liabilities	(i)	(i)
Total liabilities	7,887,223	7,423,415
Minority interest	33,375	32,938
Shareholders' equity	Ps. 2,651,734	Ps. 2,711,296

	For the year ended June 30,		
	2008	2007	2006
Revenues	Ps. 696,591	Ps. 882,220	Ps. 733,803
Gross profit	145,898	507,554	321,619
Net income	Ps. (59,562)	Ps. 357,891	Ps. 309,078

(i) Balance sheets of banking entities are unclassified.

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)****(l) Severance indemnities**

Under Argentine law and labor agreements, the Company is required to make minimum severance payments to its dismissed employees without cause and employees leaving its employment in certain other circumstances. Under Argentine GAAP, severance payments are expensed as incurred. Under US GAAP, the Company follows the guidelines established by SFAS No. 112, *Employers' Accounting for Post-employment Benefits*, and SFAS No. 43, *Accounting for Compensated Absences*, which requires the accrual of severance costs if they relate to services already rendered, are related to rights that accumulate or vest, are probable of payment and are reasonably estimable. While the Company expects to make severance payments in the future, it is impossible to estimate the number of employees that will be dismissed without proper cause in the future, if any, and accordingly the Company has not recorded such liability.

**(m) Statements of cash flows classification differences**

The statements of cash flows presented in the primary financial statements are prepared based on Argentine GAAP amounts.

Under Argentine GAAP, the Company considers all short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities of three months or less to be cash equivalents. Under Argentine GAAP, mutual funds are considered to be cash equivalents since original maturity is determined by reference to the frequency with which liquidity is available according to current Argentine GAAP guidance and practice. However, under SFAS No. 95 *Statement of Cash Flows*, the original maturity is determined by reference to the stated term of the security or the timeframe for exercising any put features to the issuer, not by reference to the frequency with which liquidity may be available through an auction, a put feature to a third party, or otherwise.

Therefore, for US GAAP purposes, certain mutual funds are not considered to be cash equivalents. As a result, differences exist between the total amount of the increase or decrease in cash and cash equivalents reported in the primary financial statements and the same totals that would be reported in a statement of cash flows prepared following SFAS 95 provisions.

The following tables set forth the amounts of cash and cash equivalents at the beginning and end of each year and corresponding increases and/or decreases that would be reported in a statement of cash flow following SFAS 95 provisions:

	<b>For the year ended June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Cash and cash equivalents under US GAAP as of the beginning of the year	Ps. 270,416	Ps. 163,940	Ps. 142,589
Cash and cash equivalents under US GAAP as of year-end	384,553	270,416	163,940
Net increase in cash and cash equivalents under US GAAP	Ps. 114,137	Ps. 106,476	Ps. 21,351

Differences exist between cash flows from operating, investing and financing activities reported in the primary financial statements and the cash flows from operating, investing and financing activities that would be reported under SFAS No. 95. Due to the difference in the definition of cash and cash equivalents, cash flows from purchasing and selling of mutual funds would be reported as cash flows from investing activities following SFAS 95 provisions.

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In addition, under Argentine GAAP the effect of exchange rate changes on cash and cash equivalents were not disclosed by presenting a fourth cash flow statement category as required by US GAAP.

The following tables set forth the condensed statements of cash flows prepared in accordance with US GAAP:

	<b>For the year ended June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net cash provided by operating activities	Ps. 362,711	Ps. 111,936	Ps. 192,589
Net cash used in investing activities	(833,536)	(470,318)	(128,687)
Net cash provided by (used in) financing activities	149,145	900,907	(36,767)
Effect of exchange rate changes on cash and cash equivalents	2,161	2,058	(5,784)
<b>Net increase in cash and cash equivalents</b>	<b>Ps. (319,519)</b>	<b>Ps. 544,583</b>	<b>Ps. 21,351</b>

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**28. Differences between Argentine GAAP and US GAAP (continued)****(m) Statements of cash flows classification differences (continued)**

Additionally, under Argentine GAAP, the Company consolidates the accounts of Metroshop S.A., CYRSA and Canteras Natal Crespo S.A. on a pro rata basis. Under US GAAP, proportionate consolidation is not appropriate since the Company does not exercise control over this investment. As a result, differences exist between the amount of cash and cash equivalents reported in the primary financial statements and the amount of cash and cash equivalents that would be reported in a statement of cash flows prepared under US GAAP using Argentine GAAP numbers. For this reason, cash flows from operating, investing and financing activities would be different in a statement of cash flows prepared under US GAAP using Argentine GAAP since each line item would exclude the pro rata equity interest of the accounts of Metroshop S.A., CYRSA and Canteras Natal Crespo S.A.

**(n) Comprehensive income**

On July 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes guidelines for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income represents the change in shareholder's equity of the Company during the period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The adoption of SFAS No. 130 had no impact on total shareholder's equity. The following table summarizes the components of comprehensive income for the years ended June 30, 2008, 2007 and 2006.

	<b>Year ended June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Net income under US GAAP</b>	Ps. 122,116	Ps. 103,222	Ps. 89,946
Other comprehensive income:			
Unrealized (loss) gain on available-for-sale-securities (i)	(27,792)	30,945	4,042
Unrealized (loss) gain on retained interest in transferred mortgage and credit card receivables (ii)	(1,830)	(174)	1,043
Unrealized (loss) gain on available-for-sale-securities of equity investees	(32,958)	16,286	3,544
<b>Comprehensive income</b>	Ps. 59,536	Ps. 150,279	Ps. 98,575

(i) Net of minority interest and income taxes of Ps. 1,611 and Ps. 15,833, respectively, for 2008, Ps. (973) and Ps. (17,187), respectively, for 2007 and Ps. 29 and Ps. 2,192, respectively, for 2006.

(ii) Net of minority interest and income taxes of Ps. 3,676 and Ps. 2,964, respectively, for 2008, Ps. (557) and Ps. (206), respectively, for 2007 and Ps. (1,739) and Ps. (1,498), respectively for 2006.

Accumulated non-owner changes in equity (accumulated other comprehensive income) for the years ended June 30, 2008, 2007 and 2006 were as follows:



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	2008	2007	2006
Unrealized gain on available-for-sale securities	Ps.19,819	Ps.47,611	Ps.16,666
Unrealized gain on retained interest in transferred mortgage and credit card receivables		1,830	2,004
Unrealized gain on available-for-sale-securities on equity investees	13,344	46,302	30,016
<b>Accumulated other comprehensive income</b>	Ps.33,163	Ps.95,743	Ps.48,686

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**28. Differences between Argentine GAAP and US GAAP (continued)****(o) Pro-rata consolidation of Canteras Natal Crespo S.A, Metroshop S.A. and CYRSA**

As discussed in footnote (v) of Note 2.b. under Argentine GAAP the Company consolidates the accounts of Natal Crespo S.A. and CYRSA on a pro-rata basis and also, APSA consolidates Metroshop S.A. on a pro-rata basis. Under US GAAP consolidation is not appropriate since the Company does not exercise control over these subsidiaries.

Presented below is the consolidated condensed information of the Company at June 30, 2008 and 2007 considering Natal Crespo S.A., CYRSA (only for June 30, 2008) and Metroshop S.A. as an equity investee:

	<b>As of and for the year ended June 30, 2008</b>			
	<b>As reported</b>	<b>Eliminations of Metroshop S.A, CYRSA and Natal Crespo S.A. accounts</b>	<b>Inclusion of Metroshop S.A, CYRSA and Natal Crespo S.A. as an equity investee</b>	<b>As adjusted</b>
Current assets	Ps. 893,842	Ps. 7,314	Ps.	Ps. 901,156
Non-current assets	3,578,130	(107,930)	28,204	3,498,404
<b>Total assets</b>	<b>4,471,972</b>	<b>(100,616)</b>	<b>28,204</b>	<b>4,399,560</b>
Current liabilities	742,267	(12,000)		730,267
Non-current liabilities	1,348,812	(60,412)		1,288,400
<b>Total liabilities</b>	<b>2,091,079</b>	<b>(72,412)</b>		<b>2,018,667</b>
Minority interest	456,715	(3,829)	3,829-	456,715
Shareholders equity	1,924,178	(24,375)	24,375	1,924,178
Revenues	1,084,242	(21,965)		1,062,277
Gross profit	594,581	(11,066)		583,515
Net income	Ps. 54,875	Ps. 3,742	Ps. (3,742)	Ps. 54,875

	<b>As of and for the year ended June 30, 2007</b>			
	<b>As reported</b>	<b>Eliminations of Metroshop S.A. and Natal Crespo S.A. accounts</b>	<b>Inclusion of Metroshop S.A. and Natal Crespo S.A. as an equity investee</b>	<b>As adjusted</b>
Current assets	Ps. 1,175,790	Ps. 2,185	Ps.	Ps. 1,177,975
Non-current assets	2,969,109	(6,950)	3,133	2,965,292

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Total assets	4,144,899	(4,765)	3,133	4,143,267
Current liabilities	652,082	(1,632)		650,450
Non-current liabilities	1,395,693			1,395,693
Total liabilities	2,047,775	(1,632)		2,046,143
Minority interest	450,410			450,410
Shareholders' equity	1,646,714			1,646,714
Revenues	738,756	(5,620)		733,136
Gross profit	427,109	(3,606)		423,503
Net income	Ps. 107,097	Ps.	Ps.	Ps. 107,097

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**28. Differences between Argentine GAAP and US GAAP (continued)****(p) Business combinations****1) Fair values of assets and liabilities acquired**

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition for each transaction (in millions):

	<b>Museo Renault</b>	<b>Bank Boston</b>	<b>Mendoza Plaza Shopping</b>
Working capital	0.0	0.0	1.2
Goodwill	3.5	6.5	0.0
Fixed assets	5.0	167.8	4.4
In place leases	0.2	5.8	1.3
Below market leases	0.0	(9.8)	(0.3)
Deferred income tax	1.9	3.5	2.5
<b>Net assets acquired</b>	<b>10.6</b>	<b>173.8</b>	<b>9.1</b>

**2) Acquisition of Museo Renault, Bank Boston and Mendoza Plaza Shopping S.A.**

The following schedule presents 2008 and 2007 supplemental unaudited pro forma information as if the transactions of Museo Renault, Bank Boston and Mendoza Plaza Shopping S.A. had occurred on July 1, 2006. The unaudited pro forma information is presented based on information available, is intended for informational purposes only and is not necessarily indicative of and does not purport to represent what the Company's future financial condition or operating results will be after giving effect to the transactions and does not reflect actions that may be undertaken by management in integrating this business. In addition, this information does not reflect financial and operating benefits the Company expects to realize as a result of the transactions.

The following table summarizes the unaudited pro forma income statement information of the Company for the fiscal years ended 2008 and 2007:

	<b>Year ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Revenues	Ps. 1,086,222	Ps. 756,831
Net income	Ps. 57,880	118,869
Earning per share under Argentine GAAP	Ps. 0.11	0.27

**q) Condensed balance sheet information on equity investees**

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The Company used the equity method of accounting for its investments over which the Company exercises significant influence. As such, these investments were recorded at the amount of the underlying equity in their net assets and adjusted to recognize the Company's share of the undistributed earnings or losses. The Company had a 50% ownership interest in E-commerce Latina S.A as of June 30, 2006. In January 2007, the Company acquired the remaining 50% in E-commerce Latina S.A. The Company gained control of E-commerce Latina S.A. through this acquisition and accordingly the results of operations of E-commerce Latina S.A. were fully consolidated as from the date. The Company's share of the losses of this company was Ps. 0.7 million during the year ended June 30, 2006, and its investment in this company totaled 0.1 million as of that date. Summarized financial information of this affiliate (on a 100% basis) was as follows:

	<b>For the year ended June 30, 2006</b>	
Revenues	Ps.	5,593
Operating loss	Ps.	(1,299)
Net loss	Ps.	(1,358)

As of June 30, 2006 accumulated losses of E-Commerce Latina totaled Ps. 1.4 million. On February 6, 2006 the Extraordinary Shareholders Meeting approved a capital increase for the amount of Ps. 22.0 million through the capitalization of additional paid-in-capital. The Company issued 22,010,575 nominative common stock of Ps. 1 nominal value each and 1 vote per share. As a result, the capital stock increased to Ps. 22.0 million.

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)****(r) Investments in real estate and accumulated depreciation**

The following is a summary of the Company's investments in real estate as of June 30, 2008 prepared in accordance with SEC Regulation S-X 12-28.

	Buildings and Land improvement		Impairment	Improvements	Total buildings and improvements		Accumulated depreciation	Net carrying value as of June 30	Date of construction	Date acquired
Bank	474	187		9	196	670	119	551	June 1996	November 1997
	December 1996- March 1997 and									
Plaza	1				1	1		1	September 1997	November 1997
	679	6,659			6,659	7,338	2,381	4,957	July 1992	March 1992
	651	2,626			2,626	3,277	992	2,285	N/A	July 1994- August 1994
	84,945	75,712			75,712	160,657	5,431	155,226		March, 2007
	39,466	32,994			32,994	72,460	5,155	67,305		May, 2005
									September 1994-	
1	256	1,081			1,081	1,337	354	983	March 1995	June 1994 January 1994
9	7,966	796	(4,662)		796	4,100		4,100		
V	4,260	19,077			19,077	23,337	3,050	20,287	N/A	June 2001
A y ceros	2,967	18,217			18,217	21,184	3,262	17,922	September 1998	March 1997
	14,020	12,924			12,924	26,944	1,290	25,654	N/A	November, 2006
ental	8,672	47,666			47,666	56,338	6,764	49,574		
									October 1973-	
									November 1990-	
	3,027	65,084		6,970	72,054	75,081	38,115	36,966	December 1997	March 1998
	24,973	64,262		30,676	94,938	119,911	10,790	109,121		
Plaza	8,671	89,289		344	89,633	98,304	7,778	90,526	June 1996	November 1997
	6,723	26,790			26,790	33,513	5,171	28,342	N/A	March 1999
	10,228	40,922			40,922	51,150	11,518	39,632	N/A	December 1995

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698	2,787		2,787	3,485	753	2,732	N/A	May 1996
59	234		234	293	16	277		
187	787		787	974	278	696	N/A	December 1995
10,293	42,339	61	42,400	52,693	11,664	41,029	N/A	September 1995
4,943	19,813	8	19,821	24,764	6,319	18,445	June 1995	November 1993
76	258		258	334	65	269	N/A	
Plata	12,494			12,494		12,494	N/A	
								December 1994-
								August 1994-
96	389	(67)	389	418	55	363	March 1995	July 1994
2,547	14,463		14,463	17,010	5,170	11,840	April-June 1994	November 1991

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)**

ella olera 265	89,626	78,418		78,418	168,044	2,581	165,463	N/A	August 2007
useo enault	3,010	2,055		2,055	5,065	95	4,970	N/A	December 2008
ificio epública	111,536	118,374		118,374	229,910	1,143	228,767	N/A	May 2008
oras en urso Dique		9,684	26,703	36,387	36,387		36,387	Under Construction	
opping asto	9,752	251,153	2,167	253,320	263,072	82,100	180,972	November 1998	N/A
opping to lermo	8,694	398,583	22,467	421,050	429,744	251,122	178,622	October 1990	November 1997- March 1998
opping to vellaneda	18,089	159,901	16,882	176,783	194,872	98,601	96,271	October 1995	November 1997- December 1997
opping seo corta	8,006	104,142	11,879	116,021	124,027	51,883	72,144	June 1992	June 1997 March 1995-September
to Noa	357	42,951	82	43,033	43,390	18,351	25,039	September 1994	1996- January 2000
ienos res esign		49,020	9	49,029	49,029	35,412	13,617	November 1993- December 1993	November 1997
tio llrich	8,419	152,332	5,277	157,609	166,028	64,737	101,291	September 1988	October 1998
to Rosario	25,686	64,267	156	64,423	90,109	8,479	81,630	November 2004	N/A
endoza aza opping	15,193	101,191	3,115	104,306	119,499	31,136	88,363	June 1994	December 2004
euquén oject	3,314	8,988	610	9,598	12,912		12,912	Under construction	September 1999
namerican all	123,568	44,038	115,755	159,793	283,361		283,361	Under construction	November, 2006
órdoba opping - lla	5,009	88,388	1,267	89,655	94,664	22,200	72,464	March, 1990	December, 2006



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her	1,830	12,181	(245)	(7)	12,174	13,759	5,480	8,279	N/A	N/A	N
tal	Ps. 681,461	Ps. 2,271,022	Ps.(4,974)	Ps. 244,430	Ps. 2,515,452	Ps. 3,191,939	Ps. 799,810	Ps. 2,392,129			

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)****(r) Investments in real estate and accumulated depreciation (continued)**

	<b>Year ended June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Balance, beginning of the year	Ps. 2,625,519	Ps. 1,976,105	Ps. 1,945,452
Additions during the year:			
Acquisition	403,019		
Improvements	230,958	566,309	18,138
Recovery of impairment	2,639	2,466	5,800
Transfers from work-in-progress leasehold improvements	20,026		
Transfers from undeveloped parcels of land		66,958	12,165
Transfers from real estate inventory		1,521	293
Transfers from other receivables		12,160	
	3,282,161	2,625,519	1,981,848
Deductions during the year:			
Transfers to real estate inventory			(1,776)
Transfers to intangible assets			
Transfers to undeveloped parcels of land			(2,690)
Sales	(90,222)		(1,277)
	(90,222)		(5,743)
Balance, end of the year	Ps. 3,191,939	Ps. 2,625,519	Ps. 1,976,105

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**28. Differences between Argentine GAAP and US GAAP (continued)****(s) Mortgage loans on real estate**

Prepared in accordance with SEC Regulation S-X 12-29

Col. A. Description	Col. B. Interest Rate	Col. C. Final maturity date	Col. D. Periodic payment term	Col. E. Prior liens	Col. F. Face amount of mortgages	Col. G. Carrying amount of mortgages	Col. H. Principal amount of loans subject to delinquent principal or interest
Customer A	14%	June 2014	Monthly	None	Ps. 128	Ps. 68	None
Customer B	14%	May 2014	Monthly	None	77	158	None
Customer C	12%	April 2015	Monthly	None	73	39	None
Customer D	14%	July 2009	Monthly	None	60	187	None
Customer E	14%	April 2014	Monthly	None	58	38	None
Customer F	12%	April 2015	Monthly	None	53	52	None
Customer G	14%	February 2014	Monthly	None	50	83	None
Customer H	16%	September 2009	Monthly	None	20	60	None
Customer I	9%	November 2008	Monthly	None	472	73	None
Customer J	10%	October 2008	Monthly	None	1006	164	None
Customer K	12%	November 2012	Monthly	None	361	328	None
Mortgage receivables Ps. 30,000-Ps. 49,999		September 2007- September 2009- January 2011	Monthly	None	76	15	None
Mortgage receivables Ps. 50,000-Ps.69,999		May 2009					
	14-16%	July 2014	Monthly	None	169	50	None
Mortgage receivables Ps. 70,000-Ps.89,999		June 2009- December 2014	Monthly	None	146	28	None
	14-16%						
					Ps. 2,749	Ps. 1,343	

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(Amounts in thousands, except share data and as otherwise indicated)

**28. Differences between Argentine GAAP and US GAAP (continued)****(s) Mortgage loans on real estate (continued)**

The summary of activity in mortgage receivables is as follows:

	Year ended June 30,		
	2008	2007	2006
Balance, beginning of year	Ps. 1,749	Ps. 2,033	Ps. 1,373
Additions during the year:			
New mortgage loans	328	163	1,005
Deductions during the year:			
Collections of principal	(734)	(447)	(345)
Balance, end of year	Ps. 1,343	Ps. 1,749	Ps. 2,033

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**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**29. Other financial statement information**

The following tables present additional financial statement disclosures required under Argentine GAAP:

- a. Fixed assets, net
- b. Intangible assets, net
- c. Allowances and provisions
- d. Cost of sales, leases and services
- e. Foreign currency assets and liabilities
- f. Other expenses

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(Amounts in thousands, except share data and as otherwise indicated)

