

## Exchange Rates

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. Dollars expressed in nominal Pesos per U.S. Dollar. On November 30, 2006, the applicable Peso/U.S. Dollar exchange rate was Ps. 3.048 = US\$ 1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Pesos.

### Nominal Exchange Rates

	Exchange Rate (5)			
	High (1)	Low (2)	Average (3)	Period End
Fiscal year ended June 30, 2002 (4)	3.7400	0.9990	1.8206	3.7900
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
Month Ended July 31, 2006	3.0860	3.0720	3.0813	3.0720
Month Ended August 31, 2006	3.0970	3.0690	3.0799	3.0960
Month Ended September 30, 2006	3.1070	3.0940	3.1002	3.1040
Month Ended October 31, 2006	3.1070	3.0890	3.0982	3.0890
Month Ended November 30, 2006	3.067	3.048	3.055	3.048

- (1) The high rate shown was the highest month-end rate during the year or any shorter period, as noted.  
(2) The low rate shown was the lowest month-end rate during the year or any shorter period, as noted.  
(3) Average of month-end rates.  
(4) From December 23, 2001 through January 11, 2002 *Banco de la Nación Argentina* did not publish an official exchange rate due to governmental suspension of the exchange market.  
(5) All prices are mid market.

Source: Banco de la Nación Argentina, Bloomberg

Fluctuations in the exchange rate between the Peso and the U.S. Dollar may adversely affect our ability to service our Dollar-denominated debt and/or the U.S. Dollar value of our ADS. Since the repeal of the Convertibility Law in January 2002, the Peso has devaluated approximately 200% vis-à-vis the U.S. Dollar. We cannot assure you that further devaluations will not take place in the future.

Inflation and further devaluation of the Argentine currency could materially and adversely affect 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 associated with our business, taking into account the instability of the country in which we operate.

We may also face additional risks and uncertainties that are not presently affecting us, or that we currently deem immaterial, which may materially impair our business. In general, investing in companies which operate in emerging markets such as Argentina is more risky than investing in companies which operate in more stable markets such as the United States.

**Risks Related to Argentina**

***Argentina's current growth and stabilization may not be sustainable.***

During 2001 and 2002, Argentina experienced a period of severe political, economic and social crisis. Although the economy has recovered significantly over the past three years, uncertainty remains as to whether the current growth and relative stability are sustainable. The Argentine economy remains fragile for the following reasons:

- unemployment remains high;
- the availability of long-term fixed rate credit remains low;
- investment as a percentage of GDP remains low;
- the current fiscal surplus could become a fiscal deficit;
- the current trade surplus could reverse into a trade deficit;
- inflation has risen recently and threatens to accelerate;
- the regulatory framework continues to be uncertain;
- the country's public debt remains high and international financing is limited; and
- the recovery has been dependent to some extent on high commodity prices, which are volatile and outside the control of the country, and excess capacity which has reduced considerably.

Substantially all of our operations, properties and customers are located in Argentina. As a result, our business is to a very large extent dependent upon the economic conditions prevailing in Argentina. Although the economic situation in Argentina has improved, instability is still prevalent and no assurance can be given that macroeconomic conditions in Argentina will not deteriorate again.

***Inflation may rise again, causing adverse effects on the Argentine real estate markets as well as the Argentine economy generally***

After several years of price stability, the devaluation of the Peso in January 2002 imposed pressures on the domestic price system that generated high inflation throughout 2002, before substantially stabilizing in 2003. However, inflationary pressures have since reemerged with consumer prices increasing by 6.1% per annum during 2004 and increasing by 12.3% in 2005. As of October 31, 2006, inflation had an annual increase of 10.5%.

In the past, inflation has materially undermined the Argentine economy and the government's ability to create conditions conducive to growth. A return to a high inflation environment could slow the rebound in the real estate market and may also undermine Argentina's foreign competitiveness by diluting the effects of the Peso devaluation and negatively impacting the level of economic activity and employment.

***Argentina's sovereign debt restructuring and the early prepayment to the International Monetary Fund (the "IMF") may create certain additional uncertainties, and the Argentine government may face future litigation that could have an impact on Argentina's ability to obtain financing from international markets and economic growth.***

After defaulting on over US\$144.5 billion in external debt and as part of the debt restructuring process, the Argentine government consummated a debt exchange offer in the first quarter of 2005 with a rate of participation by bondholders of approximately 76% and an aggregate tendered amount of US\$62.3 billion. The settlement of the debt exchange was completed on June 2, 2005 due to a delay resulting from legal action by certain bondholders who did not participate in the exchange offer that attempted to attach the tendered bonds. Despite the high levels of acceptance of the exchange offer, the amounts not tendered for exchange totaled approximately US\$20 billion. Some bondholders in the United States, Italy and Germany filed legal actions against Argentina that are still pending resolution, and holdout creditors may initiate new suits in the future. Argentina's past default and its failure to restructure completely its remaining sovereign debt and fully negotiate with holdout creditors may prevent the Argentine government from accessing the international capital markets for the foreseeable future. Moreover, after consummation of the exchange offer, Argentina's sovereign debt is still significant and may inhibit economic growth and result in lower fiscal surpluses that could further restrict the ability to repay outstanding debt. Under these circumstances, we cannot assure you that the economy will not suffer additional shocks.

