

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

This item 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**

***We collect substantially all of our revenues in Argentina, thus the economic crisis suffered in this country has had and continues to have severe consequences in our financial condition.***

We are a corporation (*sociedad anónima*) organized under the laws of the Republic of Argentina. We collect substantially all of our revenues in Argentina and substantially all of our operations, developments, and customers are located in Argentina. Accordingly, our financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina.

During 2001 and 2002, Argentina underwent a period of severe political, economic and social instability that led to the early resignation of President De la Rúa, the default on substantially all of Argentina's sovereign debt and the devaluation of the Peso after a ten-year period of one-to-one parity with the U.S. Dollar. Following a succession of interim Presidents during the course of ten days, on January 1, 2002, at a joint session of the Argentine Congress, Eduardo Duhalde, a senator for the Justicialist Party, was selected to complete the term in office left vacant by President de la Rúa which was due to expire in December 2003.

During his term in office, President Duhalde adopted a number of measures, including, but not limited to the following:

- ratifying the suspension of payment of a portion of Argentina's sovereign debt which had been previously declared suspended by interim President Rodríguez Saá;
- ending the one-to-one Peso-U.S. Dollar parity that had been in place since April 1991;
- converting certain U.S. Dollar-denominated loans by financial institutions in the Argentine financial system into Peso-denominated loans ("pesification") at a one-to-one exchange rate plus an adjustment for variations in consumer prices (*Coeficiente de Estabilización de Referencia* or "CER") or in salaries (*Coeficiente de Variación de Salarios* or "CVS"), as the case may be;
- converting U.S. Dollar-denominated bank deposits in financial institutions in the Argentine financial system into Peso-denominated bank deposits at an exchange rate of Ps.1.40 per US\$1.00 plus an adjustment pursuant to CER;
- requiring the obligatory sale, currently suspended, by all banks of all foreign currency held in Argentina to the Argentine Central Bank ("*Banco Central de la República Argentina*" or "Argentine Central Bank") at an exchange rate of Ps.1.40 per US\$1.00 (in the case of U.S. Dollars) or at an equivalent rate (in the case of other currencies);

- converting most foreign currency-denominated obligations of entities in Argentina to non-financial institutions in Argentina into Peso-denominated obligations at a one-to-one exchange rate (in the case of obligations denominated in U.S. Dollars) or at a comparable rate (in the case of obligations denominated in another foreign currency), plus an adjustment pursuant to the CER or the CVS, as the case may be, plus an equitable adjustment in certain cases;
- restructuring the maturity of, and interest rates on, domestic bank deposits and maintaining restrictions on withdrawals of those deposits;
- enacting an amendment to the Argentine Central Bank's charter allowing it to (1) print currency in excess of the amount of foreign reserves it holds, (2) make short-term advances to the Argentine government and (3) provide financial assistance to financial institutions in the Argentine financial system with liquidity constraints or solvency problems;
- converting or "pesifying" public service tariffs, originally calculated in U.S. Dollars, into Pesos at a one-to-one exchange rate;
- freezing public service tariffs without permitting indexation of any kind in contracts executed after the effective date of the Public Emergency Law;
- authorizing the Argentine government to renegotiate tariffs in public utility service contracts;
- imposing restrictions on transfers of funds abroad subject to certain exceptions; and
- requiring the deposit in the Argentine financial system of foreign currency earned from exports, subject to certain exceptions; and
- enacting amendments to the Bankruptcy Law to protect debtors.

The measures set forth above resulted in a profound change to the Argentine monetary and foreign exchange regime and to the regulatory framework for all business sectors in Argentina. The impact of such measures on the Argentine economy was significant in the course of 2002 and throughout the first half of 2003. In accordance with data published by the INDEC, in 2002 Argentina's gross domestic product ("GDP") decreased 10.9%, unemployment increased to unsustainable levels and the persistent devaluation of the Peso led to an escalation in retail and wholesale prices of 41.4% and 118.2%, respectively. This led to a reduction of wages in real terms and of disposable income and resulted in changes in consumer behavior across all sectors of the Argentine population adversely affecting our shopping center and real estate businesses.

