

# Nominal Exchange Rates <sup>(5)</sup>

	Exchange Rate			
	High <sup>(1)</sup>	Low <sup>(2)</sup>	Average <sup>(3)</sup>	Period End
Year Ended December 31, 1998	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 1999	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2000	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2001 <sup>(4)</sup>	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2002	3.8500	1.4750	3.2154	3.3700
Month Ended May 31, 2003	2.8900	2.7120	2.8000	2.8500
Month Ended June 30, 2003	2.8000	2.7200	2.7500	2.8000
Month Ended July 31, 2003	2.8700	2.7100	2.8700	2.9200
Month Ended August 31, 2003	2.9100	2.8350	2.9060	2.9560
Month Ended September 30, 2003	2.9300	2.8400	2.8650	2.9150
Month Ended October 31, 2003	2.8550	2.7870	2.8150	2.8650
Month Ended November 30, 2003	2.9950	2.8475	2.8839	2.8575

(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 Nación did not publish an official exchange rate due to governmental suspension of the exchange market.

(5) All prices are mid market prices.

Source: Argentine Central Bank; Banco de la Nación Argentina, Bloomberg

Fluctuations in the exchange rate between the Peso and the U.S. dollar may affect the U.S. dollar equivalent of the Peso price our US\$100.0 million Convertible Notes on the Buenos Aires Stock Exchange ("*Bolsa de Comercio de Buenos Aires*"). Increases in Argentine inflation or devaluation of the Argentine currency could materially and adversely affect our operating results.

## B. Capitalization and Indebtedness

This item is not applicable.

## C. Reasons for the Offer and Use of Proceeds

This item is not applicable.

## D. Risk Factors

You should consider the following risks with respect to an investment in our company and 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. It is known that investing in companies which operate in emerging markets such as Argentina is more risky than investing in companies which operate in consolidated markets such as the United States.

### Risks Related to Argentina

#### Overview of Argentine economic and political risks

All of our operations and properties are located in Argentina. Domestic demand for our rental and development properties broadly reflects prevailing conditions in the Argentine economy. Accordingly, contraction in the domestic economy or other adverse economic conditions may reduce demand for our properties and their values and may adversely affect our ability to meet our obligations. The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth and high and variable levels of inflation. In 1988, 1989 and 1990, the annual inflation rates were approximately 338%, 4,924% and 1,344%, respectively, based on the consumer price index and

approximately 432%, 5,386% and 798%, respectively, based on the wholesale price index. As a result of inflationary pressures, the Argentine currency was devalued repeatedly during the 1960s, 1970s and 1980s, and macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the U.S. dollar. To address these pressures, the Argentine government implemented various plans and utilized a number of exchange rate systems during this period. At various times throughout Argentine history, the foreign exchange market has been subject to exchange controls.

In 1991, the Argentine government launched a plan aimed at controlling inflation and restructuring the economy, enacting the Convertibility Law. The Convertibility Law fixed the exchange rate at one Peso per U.S. dollar and required that the Argentine Central Bank maintain reserves in gold and foreign currency in an amount at least equivalent to the monetary base. Following the enactment of the Convertibility Law, inflation declined steadily and the Argentine economy experienced growth through most of the period from 1991 to 1997. In the fourth quarter of 1998, however, the Argentine economy entered into a recession that caused the gross domestic product to decrease by 3.0% in 1999, 0.5% in 2000 and 4.9% in 2001. During the second half of 2001, Argentina's recession worsened significantly, precipitating the political and economic crisis described in greater detail below. During 2002, the gross domestic product dramatically decreased by 10.9% as compared to 2001, while prices increased approximately by 41.0% and 118.0%, based on the consumer price index and on the wholesale price index, respectively. During 2003, economic indicators showed some signs of recovery. During the first half of 2003, the gross domestic product increased by 6.6% as compared to the same period in 2002, while prices increased by 10.2% and 8.1% based on the consumer price index and on the wholesale price index, respectively.

***Political and economic instability has affected and could affect in the future commercial and financial activities***

Following his election in October 1999, President Fernando De la Rúa was confronted with the challenges of dealing with Argentina's enduring economic recession and obtaining political consensus on critical issues related to the economy, public sector spending, legal reforms and social programs.

This government took certain measures that caused social discontent and the resignation of Minister of Economy, Domingo Cavallo. On December 21, 2001, after declaring a state of siege, President De la Rúa resigned in the midst of an escalating political, social and economic crisis.

Following the resignation of an interim President only one week after his appointment, on January 1, 2002, the Legislative Assembly elected *Peronista* senator Eduardo Duhalde as President to serve for the remaining term of former President De la Rúa. During the government of President Duhalde a number of far-reaching initiatives were undertaken, including:

- ratifying the suspension of payment of almost all of Argentina's sovereign debt declared by the interim President;
- ending the Peso-U.S. dollar Parity set forth in the Convertibility Law and the resulting devaluation of the Peso;
- converting certain U.S. dollar-denominated debts (ruled by Argentine Law) into Peso-denominated debts at a one-to-one exchange rate plus CER (as defined below);
- converting, with limited exceptions (financial and commercial), U.S. dollar-denominated bank deposits into Peso-denominated bank deposits on an exchange rate of Ps. 1.4 per U.S. dollar plus CER (as defined below); and
- enacting an amendment to the Argentine Central Bank's charter to allow it to print currency in excess of the amount of the foreign reserves it holds.

On April 27, 2003, the presidential elections took place, in which Carlos Menem and Néstor Kirchner obtained the first and second place, respectively, in terms of votes. On May 14, 2003, Carlos Menem decided not to participate in the run-off. Based on Menem's decision, Kirchner was elected President of Argentina on May 25, 2003 for a four-year term ending December 10, 2007.

The Kirchner administration has continued the economic policies of his predecessor, and the official candidates have succeeded in the subsequent elections, providing a higher political support to the elected president, who obtained the lower number of votes all over the Argentine history.

However, and despite the apparent disappearance of the signs of economic and political crisis, the structural problems of the Argentine economy, which have recurrently caused or contributed to political crisis in the past, have not been resolved, and it cannot be assured whether the policies of the elected president will be finally successful.