**29. Other financial statement information (continued)****a. Fixed assets**

Principal account	Original value				Depreciation Current year Increases				Net carrying value as of June 30,			
	Value as of beginning of year	Additions and transfers	Deductions and transfers	Value as of end of year	Accumulated as of beginning of year	and transfers	(decreases) Amount (i)	Accumulated as of end of year	Impairment	2008	2007	2006
	Ps. 95,502	Ps. 9,285	Ps. (1)	Ps. 104,786	Ps. 68,835	Ps. 5,966	Ps. 74,801	Ps. 29,985	Ps. 26,667	Ps. 26,819		
Facilities												
Furniture and fixtures	58,207	8,302	(10)	66,499	47,610	3,792	51,402	15,097	10,597	8,387		
Machinery and equipment	5,982	971	(37)	6,916	5,634	(37)	6,487	429	348	451		
Computer equipment	54,779	2,795	(27)	57,547	42,862	5,632	48,494	9,053	11,917	8,572		
Vehicles	1,050	25		1,075	751	119	870	205	299	314		
Leasehold improvements	18,145	1,497	(668)	18,974	14,837	(278)	1,679	16,238	2,736	3,308	4,724	
Advances to suppliers	40,232	25,976	(5,088)	61,120	14		14	61,106	40,218	2,614		
<b>Properties:</b>												
Alsina 934												
Alto Palermo Park	661	9		670	101	18	119	551	560	519		
Av. de Mayo 595	7,338			7,338	2,147	234	2,381	4,957	5,134	4,630		
Av. Madero 942	3,277			3,277	809	183	992	2,285	2,468	2,651		
Bouchard 551	244,548		(83,891)	160,657	2,649	(2,272)	5,054	155,226	241,899			
Bouchard 710	72,460			72,460	4,070	1,085	5,155	67,305	68,390	70,786		
Constitución 1111	1,337			1,337	311	43	354	983	777	760		
Constitución 1159	8,762			8,762				4,662	4,100	2,000		
Costeros Dique IV	23,337			23,337	2,462	588	3,050	20,287	20,875	21,463		
Dique II Edificio A y B Edificios												
Cruceros	21,184			21,184	2,713	549	3,262	17,922	18,471	19,020		
Dock del Plata	26,944			26,944	750	540	1,290	25,654	26,194			
Hotel												
Intercontinental	56,338			56,338	4,941	1,823	6,764	49,574	51,397	44,772		
Hotel Libertador	68,111	6,970		75,081	35,150	2,965	38,115	36,966	32,961	30,741		
Hotel Llao Llao	89,235	35,094	(4,418)	119,911	8,702	2,088	10,790	109,121	80,533	38,212		
Intercontinental												
Plaza	97,960	344		98,304	2,968	4,810	7,778	90,526	94,992	66,277		
Laminar Plaza	33,513			33,513	4,326	845	5,171	28,342	29,187	30,032		
Libertador 498	51,150			51,150	10,089	1,429	11,518	39,632	41,061	42,490		
Libertador 602	3,485			3,485	654	99	753	2,732	2,831	2,929		
Av. Madero 1020	2,188		(1,214)	974	494	(312)	96	696	1,694	1,818		
Maipu 1300	52,632	61		52,693	10,285	1,379	11,664	41,029	42,347	43,726		
Reconquista 823	24,756	8		24,764	5,663	656	6,319	18,445	19,093	19,560		
Rivadavia 2768	334			334	39	26	65	269	295	321		
	12,494			12,494				12,494	12,494	10,513		

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Santa María del Plata											
Sarmiento 517	485		485	37		18	55	67	363	98	86
Store Cruceros	293		293	8		8	16		277	285	293
Suipacha 652	17,010		17,010	4,718		452	5,170		11,840	12,292	11,808
Della Paolera 265		168,044	168,044			2,581	2,581		165,463		
Museo Renault		5,065	5,065			95	95		4,970		
Edificio Republica		229,910	229,910			1,143	1,143		228,767		
<b><u>Work-in-progress</u></b>											
Dique IV	9,684	26,703		36,387					36,387	9,684	
<b><u>Shopping Centers:</u></b>											
Shopping Abasto	260,905	2,171	(4)	263,072	73,469		8,631	82,100	180,972	187,436	194,892
Shopping Alto Palermo	407,277	22,467		429,744	231,760		19,362	251,122	178,622	175,517	193,513
Shopping Alto Avellaneda	177,990	16,884	(2)	194,872	88,326		10,275	98,601	96,271	89,664	86,289
Shopping Paseo Alcorta	112,148	11,973	(94)	124,027	47,716		4,167	51,883	72,144	64,432	62,260
Shopping Alto Noa	43,308	82		43,390	16,268		2,083	18,351	25,039	27,040	29,016
Shopping Buenos Aires Design	49,020	9		49,029	32,938		2,474	35,412	13,617	16,082	18,517
Shopping Patio Bullrich	160,751	5,485	(208)	166,028	57,614		7,123	64,737	101,291	103,137	109,409

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**29. Other financial statement information (continued)****a. Fixed assets (continued)**

	Original value			Depreciation							Net carrying value as of June			
	Value as of beginning of year	Additions and transfers	Deductions and transfers	Value as of end of year	Accumulated as of / beginning (decreases) and transfers			Current year		Accumulated as of end of year	Impairment	2008	2007	2006
					Amount (i)									
g Alto	Ps. 89,953	Ps. 553	Ps. (397)	Ps. 90,109	Ps. 5,808	Ps. 2,671	Ps. 8,479	Ps. 2,671	Ps. 8,479	Ps. 81,630	Ps. 84,145	Ps. 84,145	Ps. 84,145	Ps. 84,145
g Córdoba	93,397	1,267		94,664	17,889	4,311	22,200	4,311	22,200	72,464	75,508	75,508	75,508	75,508
a Plaza	116,384	3,115		119,499	27,380	3,756	31,136	3,756	31,136	88,363	89,004	89,004	89,004	89,004
g	12,302	610		12,912						12,912	12,302	12,302	12,302	12,302
n Project	167,606	115,755		283,361						283,361	167,606	167,606	167,606	167,606
ican Mall	32,546	5,197	(7)	37,736	8,279	1,531	9,810	1,531	9,810	27,681	24,022	24,022	24,022	24,022
of														
2008	Ps. 2,927,000	Ps. 706,627	Ps. (96,066)	Ps. 3,537,561	Ps. 892,076	Ps. (2,899)	Ps. 113,269	Ps. 1,002,446	Ps. (ii) 4,974	Ps. 2,530,141				
of														
2007	Ps. 2,197,235	Ps. 744,408	Ps. (14,643)	Ps. 2,927,000	Ps. 772,300	Ps. 22,840	Ps. 96,936	Ps. 892,076	Ps. (ii) 7,613		Ps. 2,027,311			
of														
2006	Ps. 2,164,209	Ps. 54,919	Ps. (21,893)	Ps. 2,197,235	Ps. 700,234	Ps. (8,562)	Ps. 80,628	Ps. 772,300	Ps. (ii) 11,723					Ps. 1,405,140

(i) The allocation of annual depreciation charges in the consolidated statements of income is included in Other expenses (Note 29 f.), except for Ps. (502), Ps. (250) and Ps. 6 for the years ended 2008, 2007 and 2006, respectively allocated in Costs and Ps. 336, Ps. 316 and Ps. 301 for the years ended June 30, 2008, 2007 and 2006, respectively, passed-through to tenants.

(ii) Net of the depreciation of the year for Ps. 36, Ps. 112 and Ps. 388 for the years ended June 30, 2008, 2007 and 2006 and recovery of impairment of Ps. 2,603 for the year ended 2008 and Ps. 3,998 for the year ended 2007.



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**29. Other financial statement information (continued)****b. Intangible assets, net:**

Principal account	Value as of beginning of year	Original value		Current year			Amortization			Net carrying value as of June 30,		
		Additions / (deductions) (iv)	Value as of end of year	Accumulated as of beginning of year	Increases / (decreases)	Amount (i)	Accumulated as of end of year	Impairment	2008	2007	2006	
Preoperating and organization expenses	Ps. 18,013	Ps. 1,630	Ps. 19,643	Ps. 15,313	Ps.	Ps. 627	Ps. 15,940	Ps.	Ps. 3,703	Ps. 2,700	Ps. 3,423	
Intangible assets savings expenses												
-Della Paolera 265		5,767	5,767			1,627	1,627		4,140			
-Museo Renault		198	198			46	46		152			
-Edificio República		555	555			4	4		551			
Trademarks	599		599	477		56	533		66	122	176	
Total as of June 30, 2008	Ps. 18,612	Ps. 8,150	Ps. 26,762	Ps. 15,790	Ps.	Ps. 2,360	Ps. 18,150	Ps.	Ps. 8,612			
Total as of June 30, 2007	Ps. 30,578	Ps. (11,966)	Ps. 18,612	Ps. 26,979	Ps. (12,730)	Ps. 1,541	Ps. 15,790	Ps.		Ps. 2,822		
Total as of June 30, 2006	Ps. 30,545	Ps. (ii) 33	Ps. 30,578	Ps. 25,215	Ps.	Ps. 1,764	Ps. 26,979	Ps. (iii)			Ps. 3,599	

(i) The allocation of annual amortization charges in the consolidated statements of income is included in Other expenses, net (Note 29.f.); except for Ps. 39 and Ps. 8 for the years ended 2008 and 2006 allocated in Cost .

(ii) Includes:  
Ps. (12) reclassified to Other receivables and prepaid expenses.

(iii) Net of the amortization of the year of Ps. 152. (See Note 29.f.) and recovery of impairment of Ps. 203.

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**29. Other financial statement information (continued)****c. Allowances and provisions**

Item	Balances as of			Carrying value of June 30,		
	beginning of year	Additions	Deductions	2008	2007	2006
<b>Deducted from current assets:</b>						
Allowance for doubtful accounts	56,076	(i) 62,955	(ii) (14,310)	104,721	56,076	44,043
Allowance for Impairment of investments		(vi) 11,423		11,423		
Total as of June 30, 2008	Ps. 56,076	Ps. 74,378	Ps. (14,310)	Ps. 116,144		
Total as of June 30, 2007	Ps. 44,043	Ps. 36,014	Ps. (23,981)		Ps. 56,076	
Total as of June 30, 2006	Ps. 38,255	Ps. 13,306	Ps. (7,518)			Ps. 44,043
<b>Deducted from non-current assets:</b>						
Allowance for doubtful accounts	1,955	(i) 1		1,956	1,955	1,333
Allowance for doubtful mortgage receivable	2,208			2,208	2,208	2,208
Allowance for impairment of fixed assets	7,613		(iii) (2,639)	4,974	7,613	11,723
Allowance for impairment of inventories	1,140	61	(vii) (90)	1,111	1,140	2,229
Allowance for impairment of undeveloped plots of land	458		(98)	360	458	1,758
Allowance for impairment of intangible assets						
Allowance for impairment of non-current investments		(vi) 577		577		
Total as of June 30, 2008	Ps. 13,374	Ps. 639	Ps. (2,827)	Ps. 11,186		
Total as of June 30, 2007	Ps. 19,251	Ps. 718	Ps. (6,595)		Ps. 13,374	
Total as of June 30, 2006	Ps. 33,604	Ps. 765	Ps. (15,118)			Ps. 19,251
<b>Included in current liabilities:</b>						
Provision for contingencies	7,595	(iv) 1,570	(v) (7,378)	1,787	7,595	8,755
Total as of June 30, 2008	Ps. 7,595	Ps. 1,570	Ps. (7,378)	Ps. 1,787		
Total as of June 30, 2007	Ps. 8,755	Ps. 603	Ps. (1,763)		Ps. 7,595	

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Total as of June 30, 2006	Ps.	9,776	Ps.	1,047	Ps.	(2,068)		Ps.	8,755
<b>Included in non-current liabilities:</b>									
Provision for contingencies		12,732	(iv)	2,226	(v)	(7,059)	7,899	12,732	10,942
Total as of June 30, 2008	Ps.	12,732	Ps.	2,226	Ps.	(7,059)	Ps.	7,899	
Total as of June 30, 2007	Ps.	10,942	Ps.	5,166	Ps.	(3,376)		Ps.	12,732
Total as of June 30, 2006	Ps.	11,027	Ps.	821	Ps.	(906)			Ps. 10,942

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**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**29. Other financial statement information (continued)**

**c. Allowances and provisions (continued)**

- (i) Doubtful accounts are disclosed in Other expenses (Note 29.f),.
- (ii) Related to off set and recovery of the year, except for Ps. (56) shown in Other expenses (Note 29.f),.
- (iii) Includes recovery of impairment of Ps. (2,603) disclosed in Gain from operations and holdings of real estate assets, net and the depreciation of the year of Ps. (36).
- (iv) Includes Ps. 1,371 shown in Other expenses, net (Note 9) and Ps. 2,425 shown in Other expenses (Note 29.f),.
- (v) Ps. (7,350) included in Other expenses, net (Note 9), Ps. (2,185) related to utilization of the year; Ps. (2) included in Note 20.f Other expenses; Ps. (597) disclosed in Other liabilities (Note 4.k.) and Ps. (4,303) shown in Financial results, net (Note 8).
- (vi) Included in Net income from retained interest in securitized receivables .
- (vii) Related to utilization of the year.

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(Amounts in thousands, except share data and as otherwise indicated)

**29. Other financial statement information (continued)****d. Cost of sales, leases and services**

	2008	Year ended June 30, 2007	2006
<b>I. Cost of sales</b>			
Stock as of beginning of year	Ps. 253,246	Ps. 159,774	Ps. 98,522
Plus:			
Expenses (Note 29.f.)	4,678	2,728	2,384
Transfers to fixed assets	(4,856)	(3,399)	(293)
Transfers from investments			
Transfers from fixed assets		10,513	1,422
Transfers to other receivables and prepaid expenses		(1,773)	(1,516)
Transfers from undeveloped parcels of land	4,611	4,465	33,006
Capitalized interest			222
Decrease in mortgage loans		(3,632)	
Exchange gain		133	
Transfer from intangible assets		2,217	
Merger		978	
Adjustment to purchase price of inventory (i)	69,974	119,615	70,740
Stock as of end of year	(179,560)	(253,246)	(159,774)
<b>Subtotal</b>	<b>148,093</b>	<b>38,373</b>	<b>44,713</b>
Plus:			
Gain from valuation of inventories at fair market value	2,832	20,737	9,727
Results from holding of real estate assets	(31)	101	13
Impairment of the year		(1,599)	
<b>Cost of properties sold</b>	<b>150,894</b>	<b>57,612</b>	<b>54,453</b>
<b>II. Cost of leases</b>			
Expenses (Note 29.f.)	124,993	107,063	85,120
<b>Cost of properties leased</b>	<b>124,993</b>	<b>107,063</b>	<b>85,120</b>
<b>III. Cost of fees and services</b>			
Expenses (Note 29.f.)	529	1,505	2,354
<b>Cost of fees for services</b>	<b>529</b>	<b>1,505</b>	<b>2,354</b>
<b>IV. Cost of hotel activities</b>			

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Stock as of beginning of year	2,957	2,336	1,289
Purchases of the year	263	621	1,047
Expenses (Note 29.f.)	84,220	69,216	57,971
Stock as of end of year	(3,220)	(2,957)	(2,336)
<b>Cost of hotel activities</b>	84,220	69,216	57,971
<b>V. Cost of consumer financing</b>			
Expenses (Note 29.f.)	129,025	76,251	43,933
<b>Cost of consumer financing</b>	129,025	76,251	43,933
<b>TOTAL COSTS</b>	Ps. 489,661	Ps. 311,647	Ps. 243,831

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**29. Other financial statement information (continued)****e. Foreign currency assets and liabilities**

Captions	Currency	Amount of foreign currency	Current Exchange rate (i)	Total as of June 30,	
				2008	2007
<b>Assets</b>					
<b>Current assets</b>					
Cash and banks:					
Cash on hand	U\$\$	286	2.985	Ps. 853	Ps. 706
Cash on hand	Euros	9	4.701	44	27
Cash on hand	Reales	16	1.690	28	1
Cash on hand	Libras	1	5.945	5	2
Cash on hand	Pesos Uruguayos	6	0.154	1	
Bank accounts	U\$\$	37,667	2.985	112,436	53,962
Bank accounts	Euros	444	4.701	2,088	1,749
Bank Accounts	Yens				29,070
Checks to be deposited	U\$\$	10	2.985	30	427
Investments:					
Government bonds	U\$\$ (ii)	8,241	2.985	24,501	25
Other investments	Euros		4.701		126
Mutual funds	U\$\$	27,875	2.985	83,207	423,483
Time deposits and money markets	U\$\$	11,334	2.985	33,831	
Accounts receivable, net:					
Accounts receivable, net	U\$\$	2,044	2.985	6,100	12,268
Accounts receivable, net	Euros	1	4.701	7	
Related parties	U\$\$	99	3.025	298	57
Other receivables and prepaid expenses:					
Related parties	U\$\$	(9)	3.025	(29)	27,049
Receivables from the sale of shares	U\$\$	9,100	3.025	27,527	
Prepaid expenses and services	U\$\$	123	2.985	367	141
Guarantee of defaulted credits	U\$\$	153	2.985	457	785
Guarantee deposits	U\$\$	3	2.985	10	5
Others	U\$\$	285	2.985	851	515
Others	Reales	0	1.790	1	
Others	Pesos Uruguayos	1	0.154	0	
<b>Total current assets</b>				<b>292,613</b>	<b>550,398</b>
<b>Non-current assets</b>					
Investments:					
Advance payments for the acquisition of shares	U\$\$	800	2.985	2,388	1,108
Accounts receivable, net:					
Accounts receivable, net	U\$\$	367	2.985	1,095	454

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Accounts receivable, net	Euros		4.701		12
Guarantee receivable	US\$		2.985		3,096
<b>Other receivables and prepaid expenses:</b>					
Related parties	US\$	0	3.025	1	
Credito default swap	US\$	1,065	2.985	3,178	
Others	US\$	624	2.985	1,862	137
<b>Total non-current assets</b>				8,524	4,807
<b>Total assets as of June 30, 2008</b>				Ps. 301,137	
<b>Total assets as of June 30, 2007</b>				Ps. 555,205	

- (i) Official exchange rate prevailing as of June 30, 2008.
- (ii) Includes US\$ 45 valued at fair market value (Ps.34).

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**29. Other financial statement information (continued)****e. Foreign currency assets and liabilities (continued)**

Captions	Currency	Amount of foreign currency	Current Exchange rate (i)	Total as of June 30,	
				2008	2007
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade accounts payable:					
Trade accounts payable	U\$\$	7,110	3.025	Ps. 21,507	Ps. 2,161
Trade accounts payable	Euros	7	4.701	34	18
Related parties	U\$\$	283	3.025	856	
Mortgage payables:					
Mortgages payables	U\$\$	965	3.025	2,919	17,538
Customer advancers:					
Customer advances	U\$\$	8,384	3.025	25,360	22,461
Customer advances	Euros		4.701		2,510
Short-term debt:					
Short-term debt	U\$\$	27,192	3.025	82,257	137,194
Taxes payables:					
Taxes payable	U\$\$		3.025		1,218
Other liabilities:					
Guarantee deposits	U\$\$	626	3.025	1,894	2,324
Provision for discount	U\$\$		3.025		723
Related parties	U\$\$	257	3.025	779	2,368
Other	U\$\$	258	3.025	781	998
<b>Total current liabilities</b>				<b>136,387</b>	<b>189,513</b>
<b>Non-current liabilities</b>					
Trade accounts payable:					
Trade accounts payable	U\$\$	1,800	3.025	5,445	135
Mortgage payables:					
Mortgages payables	U\$\$	508	3.025	1,538	4,557
Customer advancers:					
Customer advances	U\$\$	4,538	3.025	13,727	
Long-term debt:					
Long-term debt	U\$\$	324,776	3.025	982,448	1,028,683
Other liabilities					
Loans with shareholders of related parties	U\$\$	3,500	3.025	10,588	
Guarantee deposits	U\$\$	1,190	3.025	3,600	2,781
<b>Total non-current liabilities</b>				<b>1,017,346</b>	<b>1,036,156</b>

<b>Total liabilities as of June 30, 2008</b>	Ps. 1,153,733
<b>Total liabilities as of June 30, 2007</b>	Ps. 1,225,669

(i) Official exchange rate prevailing as of June 30, 2008.

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2008, 2007 and 2006**

(Amounts in thousands, except share data and as otherwise indicated)

**29. Other financial statement information (continued)****f. Other expenses**

	Cost of properties leased	Cost of properties sold	Cost of fees and services	Cost of hotel activities	Cost of consumer financing	Cost of pass-through expenses	Cost of collective promotion fund	Cost of expenses recovery	Administrative	Selling	Financing	Total as of June 30, 2008	Total as of June 30, 2007	Total as of June 30, 2006
	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.
Director's fees	35	291		4,195	15,541	6,668	33	(6,701)	43,750	583		64,395	42,330	25,000
Repairs and maintenance	146	91		33,810	35,271	51,368	5,914	(57,282)	67,351	10,519		147,188	109,877	68,000
Real security contributions				7,304					1,924	766		9,994	7,837	8,000
Depreciation	97,099	221		10,069	1,930	299	17	(316)	6,367	34	911	116,631	98,299	82,000
Maintenance building and phone	11,307	1,578		5,471	868	37,056	105	(37,161)	1,781	4		21,009	38,509	27,000
Advertising	40	49		3,665		4,838		(4,838)	689	138		4,581	3,611	3,000
Printing expense					1,058	1,909	100	(2,009)	2,217	(127)		3,148	2,201	2,000
Commissions property charges				1,503	46,532	1		(1)		5,164		53,199	27,799	15,000
Flight and transportation, rates		4		277	1,171	2,830	269	(3,099)	2,626	862		4,940	3,954	2,000
Contributions descriptions	1,070	2,251		2	23,346	20,571	1,820	(22,391)	18,205	67		44,941	27,376	17,000
Publications and rest and recreation		1				124		(124)	321			322	166	
Investment						18		(18)			97,933	97,933	66,622	49,000
Bank charges and deposits		4				182		(182)	6,595			6,599	5,006	1,000
Advance for									466			466	530	
Useful									24	62,876		62,900	26,110	11,000
Travel									832			832	1,503	
Repairs and				7,248								7,248	8,882	5,000
Personnel					1,477	3,789	277	(4,066)	2,403			3,880	3,796	1,000

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ing nses									1,258		1,258		
ingencies								99			99		
ances	(17)	57	71	1,767	1,576	35	(1,611)	2,959			4,837	3,672	2
veillance	155	59			2,769		(2,769)	1,025			1,239	783	
ing ses					1		(1)	150			150	327	
age for ngencies													
awsuits	1,975							61			2,036	324	
s sales					12		(12)	38,951			38,951	40,027	20
nses													
very					(136,008)	(45,148)	181,156						
covered nses	13,182				600		(600)				13,182		
r	1	72	529	10,605	64	1,331	6	(1,337)	2,898	3,337	1,260	18,766	10,885
<b>l as of e 30,2008</b>	124,993	4,678	529	84,220	129,025				179,994	163,986	100,104	787,529	
<b>l as of e 30,2007</b>	107,063	2,728	1,505	69,216	76,251				141,427	113,709	66,642		578,541
<b>l as of e 30,2006</b>	85,120	2,384	2,354	57,971	43,933				96,882	60,105	49,710		398

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and Shareholders of

Banco Hipotecario S.A.