Following settlement of Argentina's sovereign debt restructuring, the "IMF" agreed to a one-year extension of Argentina's scheduled repayment of debt due to the IMF and on December 15, 2005, the Argentine government announced its intention to prepay all of its outstanding debt with the IMF, totaling US\$9.5 billion, using reserves available at the Central Bank. On January 3, 2006, the Argentine government made the prepayment of its outstanding debt with the IMF using foreign reserves of the Argentine Central Bank ("Central Bank") that were in excess of the amounts necessary to support 100% of Argentina's monetary base. The reduction of the Central Bank's foreign-currency reserves may weaken Argentina's ability to overcome economic deterioration, however, in October 2006 the Central Bank recovered the reserves level previous to the prepayment of its outstanding debt with the IMF. Without international private financing Argentina may not be able to finance its obligations, and financing from multilateral financial institutions may be limited or not available. This could also inhibit the ability of the Central Bank to adopt measures to combat inflation and could adversely affect Argentina's economic growth and public finances, which could adversely affect our business, financial conditions or results of operations. In addition, without the restrictions on spending imposed by the IMF arrangement, Argentina may again experience significant government spending which could result in renewed inflation and other adverse economic consequences.

***The Peso has been subject to major devaluations in the past and may suffer significant fluctuations in the future creating uncertainty as to Argentina's economic future what may have a material adverse effect on the results of our operations and financial condition.***

The economic policies of the Argentine government as well as any future depreciation of the Peso against the U.S. Dollar might have an adverse impact on our financial condition and the results of our operations. The Peso has been subject to major devaluations in the past and may suffer significant fluctuations in the future.

Law No. 25,561, promulgated on January 6, 2002, called Public Emergency and Foreign Exchange Regime Reform Law ("Public Emergency Law"), put an end to over a decade of one-to-one parity between the U.S. Dollar and the Peso authorizing the Argentine government to set the exchange rate. Subsequent to the devaluation of the Peso in early 2002 and since the beginning of the economic crisis, there have been significant fluctuations in the value of the Peso causing repeated Central Bank interventions to stabilize the Peso through purchases and sales of U.S. Dollars. As of November 30, 2006, the exchange rate was Ps. 3.048 per U.S. Dollar.

We collect substantially all of our revenues in Argentina, and as a result of the enactment of the Public Emergency Law, they are calculated and collected in Pesos. We cannot assure you that the policies to be implemented by the Argentine government in the future will stabilize the value of the Peso against foreign currencies. Therefore, the Peso may continue to be subject to significant fluctuations and

further depreciations which might significantly and adversely affect our financial condition and the results of our operations.

Further depreciation of the Peso would have particular impact on:

- revenues collected for services provided in Argentina, such as lease agreements;
- our assets valuation; and
- our Peso-denominated monetary assets and liabilities which could be affected by the introduction of different inflation adjustment indexes

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

During its crisis in 2001 and 2002, Argentina experienced social and political turmoil, including civil unrest, riots, looting, nationwide protests, strikes and street demonstrations. Despite Argentina's ongoing economic recovery and relative stabilization, social and political tension and high levels of poverty and unemployment continue. Future government policies to avoid or address 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.

***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 and may prevent us from servicing our foreign currency denominated debt obligations***

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. These restrictions have been substantially eased, including those requiring the Central Bank's prior authorization for the transfer of funds abroad in order to pay principal and interest on debt obligations. However, Argentina may re-impose exchange control or transfer restrictions in the future, among other things, in response to capital flight or a significant depreciation of the Peso. In addition, the government issued Decree No. 616/2005 that established new controls on capital inflows that could result in less availability of international credit. Additional controls could have a negative effect on the economy and our business if imposed in an economic environment where access to local capital is substantially constrained. Moreover, in such event, restrictions on the transfers of funds abroad may impede our ability to make payments abroad and your ability to receive payments of principal and interest as a holder of notes.

By contrast, according to Communication "C" 43075 dated September 26, 2005, inflows of foreign currency by a non-resident and to be applied to payment obligations under a purchase agreement (including installment payments) concerning real estate 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 used for the 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 616/2005 if such requirement would be deemed applicable to the acquisition of the underlying assets of the trust. See "Exchange Controls."

Although most capital outflow restrictions with regards to imports of goods, payment of interest, utilities, dividends and financial debts have been eliminated, there can be no assurance that the Central Bank will not reverse its position and once again restrict payments of principal and interest outside of Argentina. If more stringent restrictions are imposed by the Central Bank, we may be unable to make payments of principal and interest on our foreign currency-denominated debt obligations. If that were to occur, we would likely suffer payment defaults on our existing debt obligations, and such defaults would likely have a material adverse effect on our financial condition and prospects and our ability to service our external debt obligations.

***The Argentine economy could be adversely affected by economic developments in other global markets***

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 and securities from issuers in other countries, including Argentina. 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 continues to be affected by events in the economies of its major regional partners. Furthermore, the Argentine economy may be affected by events in developed economies which are trading partners or that impact the global economy.

Shocks of a similar magnitude to the international markets in the future can be expected to affect adversely the Argentine economy and therefore our business.

***You may not be able to enforce your claims in Argentina.***

We are a corporation (sociedad anónima) organized under the laws of Argentina. Most of our shareholders, directors, members of our supervisory committee, members of our executive committee, officers and certain experts named herein reside principally in Argentina and substantially all of our assets are located in Argentina. Under Argentine law, enforcement of foreign judgments would be recognized provided that the requirements of Articles 517 through 519 of the National Code of Civil and Commercial Procedure are complied with, including, that the judgment does not violate principles of public policy of Argentine law, as determined by the Argentine courts. We cannot assure you that an Argentine court would not deem the enforcement of foreign judgments requiring us to make payments under the notes in foreign currency outside of Argentina to be contrary to Argentine public policy, if at that time there are legal restrictions prohibiting Argentine debtors from transferring foreign currency outside of Argentina to cancel indebtedness.