These conditions have had and can be expected to have a material adverse effect on our financial condition and results of operations as they have paralyzed, and could paralyze in the future, investment and consumption decisions, thus causing a reduction in retail sales, sales of real estate and demand for office and commercial space.

***Argentina's insolvency and default on its public debt had deepened the financial crisis.***

As of December 2001, Argentina's total gross public debt was approximately US\$ 137.0 billion. On December 23, 2001, former interim President Rodríguez Saá declared the suspension of payments on certain of Argentina's sovereign debt, and President Duhalde ratified this measure on January 2, 2002. In addition, in 2002, the principal international rating agencies downgraded the rating of Argentina's sovereign debt.

On November 14, 2002, the Argentine government defaulted on all but a fraction of an US\$ 805 million payment due on that date to the World Bank, deepening the country's rift with the international financial establishment and damaging relations between the United States and Latin America. Countries that fail to pay official multilateral institutions such as the World Bank are likely to become international financial pariahs and, though Argentina fully intends to meet its obligations once an International Monetary Funds ("IMF") agreement is reached, the country could fall further into economic isolation. Eventually, the World Bank is considering the suspension of disbursements on projects that aid the country's poor, consequently, Argentine exports and imports which are being financed by international loans will probably be badly affected by these measures hardening these transactions.

Although the Argentine Government reached an initial agreement with the IMF on September 20, 2003 at the annual meeting of the IMF and the World Bank in Dubai, which will allow Argentina to refinance its debts with the international financial institutions in the amount of US\$ 21,500 million, the renegotiation with private creditors looks difficult.

The agreement signed with the IMF set forth that the Government surplus- before paying the debt - should be 3% for the first year, which is equivalent to US\$ 4,200 million. Targets for years 2005 and 2006 will be set once an agreement between the country and the private creditors is reached.

The Argentine Capital Market Institute stated in a report that is part of a document about the external debt rescheduling that a 3% surplus of GDP and a growth rate in actual terms of 3% up to 2007 would not allow Argentina to meet its obligations in years 2005, 2006 and, especially 2009. During those years, principal and interest installments related to BODEN and secured loans would become due, which were not included in the debt rescheduling, amounting to US\$ 354 million, US\$ 272 million and US\$ 1,154 million, respectively.

At the annual meeting of the IMF and the World Bank in Dubai, the Argentine economy officers made an exchange offer to private creditors. They proposed that creditors exchange their debt instruments for any of the new government securities that are to be issued. Holders might opt for bonds in U.S. dollars, euros or pesos adjusted for inflation. Interest rates, payment terms and the percentage of loss of nominal value would be defined in subsequent negotiations. To date, no agreement has been reached. The government's offer that involved writing out 75% of the value of the defaulted debt, the refuse to pay interest arrears and the issuance of new long interest bonds, which would have amounted to a cut of up to 90% in the present value of the original bond, has been widely rejected by most creditors.

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On December 3, 2003, the Argentine bondholder's committee, a New York based group, made a counter offer which would accept a write off with a 35% discount in the nominal value of the defaulted debt, but Argentina would have to honor overdue interests.

As of November 13, 2003, Standard & Poor's maintained Argentina's long-term local and foreign currency sovereign credit ratings at "SD" (selective default), indicating that the Republic is defaulting on some of its obligations. Fitch IBCA and Duff & Phelps maintained the "DDD" ratings for the long-term debt (with a negative rating watch) and the ratings for the short-term debt at "C". Moody's Investors Service qualified Argentina's foreign currency country ceiling for long-term bonds at Caa1 with a stable rating outlook.

As of November 30, 2003 Argentina's public debt totaled US\$ 185.2 billion, or 143% of its GDP, where US\$ 106.8 billion had to be restructured.

If the external debt is not rescheduled, the Argentine companies will find it difficult to access international financial assistance, and foreign investments either directly or through a portfolio would be restricted. These circumstances might deteriorate the slight and initial recovery of the Argentine economy and the recession as well as political crisis may reappear. As a result, our business, financial condition and results of operations will likely be materially and adversely affected, as paralysis of the economy and inflation negatively affect consumers' purchasing power, which, in turn, affects retail sales, investment decisions in residential real estate and demand for office and shopping center space.

### ***The Peso has been, and may continue to be subject to substantial depreciation and volatility***

The Argentine government's economic policies and any future changes in the value of the Peso against the U.S. dollar could adversely affect our financial condition and result of operations. The Peso has been subject to large devaluations in the past and may be subject to significant fluctuations in the future.

As a result of inflationary pressures, the Argentine currency was devaluated repeatedly during the 1960s, 1970s and 1980s, and macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the U.S. dollar. To address these pressures, the Argentine government implemented various plans and utilized a number of exchange rates, and prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. During the 1990s the devaluation and fluctuation of the Peso against the U.S. dollar was controlled by the Convertibility Law, which fixed the exchange rate at one Peso per U.S. dollar. However, the Public Emergency Law puts an end to ten years of U.S. dollar-Peso parity, and the Argentine government has authorized a free floating exchange rate for all transactions. This has resulted in a significant devaluation of the Peso. Since the devaluation of the Peso, the Peso has fluctuated significantly, causing the Argentine Central Bank to intervene in the market to support the value of the Peso by selling U.S. dollars.

At present, the country has a floating exchange rate, which as of December 16, 2003 was Ps. 2.97 = US\$ 1.00, according to Banco Nación data.

No assurance can be given that future policies to be adopted by the Argentine government will be able to control the value of the Peso and it is likely that the Peso will be subject to significant fluctuations and depreciations in the future, which could materially and adversely affect our financial conditions and result of operations as a consequence of the exchange risk associated with the difference that exists between our Peso-denominated revenues and assets and our high proportion of dollar-denominated liabilities.

Since our significant exposure to U.S. dollar-denominated liabilities, our results are very sensitive to fluctuations in the nominal exchange rates. In this way, strong depreciation in the Peso will affect negatively our results while strong appreciations will influence positively.