We have audited the accompanying consolidated balance sheets of Banco Hipotecario S.A. and its subsidiaries (collectively referred to as the Bank ) as of June 30, 2008 and 2007 and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for each of the three twelve-month periods in the period ended June 30, 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Hipotecario S.A. and its subsidiaries at June 30, 2008 and 2007, and the results of their operations and their cash flows for each of the three twelve-month periods in the period ended June 30, 2008 in conformity with accounting rules prescribed by the Banco Central de la República Argentina (the BCRA ).

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As described in Notes 6 and 34 to the consolidated financial statements, respectively, accounting rules prescribed by the BCRA differ in certain significant respects from, and is a comprehensive basis of accounting other than, accounting principles generally accepted in Argentina for enterprises in general ( Argentine GAAP ) and accounting principles generally accepted in the United States of America and as allowed by Item 17 to Form 20-F ( US GAAP ). Information relating to the nature and effect of the differences between accounting rules prescribed by the BCRA and US GAAP is presented in Note 34 to the consolidated financial statements.

Price Waterhouse & Co S.R.L.

/s/ Diego Sisto

**Diego Sisto**  
**Partner**

Buenos Aires, Argentina

December 30, 2008.

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**Table of Contents****BANCO HIPOTECARIO SA AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

As of June 30, 2008 and 2007

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	2008	June 30,	2007
<b>ASSETS</b>			
Cash and due from banks	Ps. 84,723	Ps.	54,578
Banks and correspondents	562,968		273,095
	647,691		327,673
Government and corporate securities (Note 8)	1,091,604		2,159,941
Loans (Note 9)			
Mortgage loans	2,205,418		1,767,133
Other loans	2,361,411		1,855,887
	4,566,829		3,623,020
Plus: Accrued interest receivable	48,555		38,496
Less: Allowance for loan losses (Note 10)	(214,551)		(136,120)
	4,400,833		3,525,396
Other receivables from financial transactions (Note 11)			
Securities receivable under repurchase agreements	1,433,201		1,261,850
Amounts receivable under derivative financial instruments (Note 21)	1,292,449		1,133,603
Loans in trust pending securitization	70,361		81,378
Amounts receivable under reverse repurchase agreements of government and corporate securities	2,460		3,573
Receivable from Argentine Government compensatory and hedge bonds (Note 2)	255,173		260,960
Other (Note 11)	745,758		961,258
	3,799,402		3,702,622
Plus: Accrued interest receivable	10,028		9,757
Less: Allowance for loan losses (Note 10)	(18,490)		(34,684)
	3,790,940		3,677,695
Investments in other companies	66		11
Miscellaneous receivables (Note 12)	454,527		325,977
Bank premises and equipment (Note 13)	111,064		105,000
Miscellaneous assets (Note 14)	14,278		16,183
Intangible assets (Note 13)	60,196		29,666
In-process items	1,133		107
<b>Total Assets</b>	Ps. 10,572,332		Ps. 10,167,649

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





**Table of Contents****BANCO HIPOTECARIO SA AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Continued)**

As of June 30, 2008 and 2007

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	June 30	
	2008	2007
<b>LIABILITIES AND SHAREHOLDERS EQUITY LIABILITIES</b>		
Deposits		
Checking accounts	Ps. 40,287	Ps. 39,288
Saving accounts	178,062	183,903
Time deposits	1,657,346	613,382
Other deposit accounts	32,390	27,927
	1,908,085	864,500
Plus: Accrued interest payable	18,228	4,060
	1,926,313	868,560
Other liabilities from financial transactions		
Other banks and international entities (Note 17)	61,072	231,619
Bonds (Note 18)	3,210,224	3,587,186
Argentine Central Bank (Note 16)	239,104	218,031
Amounts payable under derivative financial instruments (Note 21)	975,606	968,395
Borrowings under repurchase agreements collateralized by government securities	955,173	965,803
Obligation to return securities acquired under reverse repurchase agreements of government and private securities	3,142	4,159
Collections and other transactions on behalf of third parties	69,600	22,236
Other	116,286	144,729
	5,630,207	6,142,158
Plus: Accrued interest payable	66,574	84,485
	5,696,781	6,226,643
Miscellaneous liabilities		
Taxes	11,561	1,511
Sundry creditors (Note 23)	44,958	38,520
Other (Note 23)	22,701	23,433
	79,220	63,464
Reserve for contingencies (Note 15)	182,428	262,214
In-process items	2,481	2,534
Minority interests	33,375	32,938
<b>Total Liabilities</b>	<b>7,920,598</b>	<b>7,456,353</b>
<b>SHAREHOLDERS EQUITY</b>		
Common stock	1,500,000	1,500,000
Inflation adjustment of common stock	717,115	717,115
Reserves	143,912	68,868
Retained earning	290,707	425,313

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<b>Total Shareholders Equity</b>	2,651,734	2,711,296
<b>Total Liabilities and Shareholders Equity</b>	Ps. 10,572,332	Ps. 10,167,649

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

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**Table of Contents****BANCO HIPOTECARIO SA AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

For the twelve-month periods ended June 30, 2008, 2007 and 2006

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	2008	2007	2006
Financial income			
Interest on loans and other receivables from financial transactions	Ps. 485,931	Ps. 547,246	Ps. 443,845
Income from government and corporate securities	204,973	330,598	286,469
Other	5,687	4,376	3,489
	696,591	882,220	733,803
Financial expenses			
Interest on deposits and other liabilities from financial transactions	527,924	354,969	398,355
Contributions and taxes on financial income	22,769	19,697	13,829
	550,693	374,666	412,184
Provision for loan losses (Note 10)	149,861	43,673	10,498
Income from services			
Insurance premiums	95,070	76,999	53,851
Commissions (Note 24)	151,137	64,044	34,796
Other (Note 24)	43,234	19,318	12,759
	289,441	160,361	101,406
Expenses for services			
Insurance claims	7,870	7,172	8,965
Commissions (Note 24)	85,719	64,653	28,860
Contributions and taxes on income from services	6,354	3,179	1,746
	99,943	75,004	39,571
Administrative expenses			
Salaries and social security contributions	160,618	111,364	84,440
Advertising expenses	16,350	20,914	15,692
Value added tax and other taxes	21,763	16,987	11,819
Directors and Syndics fees	5,726	17,541	3,109
Fees for administrative services	74,598	37,744	21,455
Maintenance and repairs	7,573	4,938	4,417
Electricity and communications	16,584	10,885	7,134
Depreciation of bank premises and equipment	11,506	6,695	7,134
Rent	11,484	4,803	2,817
Other	62,258	38,942	27,173
	388,460	270,813	185,190
Net (loss) income from financial transactions	Ps. (202,925)	Ps. 278,425	Ps. 187,766

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

**Table of Contents****BANCO HIPOTECARIO SA AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (Continued)****For the twelve-month periods ended June 30, 2008, 2007 and 2006****(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)**

	2008	2007	2006
Miscellaneous income			
Penalty interest	6,749	6,437	5,912
Loans recoveries	153,983	220,745	123,450
Other (Note 25)	23,341	4,642	44,346
	184,073	231,824	173,708
Miscellaneous expenses			
Provision for other contingencies and miscellaneous receivables	11,155	127,046	12,275
Other (Note 25)	20,267	23,398	36,922
	31,422	150,444	49,197
(Loss) income before income taxes and minority interests	(50,274)	359,805	312,277
Income taxes (Note 27)	3,734	1,007	1,321
Minority interests	(5,554)	(907)	(1,878)
Net (loss) income for the period	(59,562)	357,891	309,078

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

**Table of Contents****BANCO HIPOTECARIO SA AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the twelve-month periods ended June 30, 2008, 2007 and 2006

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	Common stock (Note 29)	Paid in capital	Inflation adjustment of common stock (Note 29)	Reserves Legal (Note 29)	Voluntary (Note 29)	Retained earnings / (Accumulated deficit)	Total shareholders' equity
<b>Balance as of June 30, 2005</b>	Ps. 1,500,000	Ps. 1	Ps. 1,797,623	Ps. 1,022,078	Ps. 169,608	Ps. (2,444,983)	Ps. 2,044,327
Net income for the period						309,078	309,078
<b>Balance as of June 30, 2006</b>	Ps. 1,500,000	Ps. 1	Ps. 1,797,623	Ps. 1,022,078	Ps. 169,608	Ps. (2,135,905)	Ps. 2,353,405
Absorption of accumulated deficit approved by the General Shareholders Meeting held on July 21, 2006		(1)	(1,080,508)	(1,022,078)	(169,608)	2,272,195	
Retained earnings distribution approved by the General Shareholders Meeting held on April 12, 2007 Legal Reserve				68,868		(68,868)	
Net income for the period						357,891	357,891
<b>Balance as of June 30, 2007</b>	Ps. 1,500,000	Ps.	Ps. 717,115	Ps. 68,868	Ps.	Ps. 425,313	Ps. 2,711,296
Retained earnings distribution approved by the General Shareholders Meeting held on May 23, 2008 Legal Reserve				75,044		(75,044)	
Net loss for the period						(59,562)	(59,562)
<b>Balance as of June 30, 2008</b>	Ps. 1,500,000	Ps.	Ps. 717,115	Ps. 143,912	Ps.	Ps. 290,707	Ps. 2,651,734

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

**Table of Contents****BANCO HIPOTECARIO SA AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOW**

For the twelve-month periods ended June 30, 2008, 2007 and 2006

(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)

	2008	2007	2006
<b>Cash flows from operating activities:</b>			
Net (loss) income	Ps. (59,562)	Ps. 357,891	Ps. 309,078
Adjustments to reconcile net income to net cash provided by Cash Flows from operating activities:			
Provision for loan losses and for contingencies and miscellaneous receivables, net of reversals	161,016	170,719	22,773
Net gain on investment government securities	(94,929)	(138,070)	(99,240)
Gain on derivative financial instruments	(112,934)	(81,935)	(41,635)
Depreciation and amortization	19,254	10,000	10,364
Net gain on sale of premises and equipment and miscellaneous assets	(5,775)	(2,806)	
Net Indexing (CER and CVS) of loans and deposit	69,112	137,689	328,442
Net Interest and indexing (CER) of borrowings and compensations from Argentine Central Bank	26,860	9,614	555,021
Loss on sale of the equity investment		16,466	
Minority interest	5,554	907	1,878
Net change in trading investments	392,838	64,271	(1,107)
Net reverse repurchase agreements of government and corporate securities	(180,839)	(29,192)	(200,866)
Net change in other assets	171,676	(301,530)	298,776
Net change in other liabilities	(141,733)	(120,038)	(26,662)
<b>Net cash provided by operating activities</b>	<b>250,538</b>	<b>93,986</b>	<b>1,156,822</b>
<b>Cash flows from investing activities:</b>			
Increase in loans, net	(920,684)	(1,149,879)	(88,886)
Proceeds from securitization of consumer loans	50,514	117,115	110,003
Purchase of government securities			(2,437,897)
Proceeds from government securities			41,645
Proceeds from maturities of investments	499,116	540,669	278,965
Sales of investments in other companies		9,272	
Proceeds from sale of premises and equipment	5,468	21,463	4,849
Purchases of premises and equipment, miscellaneous and intangible assets	(57,421)	(66,427)	(12,807)
<b>Net cash used in investing activities</b>	<b>(423,007)</b>	<b>(527,787)</b>	<b>(2,104,128)</b>
<b>Cash flows from financing activities:</b>			
Increase in deposits, net	1,043,585	254,477	189,855
Proceeds from issuance of bonds, notes and other long term debts		461,205	1,542,400
Proceeds from borrowings from Banks			154,240
Principal payments on bonds, notes, and other debts	(293,316)	(442,359)	(1,261,274)
(Decrease)/Increase in borrowings, net	(254,193)	159,086	316,849
<b>Net cash provided by financing activities</b>	<b>496,076</b>	<b>432,409</b>	<b>942,070</b>
Net increase/(decrease) in cash and cash equivalents	323,607	(1,392)	(5,236)
Cash and cash equivalents at the beginning of the period	327,673	327,856	314,059

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Effect of foreign exchange changes on cash and cash equivalents	(3,589)	1,209	19,033
<b>Cash and cash equivalents at the end of the period</b>	<b>Ps. 647,691</b>	<b>Ps. 327,673</b>	<b>Ps. 327,856</b>
Supplemental disclosure of cash flow information:			
Cash paid for interest	Ps. 5,965	Ps. 69,366	Ps. 53,178
Cash paid for presumptive minimum income tax	26,197	15,432	12,709
Non-cash transactions involving securitizations	8,914	28,757	24,147

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

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**Table of Contents****BANCO HIPOTECARIO SA AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As of and for the twelve-month periods ended June 30, 2008, 2007 and 2006****(Expressed in thousands of Argentine pesos, except share data and as otherwise indicated)****1. General***a. Description of business*

Banco Hipotecario SA (herein after referred to as the **Bank** or **BHSA** ), is a commercial bank, organized under the laws of Argentina.

The Bank historically has provided general banking services, focused on individual residential mortgage loans and construction-project loans directly to customers as well as indirectly through selected banks and other financial intermediaries throughout Argentina. In 2004, as part of its business diversification strategy, the Bank resumed the mortgage lending and expanded its product offerings, beginning to offer personal loans, credit card loans and also engaging in mortgage loan securitizations, mortgage loan servicing, other corporate loans and mortgage-related insurance in connection with its lending activities.

*b. Basis of presentation*

The consolidated financial statements of the Bank have been prepared in accordance with the rules of Banco Central de la República Argentina ( **Argentine Central Bank** or **BCRA** ) which prescribes the accounting reporting and disclosure requirements for banks and financial institutions in Argentina ( **Argentine Banking GAAP** ). These rules differ in certain respects from generally accepted accounting principles in Argentina ( **Argentine GAAP** ) applicable to companies in general. The significant differences between Argentine Banking GAAP and Argentine GAAP are described in Note 6 to the consolidated financial statements. Argentine Banking GAAP and Argentine GAAP also differ in certain significant respects from generally accepted accounting principles in the United States of America ( **US GAAP** ). Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and regulations of the Securities and Exchange Commission ( **SEC** ). These consolidated financial statements include solely a reconciliation of net income and shareholders' equity to US GAAP. Pursuant to Item 17 of Form 20-F, this reconciliation does not include disclosure of all information that would be required by US GAAP and Regulation S-X of the SEC. See Note 34 for details.

Certain disclosures required by the Argentine Banking GAAP have not been presented herein since they are not required under US GAAP or the SEC and are not considered to be relevant to the accompanying consolidated financial statements taken as a whole.

*c. Principles of consolidation*

The consolidated financial statements include the accounts of the Bank and its subsidiaries over which the Bank has effective control. The percentages directly or indirectly held in those companies' capital stock as of June 30, 2008 are as follows:

**Issuing Company**

BHN Sociedad de Inversión Soeciedad Anónima	99.99%
BHN Seguros Generales Sociedad Anónima	99.98%
BACS Banco de Crédito y Securitización Sociedad Anónima	70.00%
BH Valores Sociedad de Bolsa SA	100.00%



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All significant intercompany accounts and transactions have been eliminated in consolidation.

*d. Presentation of financial statements in constant Argentine pesos*

Effective September 1, 1995, pursuant to Decree No. 316/95, the Bank discontinued its prior practice of adjusting the financial statements for inflation. Effective January 1, 2002, however, as a result of the application of Argentine Central Bank, National Securities Commission ( CNV ) and Argentine Federation of Professional Councils in Economic Sciences ( FACPCE ) rules, the Bank resumed the application of the adjustment for inflation.

In 2002, Argentina experienced a high rate of inflation. The wholesale Price Index WPI increased approximately 118.44% in 2002.

Primarily as a result of the stabilization of the WPI during the first half of 2003, the Argentine government, the Argentine Central Bank and the CNV eliminated the requirement that financial statements be prepared in constant currency.

**2. Economic and social situation prevailing in Argentina**

**2.1 Current economic situation**

Over the past few months, the financial markets in the most important countries in the world have been affected by volatility, lack of liquidity and credit, which entailed a significant drop in international stock indexes, and an economic slow-down started to become evident worldwide. Despite the actions taken by central countries, the international markets future is still uncertain.

As regards Argentina, and after June 30, 2008 stock markets reflected significant drops in the prices of government and corporate securities, as well as an increase in interest rates, country risk and exchange rates, a situation that is still ongoing as of the date of issuance of these financial statements. The Bank considers that these situations did not exist as of June 30, 2008 but arose subsequent to that date.

As a result of the situation described above, the market value of the BODEN 2012, BOGAR and Discount bonds as of December 15, 2008 decreased approximately by Ps.806,451 compared to its market value as of June 30 2008.

In addition, as a consequence of the financial situation described above, the decrease in the quotation of Banco Hipotecario s shares have caused a decrease in the fair value of the Total Return Swap approximately by Ps.37,328 as of December 15, 2008 compared to its fair value as of June 30, 2008.

The Bank s management is permanently evaluating and monitoring the effects derived from the above situation in order to implement the necessary measures to mitigate its effect. These financial statements must be analyzed taking into consideration the scenario described above.

The net position of the derivative financial instruments have experienced a decline of Ps.114,388 as of September 30, 2008 compared to June 30, 2008, as a consequence of the financial crisis described above. Subsequently and as of the date of issuance of these financial statements the main variables that determine these fair value (EURO/US Dollar/BADLAR/LIBOR/Country Risk), continue being affected by the market volatility mentioned before, however management believes that the subsequent changes in the variables would not significantly affect the Bank s Shareholders Equity at the date of issuance of these financial statements.



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The Bank's management is monitoring the effects derived from the above situation described in order to implement the necessary measures to mitigate its effect. These financial statements must be analyzed taking into consideration the scenario described above.

**2.2 Pending events derived from the system's crisis in late 2001**

As a consequence of the crisis that took place in Argentina during 2001 and 2002, the National government adopted measures that influenced the banking activity, and specifically the Bank's activity, among which were: i) a single free exchange market system was established, ii) Deposits and Loans in US dollars or any other foreign currency granted by the Argentine financial system were converted into pesos, iii) compensations to the Financial System for the effects of the asymmetric pesification process, iv) certain adjustments to the Reorganization and Bankruptcy Laws and v) conversion of provincial public debt.

*Compensation granted by the National Government to financial institutions.*

**Asymmetric pesification**

Through Decree 905, the Government established the issuance of National Government Compensating Bonds to compensate financial institutions for the negative effects on their equities of the conversion into pesos at different exchange rates of receivables and obligations denominated in foreign currency, as provided for by Law 25561, Decree 214 and its amendments and complementary rules, and to cover the negative difference between assets and liabilities denominated in foreign currency arising from their conversion into pesos, as established by the above-mentioned regulations.

The Bank complied with the reporting requirements established by Sections 28 and 29 of Decree 905 Compensation to financial institutions, applying for such purpose the regulations in force and particular criteria, exercising the following options:

National Government Compensating Bond in US dollars, due 2012: Compensatory bond difference between assets and liabilities converted into pesos at Ps. 1.00, for the exchange rate difference of Ps. 0.40, converted into pesos at the Ps. 1.40 =US\$ 1 rate: US\$ 374,647 thousand (consolidated amount).

National Government Hedge Bond in US dollars, due 2012: Hedge Bond difference between assets and liabilities in US dollars, net of the compensating bond: US\$ 845,729 thousand (consolidated amount).

In September 2002 and October 2005 the Argentine Central Bank credited US\$ 356,015 thousand and US\$ 16,761 thousand in BODEN 2012, respectively, as compensation (consolidated amount).

Finally, between September 2005 and January 2006, hedge BODEN 2012 for US\$ 773,531 were subscribed.