**Risks Related to Our Business**

***We may face potential conflicts of interest relating to our principal shareholders.***

As of November 30, 2006 our largest shareholder, Mr. Eduardo S. Elsztain, was the beneficial owner of approximately 16% of our common shares. As of November 30, 2006, such beneficial ownership consists of 35,467,651 of our common shares owned by Inversiones Financieras del Sur S.A., a Uruguayan holding company, for which Mr. Eduardo S. Elsztain may be deemed beneficial owner by virtue of his voting power to control Inversiones Financieras del Sur S.A.

Pursuant to a consulting agreement with Consultores Assets Management S.A. (formerly known as Dolphin Fund Management S.A.), we pay a management fee equal to 10% of our annual net income for certain agricultural advice and other administrative services. Eduardo Elsztain is the owner of 85% of the capital stock of Consultores Asset Management S.A., while our first vice-chairman of the board of directors, Saúl Zang, holds the other 15% of the capital stock.

Conflicts of interest between our management, our affiliates and us may arise in the performance of our respective business activities. Mr. Eduardo S. Elsztain is also the beneficial owner of approximately 26.5% of the common shares of IRSA, an Argentine company that currently owns approximately 61.5% of the common shares of its subsidiary Alto Palermo S.A. ("Alto Palermo") whose CEO is Mr. Alejandro G. Elsztain, the CEO of Cresud. We cannot assure you that our principal shareholders will not limit or cause us to forego business opportunities that their affiliates may pursue or that their pursuit of other opportunities will be in our interest.

***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 from time to time 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 of certain important producers (mainly the USA and 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.

From June 2005, to June 2006, prices in U.S. Dollars for soybeans dropped 8.75 %, the price of the corn increased in 11% and wheat increased 15.6%. (Source: CBOT- Bloomberg)

Our financial condition and results of operations could be materially and adversely affected if the prices of grains and by-products were to decline below current levels.

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

As with any agribusiness enterprise, our business operations are predominantly 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. Therefore, our results of operations have varied significantly from period to period, and are likely to continue to vary, due to seasonal factors.

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

The occurrence of severe adverse weather conditions, especially droughts or floods, is unpredictable and may have a potentially devastating impact upon crop production and, to a lesser extent, beef-cattle production. The effect of severe adverse weather conditions may reduce yields in our farms or require higher levels of investment to maintain yields. As a result, we cannot assure you that severe future 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 on crops, potentially rendering all or a substantial portion of the affected harvests. Even when only a

portion of the crop is damaged, our results of operation 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 Argentine 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 or that future outbreaks will not adversely affect our beef-cattle and milk sales, 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. Argentina is more competitive in the oil-seed than in the cereal market. 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 that do not exist in Argentina. These subsidies may allow producers from other countries to produce at lower costs than us and/or endure periods of low prices operating losses for longer periods. Any increased competitive pressure with respect to our products could materially and adversely affect our financial condition and results of operations.

***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.

We currently sell our entire raw milk production to one customer in Argentina. For fiscal year 2006, these sales represented 7% 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.

***We do not maintain insurance on our crop storage facilities; therefore, if a fire or other disaster damages some or all of our harvest, we will not receive any compensation.***

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 have approximately 15,341 tons of storage capacity at various farms and plan to further increase our storage capacity. We do not maintain insurance on our storage facilities. Although our storage capacity is in several different locations, and it is unlikely that a natural disaster affects all of our 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.

***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 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.

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.

***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 intend to be exposed in a long derivative position in excess of 50% of our real production.

***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.

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.

***We hold Argentine securities, which are more volatile than United States 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, with the exception of 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 June 30, 2006, we owned a 26.7% equity interest in IRSA representing an investment of Ps. 320.0 million through the purchase of shares and the conversion of Convertible Notes. In addition, as of such date, we owned IRSA's Convertible Notes for a total amount of US\$ 12.0 million and 32.96 millions warrants also.

Consequently, as of June 30, 2006, our investment in IRSA amounted to Ps. 357.4 million, representing 41.05% of our total consolidated assets.

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. During the fiscal year ended June 30, 2006, IRSA's share price increased by 1.4% from Ps. 3.4, on June 30, 2005 to Ps. 3.45 on June 30, 2006. From fiscal year 2004 to fiscal year 2005 the price increased 55% from Ps. 2.2 to Ps. 3.4. Given the relative size of our investment in IRSA, any decline could continue to give us a material adverse effect on our financial condition and results of operations.

***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 10% over the current 5% the taxes on beef-cattle exports.

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 to 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.

***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. During 2005, the Argentine government adopted measures in order to increase the domestic availability of beef and reduce domestic prices. The withholding rate was increased and a minimum weight requirement for animals to be slaughtered was established. In March 2006, the foreign sales of cattle beef cuts were momentarily suspended. The latter measure was 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 might impose will allow us to freely negotiate the price of our products.

***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 June 30, 2006, we owned approximately 26.7% of IRSA's outstanding shares, and our total investment in IRSA represented approximately 41.05% 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.

We believe we may be exempted from a registration as an investment company under the Investment Company Act so long as we do not offer or sell securities in the United States or to U.S. persons while our status under the Investment Company Act remains uncertain. Accordingly, due to the uncertainty regarding our status under the Investment Company Act, we may not be able 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 exception 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.

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.