***The devaluation of the Peso has adversely affected Argentine economic conditions and our financial position***

On January 6, 2002, Congress enacted the Public Emergency Law, putting an end to ten years of U.S. dollar-Peso parity under the Convertibility Law and eliminating the requirement that the Argentine Central Bank's reserves in gold, foreign currency and foreign currency denominated bonds be at all times equivalent to the sum of the Pesos in circulation and the Peso deposits of the financial sector with the Argentine Central Bank. The Public Emergency Law grants the executive branch the power to set the exchange rate between the Peso and foreign currencies and to issue regulations related to the foreign exchange market. On the same day, the executive branch established a temporary dual exchange rate system, a fixed rate for transactions subject to Argentine Central Bank approval, and import and export transactions at an exchange rate of Ps. 1.4 per U.S. dollar and a floating rate to be freely determined by the market for all other transactions.

The Argentine government is facing severe fiscal problems due to the recent devaluation. Peso-denominated tax revenues constitute the primary source of its earnings, but most of its financial liabilities are U.S. dollar-denominated. Therefore, the Argentine government's ability to honor its foreign debt obligations has been materially and adversely affected by the devaluation of the Peso.

Past 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. In the past, inflation materially undermined the Argentine economy and the Argentine government's ability to create conditions that would permit growth.

Since the end of the Convertibility Law, according to numbers released by the *Instituto Nacional de Estadística y Censos* ("INDEC") the consumer price index increased 41.0% during 2002 and 3.9% during the first ten months of 2003, as compared to the same period of the previous year, respectively. In addition, the wholesale price index grew 18.0% during 2002 and -2.9% during the first ten months of 2003, as compare to the same period of the previous year, respectively. The Argentine economic and political situation continues to evolve and the Argentine government may enact future regulations or policies that, when finalized and adopted, may adversely and materially impact, among other items:

- the realized revenues we receive for services offered in Argentina, such as rental contracts;
- our asset valuations;
- our Peso-denominated monetary assets and liabilities, which could be affected by the introduction of different inflation adjustment indexes.

***There is risk that the Argentine financial system may collapse***

Although the amount of deposits in the Argentine banking system has been decreasing during the last few years, during the last quarter of 2001 a significant amount of deposits were withdrawn from Argentine financial entities as a consequence of the increasing political instability and uncertainty. This run off of deposits had a material adverse effect on the Argentine financial system as a whole. For the most part, banks suspended the disbursement of new loans and focused on collection activities in an attempt to pay back depositors. However, the general unavailability of external or local credit created a liquidity crisis, which triggered numerous payment defaults, which in turn undermined the ability of many Argentine banks to pay back depositors.

To prevent a run on the U.S. dollar reserves of local banks, on December 1, 2001, the De la Rúa administration restricted the amount of cash that account holders could withdraw from banks. Subsequently, the Duhalde administration in an attempt to stop the continuing drain on bank reserves enforced a mandatory rescheduling of maturities and released a schedule stating how and when money in savings and checking accounts and maturing time deposits would become available. These restrictions, known as the "*corralito*", are no longer in effect, although exchange control restrictions remain in effect.

Despite the “*corralito*”, between January 1 and July 1, 2002, approximately Ps. 20.0 billion were withdrawn from banks due to court rulings that enabled certain depositors to withdraw their money. This resulted in a further weakening of the banking system. Consequently, on April 25, 2002, the Argentine government enacted Law No. 25,587 in an attempt to stop the outflow of funds caused by several judicial measures which forced financial institutions to return deposited funds to their owners as a precautionary measure, pending the resolution of claims. This new law prevents judges from adopting said provisional measures in all proceedings against the Argentine government or any financial institution, which involve funds frozen in the financial system.

The “*corralito*” led to the paralysis of virtually all commercial and financial activities and significantly diminished consumer retail spending as a result of increased uncertainty, the inability for depositors to access their savings and a general shortage of cash. Additionally, social unrest and protests directed against financial institutions and the Argentine government became widespread.

The strength of the financial system is relevant to our business projects and operations. Although the *corralito* is no longer in effect and the confidence in banks is slowly returning, we cannot assure you that the Argentine financial system will not collapse or that it will recover its pre crisis strength.

***The paralysis of Argentine payment system is adversely impacting economic activity and our ability to operate***

Over long periods, Argentina has had access to external financing. The default on its external debt and the characteristics of the rescheduling proposed by the country would hamper the obtainment of financial resources from abroad.

Argentina has incurred in the highest default of its history in nominal terms, and the fact that this situation has not been resolved prevents the country from obtaining further foreign financing. Although the Argentine Government reached an initial agreement with the IMF on September 20, 2003 at the annual meeting of the IMF and the World Bank in Dubai, which will allow Argentina to refinance its debts with the international financial institutions in the amount of US\$ 21,500 million, the renegotiation with private creditors looks difficult.

If the external debt is not rescheduled, the Argentine companies will find it difficult to access international financial assistance, and foreign investments either directly or through a portfolio would be restricted. These circumstances might deteriorate the slight and initial recovery of the Argentine economy and the recession as well as political crisis may reappear. Moreover, the solvency of the Argentine financial system is still in jeopardy, and the system’s failure would have a material and adverse effect on the prospects for economic recovery and political stability, thus materially and adversely affecting our revenue stream and our ability to access new credit.

***Inflation may escalate and further undermine the economy***

On January 24, 2002, the Argentine government amended the Argentine Central Bank’s charter to allow it to print currency (without having to maintain a fixed and direct ratio with the foreign currency and gold reserves), to make advances to the federal government to cover its anticipated budget deficit and to provide financial assistance to financial institutions with liquidity problems. Furthermore, the devaluation of the peso created pressures on the domestic price system that generated inflation in 2002, after several years of price stability, and, in recent years, price deflation. Through December 31, 2002, the Consumer Price Index and the wholesale price index exhibited cumulative increases of 41.0% and 118.0%, respectively. During 2003 inflation has been relatively stable, in October, 2003 the wholesale price index decreased 2.9% as compared to 2002. Although there is considerable concern that significant inflation will continue if the Argentine Central Bank prints currency to finance public-sector spending or financial institutions in distress, such inflation has previously materially undermined the Argentine economy and the government’s ability to create conditions that would engender growth.