In addition, in July 2007 the Bank requested an advance of Ps. 83,012 to purchase US\$ 59,294,200 in National Government Bonds in US Dollars Libor Due 2012 ( BODEN 2012 ) pursuant to the provisions of Section 29, subsections f) and g) of Decree No. 905/02 of the Executive Branch and regulations.



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In order to guarantee the advance to be received, the Bank submitted as collateral a) Secured Bonds (BOGAR) for a face value of 83,011,880, and b) Mortgage Securities granted customers of the non-financial private sectors, in Situation 1, equivalent to Ps. 26,163.

For purposes of these financial statements, i) BODEN 2012 bonds credited by the Argentine Central Bank have been recorded in Government and Corporate Securities - Held-for-investment, ii) the amount in respect of the right to receive the Compensatory and Hedge bonds has been recorded in Other receivables for financial transactions - Receivable for Argentine Government - Compensatory and Hedge bond - In foreign currency, iii) bonds delivered as collateral for Negotiable Obligations and secured facilities to banks, have been recorded in Miscellaneous receivables, and iv) the advance to be requested for the acquisition of the Hedge bond, has been recorded in Other liabilities for financial transactions - Argentine Central Bank.

*Mortgage refinancing system*

On November 6, 2003, Law 25798, regulated by Decree N° 1284/03, established the creation of a system for the refinancing of mortgage loans and of a restructuring unit for the purpose of analyzing loans arranged prior to the application of the Convertibility Law 23928.

On December 12, 2006, the National Congress approved Law 26177 modifying the Mortgage Refinancing System. The new law establishes the Reestructuring Unit, which will be in charge of the analysis and proposal of refinancing of mortgage loans agreed among awardees and the ex Banco Hipotecario Nacional, settled before the Convertibility Law (Law 23928).

On November 21, 2007, National Congress through Law No. 26313, established a mandatory procedure for restructuring mortgage loans included in Section 23 of Law 25798, pursuant to the guidelines of Law 26177. For such purpose, a new calculation of some mortgage loans originated by the former Banco Hipotecario Nacional before April 1, 1991 was established. On December 19, 2008, through Decree 2107/08 the government issued regulations explaining its application. This law applies only to non-performing mortgage loans granted before April 1, 1991 and requires a new balance calculation for loans affected. Banco Hipotecario S.A., as legal successor to the former Bank, has estimated that it has enough loan allowances to face possible negative economic effects that could arise from this situation.

**3. Comprehensive financial debt restructuring**

The financial debt restructuring process resulting from the significant adverse changes that took place in Argentina in 2002, which affected the Bank's balance sheet and financial position, ended on December 29, 2003. On that date, the term for receiving exchange offers expired and the Bank accepted all existing validly offered securities in view of compliance with the conditions for the Bank's exchange offers and the simultaneous restructuring of all its outstanding debt with bank creditors. On January 14, 2004, the total final principal on validly offered securities of Ps. 2,662,242, representing approximately 93% of the total principal on the outstanding securities existing at that date, was settled.

After January 14, 2004, the settlement date of the transaction, the Bank continued to exchange negotiable obligations with holders adhering to the offering late. At June 30, 2008, the face value of the obligations exchanged amounted to US\$ 8,995 thousand and Euro 10,695 thousand.

At the date of these financial statements, the Bank had honored the total amount of amortization and interest according to the contractual terms.

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**4. Exposure to the Public Sector**

As of June 30, 2008, the Bank maintains Ps. 2,765,827, in government-related assets:

- a) Government securities for Ps.847,590 (excluding Argentine Central Bank Bills).
- b) Loans to the provincial and municipal governments for Ps.98,315.
- c) Rights to receive BODEN 2012 (Compensatory and Hedge bonds) for Ps.255,173 pursuant to Sections 28 and 29 of Decree 905/02.
- d) Other receivables for financial transactions for Ps.1,433,201 to BODEN 2012 of which Ps.1,410,229 corresponds to repo transactions and Ps. 22,972 corresponds to swap transactions.
- e) Miscellaneous receivables of Ps.131,548 related to BODEN 2012 deposited as collateral for the currency swap transaction (See note 35).

As of June 30, 2008, the Bank has Ps. 239,104 in advances to be requested from Argentine Central Bank for the acquisition of the Hedge Bond (BODEN 2012).

The net exposure to the Public Sector, without considering liquid assets in BCRA accounts, amounts to Ps.2,526,723 and Ps. 3,096,580 at June 30, 2008 and 2007, respectively.

To guarantee the loan to be received by the government, the bank granted the following assets as collateral: a) Secured Bonds (BOGAR) for a face value of 47,097,934, and b) Mortgage Securities granted customers of the non-financial private sectors, classified as performing, equivalent to Ps. 26,163,258.29.

In addition, Decree 905/02 states that in the event of default by the National Government on the payment of principal or interest of BODEN, Secured Loans or BOGAR, of more than 30 days following the respective maturity dates, each financial institution will be entitled to repay in advance, either fully or partially, the advances received for the acquisition of the Hedge bond, using for that purpose all or the equivalent portion of the assets provided as collateral, taken at the value in which they were recorded at the time the advances were granted, plus interest accrued until the repayment date, less the amount actually repaid.

Since January 1, 2006 according to BCRA regulations, the financial assistance to the Public Sector, may not exceed 40% of total assets as of the last day of the previous month. The Bank's exposure to the public sector stems from compensations received from the National Government. Therefore, and considering that the exposure to the Public Sector exceed said limit, on January 19, 2006 the Bank informed the BCRA that it would gradually reduce the ratio of its exposure to the Public Sector, to the extent that bonds received from the National Government, as compensation for the asymmetric pesification will start amortizing principal. As of the date of issuance of these financial statements, there were no objections from the BCRA.

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Communication A 4546 dated July 9, 2006, stated that, as from July 1, 2007, exposure to the Public Sector, may not exceed 35% of total assets as of the last day of the previous month.

As of June 30, 2008 the Bank's exposure to the public sector represents 26.2% of its total assets.

### **5. Significant Accounting Policies**

The following is a summary of significant accounting policies used in the preparation of the consolidated financial statements.

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**5.1. Foreign Currency Assets and Liabilities**

Foreign currency assets and liabilities are translated at the prevailing exchange rate at period-end. Transactions denominated in foreign currencies are translated into pesos at the prevailing exchange rates on the date of transaction settlement. Foreign currency transactions net gains or losses are recorded within Financial income or Financial expenses in the accompanying consolidated statements of income.

**5.2. Government and Corporate Securities**

BODEN US\$ 2012 received as compensatory bonds, are classified as Investment Securities and are recognized at their technical value (the adjusted balance of each instrument according to contractual conditions), in accordance with the rules issued by the BCRA.

Securities classified as held for trading quoted are marked to market, at the Buenos Aires Stock Exchange spot quotation, and any changes in their market value is recognized as a gain or loss in the consolidated income statement.

Secured Bonds ( BOGAR ) issued by the Provincial Government within the framework of Decree 1579/02 are classified as held for trading unquoted and are recorded at its present value as required by the BCRA.

Discount Bonds exchanged for sovereign debt are classified as held for trading unquoted and have been recorded at the lower of (a) the aggregate nominal cash flow until maturity, under the contractual conditions of the new securities, and (b) the carrying value of the securities offered, which is equivalent to the present value of the Secured Bonds.

**5.3. Loans**

The portfolio of performing loans and loans with 90 days or less past due, has been recorded at principal amounts, net of amortization, adjusted by CER, and CVS, where applicable, plus accrued interest and net of allowance for loan losses.

Other loans to the public sector originally granted in foreign currency have been converted into pesos at the exchange rate of Ps. 1.40 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER has been applied to the amount of those loans and maximum rates have been established, as provided for by Decree 1579/02, if those assets were subject to the Exchange of Provincial Public Debt.

Loans to the non-financial private sector originally granted in foreign currency prior to December 2001 have been converted into pesos at the exchange rate of Ps. 1.00 per US dollar, as established by Law 25561, Decree 214 and complementary rules and amendments. Since February 3, 2002, the CER and CVS have been applied to the amount of those loans and maximum rates have been established, depending on the borrower.

Law 25796 established the elimination of the CVS since April 2004.

**5.4. Interest accruals and adjustments of principal amounts (CER and CVS)**

Interest income is recognized on an accrual basis using the straight-line method. For all lending and certain borrowing transactions in local and foreign currency with maturities greater than 92 days, interest is recognized on a compounded basis, which provides for an increasing effective rate over the life of the loan. Interest accruals for loans past due more than 90 days, were discontinued.





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Adjustments of principal amounts from the application of the CER and CVS, were accrued as established by BCRA regulations, and interest accruals for loans past due more than 90 days, were discontinued.

Interest is recognized on a cash basis on past due loans of more than 90 days, after reducing the balance of accrued interest.

**5.5. Derivative Financial Instruments**

The rights and obligations arising from currency swap transactions carried out as a hedge for the restructured obligations issued in Euros have been recorded at the exchange rate of that currency following the criterion described in Note 5.1.

Currency swap transactions carried out as a hedge for the Bank's exposure to foreign currency-denominated liabilities, without transferring the underlying asset, have been recorded according to the net asset or liability position derived from variations in the underlying assets and variations in the US dollar exchange rate plus interest agreed for liabilities.

Interest rate swap transactions carried out for purposes of hedging assets and liabilities with fixed and floating rates, have been recorded in accordance with the unsettled balances of on the agreed upon lending and borrowing interests rates.

The CER swap, linked to Secured loans due in 2008 and External Debt transaction, has been recorded in accordance with unsettled balances of the agreed upon lending and borrowing interests rates.

**5.6. Securitizations of Loans**

The Bank accounted for the transfer of US dollar-denominated and peso-denominated mortgage loans to a mortgage trust and the issuance of mortgage bonds, as a sale and recorded its retained interest in the securitization trusts at their principal amounts. Retained interests relating to certificates of participation are adjusted on a monthly basis to reflect the net results of the Bank's equity in the trusts. A gain or loss is recognized for the difference between the cash proceeds received and the principal balance of mortgage loans underlying the mortgage bonds sold.

Debt securities have been recorded at face value, adjusted by CER, where applicable, plus accrued interest.

**5.7. Allowance for Loan Losses**

Allowances for loan losses recorded at June 30, 2008 and 2007, cover the minimum reserves required by the BCRA, which consist of the debtors payment capacity and cash-flows analysis for commercial loans and clients aging for consumer loans, and were calculated considering the accounting policies adopted for certain refinanced consumer loans and the changes in certain estimates related to the loan portfolio.

Pursuant to the guidelines of Law 24441 on Housing and Construction Financing, the criterion followed by the Bank to set up reserves for construction projects, where the fiduciary ownership is transferred, consists in classifying debtors on the basis of the evaluation of the future cash flow of the individual project financed by the Bank.

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Until Communication A 4648 were made effective, the Bank held the following policy regarding the procedure followed for classifying non-performing and restructured individual loans:

- a. Maintaining for six months the classification and reserves in respect of all those loans subject to refinancing.
- b. After this period expires, the Bank will proceed, as the case may be, as follows:
  - b.1. If the loan is no more than 30 days past due, it shall be reclassified as performing loan.
  - b.2. If the loan is more than 30 days past due, its classification will arise from the aggregate of the current number of days in arrears and those recorded before the refinancing.
- c. All individual loans, which are more than 24 months past due, must be fully reserved. Loans and reserves are charged-off from the Bank's assets, three months after the date on which those loans were fully reserved.
- d. Those loans that had been charged off, according to c. above, which had been restructured and are still performing, are re-recognized as assets if no delinquency greater than 30 days is showed during the following six months.

As a result of the policies adopted, and in line with BCRA rules, at June 30, 2008 and 2007 the Bank has recorded in memorandum accounts Ps. 836,993 and Ps. 816,237, respectively, for loans charged off from the Bank's assets three months after the date on which those loans were fully reserved.

Through Communications 4648, supplementary rules and amendments, the BCRA established new application regulations for the classification and provisioning of consumer loan portfolios. For such purpose, as from November 27, 2007, consumer loans refinancing will generate the freezing of the debtor classification and provision before refinancing. Furthermore, as from March 1, 2008, the aforementioned regulations are in force, and their main effects are the following: i) the classification of refinanced loans is maintained for three installments (or until collection of an equivalent amount), ii) the improvement of the situation of the refinanced client is based on paid installments (periodical, monthly or quarterly payment financing) or on the percentage of paid capital (sole payment financing or periodical payment, when over two months or irregular payment), iii) timely payment of the refinanced payments (or default of no more than 31 days) is a requirement for improving the situation, iv) advance payments and/or prepayments to access refinancing or after it are calculated in equivalent installments to measure the possibility of improving the client's situation and v) in case the refinanced client shows arrears of more than 31 days, the theoretical default days are determined by adding the number of days in default in refinancing and minimum default in the category the debtor had at the time of refinancing, and based on these theoretical default days, he or she will be reclassified in the category corresponding to said default, as if it was real. As to the date of these financial statements, the Bank started implementing the detailed regulation.

The individual mortgage loans granted and managed by the Retail Bank Network, in which said banks assume 100% of funds flow guarantees, have been classified pursuant to the categories corresponding to financial institutions involved pursuant to BCRA standards.



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As of June 30, 2006, the Bank's Risk and Credit Committee decided to maintain a 100% coverage of the loan loss reserve, relative to the total amount of those loans classified as non-performing.

Based on the foregoing, the Board of Directors of the Bank believes that the allowance for loan losses set up are sufficient to cover the minimum reserves required by Argentine Banking GAAP rules.

**5.8. Mortgage Related Insurance**

The Bank records provisions for incurred but not reported insurance claims and pending insurance claims based on historical loss experience. The Bank provides property damage, life and unemployment insurance for its mortgage loan customers as well as for debtors of loans which the Bank services. Income from insurance premiums is recognized as it is charged as a component of the monthly loan installment under Income from services in the accompanying consolidated statement of income.

The Bank has set up a reserve for incurred but not reported and pending insurance claims for Ps.10,513 and Ps.10,947 as of June 30, 2008 and 2007, respectively.

The Bank discontinues accruing insurance premiums for individual loans when the related loan is over 90 days past due.

**5.9. Loans in trust pending securitization**

The Bank has executed various financial trust agreements under which it has transferred the fiduciary ownership of certain of its mortgage loans to other financial entities as trustees for the benefit of trust. Once the mortgage loans have been transferred, the trust fund issues the corresponding debt securities and certificates of participation and remits the proceeds to the Bank. The Bank may also retain an ownership interest in the trust in the form of debt securities or certificates of participation.

These receivables, corresponding to pesified mortgage loans registered in the name of the trustee, are recorded as an asset of the Bank, since the trustee has not issued the corresponding debt securities and certificates participation, and therefore the Bank maintains the dual roles of trustor and sole beneficiary.

All the loans in trust at June 30, 2008 are held in a trust where the Bank is the only beneficiary and are not intended to be securitized.

**5.10. Investments in Other Companies**

Investments in Other Companies include equity interest in companies where a minority interest is held.

Under Argentine Banking GAAP, the equity method is used to account for investments where a significant influence in the corporate decision making process exists.

Permanent equity investments in companies where corporate decision are not influenced, are accounted for at the lower of cost and the equity method.

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Bank premises and equipment are recorded at cost, adjusted for inflation (as described in Note 1.d), less accumulated depreciation.

Depreciation is computed under the straight-line method over the estimated useful lives of the related assets. The estimated useful lives for bank premises and equipment are as follows:

Buildings	50 years
Furniture and fixtures	10 years
Machinery and equipment	5 years
Other	5 years

The cost of maintenance and repairs of these properties is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of income.

The Bank has recorded under Miscellaneous assets properties received in lieu of payment of loans. These assets are initially recognized at the lower of market value or the value of the loan, net of allowances and subsequently, adjusted for inflation (as described in Note 1.d), and depreciation. Depreciation of Miscellaneous assets is also computed under the straight-line method over the estimated useful of the related assets.

**5.12. Intangible Assets, Net**

Intangible assets represent software expenses as well as start-up costs. These assets are carried at cost, adjusted for inflation (as described in Note 1.d), less accumulated amortization. Intangible assets are amortized under the straight-line method over their estimated useful life.

**5.13. Other Financial Instruments**

On January 29, 2004, the Bank entered into a transaction to partially hedge its Stock Appreciation Right clause ( StARS ) included in the issuance of the Medium-term Secured Facility. This transaction includes the acquisition of 71,100,000 Class D ordinary shares of Banco Hipotecario SA (see Note 29.a.). The amount agreed under this transaction was US\$17,519. The Bank recognized the right to receive its shares as an asset, which is marked to market based on the market value of its shares at year end. The maturity date is January 30, 2009.

The rights arising from this purchase have been valued at the lower of the market price of the underlying asset or average quotation price for the last two months.

In order to offset the CER index-adjustable foreign currency assets and liabilities the Bank enter into several repurchase agreements with certain international entities, which, in aggregate amounted to US\$ 714,315 of face value of BODEN 2012.

Underlying assets of repurchase agreements with BODEN 2012 have been recorded following the criteria mentioned in the first paragraph of Note 5.2.



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As of June 30, 2008, the Bank recorded Ps. 22,965 (asset position) as reverse repurchase agreements involving government securities.

**5.14. Miscellaneous receivables**

BODEN 2012 deposited as collateral, have been valued following the criteria described in the mentioned in the first paragraph of Note 5.2.

**5.15. Minority interest**

The breakdown of supplementary equity interests recorded in *Minority interests* in the accompanying consolidated balance sheets is as follows:

	%	June 30	
		2008	2007
BHN Sociedad de Inversión SA	0.01%	Ps. 1	Ps. 1
BACS Banco de Crédito y Securitización SA	30.00%	Ps. 33,374	Ps. 32,937
Total		Ps. 33,375	Ps. 32,938

**5.16. Income Tax**

The Bank recognizes income tax charges and liabilities on the basis of the tax returns corresponding to each fiscal year at the statutory tax rates. As of June 30, 2008, 2007 and 2006, the corporate tax rate was 35%. Under Argentine Banking GAAP the Bank does not recognize deferred income taxes.

**5.17. Statements of Cash Flows**

The consolidated statements of cash flows were prepared using the measurement methods prescribed by the BCRA, but in accordance with the presentation requirements of Statement of Financial Accounting Standards N° 95: *Statement of Cash Flows* ( SFAS 95 ).

For purposes of reporting cash flows, *Cash and cash equivalents* include *Cash and due from banks* .

**5.18. Use of Estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the financial statement dates and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include those required in the accounting of the reserve for loan losses and the reserve for contingencies. Since management's judgment involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates which would have a positive or negative effect on future period results.

**5.19. Dismissal indemnities**

The disbursements in respect to dismissal indemnities are expensed in the year in which they occur.





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**5.20. Personnel benefits**

The Bank has set up provisions recorded at the present value of the remaining payment for its employees' retirement plans.

**5.21. Reclassifications**

Certain balances from prior periods have been reclassified to conform to the twelve-month period ended June 30, 2008 presentation.

**5.22. Deposits**

Deposits have been valued at their placement value, plus adjustments from application of the CER and accrued interest, when applicable.

**5.23. Reserve for contingencies**

The Bank estimates contingencies and records them in Reserve for contingencies, under Liabilities. These reserves cover various items, such as insurance risk, provisions for lawsuits, other contingencies, etc.

**5.24. Other liabilities from financial transactions**

Unsubordinated negotiable obligations have been valued at their residual value plus interests accrued.

**6. Summary of differences between Argentine Banking GAAP and Argentine GAAP**

The Bank's accounting policies and financial statement presentation generally conform to the rules prescribed by the Argentine Central Bank which prescribes the reporting and disclosure policies for all banks and financial institutions in Argentina. These rules differ in certain respects from Argentine GAAP. The following is a summary of the principal differences between Argentine Banking GAAP and Argentine GAAP:

Valuation criteria

a) Compensation to be received, per Sections 28 and 29 of National Executive Branch Decree 905/02, and investment account securities

As of June 30, 2008 and 2007, the Bank carries the government securities received and to be received in the Government Securities holdings in investment accounts, Miscellaneous receivables and Other Receivables for financial transactions captions, respectively, arising from the compensation established by Sections 28 and 29 of National Executive Branch Decree 905/02.

Under Argentine GAAP, those assets should be marked to market with the resulting gain or loss reflected in the income statement, unless the Bank demonstrates the ability and the intention to maintain these securities upon maturity.

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b) Accounting for income taxes

The Bank determines income tax at the statutory rate applicable to the estimated taxable income, without considering the effect of any timing differences between the accounting and taxable results. Under Argentine GAAP applicable in the Autonomous City of Buenos Aires, income tax must be recognized according to the deferred tax method and, therefore, deferred tax assets or liabilities based on temporary differences must be recognized.

c) Secured Bonds and other government securities

As established by Decree 1579/02 the Bank and the Fiduciary Fund for the Provincial Development exchanged loans to the provincial governments for Provincial Secured Loans (BOGAR) which at June 30, 2008 and 2007 have been disclosed under Government and Corporate Securities.