#### **Risks Related to our American Depositary Shares and the Shares**

##### ***Shares eligible for sale could adversely affect the price of our 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 American Depositary Shares 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 American Depositary Shares are freely transferable under U.S. securities laws, including shares sold to our affiliates. Inversiones Financieras del Sur S.A., which as of November 30, 2006 owned approximately 16.0% of our common shares (or approximately 35,467,651 common shares which may be exchanged for an aggregate of 3,546,765 American Depositary Shares), is free to dispose of any or all of its common shares or American Depositary Shares at any time in its discretion. Sales of a large number of our common shares and/or American Depositary Shares would likely have an adverse effect on the market price of our common shares and the American Depositary Shares.

##### ***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 which differs 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 us or to enforce against 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 U.S. 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, United States holders of our equity securities would suffer negative consequences***

Based on the current and projected composition of our income and the valuation of our assets we do not believe we were a Passive Foreign Investment Company ("PFIC") for United States federal income tax purposes for the tax year ending June 30, 2006, and we do not currently expect to become a PFIC, although there can be no assurance in this regard. 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 or if our projections are not accurate. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of our income and assets and the accuracy of our projections. If we become a PFIC, United States Holders of our shares or ADSs will be subject to certain United States federal income tax rules that have negative consequences for United States Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our shares or ADSs at a gain, as well as reporting requirements. Please see "Taxation-United States Taxation" 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.

#### **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 its securities, are subject to the risk that if IRSA properties do not generate revenues sufficient to meet IRSA's 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;
- 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
- law reforms and governmental regulations (such as those governing usage, zoning and real property taxes).

***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.

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

IRSA has in the past acquired, and intend 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 IRSA's capital structure. Although we believe that the acquisitions that IRSA has completed in the past and that IRSA 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 IRSA to realize cost savings and synergies.

***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 IRSA's 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);
- liabilities incurred in the ordinary course of business.

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

IRSA has focused on development projects intended to cater to upper-middle income individuals and have 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 of downtown Buenos Aires, such as the Renoir towers. These developments are currently estimated to be completed in 2008 and will bring to the market over 11,500 square meters of high quality residential apartments. At the time the developers return these properties to IRSA, demand for premium apartments could be significantly lower than IRSA currently project. 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.

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

IRSA owns several plots of land which are not currently zoned for development purposes or for the type of developments IRSA propose, including Santa María del Plata, Puerto Retiro and Terrenos de Caballito. 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 IRSA will continue to be successful in its attempts to rezone land and to obtain all necessary permits and authorization, 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 IRSA 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.

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

IRSA currently carries liability, fire, extended coverage and rental loss insurance on all 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 IRSA 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 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. Moreover, IRSA does not purchase life or disability insurance for any of its key employees. If any of IRSA's key employees were to die or become incapacitated, IRSA could experience losses caused by a disruption in its operations which will not be covered by insurance, and this could have a material adverse effect on its 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 payment 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 mortgagees. 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 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 materially affected. IRSA's shopping centers and, to a lesser extent, IRSA's office buildings are typically anchored by well-known department stores and other significant tenants who generate shopping traffic at the mall. A decision by anchor 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 anchor tenants may induce other anchors and/or 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. The bankruptcy and/or closure of significant tenants, if IRSA

is not able to successfully re-tenant the affected space, could have a material adverse effect on both the operating revenues and underlying value of the properties involved.

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

IRSA's real estate and construction activities is highly concentrated in the Buenos Aires metropolitan area, an 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 generally is 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 foreign companies working in partnerships with 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.

***IRSA's shopping center business is subject to competition.***

Many of IRSA's properties are located close 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. Although to date there have been few companies competing with IRSA for shopping center properties, 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 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;
- 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 would reduce consumer spending in Argentina, lowering tenants' sales and forcing some of them to leave IRSA's shopping centers. This could affect the revenues from the shopping center activity.

***IRSA is subject to payment default risks due to its investments in credit card businesses through its subsidiary Alto Palermo.***

IRSA's subsidiary Alto Palermo owns an 80% interest in Tarshop S.A., a credit card company which originates credit card accounts to promote sales from Alto Palermo's tenants and other selected retailers. During the fiscal year ended June 30, 2006, Tarshop had net revenues of Ps.122.9 million, representing 34% of Alto Palermo's revenues and 21.3% of IRSA's consolidated revenues for such fiscal year. Credit card businesses such as Tarshop are adversely affected by defaults or late payments by card holders on credit card accounts, by difficulties enforcing collection of payments, by fraudulent accounts and by the writing off of past due receivables. 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;
- increases in unemployment; and
- erosion of real and/or nominal salaries.

These and other factors 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 credit card business. In addition, if IRSA's credit card business is adversely affected by one or more of the above factors, the quality of IRSA's securitized receivables is also likely to be adversely affected. Therefore, IRSA would be adversely affected to the extent that IRSA holds an interest in any such securitized receivables.

***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, 2006, IRSA's consolidated financial debt amounted to Ps.391.4 million (including accrued and unpaid interest and deferred financing costs). 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. 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, 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. 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 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; and
- taxes and governmental regulations affecting wages, prices, interest rates, construction procedures and costs.

***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 and other requirements, all of which affect IRSA's ability to acquire land, develop and build projects and negotiate with customers. In addition, the 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. Maintain 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 spend funds to comply with such new rules. Development activities are also subject to risks relating to the inability to obtain or delays in obtaining all necessary zoning, environmental, land-use, development, building, occupancy and other required governmental permits and authorizations. Any such actions from the public authorities may have an adverse effect on IRSA's business.

In the past, in response to housing shortages, high rates of inflation and difficulties in accessing to credit, the Argentine government imposed strict and burdensome regulations regarding leases. 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 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. 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.