The devaluation of the peso and accompanying economic policy measures implemented by the Argentine government were intended primarily to remedy the effects of unemployment and to stimulate economic growth. To date, it is not apparent that the objectives pursued have been achieved. The

sustainable success of such measures in the future will depend on the ability of the Argentine government to generate confidence among the local and international financial and business communities. Without such confidence, it is likely that inflation rates will increase significantly, investment and economic activity will contract further, unemployment will increase beyond current levels, tax revenue (excluding inflationary effects) will drop and the fiscal deficit will widen.

***High unemployment and other labor difficulties have contributed to the social unrest in Argentina and may affect our operations***

On May 2002, unemployment stood at 21.5%. Even though in May 2003 the unemployment decreased to 15.6%, showing a recovery in this field, unemployment and underemployment continue to create serious social problems in Argentina. In order to moderate the social instability arising from the labor situation, Duhalde's administration included in its 2003 budget, social aid programs aimed at improving health and food provision, employment generation and a subsidy for the unemployed. Nevertheless, such programs have not yet mitigated the current social unrest, and if unemployment rates do not decrease substantially, consumption of retail goods will be detrimentally affected which in turn will adversely affect the financial condition of our tenants, and consequently, our results of operations.

***Promulgations of laws related to foreclosure on real state adversely affect property rights***

On February 2002, the Argentine government amended Argentina's bankruptcy law, suspending bankruptcies and foreclosures on real estate that constitutes the debtor's primary dwelling, initially for a six-month period and subsequently extended until November 14, 2002.

On June 2, 2003, the Congress passed a law formally suspending the ability to foreclose on mortgaged properties for a term of ninety days, reinstating the earlier "formal" suspension on foreclosures that had ended on November 14, 2002. This suspension was extended until September 2, 2003. However, the creditors voluntarily agreed, together with banks and other financial institutions, to extend such suspension until a new law gave solution to this situation. On November 5, 2003 the Congress enacted Law No. 25,798 in order to grant certain facilities to the debtors and discharge the payment of their due and payable debts.

***Future governmental policies will likely significantly affect the economy as well as the operations of financial institutions***

The Argentine government has historically exercised significant influence over the economy, and financial institutions, in particular, have operated in a highly regulated environment. Due to the Argentine crisis, in the last few months the Argentine government has promulgated numerous, far-reaching and not always consistent laws and regulations affecting the economy as well as financial institutions in particular. We cannot assure you that laws and regulations currently governing the economy or the banking sector will not continue to change in the future, particularly in light of the continuing economic crisis, or that any changes will not adversely affect our business, financial condition or results of operations as well as our ability to honor our foreign-currency denominated debt obligations.

Due to the current social and political crisis, investing in Argentina also entails the following risks:

- civil unrest, rioting, looting, nation-wide protests, widespread social unrest and strikes;
- expropriation, nationalization and forced renegotiation or modification of existing contracts; and
- taxation policies, including royalty and tax increases and retroactive tax claims.

Despite the apparent disappearance of the signs of economic and political crisis, the structural problems of the Argentine economy, which have recurrently caused or contributed to political crisis in the past, have not been resolved, and it cannot be assured whether the policies of the elected president will be finally successful.

## Risks Related to Our Business

***The Argentine Central Bank imposed restrictions on the transfer of funds outside of Argentina which could prevent us from servicing certain of our external debt as it comes due, and could therefore result in the acceleration of all of our indebtedness and our inability to remain a going concern***

Since early December 2001, the Argentine government has imposed a number of monetary and currency exchange control measures that include significant restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad. The prior approval of the Argentine Central Bank was required for all transfers of funds related to debt principal or interest payments outside of Argentina up to February 8, 2003.

Effective May 6, 2003, the prior authorization by the Argentine Central Bank to remit funds abroad in order to pay principal and/or interest is no longer required, provided certain conditions are met (such as a certificate evidencing compliance with the Argentine Central Bank regulations in connection with application of funds to repay debts).

The Argentine Central Bank issued Communication "A" 3944 and other similar measures for the purpose of managing the value of the Argentine peso in relation to the U.S. dollar. It cannot be anticipated whether the Argentine Central Bank will be able to achieve the referred purpose in the short term. In addition, it cannot be foreseen whether the Argentine Central Bank will introduce new amendments to exchange control regulations in order to control the quotation of the Argentine peso. Therefore, it cannot be ensured whether Communication "A" 3944 will be in force until maturity of our existing debt. Any amendment to the referred Communication restricting payments in foreign currency abroad will prevent us from meeting our liabilities abroad in foreign currency.

We cannot assure you that the Argentine Central Bank will not amend the current regulations and require against its authorization for payments abroad. In this case, we cannot assure you that the Argentine Central Bank will authorize principal payments to our foreign creditors pursuant to the terms of our existing financial agreements. Even if we obtained such authorization, we cannot assure you that a scarcity of U.S. dollars would not become in a major obstacle to convert a large amount of Pesos into U.S. dollars complicating our U.S. dollar-denominated debt payments. If, in the future, the authorization of the Argentine Central Bank is reinstalled and does not authorize us to remit funds abroad, current and non-current debt obligations may become immediately due and payable, unless new financing is available to us from outside Argentina or we are able to renegotiate the indebtedness that is subject to such restrictions. Although we may in the future undertake to obtain such financing or renegotiate our indebtedness, we cannot assure you that such efforts would succeed and enable us to remain a going concern.

### ***We are highly leveraged and may be unable to pay our debt***

We have, and expect to have, substantial liquidity and capital resource requirements to finance our business. As of June 30, 2003, we had approximately Ps. 679.5 million of financial debt.

The amount of leverage that we have and may incur in the future could have important consequences which include limiting our ability to refinance existing debt or to borrow money to finance working capital, acquisitions and capital expenditures and requiring us to dedicate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including making acquisitions and capital expenditures. Our high leverage placed us at a disadvantage position against our competitors who were not as leveraged as we were, limited our ability to react to changes in market conditions, the real estate industry and economic downturns. Nowadays, we are recovering from our debt crisis but we cannot assure you that we will not relapse and become unable to pay our debt.