At those dates, the Bank valued the two assets at the lower of present or technical value, as established by the BCRA, except for those granted as collateral for advances granted by the Governing Entity for the subscription of the bonds foreseen in Decree 905/02. Under Argentine GAAP, those assets should be valued at their quotation values net of estimated selling expenses, charging the quotation differences to the results for each period or fiscal year, except there is a possibility and intention to carry them until maturity.

Discount Bonds have been valued pursuant to the provisions of Communication A 4270, supplementary rules and amendments thereof. Under professional accounting standards, those bonds should be valued at their quotation value less estimated selling expenses.

d) Derivatives

Under Argentine Banking GAAP, derivatives financial instruments have been valued according to the criterion described in Note 5.5. Under Argentine GAAP, the derivatives financial instruments are recorded at fair value.

e) Receivables and debts stemming from refinancing

Under Argentine GAAP, when certain receivables and debts are replaced by others the terms and conditions thereof are substantially different to the original ones, the existing account shall be closed and a new receivable or debt shall be recorded, the accounting measurement thereof shall be made on the best possible estimate of the amount payable or receivable, discounted at a market rate that reflects market valuations on the time value of money and the specific risks of such assets and liabilities. Said transactions are valued under Argentine Banking GAAP standards based on the rates contractually agreed upon and, as the case may be, the risk is measured pursuant to the classification and provisioning criteria specifically set forth.

f) Financial Trusts

Under Argentine Banking GAAP, the certificates of participation in financial trusts have been valued according to the equity method of accounting. In addition, debt securities issued by the trust are recorded at face value, adjusted by CER, when applicable, plus accrued interest and less the negative amount of the equity method applied to the certificates of participation, when applicable. Under Argentine GAAP the certificates of participation and debt securities must be recorded at the lesser of the amortized cost and the market value.

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g) Commissions, Interest and Costs related to Loans and Credit Cards

Pursuant to Argentine GAAP, certain items for commissions, fees, charges and costs incurred in connection with loans or credit cards, should be capitalized according to future income. This criterion is not applied under Argentine Banking GAAP.

**7. Restricted Assets**

At June 30, 2008 and 2007, the Bank has deposited BODEN 2012 for Ps. 131,548 and Ps. 114,253, respectively as collateral for the currency swap transaction.

As of June 30, 2008, Mercado de Valores de Buenos Aires SA's share belonging to BH Valores Sociedad de Bolsa SA (ex-Hexagon Argentina SA Sociedad de Bolsa) is pledged on behalf of Chubb Argentina de Seguros SA.

On July 07, 2006, BACS Banco de Crédito y Securitización SA assigned Senior trust debt securities of the BACS III Mortgage Trust as collateral under the Warehousing Credit Line Agreement executed with International Finance Corporation.

**8. Government and Corporate securities**

Government and Corporate Securities held by the Bank consist of the following balances:

	2008	June 30, 2007
Held for investment		
BODEN 2012- Compensatory bond (denominated in US\$) (*)	Ps. 505,797	Ps. 1,276,225
Held for Trading		
- Quoted		
Argentine government bonds (denominated in Pesos)	111,795	167,141
Corporate equity securities (denominated in Pesos)	85,497	117,462
Argentine Central Bank bills Lebacks (denominated in Pesos)	117,879	403,902
Corporate equity securities (denominated in US\$)	40,638	46,377
- Unquoted		
National and Guaranteed government bonds (denominated in Pesos)	229,998	148,834
<b>Total</b>	<b>Ps. 1,091,604</b>	<b>Ps. 2,159,941</b>

(\*) As of June 30, 2008 and 2007 the bank has registered Ps.1,564,749 and Ps.1,247,920, respectively, in Other receivables from financial transactions and in Miscellaneous receivables corresponding to repo and currency swap transactions. In addition, during the year BODEN 2012 bond has amortized 12.5% of its face value.



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**9. Loans**

Descriptions of the categories of loans in the accompanying balance sheets include:

*Mortgage loans:**Construction project loans* loans made to various entities for the construction of housing units*Individual residential mortgage loans* mortgage loans made to individuals to finance the acquisition, construction, completion, enlargement, and/or remodeling of their homes

## Other loans:

*Certain financial and non-financial sector loans including loans to credit cardholders and to individuals**Public Loans* loans to National Government and Provinces

Under Argentine Central Bank regulations, the Bank must disclose the composition of its loan portfolio by non-financial Public sector, and financial and non-financial private sector. Additionally, the Bank must disclose the type of collateral pledged on non-financial private sector loans. The breakdown of the Bank's loan portfolio in this regard is as follows:

	2008	June,	2007
Non-financial public sector	Ps. 95,002		Ps. 113,516
Financial sector	28,798		88,604
Non-financial private sector			
With preferred guarantees (a)	2,206,943		1,768,215
Without preferred guarantees (b)	2,236,086		1,652,685
Accrued interest receivable	48,555		38,496
Reserve for loan losses (see Note 10)	(214,551)		(136,120)
Total	Ps. 4,400,833		Ps. 3,525,396

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- (a) Preferred guarantees include first priority mortgages or pledges, cash, gold or public sector bond collateral, certain collateral held in trust, or certain guarantees by the Argentine government.
- (b) Includes personal loans for Ps. 839,640 and Ps. 509,186, credit cards loans for Ps. 766,415 and Ps. 381,132, overdraft facilities Ps. 261,651 and Ps. 419,797 and other loans for Ps. 368,380 and Ps. 342,570, as of June 30, 2008 and 2007, respectively.

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**10. Allowance for loan losses**

The activity in the allowance for loan losses for the periods presented is as follows:

a) Loans:

	June 30,	
	2008	2007
Balance at beginning of period	Ps. 136,120	Ps. 145,297
Provision charged to income	147,656	42,782
Loans charged off	(69,225)	(51,959)
Balance at end of period	Ps. 214,551	Ps. 136,120

b) Loans in trust pending securitization (Note 5.9):

	June 30,	
	2008	2007
Balance at beginning of period	Ps. 34,684	Ps. 33,840
Provision charged to income	2,205	891
Loans charged off	(18,399)	(47)
Balance at end of period	Ps. 18,490	Ps. 34,684

**11. Other receivables from financial transactions**

The breakdown of other receivables from financial transactions, by type of guarantee for the periods indicated, is as follows:

	June 30,	
	2008	2007
Preferred guarantees, including deposits with the Argentine Central Bank	Ps. 718,139	Ps. 758,275
Unsecured guarantees (1)	3,091,291	2,954,104
Subtotal	3,809,430	3,712,379
Less: Allowance for loan losses	(18,490)	(34,684)
Total	Ps. 3,790,940	Ps. 3,677,695



- (1) Includes Ps.1,433,201 and Ps.1,133,687 of Securities receivables under repurchase agreements of BODEN 2012 and Ps.1,292,449 and Ps.1,133,603 of Amounts receivable under derivative financial instruments, as of June 30, 2008 and 2007.

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The breakdown of the caption "Other" included in the balance sheet is as follows:

	June 30,	
	2008	2007
Class B subordinated mortgage-backed bonds	Ps. 214,745	Ps. 222,018
Certificates of participation	180,860	223,372
Bonds held in the Bank's portfolio (1)	164,856	139,997
Treasury shares receivable (See Note 5.13)	80,343	219,272
Assignment of outstanding mortgage loans (2)		52,137
Other	104,954	104,462
<b>Total</b>	<b>Ps. 745,758</b>	<b>Ps. 961,258</b>

- (1) The Bank carries long-term Negotiable Obligations for Ps. 119,778 and Ps. 116,945 as of June 30, 2008 and 2007, respectively, held in its portfolio for purposes of their possible exchange with holders that did not participate in the initial offering.
- (2) On June 29, 2007, the Bank accepted the offer to assign certain mortgage loans under collection enforcement proceedings with a book value of Ps. 124,744 as of March 31, 2007, most of which were recorded in memorandum accounts.

**12. Miscellaneous receivables**

Miscellaneous receivables are comprised of the following for the periods indicated:

	June 30,	
	2008	2007
Withholdings, credits and prepaid income tax	Ps. 5,926	Ps. 3,863
Receivables from governmental entities	488	477
Recoverable expenses, taxes, and advances to third parties	3,421	241
Attachments for non-restructured ON	66,475	91,626
Guarantee deposit (1)	131,548	114,253
Presumptive minimum income - Credit tax (Note 28)	104,085	77,888
Receivables from master servicing activities	6,196	4,828
Other Directors fees	1,367	2,548
Loans to Bank staff	73,691	6,953
Other	64,498	27,170
<b>Subtotal</b>	<b>457,695</b>	<b>329,847</b>
Less: Allowance for collection risks	(3,168)	(3,870)
<b>Total</b>	<b>Ps. 454,527</b>	<b>Ps. 325,977</b>

- (1) As of June 30, 2008 and 2007 guarantee deposits comprised mainly BODEN 2012 granted as collateral to Ps. 131,548 and Ps. 114,253 deposit securing financial agreements, respectively.

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**13. Bank Premises and Equipment and Intangible Assets**

The book values of major categories of bank premises and equipment and total accumulated depreciation as of the periods indicated are as follows:

	June 30,	
	2008	2007
Land and buildings	Ps. 106,479	Ps. 107,609
Furniture and fixtures	24,947	20,265
Machinery and equipment	68,937	55,507
Other	3,023	2,965
Accumulated depreciation	(92,322)	(81,346)
Total	Ps. 111,064	Ps. 105,000

Intangible assets, net of accumulated amortization, as of the end of periods indicated are as follows:

	June 30,	
	2008	2007
Third parties fees, re-engineering, restructuring and capitalized software costs	60,196	29,666
Total	Ps. 60,196	Ps. 29,666

**14. Miscellaneous assets**

Miscellaneous assets consists of the following as of the end of each period:

	June 30,	
	2008	2007
Properties held for sale	Ps. 11,622	Ps. 11,109
Assets leased to others	5,977	5,977
Other	4,667	6,700
Accumulated depreciation	(7,988)	(7,603)
Total	Ps. 14,278	Ps. 16,183



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**15. Reserve for contingencies**

The reserve for contingencies as of the end of each period is as follows:

	June 30,	
	2008	2007
Legal Contingencies (1)	Ps. 86,328	Ps. 103,463
Incurred but not reported and pending insurance claims (2)	10,513	10,947
Contingency risks (3)	32,380	32,003
Tax Provision	6,073	8,149
Stock Appreciation Rights (StAR)	34,367	67,064
Directors Compensation Plan	12,767	40,588
<b>Total</b>	<b>Ps. 182,428</b>	<b>Ps. 262,214</b>

- (1) Includes legal contingencies and expected legal fees.
- (2) As of June 30, 2008 and 2007, it is composed of: technical commitments for Ps. 163 and Ps. 856 (pending risks for Ps.163 and Ps. 856, without generating charges against the reserve for insufficient premiums), Debts to insured for Ps. 1,900 and Ps. 1,841 (outstanding claims for Ps. 1,284 and Ps. 1,228, IBNR for Ps. 616 and Ps. 613) and Catastrophe Allowances for Ps. 8,450 and Ps. 8,250, respectively.
- (3) Comprised of:

	June 30,	
	2008	2007
Contingency sale of non-performing mortgage portfolio	Ps. 1,000	Ps. 7,000
Retirement plans	29,131	25,003
Municipality guarantee fund (a)	2,249	
<b>Total</b>	<b>Ps. 32,380</b>	<b>Ps. 32,003</b>

- (a) This fund represents the amount estimated for future claims or contingencies deriving from recovery of guarantee funds during the period.

**16. Other Liabilities from Financial Transactions Argentine Central Bank**

The amounts outstanding corresponding to the Argentine Central Bank debt and advances, as of the end of twelve month periods are as follows:

June 30,

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	<b>2008</b>	<b>2007</b>
Advances to be requested for the acquisition of the Hedge bond (1)	Ps. 239,104	Ps. 218,031
Total	Ps. 239,104	Ps. 218,031

(1) Accrued interest plus CER amounted to Ps.137,989 and Ps.116,911 at June 30, 2008 and 2007, respectively. The maturity of this advance will be determined once the Hedge bond is received. Includes CER plus interest at 2% until February 3, 2003. The Bank has been paying the advances to be requested for the acquisition of the Hedge bond for a face value of US\$ 773,531 thousand.

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**17. Other Liabilities from Financial Transactions Other Banks and International Entities**

The breakdown of the bank debt is as follows:

Description	Annual interest rate	Maturity date	June 30,	
			2008	2007
Warehousing Credit Line Agreement with IFC.	8.60%	2009	42,360	40,953
Interbank loans in pesos	8.75%	2008	18,712	190,666
<b>Total</b>			<b>61,072</b>	<b>231,619</b>

On January 17, 2006 BACS Banco de Crédito y Securitización SA executed a Warehousing Credit Line Agreement with International Finance Corporation. Under this agreement IFC grants the Bank line of credit for up to of US\$ 50,000 in two tranches of US\$ 25,000 for a term of three years.

**18. Other Liabilities from Financial Transactions Bonds**

The balance of the negotiable obligations has been included in the Other liabilities for financial transactions caption. The residual face values of the different negotiable obligation series issued are as follows:

Description	Issue date	Maturity date	Annual interest rate	June 30,		
				2008	2007	
<b>EMTN (CHA)</b>						
Series III (US\$ 100,000 thousand)	07/08/96	07/08/06	a	10.625%	272	1,113
<b>GMTN</b>						
Series I (US\$ 300,000 thousand)	17/04/98	17/04/03	a	10.000%	10,322	27,669
Series IV (US\$ 175,000 thousand)	03/12/98	03/12/08	a	13.000%		1,360
Series VI (US\$ 135,909 thousand)	15/03/99	15/03/02	a	12.250%	454	464
Series XVI (US\$ 125,000 thousand)	17/02/00	17/02/03	a	12.625%	16,418	26,797
Series XVII (EURO 100,000 thousand)	27/03/00	27/03/02	a	9.000%	2,907	2,554
Series XXIII (EURO 150,000 thousand)	06/02/01	06/02/04	a	10.750%	13,682	14,319
Series XXIV (US\$ 107,000 thousand)	15/03/02	15/03/05	a	9.000%	5,747	12,551
Series XXV (EURO 165,700 thousand)	15/03/02	15/06/05	a	8.000%	5,461	6,068
Long term bond (US\$ 449,880 thousand)	15/09/03	01/12/13	b	3.0 6.0%	478,108	563,012
Long term bond (EURO 278,367 thousand)	15/09/03	01/12/13	b	3.0 6.0%	895,838	946,246
Series 4 (US\$ 150,000 thousand)	16/11/05	16/11/10	a	9.750%	328,004	456,855
Series 4-Trnache II (US\$ 100,000 thousand)	26/01/06	16/11/10	a	9.750%	302,061	308,559
Series 5 (US\$ 250,000 thousand)	27/04/06	27/04/16	a	9.750%	745,242	760,242
Series 6 (US\$ 150,000 thousand)	21/06/07	21/06/10	a	11.250%	405,708	459,377



3,210,224 3,587,186

- (a) fixed interest rate
- (b) variable interest rate

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The contractual maturities of bonds are as follows as of June 30, 2008:

Past due (*)	Ps.	55,263
June 30, 2009		228,900
June 30, 2010		634,608
June 30, 2011		858,965
June 30, 2012		228,900
Thereafter		1,203,588
<b>Total</b>	<b>Ps.</b>	<b>3,210,224</b>

(\*) Includes debtors who did not accept the restructuring process.

The General Shareholders Meeting held on May 23, 2008, approved the creation of a new Global Program for issuing Negotiable Obligations, not convertible into shares, with or without collateral, for an amount of up to two billion US dollars (US\$ 2,000,000,000) or the equivalent thereof in pesos.

**19. Prepayment of financial debt**

On September 21, 2007, the anticipated redemption of negotiable obligations Series 4 maturity date 2010 was made for a face value of US\$ 40,000 thousand.

Between October 2007 and January 2008, out of court settlements were agreed with defaulting holders of negotiable obligations, who had not accepted the exchange offer made by the Bank back in January 2004. Settlements amounted to a face value of US\$ 11,401 thousand and Euro 819 thousand.

On January 29, 2008, the Bank launched an offer to purchase in cash up to US\$ 56,000 thousand of the total Negotiable Obligations capital in US dollars due in 2013 and the equivalent to a capital amount of up to US\$ 56,000 thousand in Euro-denominated negotiable obligations due in 2013. The purchase offer expired on February 27, 2008. As a result of this transaction, securities were bought back for US\$ 16,536 thousand and US\$ 44,517 thousand for the series in US dollars and Euro, respectively.

**20. Level I American Depositary Receipts Program**

On March 27, 2006 the US Securities and Exchange Commission (SEC) has made effective the Level I American Depositary Receipts, ADR program.

This program allows foreign investors to buy the Bank's stock through the secondary market where ADRs are traded freely within the United States. The Bank of New York has been appointed as depositary institution.

**21. Derivative Financial Instruments**

1. Cross Currency Swaps: Cross currency swaps were carried out in order to reduce the volatility of the Bank's results derived from variations in the Euro quotation, in view of the net liability position of that currency, stemming from the restructuring of Euro-denominated negotiable obligations. Through these transactions, the Bank receives Euros, in exchange for a certain amount of US dollars, guaranteed with BODEN 2012. The Bank records the changes in the assets and liabilities position in Euros and US dollars plus the corresponding interest rate. Within this framework, the following transactions have been carried out:

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On March 5, 2004, the Bank and Deutsche Bank AG executed a currency swap contract for Euros 150,000 thousand which due date shall be December 1, 2013.

On October 29, 2004, the Bank and Credit Suisse First Boston executed a currency swap contract for Euros 70,000 thousand which due date shall be December 1, 2013.

On July 25, 2007, the Bank and Deutsche Bank AG executed a currency swap contract for Euros 30,000 thousand which due date shall be December 1, 2013.

The net book value as of June 30, 2008 amounts of Ps. 209,619.

2. Credit Currency Swaps: in order to reduce the volatility of the Bank's results derived from variations in the CER index, in view the net liability position stemming from obligations in pesos adjustable by said index, related to the financial assistance to be requested from the Argentine Central Bank for the subscription of BODEN 2012 pursuant to the provisions of Section 29, subsect. g) of Decree 905/02, the Bank carried out currency swap transactions paying US dollars and receiving in exchange CER index. These transactions are guaranteed with BODEN 2012. The Bank records positive results for its assets position in CER and allocates its results stemming from its liabilities position in accordance with the US dollar variations plus the interest rate agreed upon. Within this framework, the following transactions have been carried out:

On January 25, 2005, the Bank entered into a currency swap contract (Cross Currency Swap) with Deutsche Bank AG. According to this transaction, the Bank receives interest at a rate of 2% on a notional principal of Ps. 438,870 adjusted by applying the CER and pays interest at 180-day LIBOR plus 435 basis points on a notional principal of US\$ 150,000 thousand without transfer of principal on each due date.

On February 1, 2005, the Bank entered into a currency swap contract (Cross Currency Swap) with Credit Suisse First Boston. According to this transaction, the Bank receives interest at a rate of 2% on a principal of Ps. 87,537 adjusted by applying the CER and pays interest at 180-day LIBOR plus 420 basis points on a principal of US\$ 30,000 thousand.

The net book value as of June 30, 2008 amounts of Ps. 112,046.

3. Forward contracts: In order to balance its foreign currency global position, the Bank carried out forward transactions under which it commits to receive US dollars and deliver pesos. Within this framework, on March 23, 2006, the Bank and Deutsche Bank AG entered into a currency swap contract involving US\$ 100,000 thousand and Ps. 307,500. The maturity date is March 23, 2046.

The net book value as of June 30, 2008 amounts of Ps. (206).

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4. Interest rate Swaps: In order to hedge the position relative to issuance of debt at fixed rate and giving consideration to the holdings of floating rate securities, interest rate swap agreements have been subscribed for transactions in foreign currencies through which the Bank receives fixed rate and pays the rate agreed upon during the first year and a variable rate for the remaining term. Within this framework, during the period from April to June 2007 interest rate swap agreements were subscribed with different financial institutions for Ps. 115,000. According to these transactions, the Bank receives a fixed rate (established in 9.20% and 10.20%) and pay a variable rate BADLAR. The due date of the last of these transactions shall be June 2010.

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The net book value as of June 30, 2008 amounts of Ps. (420).

5. CER Swap linked to Secured Loans due 2008 and External Debt: On February 23, 2007, the Bank entered into a currency swap contract with Deutsche Bank AG applying local legislation through which on an initial notional principal of Ps. 621,496 adjusted by CER an annual 2.5% rate is paid and an annual 4% annual rate with monthly exchanges is received. Amortization shall be carried out in 6 half-yearly installments as from June 2009, the last installment falling due on December 2011. The Swap's objective is to adjust performance curves of sovereign bonds adjusted by CER, that of Secured Loans adjusted by CER and the existing difference between sovereign bonds with local and foreign legislation.

In addition to the interest rate paid, the Bank assumed the credit risk of the Secured Loans issued by the National Government. In any event of default of those loans, the Bank committed to pay the defaulted amount to Deutsche Bank.