***IRSA's development activities depend on its ability to obtain and maintain zoning, environmental, land-use and other governmental approvals***

IRSA owns several substantial plots of land which are not zoned for the type of development its propose, including Santa María del Plata, Puerto Retiro and Terrenos de Caballito. In addition, IRSA does not yet have the required building, occupancy and other governmental permits and authorizations that IRSA will need to be able to develop these properties as IRSA currently propose. As a result, we cannot assure you that IRSA will be successful in its attempts to rezone such 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, particularly in the City of Buenos Aires. If IRSA is unable to obtain all of the governmental permits and authorizations IRSA needs to develop its present and future projects, IRSA may be forced to make unwanted modifications to such projects or abandon them altogether which could have a material adverse effect on its financial condition and results of operations.

***Argentine Leasing 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 IRSA's 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.

***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 workload of 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. Historically, delinquency

regarding IRSA's office rental space has been very low, approximately 2%, and 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, 2006, more than 85% of IRSA's consolidated revenues was 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 face 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 Inmobiliario 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 sector. 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 for obtaining permits and authorizations, political and economic instability that may result in sharp shifts in demand for properties, risks of default in payment and difficulty of evictions for defaulting tenants.

***If the court extends Inversora Dársena Norte S.A.'s bankruptcy to 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 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 Federal Government 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").

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. The Argentine Government sustains the Indarsa did not cancel the outstanding balance of the purchase price of Tandanor, and as a result of this,, through its Ministry of Defense, petitioned the bankruptcy of Indarsa. Since the sole asset of Indarsa was its ownership interest in Tandanor, the Argentine Government is 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 persons. In particular, the Argentine Government has requested the extension of Indarsa's bankruptcy to Puerto Retiro which acquired Planta 1 from Tandanor.

On April 18, 2001, the trial began, and a measure prohibiting IRSA's disposition of this plot of land is still in effect. 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.46.5 million as of June 30, 2006, would be lost. As of June 30, 2006, IRSA had not established any reserve in respect of this contingency.

The management and legal advisors of Puerto Retiro S.A. estimates that there are legal and technical issues sufficient to consider that the request for postponement of 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.

***If Alto Palermo cannot reach an agreement with sellers regarding IRSA's acquisition of a significant interest in the Neuquén Project, the sale may be voided, and Alto Palermo may not recover its original investment***

On July 6, 1999, Alto Palermo acquired 94.6% ownership of Shopping Neuquén S.A. ("Shopping Neuquén") for Ps.4.2 million. Shopping Neuquén's sole asset is a plot of land of approximately 50,000 square meters on which IRSA seeks to build a shopping center. The proposed project contemplates the building of a shopping center, a hypermarket, a hotel and a housing complex, none of which have begun. Alto Palermo paid Ps.0.9 million on September 1, 1999, and the remaining Ps.3.3 million were originally scheduled to be paid on the earlier to occur of July 5, 2001, and the completion of the construction of the shopping center. Alto Palermo did not pay the balance of the purchase price. On August 15, 2003, the former holders of 85.8% of Shopping Neuquén filed a complaint against Alto Palermo seeking recovery of the unpaid balance of the purchase price, plus interest and legal costs. In September 2003, Alto Palermo answered the complaint and raised several defenses including, plaintiffs' non-compliance with their duties under the contract and the *pesification* of the purchase price balance pursuant to emergency legislation adopted in 2002. Alto Palermo also filed a counterclaim alleging there should be a readjustment of the terms of the contract which became excessively burdensome given the 2001 economic, social and political crisis. In November 2003, the plaintiffs replied to Alto Palermo's counterclaim alleging that the payment under the purchase agreement was overdue before the economic and social crisis emerged and thus Alto Palermo's contract readjustment claim was inadmissible. The matter is currently subject to appeal, as the ruling of the trial court was appealed by both former shareholders of Shopping Neuquén and Alto Palermo. If Alto Palermo cannot reach agreement with the former owners of Shopping Neuquén, Alto Palermo would be compelled to pay the sum the court determines. As of June 30, 2006, the Ps.3.3 million deferred balance of the purchase price remains unpaid.

***Alto Palermo is engaged in litigation with the Municipality of Neuquén***

In June 2001, Shopping Neuquén filed a request with the Municipality of Neuquén to extend the construction deadlines that had been originally scheduled. In addition, it requested authorization to convey certain plots of land to third parties so that each participant to the Neuquén project would be able to build on his own land. On December 20, 2002, the Municipality of Neuquén issued Decree 1437/02 denying both requests. In addition, it declared that the rights under Ordinance 5178 had lapsed and that

the land purchase agreements would be terminated. As a result, the improvements already made by Shopping Neuquén would be lost and passed on to the Municipality of Neuquén, leaving Shopping Neuquén with no right to compensation.

On January 21, 2003, Shopping Neuquén submitted its response to the Decree 1437/02 requesting its revocation and requesting permission to submit a new construction timetable, which would be prepared in accordance with the current situation of the project, including reasonable short and medium term projections. The Municipal Executive issued Decree 585/2003 rejecting these requests. On June 25, 2003, Shopping Neuquén filed an administrative action with the Supreme Court of Neuquén requesting the annulment of Decrees 1437/2002 and 585/2003. On December 21, 2004, the Supreme Court of Neuquén ruled in favor of the Municipality of Neuquén, declaring that the administrative action filed by Shopping Neuquén had expired. The decision, however, is not final. Alto Palermo filed an appeal, but the Supreme Court of Neuquén has not yet issued a decision with regards to its admissibility. If the appeal is declared admissible the Federal Supreme Court will give a final decision, but if it is declared inadmissible Alto Palermo will file an appeal directly with the Federal Supreme Court.