We may not be able to generate sufficient funds from operating cash flows to satisfy our debt service requirements or to obtain future financing. If we cannot satisfy our debt service requirements or if we default on any of the various financial and other covenants in our debt arrangements, the holders of our debt will be able to accelerate the maturity of such debt or cause defaults under the other debt arrangements. Our ability to service debt obligations or to refinance them will depend upon future financial and operating performance, which will, in part, be subject to factors beyond our control such as



macroeconomic conditions and regulatory changes in Argentina. If we cannot obtain future financing, we may have to delay or abandon some or all of our planned capital expenditures, which could adversely affect our ability to generate cash flows and repay our obligations.

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

Our largest shareholder, Mr. Eduardo S. Elsztain, currently is the beneficial owner of approximately 25.1% of our common shares. As of November 30, 2003, this consists of:

- 3,531,539 of our common shares owned by Dolphin Fund, plc, an investment fund in which the principal investment manager is Consultores Asset Management S.A. (formerly Dolphin Fund Management S.A.), a company where Mr. Eduardo S. Elsztain has a controlling interest;
- 49,912,350 of our common shares owned by Cresud S.A.C.I.F. y A. ("Cresud"), for which Mr. Eduardo S. Elsztain by reason of his position with Cresud, may be deemed to own all of our common shares held for the account of Cresud.

Conflicts of interest between our management, ourselves and our affiliates may arise in the performance of our respective business activities. Mr. Elsztain and certain other members of our board of directors and senior management also beneficially own (i) approximately 34.0% of the common shares of Cresud S.A.C.I.F. y A., an Argentine company that currently owns approximately 40.3% on a fully diluted basis of our common shares and (ii) approximately 56.0% of the common shares of our subsidiary APSA. In some circumstances, our interests may not be the most important consideration to our principal shareholders or to their affiliates with influence over our actions. We cannot assure you that our principal shareholders and their affiliates will not limit or cause us to forego business opportunities that their affiliates may pursue or that the pursuit of other opportunities will be in our interest.

***The devaluation of the Peso and the deterioration of the Argentine economy have had, and may continue to have, a material adverse effect on the results of our operations and financial condition***

For so long as the Convertibility Law remained in effect, we had no exchange rate risk relating to our Peso-denominated revenues and our U.S. dollar-denominated liabilities. However, with the repeal of the Convertibility Law on February 4, 2002, all U.S. dollar-denominated obligations, which were within the Argentine banking sector and subject to Argentine Law, were mandatorily converted into Peso-denominated liabilities at an exchange rate one Peso to one U.S. dollar. Nevertheless, the majority of our liabilities (the US\$ 51.0 million Unsecured Loan Agreement, the US\$ 37.4 million Class 3 Floating Rate Notes and the loan granted by Bank Boston to our subsidiary Hoteles Argentinos for US\$ 12.0 million) are subject to New York law and thus have not been converted into Pesos. Moreover, our US\$ 100.0 million Convertible Notes are U.S. dollar-denominated. (See: Item 5 -Section B.- Our Indebtedness). We realize a substantial portion of our revenues in Pesos (such as rental contracts and seller financing) and, as a result, the devaluation of the Peso has adversely affected the U.S. dollar value of our earnings and, thus, impaired our financial condition. Moreover, our Peso-denominated assets (which represent 90% of our total assets as of June 30, 2003) have depreciated against our indebtedness denominated in foreign currency. As of June 30, 2003, we had outstanding debt amounting to Ps. 679.5 million, of which, 87% was denominated in U.S. dollars. Any further depreciation of the Peso against the U.S. dollar will correspondingly increase the amount of our debt in Pesos, with further adverse effects on our results of operation and financial condition, and may increase the collection risk of our leases and other receivables from our tenants and mortgage debtors, most of whom have Peso-denominated revenues.

***The mandatory pesification of contracts originally denominated in U.S. dollars will adversely affect our profitability***

Although our lease agreements and seller financing loans were denominated in U.S. dollars, the Argentine government mandatorily converted all U.S. dollar monetary obligations entered into between private parties prior to January 7, 2002 that are not related to the financial system into Peso-denominated obligations at a rate of Ps. 1.00 = US\$ 1.00. Although the Argentine government sought to mitigate the adverse effects of this mandatory "pesification" by permitting the Peso-denominated obligations to be

adjusted for inflation pursuant to an index known as the *Coeficiente de Estabilización de Referencia* ("CER"), we cannot assure you that an adequate adjustment will apply to amounts payable to us under our lease and loan agreements. If, as a consequence of this adjustment, the agreement is unfair to any of the parties, either may ask the other for a fairness adjustment. If they do not reach an agreement, a court will make the decision. New lease agreements may be freely entered into between parties and may not contain inflation adjustment clauses based on consumer price indexes or whole price indexes. Although part of our new lease agreements are dollar denominated, the mandatory pesification of contracts originally denominated in U.S. dollars is likely to materially and adversely affect our financial condition and our ability to pay our liabilities denominated in U.S. dollars (mostly banking and financial loans), because our cash flows will be mostly denominated in devalued Pesos.

***The Argentine government may impose additional restrictions on the lease, operation and ownership of property***

In the past, in response to housing shortages, high rates of inflation and difficult access to credit, the Argentine government has imposed strict and burdensome regulations regarding leases. Such regulations limited or prohibited rental increases and prohibited eviction of tenants, even for failure to pay rent. 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 or operation or leasing of properties in Argentina could materially and adversely affect our operations and profitability.

There can be no assurance that additional regulations will not be imposed in the future. Such regulations could negatively affect the Argentine real estate market, in general, and the rental market, in particular. Furthermore, most of our 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 our rental income.

***We hold positions in 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 Banco Hipotecario S.A. ("Banco Hipotecario"), an Argentine bank that has recently suffered material losses. Although the holding of these investments, with the exception of Banco Hipotecario, 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, and may have little if any value.

***Real estate investments are subject to many risks***

Our real estate investments are subject to risks common to commercial and residential properties in general, many of which are not within our control. Any one or more of these risks might materially and adversely affect our 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.