The net book value as of June 30, 2008 amounts of Ps. 1,217.

6. Futures: Future currency transactions have been carried out through which the forward purchase and sale of foreign currencies (US dollar) was agreed upon. These transactions were performed as hedge for foreign currency position.
7. On July 17, 2006, BACS entered into a currency swap contract with a local Financial Entity. According to this transaction, the Bank receives Argentine pesos adjusted by CER on a notional principal of Ps. 48,300 and pays interest fixed rates of 12.3% without transfer of principal on each due date.

The net book value as of June 30, 2008 amounts of Ps. (539).

**22. Securitization of mortgage loans**

The Bank created sixteen separate mortgage trusts (BHN I Mortgage Fund, BHN II Mortgage Trust, BHN III Mortgage Trust, BHN IV Mortgage Trust, BACS I Mortgage Trust, BACS Funding I Mortgage Trust, BACS Funding II Mortgage Trust, BHSA I 2002 Mortgage Trust, CHA I Financial Trust, CHA II Financial Trust, CHA III Financial Trust, CHA IV Financial Trust, CHA V Financial Trust, CHA VI Financial Trust, CHA VII and CHA VIII Financial Trust) under its US securitization program and Cédulas Hipotecarias Argentina program; and a consumer trust (Cédulas Personales I Financial Trust) under BACS's Global Trust Securities Program. For each mortgage or consumer trust, the Bank transfers a portfolio of mortgages or consumer originated by banks and other financial institutions in trust to the relevant trustee. The trustee then issues Class A senior Bonds, Class B subordinated bonds and certificates of participation. The trust's payment obligations in respect of these instruments are collateralized by, and recourse is limited to, the trust's assets consisting of the portfolio of mortgages or consumer and any reserve fund established by the Bank for such purpose. The securitizations were recorded as sales, and accordingly, the mortgage loans conveyed to the trusts are no longer recorded as assets of the Bank.

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At the date of these financial statements the following trust funds have been set up:

	Debt Securities Class A1/AV	Debt Securities Class A2/AF	Debt Securities Class B	Participation Certificates	Total
<b>BHN I Issued on 10.29.96 (*)</b>					
Face value in Ps.	60,292	18,778	9,302	4,652	93,024
Declared Maturity Date	05.25.2005	09.25.2001	01.25.2014	01.25.2014	
<b>BHN II Issued on 05.09.97 (*)</b>					
Face value in Ps.	44,554	51,363	3,730	6,927	106,574
Declared Maturity Date	03.25.2001	07.25.2009	03.25.2012	05.25.2013	
<b>BHN III Issued on 10.29.97 (*)</b>					
Face value in Ps.	14,896	82,090	5,060	3,374	105,420
Declared Maturity Date	05.31.2017	05.31.2017	05.31.2018	05.31.2018	
<b>BHN IV Issued on 03.15.00 (*)</b>					
Face value in Ps.	36,500	119,500	24,375	14,625	195,000
Declared Maturity Date	03.31.2011	03.31.2011	01.31.2020	01.31.2020	
<b>BACS I Issued on 02.15.2001 (*)</b>					
Face value in Ps.	30,000	65,000	12,164	8,690	115,854
Declared Maturity Date	05.31.2010	05.31.2010	06.30.2020	06.30.2020	
<b>BACS Funding I Issued on 11.15.2001 (*)</b>					
Face value in Ps.				29,907	29,907
Declared Maturity Date				11.15.2031	
<b>BACS Funding II Issued on 11.23.2001 (*)</b>					
Face value in Ps.				12,104	12,104
Declared Maturity Date				11.23.2031	
<b>BHSA I Issued on 02.01.2002</b>					
Face value in Ps.				43,412	43,412
Declared Maturity Date				02.01.2021	
<b>CHA I Issued on 6.25.2004</b>					
Face value in Ps.	40,000		5,000	5,000	50,000
Declared Maturity Date	12.31.2010		03.31.2012	03.31.2012	
<b>CHA II Issued on 11.19.2004</b>					
Face value in Ps.	39,950		4,995	5,002	49,947
Declared Maturity Date	12.31.2011		01.31.2016	01.31.2013	

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	Debt Securities Class A1/AV	Debt Securities Class A2/AF	Debt Securities Class B	Participation Certificates	Total
<b>CHA III Issued on 04.07.2005</b>					
Face value in Ps.	50,000		6,250	6,270	62,520
Declared Maturity Date	04.30.2012		12.31.2013	01.31.2020	
<b>CHA IV Issued on 6.22.2005</b>					
Face value in Ps.	54,900		4,848	4,849	64,597
Declared Maturity Date	01.31.2013		07.31.2023	07.31.2023	
<b>CHA V Issued on 10.20.2005</b>					
Face value in Ps.	53,301			11,700	65,001
Declared Maturity Date	12.31.2014			04.30.2023	
<b>CHA VI Issued on 04.07.2006</b>					
Face value in Ps.	56,702			12,447	69,149
Declared Maturity Date	12.31.2016			12.31.2026	
<b>CHA VII Issued on 09.27.2006</b>					
Face value in Ps.	58,527			12,848	71,375
Declared Maturity Date	08.31.2017			02.28.2028	
<b>CHA VIII Issued on 03.26.2007</b>					
Face value in Ps.	61,088			13,409	74,497
Declared Maturity Date	08.31.2024			08.31.2028	
<b>Cedupe I Issued on 04.03.2008</b>					
Face value in Ps.	50,514			8,914	59,428
Declared Maturity Date	07.31.2010			11.30.2013	

(\*) Trusts subject to the pesification of foreign currency assets and liabilities at the \$1.00=US\$1 rate established by Law 25561 and Decree 214, as they were created under Argentine legislation. Certain holders of Class A debt securities have started declarative actions against the trustee pursuant to the application of the pesification measures set forth in Law 25561 and Decree 214, in order to maintain the currency of origin of said securities. In these declarative actions, the Bank acted together with BACS as third party. The trustee has duly answered to this claim, being the final resolution to this situation is still pending.

**23. Miscellaneous Liabilities**

Sundry creditors and other miscellaneous liabilities consist of the following as of the end of each period:

	June 30,	
	2008	2007
Sundry creditors:		
Accrued fees and expenses	Ps. 34,210	Ps. 22,919
Unallocated collections	1,518	7,881
Withholdings and taxes payable	6,361	3,439



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Other	2,869	4,281
Total	Ps. 44,958	Ps. 38,520
<b>Other:</b>		
Directors and Syndics accrued fees	Ps. 7,757	Ps. 6,421
Payroll withholdings and contributions	6,352	6,395
Gratifications	4,600	6,598
Salaries and social securities	3,992	4,019
Total	Ps. 22,701	Ps. 23,433

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**24. Income from Services and Expenses on Services***Income from Services Commissions and Other*

Commissions earned consist of the following for each period:

	2008	June 30, 2007	2006
Loan servicing fees from third parties	Ps. 2,599	Ps. 1,830	Ps. 1,438
Commissions from FONAVI	5,660	4,086	3,335
Commissions for credit cards	104,649	47,914	12,287
Other (1)	38,229	10,214	17,736
<b>Total</b>	<b>Ps. 151,137</b>	<b>Ps. 64,044</b>	<b>Ps. 34,796</b>

(1) Includes Ps. 20,071 of Commissions for BHN Inversión SA as of June 30, 2008, and Ps. 11,950 of Commissions for technological services (MSI), as of June 30, 2006, respectively.

Other income from services is comprised of the following for each period:

	2008	June 30, 2007	2006
Reimbursement of loan expenses paid by third parties	Ps. 33,203	Ps. 12,995	Ps. 7,748
Other	10,031	6,323	5,011
<b>Total</b>	<b>Ps. 43,234</b>	<b>Ps. 19,318</b>	<b>Ps. 12,759</b>

*Expenses on Services Commissions*

Commissions expensed consist of the following for each period:

	2008	June 30, 2007	2006
Structuring and underwriting fees	Ps. 8,209	Ps. 9,543	Ps. 9,195
Retail bank originations	52	105	165
Collections	360	427	273
Banking services	63,066	46,339	16,220

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Commissions paid to real state agents	14,032	8,239	3,007
Total	Ps. 85,719	Ps. 64,653	Ps. 28,860

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**25. Other Miscellaneous Income and Miscellaneous Expenses**

Other miscellaneous income are comprised of the following for each year:

	2008	June 30, 2007	2006
Income on operations with premises and equipment and miscellaneous assets	Ps. 5,743	Ps. 939	Ps. 3,497
Recovery of Director's fees			9,765
Capitalization of the presumptive minimum income tax			24,640
Bank loan interest	3,909	71	
Recovery of guarantee funds	7,495		
Other	6,194	3,632	6,444
<b>Total</b>	<b>Ps. 23,341</b>	<b>Ps. 4,642</b>	<b>Ps. 44,346</b>

Other miscellaneous expenses are comprised of the following for each period:

	2008	June 30, 2007	2006
Depreciation of miscellaneous assets	Ps. 455	Ps. 417	Ps. 380
Gross revenue tax	473	590	344
Other taxes	7,566	9,085	7,727
BOGAR and Secured Loans valuation adjustment			20,806
Equity in loss of affiliates		6,141	
Donations	2,283	1,882	
Allocation of mortgage loan relief fund	1,351		
Other	8,139	5,283	7,665
<b>Total</b>	<b>Ps. 20,267</b>	<b>Ps. 23,398</b>	<b>Ps. 36,922</b>

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**26. Balances in Foreign Currency**

The balances of assets and liabilities denominated in foreign currency (principally in US dollars and Euros) are as follows:

Assets:	
Cash and due from banks	Ps. 436,755
Government and corporate securities	544,785
Loans	224,979
Other receivables from financial transactions	3,124,957
Miscellaneous receivables	148,090
In-process items	480
Total as of June 30, 2008	Ps. 4,480,046
Total as of June 30, 2007	Ps. 4,526,643
Liabilities:	
Deposits	Ps. 380,032
Other liabilities from financial transactions	4,819,899
Miscellaneous liabilities	695
In-process items	124
Total as of June 30, 2008	Ps. 5,200,750
Total as of June 30, 2007	Ps. 4,891,468

**27. Income Tax**

Prior to January 1, 1996, the Bank was exempt from the payment of income tax. Beginning January 1, 1996, the Bank was only exempt from the payment of income tax on income from its operations, assets, and interest income attributable to its residential mortgage lending activities. Effective October 1997, as a result of conversion to a *sociedad anónima*, the Bank is subject to income tax in Argentina except on its income attributable to mortgage loan commitments made prior to that date.

As a general rule, the income tax law allows the deduction of expenses incurred to obtain or maintain the source of taxable income. For purposes of deducting from the taxable revenues those expenses incurred to obtain jointly taxable and non-taxable income, expenses should be segregated accordingly.

Furthermore, the fiscal rule gives prerogative to the direct allocation method rather than the apportionment method to determine the deductible expenses. Thus, the apportionment method should only be used when it is not possible to make direct allocation of expenses to the taxable revenue.

The Bank has a tax net operating loss carry forward of Ps. 309,868 and Ps. 838,675 at June 30, 2008 and 2007, respectively.

**28. Presumptive Minimum Income Tax**

The Bank is subject to presumptive minimum income tax. Pursuant to this tax regime, the Bank is required to pay the greater of the income tax or the presumptive minimum income tax. Any excess of the presumptive minimum income tax over the income tax may be carried forward and recognized as a tax credit against future income taxes payable over a 10-year period. The presumptive minimum income tax provision is calculated on an individual entity basis at the statutory asset tax rate of 1% and is based upon the taxable assets of each company as of the end of the year, as defined by Argentine law. For financial entities, the taxable basis is 20% of their computable assets.

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As accepted by the BCRA, at June 30, 2008 the Bank capitalized the Ps.103,167 tax credit corresponding to the fiscal years between 1999 and 2007.

The tax credit balances held by BHSA at the closing date of these financial statements are the following:

Fiscal Year	Tax credit balance
1999	4,441
2000	6,034
2001	5,084
2002	12,516
2003	12,471
2004	15,517
2005	12,889
2006	15,581
2007	18,634

**29. Shareholders Equity**

The following information relates to the statements of changes in the Bank's shareholders' equity.

**(a) Common Stock**

Prior to June 30, 1997, the Bank's capital stock consisted of assigned capital with no par value owned 100% by the Argentine government. In accordance with the by-laws approved as a result of the conversion of the Bank to a *sociedad anónima*, the Bank's capital stock was established at Ps.1,500,000 and divided into four classes of ordinary common shares.

As of June 30, 2008, the Bank's capital stock consists of:

Shareholder	Class of Shares	Number of Shares	Total % Ownership	Voting Rights
Argentine government (through FFFRI)	A	658,530,880	43.9%	1 vote (b)
Banco Nación, as trustee for the Bank's Programa de Propiedad Participada (a)	B	75,000,000	5.0%	1 vote
Argentine government (through FFFRI)	C	75,000,000	5.0%	1 vote
Public investors	D	691,469,120	46.1%	3 votes (c)
		1,500,000,000	100%	

(a) The Bank's Programa de Propiedad Participada (PPP) is the Bank's employee stock ownership plan.

(b)

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Under the Bylaws, the affirmative vote of the holders of Class A Shares is required in order to effectuate: (i) mergers or spin-offs; (ii) an acquisition of shares (constituting a Control Acquisition or resulting in the Bank being subject to a control situation); (iii) the transfer to third parties of a substantial part of the loan portfolio of the Bank, (iv) a change in the Bank's corporate purpose; (v) the transfer of the Bank's corporate domicile outside of Argentina, and (vi) the voluntary dissolution of the Bank.

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- (c) For so long as Class A Shares represent more than 42% of the Bank's capital, the Class D Shares shall be entitled to three votes per share, except that holders of Class D Shares will be entitled to one vote per share in the case of a vote on: (i) a fundamental change in the Bank's corporate purpose; (ii) a change of the Bank's domicile to be outside of Argentina; (iii) dissolution prior to the expiration of the Bank's corporate existence; (iv) a merger or spin-off in which the Bank is not the surviving corporation; and (v) a total or partial recapitalization following a mandatory reduction of capital.

The Class B shares have been set aside for sale to the Bank's employees in the future pursuant to the PPP on terms and conditions to be established by the Argentine government. Any Class B shares not acquired by the Bank's employees at the time the Bank implements the PPP will automatically convert into Class A shares. The Class C shares are eligible for sale only to companies engaging in housing construction or real estate activities. Any Class B shares transferred by an employee outside the PPP will automatically convert to Class D shares or Class C shares transferred to persons not engaged in construction or real estate activities will automatically convert into Class D shares.

***(b) Restriction on the distribution of profits***

In accordance with the regulations of the Argentine Central Bank, 20% of the Bank's annual net income net of any adjustments for prior periods must be allocated to a legal reserve. Legal reserve may be used to absorb losses.

Under Argentine law, cash dividends may be declared and paid only out of the Bank's unrestricted retained earnings reflected in the audited annual financial statements and approved by the shareholders.

Those banks which proceed to distribution of profits must be previously authorized by the Financial and Exchange Institutions Superintendency.

Furthermore, on October 29, 2002 Argentine Central Bank restricted the distribution of cash dividends and established that the Bank should adjust its earnings to be distributed as cash dividends with the difference between the market value and the carrying value of the compensatory and hedge bonds after netting the legal reserve and other reserves established by the Bank's by-laws.

Under the contracts signed as a result of the restructuring of the Bank's financial debt, there are restrictions on the distribution of profits until such time as at least 60% of the total initial principal amount of the long-term and guaranteed tranches of the new debt has been amortized.

In addition, for the purposes of determining distributable balances, the minimum presumed income tax asset shall be deducted from retained earnings.

On April 24, 2006, the BCRA established that when the Legal Reserve is used to absorb losses, earnings shall not be distributed until the reimbursement thereof. Should the balance prior to the absorption exceed 20% of the Capital Stock plus the Capital Adjustment, profits may be distributed once the latest value is reached.

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Under the Argentine Central Bank regulations, the Bank is required to maintain minimum levels of capital ( minimum capital ). The minimum capital is based upon risk-weighted assets, and the balances of Bank premises and equipment, intangible assets and unquoted equity investments. The required minimum capital and the Bank s capital calculated under Argentine Central Bank requirements were as follows:

	<b>Minimum Capital requirement</b>	<b>Shareholders Equity</b>
June 30, 2008	Ps. 1,677,311	Ps. 2,641,937
June 30, 2007	1,874,897	2,689,044
June 30, 2006	1,040,941	2,343,701

As established for by Argentine Central Bank, effective January 2004, financial institutions were to comply with regulations on minimum capital which had been suspended until that time. Effective January 2004, an alpha 1 coefficient is to be applied to temporarily reduce the minimum capital requirement to cover credit risk attaching to holdings in investment accounts and financing granted to the national non-financial public sector until May 31, 2003. It also provides for the application of an alpha 2 coefficient effective January 2004, to temporarily reduce the minimum capital requirement to cover interest rate risk.

**30. Employee Benefit Plan**

The Bank is obligated to make employer contributions to the National Pension Plan System determined on the basis of the total monthly payroll. These expenses are recorded in Salaries and social security contributions under the Administrative expenses caption in the accompanying consolidated statements of income.

**31. Financial Instruments with Off-Balance Sheet Risk**

In the normal course of its business the Bank is party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These instruments expose the Bank to credit risk in addition to amounts recognized in the balance sheets. These financial instruments include commitments to extend credit.

Commitments to extend credit are agreements to lend to a customer at a future date, subject to such customers meeting of pre-defined contractual milestones. Typically, the Bank will commit to extend financing for construction project lending on the basis of the certified progress of the work under construction. Most arrangements require the borrower to pledge the land or buildings under construction as collateral. As of June 30, 2008 and 2007, the commitments to extend credit under these arrangements amounted to approximately Ps.54,916 and Ps.147,914, respectively. Furthermore, the Bank has a unilateral and irrevocable right to reduce or change the credit card limit, thus it considered there is no off-balance sheet risk. The total unused credit card limit at June 30, 2008 and 2007 amounts to Ps. 1,266,212 and Ps. 592,048.

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In the opinion of management, the Bank's outstanding commitments do not represent unusual credit risk. The Bank's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of those commitments.

The Bank accounts for items drawn on other banks in memorandum accounts until such time as the related item clears or is accepted. In the opinion of management, the Bank's risk of loss on these clearing transactions is not significant as the transactions primarily relate to collections on behalf of third parties. The amounts of clearing items in process were Ps. 52,782 and Ps 74,549 as of June 30, 2008 and 2007, respectively.

Additionally, the Bank recorded in memorandum accounts: i) Guarantees provided to the Argentine Central Bank for Ps. 86,209 and Ps. 101,353 as of June 30, 2008 and 2007 respectively, and ii) other guarantees provided not included in the debtor classification regulations for Ps.162,748 and Ps. 114,368 as of June 30, 2008 and 2007 respectively.

**32. Out-of-court reorganization plan**

On June 9, 2004, the Bank requested approval of an out-of-court reorganization plan from the Federal Court of Original Jurisdiction on Commercial Matters N° 14, Clerk's Office N° 28. On October 29, 2004 that court rejected the plan submitted, because it considered that financial institutions may not resort to this type of proceeding. The Bank filed an appeal against the lower court decision, which was rejected by a decision issued by Division D of the Federal Court of Appeals in Commercial Matters; notice thereof was served in May 31, 2006. Against this last Resolution, on June 15, 2006, the Bank filed an extraordinary appeal before the ante la Argentine Supreme Court of Justice, which was granted on October 13, 2006; therefore, this court shall make the final decision on the issue.

Through Resolution N° 282 dated August 16, 2006, the Superintendent of Financial and Exchange Institutions of the BCRA decided to conduct a preliminary investigation on the Bank, its Directors, members of the Syndics Committee and the Financial area Manager (who held office at that time), since it considered the provisions of item 1.3 of Resolution by the BCRA Board of Directors N° 301 dated July 24, 2003, have been violated, since it established that the Bank needed to eliminate all references to an out-of-court reorganization plan, to the terms of the external liabilities restructuring plan submitted before the monetary authority, within the framework of the provisions of Communication A 3940. This was informed to the National Securities Commission (CNV) on September 29, 2006. The Bank, as well as its Directors, members of the Supervisory Committee and the Financial area Manager have duly submitted the corresponding deposition requesting to be exempted from any kind of penalty, since to the best of their knowledge no punishable actions took place.

**33. Claim by the Federal Tax Commission**

Through note N° 42/08 dated June 3, 2008, the Federal Tax Commission served the Bank notice about a Declaratory Order issued by Executive Committee No. 4, dated September 28, 2007, stating the following: i) Banco Hipotecario SA's right to collect commissions on National Housing Fund resource transfers to the Provinces and to the Autonomous City of Buenos Aires expired on July 23, 2007, ii) this task shall be transferred to Banco Nación Argentina, and iii) Banco Hipotecario SA shall refrain from withholding such banking commission as from the day following notice thereof and shall credit the respective accounts with the commissions collected after July 23, 2007.