On December 13, 2006, Shopping Neuquén subscribed an agreement with the Municipality of Neuquén and the Province of Neuquén in which Shopping Neuquén was given a new timetable to implement the commercial and housing project. In addition, Shopping Neuquén will be empowered to transfer to third parties further subdivisions of the plot of land owned by Shopping Neuquén, provided that the plot to be transferred is not the one in which the shopping center is going to be built.

The agreement is subject to the City of Neuquén Council's approval and the promulgation of the new Ordinance by the Mayor of the City of Neuquén. Should the agreement be disapproved by the City Council, such agreement will be void.

***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 IRSA believes circumstances warrant the use of such structures. For example, in the shopping center segment, IRSA owns 61.5 % of Alto Palermo Shopping, while Parque Arauco S.A. owns another 29.6 %. In the development and sale segment, IRSA has a majority ownership interests in various properties, including 61.5% ownership of Predio Phillips, 83% ownership of Pereiraola, 83% of Abril/Baldovinos. IRSA also holds a minority interest of 50% in Puerto Retiro. In the hotels 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. On the financial services sector, IRSA owns 11.8% of Banco Hipotecario, while the Argentine government has a controlling interest in it.

IRSA could become engaged in a dispute with one or more of its joint venture partners that might affect IRSA's 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 IRSA's 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 IRSA's markets that could create conflicts of interest. If the objectives of IRSA's joint venture partners are inconsistent with IRSA's own objections, 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 become bankrupt, IRSA could become liable for its partner's share of joint venture liabilities.

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

In recent years, IRSA has provided mortgage financing to purchasers of units in IRSA's 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 to U.S. Dollars 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, which on June 30, 2006, approximately Ps.33.1 million.

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, most recently on June 14, 2006 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.

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 debtor's only dwelling (the "Mortgage Refinancing System"). The Mortgage Refinancing System establishes a trust over assets contributed by the Argentine government and income from restructured mortgage 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 a mortgage loan agreements could opt to participate in it. However, it was extended by a number of decrees and laws.

Recently enacted Law No. 26.167 established a special proceeding to replace ordinary trials regarding the enforcement of mortgage loans, by virtue of which creditors have 10 days to inform the amounts owed to them and later 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.

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.

***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 possess 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. We cannot assure you that IRSA would be able to find an appropriate replacement should the need arise. 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 and, if IRSA is not, it would likely 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. As of November 30, 2006, such beneficial ownership consisted of:

- 6,243,354 of IRSA's common shares owned by Inversiones Financieras del Sur S.A. ("IFISA"), a company to which Mr. Eduardo S. Elsztain is the sole beneficial owner;
- 116,305,767 of IRSA's common shares.

Conflicts of interest between IRSA's management, IRSA's Company and IRSA's affiliates may arise in the performance of IRSA's respective business activities. Mr. Elsztain also beneficially owns (i) approximately 21.13% of our common shares, and (ii) approximately 61.54% of the common shares of our 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 September 30, 2006, the majority of IRSA's liabilities, such as its unsecured loan agreement, IRSA's Series 3 secured floating rate notes due 2009, the mortgage loan to Hoteles Argentinos, its convertible notes and Alto Palermo's convertible notes are denominated in U.S. Dollars while IRSA's revenues and most of its assets as of September 30, 2006 are denominated in Pesos. This currency gap exposes IRSA to 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.

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

Tarshop S.A., an Alto Palermo subsidiary, is a credit card company that originates credit card accounts to promote sales from Alto Palermo's tenants and other selected retailers. Tarshop's accounts receivables, which consist of cash flows from sales on credit, 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 it also remains a beneficiary of these trust accounts by holding, as of September 30, 2006, Ps.49.7 million worth of these participation certificates.

We cannot assure you that collection of payments from credit card accounts 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.

#### **Risks Related to IRSA's Investment in Banco Hipotecario**

##### ***IRSA's investment in Banco Hipotecario subjects us to risks affecting Argentina's highly regulated banking sector.***

As of June 30, 2006, IRSA owned 11.8% of Banco Hipotecario which represented 9.5% of IRSA's consolidated assets at such date. 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 macroeconomic 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 in Argentina are subject to significant regulation by the Central Bank and certain other regulatory authorities. Measures adopted by the Central Bank have had and may continue to have a material adverse effect on Banco Hipotecario's financial condition and results of operations. On July 25, 2003, the Central Bank announced its intention to adopt new capital adequacy requirements that it will implement gradually through 2009. In addition, the IMF and other multilateral agencies encouraged the Argentine Government to impose minimum capital adequacy, solvency and liquidity requirements consistent with international standards, which could impose material operating restrictions on Banco Hipotecario.

Laws and decrees implemented during the economic crisis in 2001 and 2002 have substantially altered contractual obligations affecting Argentina's financial sector. Recently, various initiatives have been presented to the Argentine Congress 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, if this were to occur, the Argentine Government would compensate Banco Hipotecario for the resulting loss. The future outcome of the uncertainties described above could have an adverse effect on the value of IRSA's investment in Banco Hipotecario.

##### ***Government intervention on mortgage loans may have an adverse effect on Banco Hipotecario's mortgage loans performance.***

On November 29, 2006, Law No. 26,177 created the "Unidad de Reestructuración" which will consider the possibility of restructuring the whole mortgage loans, between the debtors and the old Banco Hipotecario (state-owned corporation). These and other measures may have a future impact in Banco Hipotecario's mortgage loans performance.