Our ability to generate income from our properties sufficient to service our debt and cover other expenses may be adversely affected by the following factors, among others, some of which we cannot control:

- oversupply of retail space or a reduction in demand for retail space, which could result in lower rent prices and lower revenues for us;
- increased competition from other real estate operators which might drive down our prices and profits;
- changes in our ability or our tenants' ability to provide for adequate maintenance and insurance, possibly decreasing the life of and revenue from a property;
- increases in operating expenses which could lower our profitability;
- the inability to collect rents due to bankruptcy or insolvency of tenants or otherwise;
- the need to periodically renovate, repair and release space, the higher costs thereof and the ability of our tenants to provide adequate maintenance and insurance, possibly decreasing the life of and revenue from a property; and
- the exercise by our tenants of their legal right to early termination of their leases.

In addition, other factors may adversely affect the performance and value of our properties, including 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. Increases in operating costs due to inflation and other factors may result in some tenants being unable or unwilling to pay rent or expense increases. Certain significant expenditures, such as debt service, real estate taxes, and operating and maintenance costs, are generally not reduced, in circumstances resulting in a reduction in income from the investment. The foregoing and any other factor or event that would impede our ability to respond to adverse changes in the performance of our investments could have a material adverse effect on our financial condition and results of operations.

***APSA's failure to lease the stores of Rosario Shopping Center and to sell planned properties will adversely affect its financial condition***

APSA might have difficulty or fail to lease the stores of Rosario Shopping (which construction has begun in December 2003) and to sell its future developments. The Rosario project is composed of the construction of a shopping center and a high-rise residential complex in the city of Rosario. APSA expects to finance the main part of the fund through working capital, and if necessary APSA is going to seek debt financing in a limited amount. A failure or a delay in selling these properties would result in lower results of operations and have a material adverse effect on its financial condition.

***Real estate market illiquidity and declining property values in U.S. dollars may adversely affect our financial condition***

The Argentine crisis, including the devaluation of the Peso, deteriorated the value in a U.S. dollar basis and increased the illiquidity of real estate investments. In spite of the fact that during the last months, the value in U.S. dollars of the real estate investments has begun to recover, it may be more difficult for us to adjust our property portfolio promptly in response to changes in economic or business conditions or to the factors described above. The economic recession and the devaluation of the Peso have significantly reduced consumer spending power, and the social unrest and ensuing political instability together with the succession of governmental measures have adversely affected the normal operations of banks have heightened uncertainty and eroded confidence in the possibility of recovery. If we are forced to sell one or more of our properties in order to cover operating expenses or to satisfy debt service obligations, or if we were liquidated, the proceeds from such sales might be less than our total investment in the properties sold.

***Our business is subject to extensive regulation***

The real estate business is subject to extensive building and zoning regulations by various federal, state and municipal authorities, which affect land acquisition, development and construction activities, and certain dealings with customers, as well as consumer credit and consumer protection statutes and regulations. We are required to obtain approval from various governmental authorities for our development activities, and new laws or regulations could be adopted, enforced or interpreted in a manner that could adversely affect our results of operations and levels of cash flow necessary or available to meet our obligations. 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. We and our affiliates' operations are also subject to federal, state and municipal environmental laws applicable in Argentina. We believe that such laws and regulations currently do not materially affect our business or results of operations. We cannot assure you, however, that regulations affecting the real estate industry, including environmental regulations, will not change in a manner which could have a material adverse effect on our business.

***Argentine lease law imposes lease restrictions that limit our 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 a lot of our 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 increase the amounts owed under our lease agreements;
- lease agreements must be for a minimum term of two years for residential properties and three years for retail property, except in the case of stands and/or spaces for special exhibitions;
- lease terms may not exceed ten years, except for the 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 months. The exercise of such rescission rights by our tenants could materially and adversely affect our business and we cannot assure you that our 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***

Despite the enactment of a law amending the Argentine civil procedures that by which the lessor may, by posting a bond, obtain the immediate eviction of the tenant, historically, the heavy workload on the courts that hear these matters and the numerous procedural steps required have generally delayed efforts of landlords to evict tenants. Before the enactment of the above mentioned law, eviction proceedings generally lasted from six months to two years from the date of filing of the suit to the time of actual eviction. Historically, delinquency regarding office rental space has been very low, approximately 2%, and we have 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 our financial condition and results of operation.

***Our assets are concentrated in the Buenos Aires area***

Our principal properties are located in the city of Buenos Aires and the greater Buenos Aires area and a substantial portion of our revenues are derived from such properties.

For the fiscal year ended June 30, 2003, 100% of our sales were derived from properties in the city of Buenos Aires and greater Buenos Aires. Although we own properties and may acquire or develop additional properties outside of the city of Buenos Aires and the greater Buenos Aires area, we expect to continue to depend to a very large extent on economic conditions in those areas, and therefore, an economic downturn in those areas could have a material adverse effect on our financial condition.

***Our real estate activities through subsidiaries and joint ventures are subject to additional risks***

We conduct a substantial part of our real estate activities through subsidiaries and strategic alliances with other companies. We have several important investments in companies, the most important of which is APSA where we own the majority of the voting stock. In the future, we may increase our real estate activities through such vehicles. As a result, we depend to a certain extent on the successful operation of subsidiaries and strategic alliances and upon income, dividends and other distributions from them to maintain our profitability, liquidity and growth. Moreover, joint ownership of properties involves additional risks. For example, our partners or co-investors may:

- become bankrupt or insolvent;
- develop business objectives or goals which are different from ours; or
- take actions that are contrary to our instructions or requests or that are otherwise contrary to our interests.

***Development and construction activities are inherently risky***

We are engaged in the development and construction of office, retail and residential properties, generally through third-party contractors. Risks associated with our development and construction activities include the following, among others:

- we may abandon development opportunities and renovation proposals;
- construction costs of a project may exceed our original estimates, making a project unprofitable;
- occupancy rates and rents at a newly completed project may be insufficient to make the project profitable;
- pre-construction buyers may default on their purchase contracts or units in new buildings may remain unsold upon completion of construction;
- we may be unable to obtain financing on favorable terms for the development of the project;
- 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
- we may be unable to obtain, or may face delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations.