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On July 23, 2008, the Bank objected said order by arguing the following: i) the incompetence of the Federal Tax Commission for issuing such order, based on the legal origin of the Bank's exclusive right to centralize and distribute FONAVI funds; ii) the incorrect interpretation of the provisions of decree 927/97, containing the regulations for Law 24855, Act for Privatizing former Banco Hipotecario Nacional, since it only obliged the Bank to maintain the service provision conditions in force at the time of passing said law during 10 years, without any expiration provisions regarding the role of the Bank in the process, and iii) the unlawfulness of requiring a retroactive reimbursement of commissions, giving consideration to the fact they were collected for services that were effectively rendered on behalf of the Department of Urban Development and Housing.

As of the date of these financial statements, no decision about the objection had been made yet, and funds were still being sent to the Bank for distribution to the Provinces, in accordance with the directives of the Department of Urban Development and Housing.

**34. Summary of Significant Differences between Argentine Banking GAAP and US GAAP**

The Bank's consolidated financial statements have been prepared in accordance with Argentine Banking GAAP, which differs in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and regulations of the SEC. These consolidated financial statements include solely a reconciliation of net income and shareholders' equity to US GAAP. Pursuant to Item 17 of Form 20-F, this reconciliation does not include disclosure of all information that would be required by US GAAP and regulations of the SEC.

***a. Loan origination fees and costs***

Under Argentine Banking GAAP, the Bank does not defer loan origination fees and costs on mortgage, personal and credit card loans.

In accordance with US GAAP, under SFAS N° 91, Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, loan origination fees and certain direct loan origination costs should be recognized over the life of the related loan as an adjustment of yield.

***b. Public Sector Loan Exchange of Public Debt***

During the fiscal year ended December 31, 2001, and as a consequence of Decree N° 1387/01, effective as of November 6, 2001, the Bank swapped part of its Argentine public-sector debt instruments, under the Promissory Note/Bond program, for secured loans.

As established by article 20 of the above mentioned decree, the conversion was made at the nominal value, at a rate of exchange of Ps. 1.0 = US\$ 1.0 and in the same currency as that of the converted obligation.

The Argentine Central Bank provided that the difference between the nominal value of the secured loans and the book value of the public-sector debt instruments exchanged (in the case of securities, classified and valued as investment accounts or for trading purposes, under Argentine Central Bank rules) must be credited to income and added to the recorded amount included in Loans to the non-financial public sector on a monthly basis, in proportion to the term of each of the secured loans received. Consequently a discount of the current value of these loans has been recorded based on the interest rate determined on each period by the Central Bank.

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In accordance with US GAAP, specifically in the Emerging Issues Task Force N° 01-07 ( EITF 01-07 ), satisfaction of one monetary asset (in this case a loan or debt security) by the receipt of another monetary asset (in the case a secured loan) for the creditor is generally based on the market value of the asset received in satisfaction of the debt (an extinguishment). In this particular case, the secured loan being received is significantly different in structure and in interest rates than the debt securities swapped. Therefore, the fair value of the loans was determined on the balance sheet date based on the contractual cash flows of the loan received discounted at an estimated market rate. The estimated fair value of the loan received constitutes the cost basis of the asset. Any difference between the old asset and the fair value of the new asset is recognized as a gain or loss. The difference between the cost basis and amounts expected to be collected is amortized on an effective yield basis over the life on the loan.

During the period ended June 30, 2007, the Bank sold its remaining position in Secured Loans. Therefore, no US GAAP shareholders' equity adjustment has been recorded as of June 30, 2008 and 2007.

***c. Allowance for loan losses***

The Bank's accounting for its allowance for loan losses differs in some significant respects with practices of US-based banks.

Under Argentine Banking GAAP, the allowance for loan losses is calculated according to specific criteria. This criteria is different for commercial loans (those in excess of Ps. 500) and consumer loans. Loan loss reserves for commercial loans are principally based on the debtors' payment capacity and cash-flows analysis. Loan loss reserves for consumer loans are based on the client's aging. Argentine banks may maintain other reserves to cover potential loan losses which management believes to be inherent in the loan portfolio, and other Argentine Central Bank required reserves.

Under US GAAP, the allowance for loan losses should be in amounts adequate to cover inherent losses in the loan portfolio at the respective balance sheet dates. Specifically:

All large commercial loans which are considered impaired in accordance with SFAS N° 114, *Accounting by Creditors for an Impairment of a Loan* ( SFAS N° 114 ), as amended by SFAS N° 118, *Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures* ( SFAS N° 118 ), are valued at the present value of the expected future cash flows discounted at the loan's effective contractual interest rate or at the fair value of the collateral if the loan is collateral dependent.

As of June 30, 2008, 2007 and 2006, the result of applying SFAS N° 114, shows that the Bank recorded an adjustment to Shareholders' Equity for US GAAP purposes of Ps. (1,119), Ps. 8,878 and Ps. 3,290, respectively.

In addition, the Bank has performed a migration analysis for mortgage, credit cards and consumer loans following the SFAS 5 considerations.

As of June 30, 2008 and 2007, the result of the migration analysis showed that the Bank has provided for loan losses in deficit of this analysis for Ps.105,762 and Ps. 46,813. For US GAAP purposes, this amount of provision has been charged.

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As of June 30, 2006, the result of the migration analysis showed that the bank provided for loan losses in excess of this analysis for Ps. 16,036. For US GAAP purposes, this amount of provision has been reversed.

Under Argentine Banking GAAP, loans that were previously charged-off, which are subsequently restructured and become performing loans, are included again in the Bank's assets, according to the policies adopted by the bank mentioned in Note 5.7. Under US GAAP recoveries of loans previously charged off should be recorded when received.

***d. Derivative Instruments***

As mentioned in Note 21 and 5 the Bank entered in several derivative transactions, mainly, to hedge: i) the exchange rate risk attached to liabilities denominated in euros and in pesos plus CER, ii) assets denominated in US dollars (BODEN 2012) and iii) interest rate swaps to manage its interest rate risk.

Under US GAAP, the Bank accounts for derivative financial instruments in accordance with SFAS N° 133 as amended, which establishes the standards of accounting and reporting derivative instruments, including certain derivative instruments embedded within contracts (collectively referred to as derivatives) and hedging activities. This statement requires institutions to recognize all derivatives in the balance sheet, whether as assets or liabilities, and to measure those instruments at their fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge for the exposure to changes in the fair value of a recorded asset or liability or unrecorded firm commitment, (b) a hedge for the exposure of future cash flows and (c) a hedge for the exposure of foreign currency. If such a hedge designation is achieved then special hedge accounting can be applied for the hedged transactions, that will reduce the volatility in the income statement to the extent that the hedge is effective. In order for hedge accounting to be applied the derivative and the hedged item must meet strict designation and effectiveness tests.

The Bank's derivatives do not qualify for hedge accounting treatment under US GAAP. Therefore gains and losses are recorded in earnings in each period.

Under US GAAP, the Bank estimates the fair value of the receivable and payable on the derivative instrument. As of June 30, 2008, 2007 and 2006 the difference between Argentine Banking GAAP and US GAAP amounts to Ps. (212,577), Ps. (50,188) and Ps. (18,087), respectively.

Under US GAAP, derivatives should be recorded at fair value, on a net basis, and therefore the Bank's assets and liabilities should both be decreased by approximately Ps. 1,048,000, Ps. 1,047,000 and Ps. 990,000 at June 30, 2008, 2007 and 2006, respectively.

***e. Compensatory and hedge bonds***

In connection with the Bank's right (but not the obligation) to purchase the hedge bond, under Argentine Banking GAAP the Bank has recognized it at their equivalent value as if the Bank had the associated bonds in their possession (technical value), and recognized the associated liability to fund the hedge bonds as if the Bank had executed the debt agreement with the Argentine Central Bank. The receivable is denominated in U.S. dollars bearing interest at Libor whereas the liability to the Argentine Central Bank is denominated in pesos with interest being accrued at CER plus 2%, each retroactive to February 3, 2002.

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As of June 30, 2005, the Bank obtained the benefit of the hedge bond to be purchased as the transaction was approved by the Argentine Central Bank. During September 2005, the Bank started to purchase the bonds.

Therefore, for US GAAP purposes, the Bank started recognizing the fair value of the option to receive the Hedge bond in the period ended June 30, 2005. The remaining portion of the Hedge bond to be received as of June 30, 2008 and 2007 is also recognized at their fair value for US GAAP purposes.

In connection with the Compensatory Bonds received or receivable by the Bank they were recognized at the technical value (nominal value plus interest accrued) according to Argentine Banking GAAP. Under US GAAP such amounts should initially be recognized at their quoted market value (limited to the amounts of the loss BHSA suffered in connection with the asymmetric pesification). Thereafter, Compensatory Bonds received are classified as available for sale securities and recognized at market value with the gains or losses recognized as a charge or credit to equity through other comprehensive income. In connection with the Compensatory Bond to be received it has been recognized at market value with the gain or loss recognized through income statement.

The Bank has evaluated whether there was a decline in the value of the security that is other-than temporary as defined by SFAS N°115 and SAB 59. As of June 30, 2008 the fair value of the investment is greater than its amortized cost, consequently no impairment was recognized for US GAAP purposes.

***f. Other government securities***

As of June 30, 2004 the Bank held certain defaulted Argentine government bonds. Such bonds were not quoted in the public market. On January 2005, the Bank accepted the offer to exchange its defaulted government securities for Discount Bonds in pesos issued under the Argentine debt restructuring. On April 1, 2005 the government securities were exchanged.

For US GAAP purposes and in accordance with EITF 01-07, satisfaction of one monetary asset (in this case a defaulted government securities) by the receipt of another monetary asset (in this case Discount Bonds) from the creditor is generally based on the market value of the asset received in satisfaction of the debt. In this particular case, the Bonds being received are significantly different in structure and in interest rates than the securities swapped. Therefore, the fair value of the Bonds was determined on the balance sheet date based on their market value and will constitute the cost basis of the asset. Any difference between the old asset and the fair value of the new asset is recognized as a gain or loss.

Under Argentine Banking GAAP, the Discount Bonds have been recorded at the lower of the total future nominal cash payments up to maturity, specified by the terms and conditions of the new securities tendered as of March 17, 2005, equivalent to the present value of the BOGAR Bonds cash flows at that date.

As of June 30, 2008, 2007 and 2006 the Discount Bonds were considered available for sale securities for US GAAP purposes according with SFAS N° 115 and recorded at fair value with the unrealized gains and losses recognized as a charge or credit to equity through other comprehensive income.

The Bank has evaluated whether there was a decline in the value of the security that is other-than temporary as defined by SFAS N°115 and SAB 59. As of June 30, 2008 the fair value of the investment is less than its amortized cost, consequently the Bank has recorded an other-than temporary impairment of Ps.2,218 for US GAAP purposes. Therefore the fair value of the security was determined on the balance sheet date based on their market value and will constitute the cost basis for the asset.





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***g. Provincial Public Debt***

As of June 2002, the Bank offered to exchange certain loans to Argentine provincial governments for loans or securities of the Argentine National Government; however the exchange had not been finalized until 2003. As these loans were performing no provision was recorded under US GAAP in accordance with SFAS N° 114.

In 2003, the Bank tendered in the exchange under Decree N°1579/02 almost all its portfolio of loans to provincial governments and received securities of the Argentine National Government ( BOGAR ).

For US GAAP purposes and in accordance with EITF 01-07, satisfaction of one monetary asset (in this case a loan) by the receipt of another monetary asset (in this case BOGAR) from the creditor is generally based on the market value of the asset received in satisfaction of the debt. In this particular case, the BOGAR being received is significantly different in structure and in interest rates than the loans swapped. Therefore, such amounts should initially be recognized at their market value. The estimated fair value of the securities received will constitute the cost basis of the asset. Any difference between the old asset and the fair value of the new asset is recognized as a gain or loss. The difference between the cost basis and the amount expected to be collected will be amortized on an effective yield basis over the life of the bond.

For US GAAP purposes, these BOGAR are classified by the Bank, as available for sale securities and recorded at fair value with the unrealized gains or losses recognized as a charge or credit to equity through other comprehensive income.

The Bank has evaluated whether there was a decline in the value of the security that is other-than temporary as defined by SFAS N°115 and SAB 59. As of June 30, 2008 the fair value of the investment is greater than its amortized cost, consequently no impairment was recognized for US GAAP purposes.

***h. Trouble debt restructuring***

On January 14, 2004, the Bank refinanced its outstanding defaulted debt. Under Argentine Banking GAAP the restructuring of the debt was treated as an exchange of debt instruments with substantially different terms. As a result, the Bank removed the original loans and its related accrued interest payable and recognized new debt instruments and associated cash payments for interest payable and for certain principal settlements, resulting in a gain on restructuring of Ps. 783,698. Under Argentine Banking GAAP, expenses incurred in a trouble debt restructuring are reported in earnings.

For US GAAP purposes, the restructuring of the debt was accounted for in accordance with SFAS N° 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings ( SFAS N° 15 ), as the creditors made certain concessions due to the financial difficulties of the Company. SFAS N° 15 requires that a comparison be made between the future cash outflows associated with the new debt instruments (including interest), and the recorded amount of the payables at the time of restructuring. Gain on trouble debt restructuring is only recognized when the carrying amount of the payable at the time of restructuring exceeds the total future cash payments specified by the new debt terms, and only for the difference between the book value of the old debt and the future cash flows of the new debt. The total future cash outflows associated with the new debt instruments exceeded the carrying value of

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the old debts for some payables. The gain on restructuring recorded under US GAAP was lower than the gain recorded under Argentine Banking GAAP and therefore, the carrying amount of the new debt instruments under US GAAP was greater than the amount recorded under Argentine Banking GAAP and a new effective interest rate was determined, which equates the present value of the future cash payments specified by the new debt instruments with the carrying amount of the old debts. Under US GAAP, expenses incurred in a trouble debt restructuring are reported in earnings.

During 2006, 2007 and 2008, the Bank repurchased restructured negotiable obligations and debt. The difference between the carrying value of the repurchased debt under US GAAP and the price paid by the Bank was recognized as a gain for US GAAP purposes.

***i. Securitization of mortgage loans***

The Bank has securitized certain of their mortgage loans originated by the retail banks on their behalf through the transfer of such loans to a special purpose mortgage trust which issues multiple classes of mortgage bonds and certificates of participation.

Under Argentine Banking GAAP, the Bank accounted for its securitizations as sales of loans. The Bank retained certain interests in the transferred loans represented by the Class A and Class B bonds and the certificates of participation as applicable. The Class A and Class B bonds and the certificates of participation retained were originally recorded at their stated amounts which represent a percentage of the principal value of the underlying mortgage loans. The Class A and Class B bonds accrue interest at various rates. The certificates of participation accrue income based upon the net income of the securitization trust.

For US GAAP purposes, these types of transactions are covered by different accounting pronouncements depending on the transaction date. For transactions prior to January 1, 1997, SFAS N° 77, Accounting for Sales of Receivables with Recourse and FASB Technical Bulletin N° 85-2, Accounting for Collateralized Mortgage Obligations, provided the authoritative accounting guidance. Under this guidance, the BHN I securitization should be accounted for as a collateralized borrowing. The loans and the restated bond obligations would be reinstated on the balance sheet for US GAAP purposes and would be accounted for in the normal manner as other mortgage loans and borrowings.

SFAS N° 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ( SFAS N° 125 ) became effective for securitizations of receivables after December 31, 1996 (since amended by SFAS N° 140). SFAS N° 125 bases the accounting for transfers on the consistent application of a financial-components approach that focuses on control. Upon a transfer of assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred and derecognizes the financial assets when control has been surrendered. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are collateralized borrowings. Under SFAS N° 125, the BHN II and BHN III securitizations that occurred during the year ended December 31, 1997 would be accounted for as sales. For US GAAP purposes under SFAS N° 140, BHN IV and BACS I securitizations were considered sales. For that reason debt securities and certificates retained by the Bank are considered as available for sale securities under U.S. GAAP and the unrealized gains (losses) on these securities are reported as an adjustment to shareholder s equity, unless unrealized losses are deemed to be other than temporary in accordance with Emerging Issues Task Force N° 99-20. The unrealized loss on the retained interests at June 30, 2002 has been deemed to be other than temporary and such loss has been charged to income. The retained interests were initially recorded based on their allocated book value using the fair value allocation method. At the date of the securitization, the Bank recognized interests in the securitization

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trust through the bonds and the certificates of participation hold and cease recognizing the loans over which they have surrendered control. The basis of retained interest and the sold interest are based upon a relative fair value allocation of the basis of the loans transferred.

Subsequent to the initial recognition, any retained interests in the securitizations should be recorded for as securities under SFAS N° 115, Accounting for Certain Investments in Debt and Equity Securities ( SFAS N° 115 ) and accounted for as available for sale securities

Mortgage-backed securities created after a securitization of mortgages held for sale should be classified as either trading or available for sale securities in accordance with SFAS N° 65, Accounting for Certain Mortgage Banking Activities and as amended by SFAS N° 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise.

Consequently, the adjustments to record the securitization of the portfolio under U.S. GAAP consists of:

The re-consolidation of the loans under BHN I, BACS Funding I, BACS Funding II, BHSA I, BACS III, CHA I and Cédulas Personales I resulted in an adjustment. See Note 34.c. for allowance for loan losses.

The recognition of the effect of accounting for the certificates of participation in BHN II and BHN III, BHN IV and BACS I as available for sale securities that includes the recognition of other than temporary impairment for a 100% of the carrying values of such securities as of June 30, 2006, considering the economic projections as of those dates and the declarative actions mentioned in Note 22. During the twelve-month period ended June 30, 2007, expectations about the recoverability of such securities have significantly changed considering among others, (a) decisions of the Supreme Court related to pesification matters and (b) new expectations about the CER, which adjusts the face value of the senior debt securities issued by the trust. The fair value of the securities is determined based on expected cash flows, discounted at a market interest rate. Increases in the fair value of these securities are recorded in other comprehensive income. As of June 30, 2007 and 2008, such carrying values are determined based upon an estimate of cash flows to be remitted to us as holder of the retained interests discounted at an estimated market rate.

The fair value recognition of those certificates of participation and debt securities held by the Bank from certain securitization trusts (CHA II, CHA III, CHA IV, CHA V, CHA VI, CHA VII and CHA VIII) considered sales under US GAAP and classification as available for sale securities.

The Bank has evaluated whether there has been an adverse change in the estimated cash flows of the certificates of participation and debt securities. For certain securitizations (CHA II, CHA III, CHA IV, CHA V, CHA VI, CHA VII and CHA VIII) the condition of an accrual of loss contingencies is met and an other-than-temporary impairment of Ps.25,630 is considered to have occurred and the beneficial interest have been written down to fair value, with the resulting change between the fair value and the amortized cost being charged to the income statement. The fair value at June 30, 2008 represents the new cost basis of these trusts.

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***j. Acquisition of Treasury shares***

Under Argentine Banking GAAP, an acquisition by a company of its own shares is recognized as an asset and marked to market daily with the resulting gain or loss reflected in the statement of income (see Note 5.13.). Under US GAAP acquisitions of the Bank's shares adjust Shareholders' Equity and changes in quoted market prices between the acquisition date and the reporting date are not recognized.

On January 29, 2004 BHSA entered in a transaction with Deutsche Bank AG (DBAG). Under this transaction Banco Hipotecario SA paid US\$ 17.5 M and DBAG agreed to transfer to the Bank 71,100,000 BHSA Class D shares on January 29, 2009 or at an earlier date, if requested by BHSA (see Note 29.a.). Under Argentine Banking GAAP, BHSA recognized the right to receive its shares as an asset, which is marked to market based on the market value of its shares at period end. Changes in fair value are recognized in earnings. Under US GAAP, following the guidance of SFAS N° 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* BHSA recognized the right to receive its shares at a future date at cost, as a reduction of equity. Subsequent charges in the market value of the shares are not recognized.

***k. Intangible Assets***

Under Argentine Banking GAAP fees paid for a re-engineering project and for restructuring expenses incurred in relation to certain equity transactions are recognized as an intangible asset and amortized in a maximum of five years. Such cost should be expensed as incurred under US GAAP.

Under Argentine Banking GAAP, the Bank capitalizes costs relating to all three of the stages of software development. Under US GAAP SOP 98-1, effective for fiscal years beginning after December 15, 1998, defines three stages for the costs of computer software developed or obtained for internal use: the preliminary project stage, the application development stage and the post-implementation operation stage. Only the second stage costs should be capitalized.

***l. Impairment of fixed assets and foreclosed assets***

Under Argentine Banking GAAP, fixed assets and foreclosed assets are restated for inflation using the WPI index at February 28, 2003. As such, the balances of fixed assets and foreclosed assets were increased approximately 120%.

In accordance with Statement of Accounting Standards N° 144, *Impairment of Long-lived Assets*, such assets are subject to impairment tests in certain circumstances. Because projected cash flows associated with fixed assets and foreclosed assets are insufficient to recover the restated carrying amounts of the assets, those assets should be tested for impairment. During 2002, in the absence of credible market values for our fixed and foreclosed assets, the Bank under US GAAP reversed the restatement of fixed and foreclosed assets.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the year these assets have evidenced an increase in the market prices.