##### ***Banco Hipotecario relies on mortgage lending and may not be able to implement successfully its new 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 historical 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 the demand for new mortgage loans and the asset quality of outstanding mortgage loans.

In light of the economic conditions in Argentina, Banco Hipotecario cannot rely exclusively on mortgage lending and related services. Although Banco Hipotecario has adopted a new business strategy to diversify its banking business, it must overcome significant challenges to implement this strategy including, 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 any assurance that Banco Hipotecario will be successful in developing significant retail banking activities in the future. If Banco Hipotecario is unable to effectively transition to a new and viable operating model, the value of IRSA's substantial investment in Banco Hipotecario would likely be materially and adversely affected.

***Banco Hipotecario may not be successful in its diversification strategy given recent disagreements with the Argentine government.***

Banco Hipotecario faces significant challenges in seeking to develop its business plan through internal growth and therefore continuously explores acquisition opportunities. The pace of change in the Argentine financial system may require Banco Hipotecario to take advantage of opportunities and make decisions on an expedited basis, which may prove difficult to accomplish given applicable regulatory requirements and the requirement that the Argentine government, as one of its shareholders, approve certain transactions. These acquisition opportunities may require Banco Hipotecario to incur additional debt or other direct or contingent liabilities, and its ability to incur such liabilities is limited. In addition, any such acquisitions would likely divert a significant amount of its management's attention to the integration of these businesses into Banco Hipotecario's current operations.

The Argentine government, one of Banco Hipotecario's major shareholders, has a "golden share", meaning that it has an effective veto in respect of transactions involving any merger Banco Hipotecario may contemplate. In 2005, Banco Hipotecario entered into an agreement to acquire an important bank in Argentina, but the Argentine Government did not approve the proposed acquisition and as a result it was not consummated. If IRSA, as shareholders, is not able to receive government support to successfully implement new business strategies, Banco Hipotecario's ability to implement such strategies may be materially and adversely affected.

***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 stock 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.

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 (Programa de Propiedad Participada) 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'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 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 on property constituting a borrower's dwelling may be adjusted for inflation only pursuant to CVS index, which during 2002 was significantly less than inflation as measured by the wholesale price index. Law No. 25,796 Section 1, effective April 1, 2004, eliminated the use of the CVS as an indexation mechanism, as applied to the relevant portion of Banco Hipotecario's mortgages. During 2005, the CER was 11.75% and the wholesale price index 10.7%, while for the six months of 2006 the CER and wholesale price index increased by 5.77% and 5.0%, respectively. Argentina's history prior to the adoption of the Convertibility Law 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 in 2002 and 2003, Banco Hipotecario's mortgage portfolio experienced significant erosion in value. If inflation were to increase significantly once again, it may continue to materially erode value. Accordingly, an increase in Banco Hipotecario's funding and other costs due to inflation may not be offset by indexation, which could adversely affect its liquidity and results of operations.

***Banco Hipotecario's mortgage loan portfolio was materially and adversely affected by the devaluation of the Peso and may be further impacted by future fluctuations in exchange rates.***

While the one-to-one Peso-U.S. Dollar parity was in effect, Banco Hipotecario had no exchange rate risk with respect to its Peso-denominated revenues. However, its repeal on January 7, 2002, and the subsequent devaluation of the Peso have had the effect of significantly reducing its shareholders' equity and Banco Hipotecario's net income. This is also a consequence of the mismatch between Banco Hipotecario's Peso-denominated revenues and its significant U.S. Dollar obligations, particularly in light of the pesification of its U.S. Dollar-denominated mortgage loans described below. On January 11, 2002, the Peso began to float freely for the first time in eleven years trading at Ps.1.40 = US\$1.00; however, the Peso has devalued significantly, trading as low as Ps.3.90 = US\$1.00 in June 2002, as reported by Banco de la Nación Argentina. Since then, the value of the Peso has begun to recover and on October 31, 2006, the exchange rate as reported by Banco de la Nación Argentina was approximately Ps.3.089 = US\$1.00.

Beginning on February 3, 2002, the Argentine government converted (i) certain foreign currency-denominated debts into Peso-denominated debts at a one-to-one exchange rate, (ii) certain foreign currency-denominated public sector debts into Peso-denominated debts at an exchange rate of Ps.1.40 per US\$1.00 and (iii) foreign currency-denominated bank deposits into Peso-denominated bank deposits at an exchange rate of Ps.1.40 per US\$1.00. As a result, 100% of Banco Hipotecario's mortgage loans denominated in foreign currency were converted to Pesos at a one-to-one exchange rate and 100% of the Argentine government securities Banco Hipotecario held, including federal, provincial and municipal bonds, were converted to Pesos at an exchange rate of Ps.1.40 per US\$1.00. On the other hand, less than 8% of its liabilities denominated in foreign currency were converted to Pesos at an exchange rate of Ps.1.40 per US\$1.00, and the remainder of its liabilities remained denominated in foreign currency.

Due to the fact that Banco Hipotecario's loan portfolio now generates interest income only in Pesos, any further devaluation of the Peso against the U.S. Dollar will further impair its ability to make payments on its liabilities denominated in such currencies. Moreover, although the Argentine government has issued National Government Compensating Bonds ("BODEN"), notes that are intended to compensate Banco Hipotecario in part for its losses resulting from pesification, Banco Hipotecario cannot assure us that the Argentine government will honor its obligations to deliver the additional BODEN to which Banco Hipotecario is entitled, or that any BODEN it may receive will be sufficient to compensate adequately for the harm caused by the asymmetric pesification of its assets and liabilities. Additionally, Banco Hipotecario cannot assure you that future exchange rate policies to be implemented by the Argentine government will not further affect its financial condition and the results of its operations; and if such were the case, Banco Hipotecario cannot ensure you that the Argentine government will compensate such differences nor up to which amount.