***We are subject to shopping center operating risks that may result in lower profitability of our shopping centers***

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.

In the event that there is an increase in operational costs, caused by inflation or other factors, it could have a material adverse effect on us, if our tenants are unable to pay their higher rent obligations due to the increase in expenses.

Moreover, the shopping center business is closely related to consumer spending, and, therefore, to the economy in which such customers are located. All of our shopping centers are located in Argentina, and, as a consequence, their business has been seriously affected by the Argentine recession. Unemployment, political instability and inflation have reduced consumer spending in Argentina, lowering tenants' sales and forcing some of them to leave our shopping centers. This has reduced the occupied space and consequently, our revenues.

***The concept of the shopping center is relatively new and in a development process in Argentina***

The concept of the shopping center and the broad use of shopping centers by consumers is only beginning to develop in Argentina. The first shopping center of Argentina was inaugurated in 1987. Although there has been a considerable expansion of shopping center properties, many retail stores in Argentina are not located in shopping centers. Therefore, the continued success of our business plan depends to a certain extent on the continued shift by consumers from shopping at traditional street-level retail stores to large-scale shopping centers of the type owned and operated by us.

***The shift of consumers to purchasing goods over the Internet may hurt our shopping center sales***

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

***Our future acquisitions may be unprofitable***

We intend to acquire additional properties to the extent that they will be acquired on advantageous terms and meet our investment criteria. Acquisitions of commercial properties entail general investment risks associated with any real estate investment, including:

- the risk that investments will fail to perform as expected, or
- the risk that estimates of the cost of improvements needed to bring the property up to established standards for the market might prove to be inaccurate.

***Our investments in Internet companies are subject to high risk***

Our Internet investments, through our subsidiary, APSA, involve a high risk. Internet companies are relatively new and there is little or no historical operating and financial information available to analyze. Additionally, in the first years of operation, Internet companies do not generate earnings or positive cash flows, and their losses must be covered with capital contributions from the investors. There is no assurance

that Internet companies will generate earnings or will be able to obtain financing once the initial capital contributions are already used. Therefore, our risks associated with Internet companies include the possibility that:

- we will not recover the investments already made and the one committed.
- we will have to increase its capital contributions to finance the Internet companies.
- we may also experience the following additional risks with respect to its investment in internet companies:
- the possibility that the internet company might not maintain and/or increase the level of traffic of the sites;
- the internet company might not adapt itself or anticipate the changes in the market;
- the internet company may be inefficient in updating and developing the necessary systems and organization and in hiring new or specialized personnel;
- the chance that the world wide web will not be able to handle the site traffic;
- the difficulty in generating expected income;
- the failure in the administration of expansion of operations; and
- the lack of efficiency to merge new lines of business to the existing operations.

Moreover, it should be taken into account that the expected level of use and acceptance of the Internet and of online services might never be reached.

***Our shopping center business is subject to competitive pressure***

Most of our shopping centers are located in the city of Buenos Aires and greater Buenos Aires. There are other shopping centers and numerous smaller retail stores and residential properties within the market area of each of our properties. The number of competitive properties in a particular area could have a material adverse effect on our ability to lease retail space in our shopping centers or sell units in our residential complexes and on the amount of rent or the sale price that we are able to charge. To date, there have been relatively few companies competing with us for shopping center properties, and, as additional companies become active in the Argentine shopping center market in the future, such competition could have a material adverse effect on our results of operations.

***We are subject to the risk of payment defaults due to our investments in credit card businesses through our subsidiary APSA***

Investments in credit card businesses can be adversely affected by delinquency on credit card accounts, defaults in payments by credit card holders, judicial enforcement for the collection of payments, doubtful accounts or loss of receivables. The present rates of delinquency, collection proceedings and loss of receivables may vary and be affected by numerous factors, which among others include:

- adverse changes in the Argentine economy;
- adverse changes in the regional economies;
- political instability;
- increase of unemployment; and
- loss of value of actual salaries.

These and other factors may have an adverse effect on present rates of delinquency, executions and losses, any one or more of which could have a material adverse effect on the results of operations of our credit card business. Recessionary economic conditions in Argentina have persisted for several years and have worsened in recent years. In addition, if our credit card business is adversely affected by one or more of the above factors, the asset quality of our securitized receivables are also likely to be adversely affected. Therefore, we could adversely be affected to the extent that at such time we hold a participating interest in any such securitized receivables.

A high percentage of credit card holders are employees. Consequently, reductions in employment, suspensions or reductions in salaries may reduce credit card holders' incomes, thus, adversely affecting our credit card revenue collections.

***We may not be able to recover the mortgage loans we have made***

In recent years, we have provided mortgage financing to purchasers of units in our residential development properties. Before January 2002, our mortgage loans were U.S. dollar-denominated and accrued interest at a fixed interest rate ranging generally from 10% to 15% per year and for terms ranging generally from 3 to 15 years. However, on March 13, 2002, the Argentine Central Bank converted all U.S. dollar denominated debts into Pesos at the exchange rate of Ps. 1.00 to U.S. dollars 1.00 and imposed maximum interest rate on mortgage loans of 3.0% for residential mortgage loans granted to individuals and 6% for mortgage loans granted to business organizations. These modifications adversely affected the U.S. dollar value of our outstanding mortgage loans which at June 30, 2003, aggregated approximately Ps. 2.6 million.

We are subject to risks normally associated with providing mortgage financing, including the risk of default in the payment of principal and interest, which could adversely affect our cash flow. Argentine law imposes significant restrictions on our ability to foreclose and auction properties. Thus, if there is a default under a mortgage loan, we do not have the right to foreclose on the unit. Instead, in order to reacquire a property, we are required to purchase each unit at a public court ordered auction, or at an out-of-court auction, in accordance with Law No. 24,441. However, the Public Emergency Law established the suspension of all the judicial and non-judicial enforcements including the enforcement of mortgages and pledges, regardless of its origin. Nowadays, private and financial entities have voluntarily decided to suspend foreclosures, meanwhile Law No. 25,798 has been enacted by Congress in order to give a definite answer to the problem of default in payment of mortgage loans. We cannot assure you that we will be able to recover any amount outstanding on any mortgage loan through the sale of any property at such an auction.