As of June 2008 and 2007, no additional impairment was recorded in fixed and foreclosed assets, since the carrying amount of long lived assets does not exceed the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

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***m. Minority Interest***

This adjustment represents the effect on minority interest on the US GAAP reconciling items, as appropriate.

***n. Vacation Provision***

The Bank's policy for vacation benefits is to expense such benefits as taken. For U.S. GAAP purposes, the vacation accrual is based on an accrual basis, where earned but untaken vacation is recognized as a liability.

***o. Insurance Technical reserve***

Until September 2003, the calculation of the local technical reserves performed by the Bank was the same as that used under US GAAP.

On September 2003, the National Insurance Superintendency issued certain regulations on the calculation of reserves introducing changes to the local regulations. For US GAAP purposes the Bank has accounted these type of transactions under SFAS N° 60.

Therefore, the technical reserves for the twelve month periods ended June 2006, 2007 and 2008 were adjusted for US GAAP.

***p. Capitalization of interest cost***

Under Argentine Banking GAAP, during the process of construction of an asset the capitalization of interest is not recognized.

For US GAAP purposes, as stated in paragraph 12 of FAS 34, the amount of interest cost to be capitalized for qualifying assets is intended to be that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided (for example, by avoiding additional borrowings or by using the funds expended for the assets to repay existing borrowings) if expenditures for the assets had not been made.

The amount capitalized in an accounting period shall be determined by applying an interest rate to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period.

The total amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the enterprise in that period.

***q. Income Tax***

Argentine Banking GAAP requires income taxes to be recognized on the basis of amounts due in accordance with Argentine tax regulations. Temporary differences between the financial reporting and income tax bases of accounting are therefore not considered in recognizing income taxes.

In accordance with Statement of Financial Accounting Standards, or SFAS, N° 109, *Accounting For Income Taxes*, under US GAAP income taxes are recognized on the liability method whereby deferred



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tax assets and liabilities are established for temporary differences between the financial reporting and tax bases of our assets and liabilities. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is more likely than not that it will not be recoverable.

For the twelve-month period ended June 30, 2006, the Bank believed it was more likely than not, that it would not generate future taxable income sufficient to absorb any of its net deferred tax assets. For that reason, the Bank provided a full reserve of its net deferred tax assets for such years.

As of June 30, 2007, and based on the analysis performed on the realizability of the tax loss carryforwards, the Bank believes it will recover only a portion of the net operating tax loss carryforwards and all the temporary differences, with future taxable income. Therefore, the remaining portion of the net operating tax loss carryforward is more likely than not to be recovered in the carryforwards periods, and hence, a valuation allowance was provided against it.

As of June 30, 2008, and based on the analysis performed on the realizability of the tax loss carryforwards, the Bank believes it will recover only the temporary differences, with future taxable income. Therefore, the net operating tax loss carryforward is more likely than not to be recovered in the carryforwards periods, and hence, a valuation allowance was provided against it.

In a consolidated basis, the Bank has recognized a net deferred tax asset that amounted to Ps. 185,466 and Ps. 215,185, as of June 30, 2008 and 2007, respectively.

Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes, (FIN 48) was issued in July 2006 and interprets FASB Statement of Financial Accounting Standards (SFAS) No. 109. FIN 48 became effective for the Group on January 1, 2007 and prescribes a comprehensive model for the recognition, measurement, financial statement presentation and disclosure of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Bank classifies income tax-related interest and penalties as income taxes in the financial statements. The adoption of this pronouncement had no effect on the Bank's overall financial position or results of operations.

The following table shows the tax years open for examination as of June 30, 2008, by major tax jurisdictions in which the Bank operates:

<b>Jurisdiction</b>	<b>Tax year</b>
Argentina	2004 - 2008

*r. Items in process of collection*

The Bank does not give accounting recognition to checks drawn on the Bank or other banks, or other items to be collected until such time as the related item clears or is accepted. Such items are recorded by the Bank in memorandum accounts. U.S. banks, however, account for such items through balance sheet clearing accounts at the time the items are presented to the Bank.





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The Bank's assets and liabilities would be increased by approximately Ps. 51,164, Ps. 74,443 and Ps. 27,624, had US GAAP been applied at June 30, 2008, 2007 and 2006, respectively.

***s. Fair Value Measurements Disclosures***

In September 2006, the FASB issued SFAS 157, which is effective for fiscal years beginning after November 15, 2007 and interim periods within these fiscal years, with early adoption permitted. SFAS 157:

Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;

Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date;

Nullifies the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique;

Eliminates large position discounts for financial instruments quoted in active markets and requires consideration of the Bank's creditworthiness when valuing liabilities; and

Expands disclosures about instruments measured at fair value.

SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously recorded at fair value. Under SFAS 159, fair value is used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes on fair value recognized in net income. As a result of SFAS 159 analysis, the Bank has not elected to apply fair value accounting for any of its financial instruments not previously carried at fair value.

**Valuation hierarchy**

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

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Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

**Determination of fair value**

Following is a description of the Bank's valuation methodologies for assets and liabilities measured at fair value

Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, option volatilities and currency rates. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Bank's creditworthiness, liquidity and unobservable parameters that are applied consistently over time.

The Bank believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Assets**

**a) Securities**

The Bank's securities are classified within level 1 of the valuation hierarchy using quoted prices available in the active market where the securities are traded. Level 1 securities include national and government bonds, instruments issued by BCRA and corporate securities.

**b) Securities receivable under repurchase agreements**

The Bank's securities receivable under repurchase agreements which do not qualify for sale accounting for US GAAP purposes, are classified within level 1 of the valuation hierarchy. To estimate the fair value of this securities (BODEN 2012), quoted prices are available in active market.

**c) Subordinated mortgage backed bonds / Retained interests in securitizations**

The Bank's retained interests in securitizations are classified within level 3 of the valuation hierarchy. As quoted market prices are not available, then fair values are estimated by using a discount cash flow model which includes assumptions based upon projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and contractual interest paid to third-party investors.

**d) Derivatives**

The fair value of level 3 derivative positions are determined using internally developed models that utilize both market observable and unobservable parameters. Level 3 derivative instruments have primary risk characteristics that relate to unobservable pricing parameters such as private name credit spreads, credit correlations, long dated equity or interest rate



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volatility skews and forward spreads. Such derivatives include long-dated interest rate or currency swaps, and credit default swaps where swap rates may be unobservable for longer maturities.

**Liabilities**

**e) Derivatives**

The fair value of level 3 derivative positions are determined using internally developed models that utilize both market observable and unobservable parameters. Level 3 derivative instruments have primary risk characteristics that relate to unobservable pricing parameters such as private name credit spreads, credit correlations, long dated equity or interest rate volatility skews and forward spreads. Such derivatives include long-dated interest rate or currency swaps, and credit default swaps where swap rates may be unobservable for longer maturities.

The following table presents the financial instruments carried at fair value as of June 30, 2008, by SFAS 157 valuation hierarchy (as described above).

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**Assets and liabilities measured at fair value on a recurring basis**

	Total carrying value	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)
<b>Balances as of June 30, 2008</b>				
<b>ASSETS</b>				
<b>Securities</b>				
BODEN 2012 Compensatory Bond	595,399	595,399		
Provincial Public Debt BOGAR	145,040	145,040		
Other government securities	108,628	108,628		
Instrument issued by the BCRA	117,879	117,879		
Corporate securities	148,025	148,025		
Hedge Bond BODEN 2012	241,892	241,892		
<b>Securities receivable under repurchase agreements</b>				
Securities receivable under repurchase agreements BODEN 2012	1,232,640	1,232,640		
<b>Subordinated mortgage backed bonds / Retained interests in securitizations</b>				
Subordinated mortgage backed bonds	221,018			221,018
<b>Derivatives</b>				
Cross Currency Swap (Euro/Dollar)	157,051			157,051
Credit Currency Swap (Ps. CER/Dollar)	36,751			36,751
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>3,004,323</b>	<b>2,589,503</b>		<b>414,820</b>
<b>LIABILITIES</b>				
<b>Derivatives</b>				
Foreign currency forward contracts	(4,189)			(4,189)
Interest rate Swaps	(12,217)			(12,217)
CER Swap linked to Secured Loans due 2008 and External Debt	(44,279)			(44,279)
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>(60,685)</b>			<b>(60,685)</b>

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**Changes in level 3 fair value measurements**

The table below includes a roll forward of the balance sheet amounts as of June 30, 2008 (including the change in fair value) for financial instruments classified by the Bank within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement.

	Total Fair Value Measurements					Available for sale securities
	Net Derivative financial instruments					
	Cross Currency Swaps (Euro/Dollar)	Credit Currency Swaps (pesos CER / dollar)	Currency Swap USD 2046	Interest rate Swaps BADLAR	CER Swap Linked to PG08s and External Debt	
<b>Balances as of June 30, 2008</b>						
Fair value, July 1, 2007	109,335	25,389	(429)	423	(20,280)	222,534
Total gains or losses (realized/unrealized)						
Included in earnings	47,716	11,362	(3,760)	(12,291)	(23,999)	(15,301)
Included in other comprehensive income						13,785
Purchases, issuances and settlements				(349)		
Transfers in to/ out of level 3						
Fair value, June 30, 2008	157,051	36,751	(4,189)	(12,217)	(44,279)	221,018

The table below summarizes gains and losses due to changes in fair value, recorded in earnings for level 3 assets and liabilities during the year:

	Total Gains and Losses					Available for sale securities
	Net Derivative financial instruments					
	Cross Currency Swaps (Euro/Dollar)	Credit Currency Swaps (pesos CER / dollar)	Currency Swap USD 2046	Interest rate Swaps BADLAR	CER Swap Linked to PG08s and External Debt	
<b>Balances as of June 30, 2008</b>						
Classification of gains and losses (realized/unrealized) included in earnings for 2008:						
Financial Income	47,716	11,362	(3,760)	(12,291)	(23,999)	(15,301)
Total	47,716	11,362	(3,760)	(12,291)	(23,999)	





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*t. Effects of Conforming to US GAAP***Reconciliation of shareholders equity**

		June 30,	
		2008	2007
<b>Total shareholders equity under Argentine Banking GAAP</b>		Ps. 2,651,734	2,711,296
<b>US GAAP adjustments:</b>			
- Loan origination fees and costs	(a)	11,855	9,252
- Loan losses reserve	(c)	(201,432)	(89,874)
- Derivative Instruments	(d)	(188,599)	(50,188)
- Compensatory and Hedge Bonds	(e)	(212,577)	(183,969)
- Other government securities	(f)	(16,060)	(9,110)
- Provincial Public Debt	(g)	(55,693)	(18,446)
- Trouble debt Restructuring	(h)	(127,596)	(158,589)
- Securitization of mortgage loans	(i)	(69,355)	(47,428)
- Acquisition of treasury shares	(j)	(80,343)	(219,272)
- Intangible assets	(k)	(12,839)	(3,513)
- Impairment of fixed and foreclosed assets	(l)	(45,149)	(46,590)
- Minority Interest on US GAAP Adjustments	(m)	8,892	5,238
- Vacation provision	(n)	(6,783)	(4,548)
- Insurance technical reserve	(o)	(24)	(1,716)
- Capitalization of interest cost	(p)	1,541	1,471
- Deferred Income Tax	(q)	185,466	215,185
<b>Total Shareholders Equity under US GAAP</b>		Ps. 1,843,038	2,109,199

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**Reconciliation of net income:**

		2008	June 30, 2007	2006
<b>Net (loss) income as reported under Argentine Banking GAAP</b>	Ps.	(59,562)	357,891	309,078
<b>US GAAP adjustments:</b>				
- Loan origination fees and costs	(a)	2,603	2,495	281
- Public Sector Loan received from Bond Swap	(b)		23,326	56,581
- Loan losses reserve	(c)	(111,558)	(109,200)	12,250
- Derivative instruments	(d)	(138,411)	(32,101)	(37,942)
- Compensatory and Hedge Bonds	(e)	179,408	74,431	112,927
- Other government securities	(f)	(18)	411	(3,063)
- Provincial public debt	(g)	14,494	8,860	10,121
- Trouble debt Restructuring	(h)	30,993	11,314	149,377
- Securitization of mortgage loans	(i)	(21,802)	(14,708)	(36,183)
- Acquisition of treasury shares	(j)	138,929	(140,351)	20,619
- Intangible assets	(k)	(9,326)	(23)	(2,041)
- Impairment of fixed and foreclosed assets	(l)	1,441	2,790	2,025
- Minority interest on US GAAP Adjustments	(m)	3,519	(313)	1,551
- Vacation provision	(n)	(2,235)	(1,603)	254
- Insurance technical reserve	(o)	1,692	(4,010)	367
- Capitalization of interest of cost	(p)	70	508	963
- Deferred tax	(q)	(29,719)	209,166	7,835
<b>Net income in accordance with US GAAP</b>	Ps.	518	388,883	605,000
Basic and diluted net income per share in accordance with U.S. GAAP		0.000	2.722	4.234
Average number of shares outstanding (in thousands)		1,428,900	1,428,900	1,428,900

**Description of changes in shareholders equity under US GAAP:**

	Total Shareholders Deficit
Balance as of June 30, 2006	Ps. 1,592,014
Other comprehensive Income	128,302
Net income for the twelve month period in accordance with US GAAP	388,883
Balance as of June 30, 2007	Ps. 2,109,199
Other comprehensive Income	(266,679)
Net income for the twelve month period in accordance with US GAAP	518
Balance as of June 30, 2008	Ps. 1,843,038

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**Comprehensive income**

SFAS N° 130 Reporting Comprehensive Income establishes standards for reporting and disclosure of comprehensive income and its components (revenues, expenses, gains and losses) in the financial statements. Comprehensive income is the total of net income and other charges or credits to equity that are not the result of transactions with owners.

The following disclosure presented for the twelve-month periods ended June 30, 2008, 2007 and 2006, shows all periods in Argentine Banking GAAP format reflecting US GAAP income and comprehensive statement adjustments.

	2008	June 30, 2007	2006
<b>Income Statement</b>			
Financial income	Ps. 900,184	Ps. 813,402	Ps. 1,006,240
Financial expenses	(550,693)	(374,666)	(412,184)
Net financial income	349,491	438,736	594,056
Provision for loan losses	(261,419)	(152,873)	1,752
Income from services	292,044	162,856	101,687
Expenses for services	(99,943)	(75,004)	(39,571)
Administrative expenses	(390,549)	(267,538)	(184,243)
Net income from financial transactions	(110,376)	106,177	473,681
Miscellaneous income	184,073	231,824	173,708
Miscellaneous expenses	(37,691)	(156,057)	(48,576)
Income before income taxes and minority interests	36,006	181,944	598,813
Income taxes	(33,453)	208,160	6,515
Minority interests	(2,035)	(1,221)	(328)
<b>Net income under U.S. GAAP</b>	<b>518</b>	<b>388,883</b>	<b>605,000</b>
Other comprehensive income:			
Unrealized gains on securities	(266,679)	128,302	29,877
<b>Other comprehensive income</b>	<b>(266,679)</b>	<b>128,302</b>	<b>29,877</b>
<b>Comprehensive income</b>	<b>Ps. (266,161)</b>	<b>Ps. 517,185</b>	<b>Ps. 634,877</b>

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**Concentration of risk.****1) Total exposure to the public sector Argentine government and provinces**

The Bank has significant exposure to the Argentine national government and provinces in the form of government securities, secured loans and other debt obligations. As of June 30, 2008 and 2007, the Bank had the following assets outstanding (excluding balances with the BCRA):

	June 30, 2008		June 30, 2007	
	Argentine Banking GAAP	U.S. GAAP	Argentine Banking GAAP	U.S. GAAP
Argentine national government loans	Ps. 200,733	Ps. 145,040	Ps. 208,127	Ps. 189,681
Argentine provincial debt	124,688	108,628	320,610	311,500
Other Argentine public-sector receivables (3)	2,027,335	1,828,039	2,524,145	2,402,174
Compensatory bond received	255,173	241,892	260,960	198,962
Compensatory and hedge bonds to be received (1) (2)				
Total	Ps. 2,607,929	Ps. 2,323,599	Ps. 3,314,611	Ps. 3,103,086

(1) Includes the compensatory bond to be received related to the asymmetric pesification and the hedge bond.

(2) The advance to be requested from the Argentine Central Bank for the subscription of the hedge bond was recorded in Other Liabilities from Financial Transactions Argentine Central Bank, for Ps. 239,104 as of June 2008.

(3) Includes bonds such as national government bonds and Discount Bonds.

**Risks and Uncertainties**

As we mentioned in note 2.1, over the past few months, the financial markets in the most important countries in the world have been affected by volatility, lack of liquidity and credit, which entailed a significant drop in international stock indexes, and an economic slow-down started to become evident worldwide. Despite the actions taken by central countries, the international markets' future is still uncertain.

As regards Argentina, and after June 30, 2008 stock markets reflected significant drops in the prices of government and corporate securities, as well as an increase in interest rates, country risk and exchange rates, a situation that is still ongoing as of the date of issuance of these financial statements. The Bank considers that these situations did not exist as of June 30, 2008 but arose subsequent to that date.

The quality of the Bank financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina. Risks and

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uncertainties facing the Bank that are generally the result of the recent economic crisis and the resulting government actions, include the fact that an important amount of the Bank's assets are concentrated in Argentine public-sector debt instruments.

As of June 30, 2008, the Bank's exposure to the Argentine public sector, including the compensatory and hedge bonds represented approximately 26,2% of total assets under Argentine Banking GAAP. Although the Bank's exposure to the Argentine public sector consists mostly of performing assets, the realization of the Bank's assets, its income and cash flow generation capacity and future financial condition may be dependent on the Argentine government's ability to comply with its payment obligations, and on its ability to establish an economic policy that is successful in promoting sustainable economic growth in the long run.

**2) Concentration of deposits**

As of June 30, 2008 and 2007, the concentration of deposits is as follows:

	2008		2007	
	Balance	% of total portfolio	Balance	% of total portfolio
Number of customers				
10 largest customers	134,144	6.89%	168,072	19.35%
50 following largest customers	276,134	14.17%	175,079	20.16%
100 following largest customers	290,478	14.91%	61,456	7.07%
Rest of customers	1,247,315	64.03%	463,953	53.42%
<b>Total</b>	<b>1,948,071</b>	<b>100%</b>	<b>868,560</b>	<b>100%</b>
<b>US GAAP estimates</b>				

Valuation reserves, impairment charges and estimates of market values on assets, as established by the Bank for US GAAP purposes are subject to significant assumptions of future cash flows and interest rates for discounting such cash flows. Losses on the exchange of government and provincial bonds, and on retained interests in securitization trusts were affected by the impact of discount rates. Discount rates remained stable in June 30, 2008 and 2007. Should the discount rates change in the future years, the carrying amounts and charges to income and shareholders equity will also change. In addition, as estimates to future cash flows change, so too will the carrying amounts which are dependent on such cash flows.

**35. Subsequent events****Legal regulations**

On August 1, 2008 Decree 1207/2008 by the Executive Branch was published in the Official Gazette, which limits the deduction of profits deriving from participation certificates in trust fund related to utilities infrastructure works when they meet the requirements of section 70.2 the income tax regulatory decree. In turn, all the requirements included in the amendment are similar to those included in section 70.2 of the income tax regulatory decree. Accordingly, those trust funds created for a purpose other than the abovementioned will not be subject to deduction of profits allocatable to participation certificates.



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**Financial trust redemption**

Through Minutes N° 239 dated October 23, 2008, the Board of Directors resolved:

- 1) Proceed to the early redemption of participation certificates and the termination of the Cédulas Hipotecarias Argentinas Financial Trust Series I, 2004-1. Accept the loans with the rating and valuation recorded by the trust's trustor.
- 2) Proceed to the early redemption of participation certificates and the termination BHI Mortgage Financial Fund. Reverse loans from the trust fund and allot them, without altering the trust assets thereof, to BHN Master Mortgage Trust, with the rating and value recorded. Guarantees deposited for swap and repo transactions

The decrease in prices of government securities and the increase in Argentine credit risk originated the need to set up additional guarantees. As of November 25, 2008, the guarantees deposited for swap and repo transactions amounts Ps.640,576 (in U\$S) and Ps.96,005 in BODEN 2012. These escrow deposits have been recorded in Miscellaneous Receivables. The breakdown of the abovementioned guarantees for each transaction is described as follows (See Note 7):

1. Cross Currency Swaps: the Bank has deposited Ps.15,026 (in U\$S) and Ps.43,274 in BODEN as collateral.
2. Credit Currency Swaps: the Bank has deposited Ps.89,318 (in U\$S) and Ps.10,052 in BODEN as collateral.
3. Swap linked to Secured Loans due 2008 and External Debt: the Bank has deposited Ps.153,487 (in U\$S) and Ps.42,679 in BODEN as collateral.
4. Repo transactions: the Bank has deposited Ps.382,745 (in U\$S) as collateral.

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