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

As of June 30, 2006, Banco Hipotecario's foreign currency-denominated liabilities exceeded its foreign currency denominated assets by approximately US\$101 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 depreciate against the Peso, or that we will not be adversely affected by Banco Hipotecario's exposure to risks of exchange rate fluctuations.

***Because of Banco Hipotecario's large holdings of BODEN and guaranteed government loans, 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. Additionally, the Argentine government has incurred, and is expected to continue to incur, significant new debt obligations, including the issuance of compensatory bonds to financial institutions. As of September 30, 2006 Banco Hipotecario had a total of US\$ 888.9 million of BODEN issued by the Argentine Government. At that same date, Banco Hipotecario also had a total of approximately US\$50.2 million of guaranteed government loans. Given Banco Hipotecario's BODEN holdings, Banco Hipotecario has a significant exposure to the Argentine government's solvency. Further, defaults by the Argentine government on its debt obligations, including the BODEN and other government securities (such as the guaranteed government loans) held by Banco Hipotecario, would materially and adversely affect its financial condition which would in turn affect IRSA's investment.

***Banco Hipotecario faces potential material litigation which could adversely affect its financial condition and results of operations.***

As of August 31, 2006, approximately 3,895 borrowers of pre-1991 loans had initiated legal proceedings against Banco Hipotecario, alleging that the write-downs performed on the balance of such loans have been insufficient and did not comply with the Privatization Law. As of that date those loans had an aggregate outstanding balance of approximately Ps.88.5 million. If Banco Hipotecario does not prevail in these proceedings or settle the claims, or if more borrowers bring similar claims against them, Banco Hipotecario may need to effect substantial write-downs on the affected loans. The majority of the borrowers involved in this litigation have obtained a preliminary injunction ordering Banco Hipotecario to charge a lower service of capital and interest with respect to the amount previously determined. Banco Hipotecario can not assure you that additional borrowers will not bring similar lawsuits against them, objecting to the adequacy of the write-down on balances under the Privatization Law, nor that the courts will not issue other decisions against Banco Hipotecario's lawsuits. In the event that Banco Hipotecario loses this litigation, is unable to settle claims or more borrowers bring similar claims against it, they may be required to write-down significant amounts that they had previously capitalized. Any one or more of these events may materially and adversely affect Banco Hipotecario's business, financial condition or results of operations.

In addition, in May 2003, an Argentine court entered a judgment directing Banco Hipotecario to pay an amount that, at the date of the judgment, was approximately Ps.40 million in connection with a proceeding initiated by a private developer who received financing for the construction of certain projects. The developer alleged that Banco Hipotecario breached certain of the original conditions of the loan agreement, including failure to make funds available. Banco Hipotecario currently faces other similar claims by other private developers or construction companies that involve approximately Ps.269 million in the aggregate. Although Banco Hipotecario has appealed the judgment to the National Supreme Court and believes that its appeal may be successful, the possible confirmation of the judgment and/or eventual extension of the ruling to other proceedings could materially adversely impact Banco Hipotecario's financial condition and results of operations.

An Argentine social security agency has also filed suit seeking summary judgment against Banco Hipotecario alleging that it owes Ps.335 million in employer contributions to the pension plan that were not made by Banco Hipotecario prior to its privatization by the Argentine government. This claim has been dismissed in a judgment entered by the lower court. Although the plaintiff has filed an appeal, Banco Hipotecario considers that the Privatization Law under which it was privatized clearly precludes them from being liable for these payments and establishes that this is an exclusive obligation of the

Argentine government. Nonetheless, a court may rule against Banco Hipotecario and this may have a material adverse effect on its financial condition and results of operations.

***A number of lawsuits filed against Banco Hipotecario by certain holders of their bonds could adversely affect Banco Hipotecario's liquidity.***

In the course of the last two years Banco Hipotecario has been sued in Argentine courts by individual bondholders seeking summary judgments (juicios ejecutivos) based on Banco Hipotecario's defaulted payment of amounts due on its notes issued prior to its debt restructuring. In each of these lawsuits, the lower courts had rendered a decision favorable to holders of Banco Hipotecario's existing notes. At the closing of Banco Hipotecario's exchange offer, existing bondholders, representing 5% of the principal amount subject to restructuring did not participate in the offering. Currently, approximately 2.5% of this debt remains outstanding. To the extent such bondholders initiate other lawsuits against Banco Hipotecario, Banco Hipotecario may be required to make additional payments to settle or satisfy possible adverse judgments which may adversely affect its liquidity.

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

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

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

The Global Depositary Shares are freely transferable under U.S. securities laws, including shares sold to IRSA's affiliates. We, which as of June 30, 2006 owned approximately 26.7% of IRSA's common shares (or approximately 116,305,767 common shares which may be exchanged for an aggregate of 11,630,576 Global Depositary Shares), are free to dispose of any or all of its common shares or Global Depositary Shares at any time in our discretion. Sales of a large number of IRSA's common shares and/or Global Depositary Shares would likely have an adverse effect on the market price of IRSA's common shares and the Global Depositary Shares. Different Corporate Disclosure and Accounting Standards.

***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 which differs 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 its 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.