We cannot assure you that any future inflation adjustment coefficient will adequately reflect inflation or that such adjustment will not increase delinquency on our outstanding mortgage portfolio, thus reducing future revenues.

***Our subordinated participations in securitized mortgage loans may have no value***

Additionally, on December 2001, we securitized almost the entirety of the mortgage portfolio originated by us since late 1992, amounting to Ps. 29.9 million, through the sale of this portfolio to Fideicomiso IRSA I. Banco Sudameris Argentina acts as trustee and collection agent for the trust. Fideicomiso IRSA I issued four classes of participation certificates under a scheme of complete subordination, in which each class is serviced only upon the total payment of the preceding senior class. We hold all of the Class B, Class C and Class D participation certificates and approximately 10% of the Class A certificates. Class D certificates represent the most junior class, have no fixed return and will yield the funds remaining in the trust after Classes A, B and C and all the expenses of the trust have been completely paid for.

This portfolio was originally originated in U.S. dollars and mandatory converted into Pesos in January 2002. Additionally, mortgages in the trust were subject to inflation adjustment between February and April 2002. Following these changes, the terms and conditions of the certificates of deposit issued by



the trust were modified to reflect changes in the underlying assets. In May, inflation adjustment on residential mortgages on homes granted to individuals was eliminated until October 2002, when adjustment was performed according to a different inflation index, the *Coeficiente de Variación Salarial* ("CVS"). Pursuant to Law No. 25,796 the CVS will no longer be in effect as from April 1, 2004. The terms and conditions of the certificates of deposit were modified again to reflect this new change.

The asset quality of the portfolio has declined as a result of the current economic crisis in Argentina, and as a result we cannot assure you that the trust will have sufficient or any funds to service initially the subordinated certificates held by us. If it does not, the value of these bonds might be considerably reduced or even equal to zero.

As of October 31, 2003, Classes A and B were completely amortized.

On October 31, 2003, Classes C and D face value ascended to Ps. 1.3 million and Ps. 10.3 million, respectively.

We cannot assure you that the theoretical cash flow to be generated by the participation certificates owned by us (and included in the annual report), will be the actual one, as successive changes in the terms and conditions of the underlying assets have been occurring since January 2002 and additional modifications might be introduced by fiscal authorities or the Ministry of Finance, which could have further consequences on the respective cash flows.

***We are subject to risks affecting the hotel industry***

The full-service segment of the lodging industry in which we operate our hotels is highly competitive. The success of our hotels will depend, in large part, upon our ability to compete in areas such as access, location, quality of accommodations, room rate structure, quality and scope of food and beverage facilities and other services and amenities. Our hotels may face additional competition if other companies decide to build new hotels or improve their existing hotels such that they are more attractive to potential guests.

In addition to the general risks associated with investments in Argentina and in real estate discussed elsewhere in this section, the profitability of our hotels depends on:

- our ability to form successful relationships with international operators to run our hotels;
- changes in travel patterns, including seasonal changes; and
- taxes and governmental regulations which influence or determine wages, prices, interest rates, construction procedures and costs.

***We are dependent on our senior manager Eduardo Elsztain***

Our success depends, to a significant extent, on the continued employment of Eduardo S. Elsztain, our chief executive officer, president and chairman of the board of directors. The loss of his services for any reason could have a material adverse effect on our business. If our current principal shareholders were to lose their influence on the management of our business, our principal executive officers could resign or be removed from office. Our future success also depends in part upon our ability to attract and retain other highly qualified personnel. We cannot assure you that we will be successful in hiring or retaining qualified personnel, or that any of our personnel will remain employed by us.

***APSA's use of financial instruments for hedging may result in material losses***

APSA uses various off-balance sheet financial instruments to reduce its financing cost associated with its borrowings. The interest rate swaps and foreign currency contracts are entered into for periods consistent with related underlying exposures and generally do not constitute positions independent of those exposures.

Nevertheless, APSA's hedging strategies may prove ineffective to address the effects of interest rate or foreign currency exchange movements on its financial condition. APSA has experienced net hedging losses in the past, and could experience such losses in the future to the extent that interest rates or foreign exchange rates shift in excess of the risk covered by hedging arrangements. In entering into interest rate and foreign currency contracts, APSA bears the credit risk of counterparties being unable to meet the terms of their contracts; and APSA may be unable to recover damages from any such defaulting counter party through legal enforcement actions due to laws affording bankruptcy or similar protection to insolvent obligors, foreign laws limiting cross-border enforcement actions or otherwise.

On March 30, 2000, in connection with the issuance of Ps. 85 million Notes, APSA entered into a swap agreement with Morgan Guaranty Trust in order to reduce the related financing cost. This swap agreement initially allowed APSA to reduce the net cost of its debt. However, due to the Argentine economic crisis, the political instability, and the depreciation of the Argentine public debt, there was a substantial negative deviation of the performance of the swap agreement that required the modification of the original terms. Under the terms of the revised agreement, APSA agreed to pay US\$ 69.1 million on March 30, 2005 and will receive Ps. 69.1 million on such date. As collateral for its payment obligations under the modified agreement, APSA was required to make a deposit of US\$ 50 million with the counterparty. APSA is not required to make additional deposits until maturity. An additional payment at maturity could be required depending on the prevailing exchange rate between the Peso and the U.S. dollar. Thus, a continued devaluation of the Peso against the US dollar and/or an increase in interest rates would increase its loss which could be material.

As of October 31, 2003, APSA was not using any other derivatives.

#### **Risks Related to the ADSs and the Shares**

##### ***Different Corporate Disclosure and Accounting Standards***

There may be less publicly available information about the issuers of securities listed on the *Bolsa de Comercio de Buenos Aires* than is regularly published by or 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 exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt 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 stock corporation (sociedad anónima) organized under the laws of Argentina. Most of our directors and our senior managers, and all of our assets are located in Argentina. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against 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 whether the Argentine courts will enforce in all respects, 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 securities would suffer negative consequences***

Based on the current and projected composition of our income and 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, 2003, and we do not currently expect to become a PFIC, although