***In 2003 the Argentine economy began to experience a recovery which may not be sustained if the government fails to achieve its proposed goals.***

The increase in the level of demonstrations and violence in June 2002 led then-President Duhalde to announce his resignation on May 25, 2003 and to call presidential elections prior to the expiration of his term. Néstor Kirchner was elected President in the second round and went into office inaugurated on May 25, 2003. His term in office will expire on December 10, 2007. Although the economic policies implemented by Kirchner's administration have succeeded in achieving the economic growth presented by Argentina in 2003 (estimated at 8.8% as compared to 2002) and 2004 (estimated at 9.0% as compared to 2003) and in the first six months of 2005 (estimated at 9.1% as compared to the first six months of 2004). There are still major issues pending resolution, such as the contracts with privatized public utility companies, the restructuring of the country's financial system and continuing default of the pre-existing sovereign debt that did not participate in the government's exchange offer. The Kirchner administration's main challenge is to generate confidence and create conditions that allow for a transition from the current short-term stabilization economic policies to long-term and sustainable growth. We cannot assure you that the Kirchner administration will be able to implement

the required reforms to engender economic growth and reestablish political confidence. If it is unable to do so this would likely have an adverse effect on the economy and financial system.

On October 23, 2005 midterm elections for Senators and Representatives took place in Argentina. Cristina Fernandez de Kirchner, the President's wife, was elected as Senator for the Province of Buenos Aires by a wide difference among other candidates.

The government's actions concerning the economy, including the ones with respect to inflation, interest rates, price controls, foreign exchange controls and taxes, have had, and may continue to have, a material adverse effect on private entities, including us. Decisions with regards to those issues could paralyze investment and consumption decisions causing a reduction in retail sales, real estate sales and demand for office and commercial space. Consequently, we cannot provide any assurance that future economic, social and political developments in Argentina, over which we have no control, will not further impair our business, financial condition, or results of operations.

***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.***

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 Argentine Central Bank interventions to stabilize the Peso through purchases and sales of U.S. Dollars. As of August 31, 2005, the exchange rate was Ps.2.911 per U.S. Dollar after a peak of Ps.3.90 per U.S. Dollar on June 25, 2002.

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.

***Argentina may not be able to attract foreign investment in the future.***

Argentina's recent social and economic instability, the Government's emergency measures to address the instability and security concerns relating to an increase in crime (including the recent activities of organized picketers, or "piqueteros") have made many foreign investors unwilling to invest in Argentina. Foreign investment is conducive in many respects to our economic recovery and future economic growth.

Argentina's continuing inability to attract foreign investment may have an adverse effect on Argentina's economy and prospects.

***Inflation may escalate and further undermine the economy which could adversely affect our financial condition and results of operations.***

On January 24, 2002, the Argentine government amended the Argentine Central Bank's charter allowing it to print currency without having to maintain a fixed and direct ratio with the foreign currency and gold reserves. This amendment allows the Argentine Central Bank to make advances to the Argentine government to cover anticipated budget deficits and to provide financial assistance to financial institutions with liquidity problems. Furthermore, the devaluation of the Peso affected the domestic price system generating inflation in 2002. Through December 31, 2003, the CER and the wholesale price index exhibited increased by 3.7% and 4.3%, respectively, compared to 41.4% and 118.2%, respectively, for 2002. During 2004, the CER increased by 6.1% and the wholesale price index increased by 7.9%. Although in the course of 2003 and 2004 inflation has been relatively stable, there is great concern over the escalating levels of inflation by the end of 2005. After rising 0.8% and 1.5% in December 2004 and January 2005, respectively, prices increased by 1% in February, 1.5% in March 2005, 0.5% in April 2005, 0.6% in May 2005, 0.9% in June 2005, 1% in July 2005, 0.4% in August 2005, 1.2% in September 2005, 0.8% in October 2005 and 1.2% in November 2005, creating significant uncertainty regarding future inflation levels.

The devaluation of the Peso and related economic measures implemented by the Argentine government were intended primarily to remedy the effects of unemployment and to stimulate economic growth. To date, the objectives pursued have been achieved, but the sustainable success of such measures will depend on the ability of the Argentine government to generate confidence in the local and international financial markets. If current uncertainty regarding the government's policies persists, it is likely that inflation rates will increase significantly, investment and economic activity will contract, unemployment will increase beyond current levels, tax collection will drop and the current fiscal surplus will erode, leading to fiscal deficit. Therefore, we cannot assure you that the value of the Peso will continue to be stable or that inflation will remain at current levels. Any significant increase in inflation or additional volatility in the financial markets could have a material adverse effect on our financial condition and results of operations.

***The 2001 economic and financial crisis produced significant social and political tensions, which could worsen in the event of another shock and have a material adverse effect on Argentina's economic growth.***

During the height of its recent economic crisis, Argentina experienced significant social and political turmoil, evidenced by street demonstrations, strikes, increased rates of crime and the rapid succession of four interim administrations between President De la Rúa's resignation in December 2001 and President Duhalde's appointment in January 2002. Despite the beginning of an economic recovery, these increased social and political tensions continue and are exacerbated by high levels of poverty and unemployment. Picketers continue to employ street demonstrations and other disruptive tactics to oppose Government policies. In addition, the lack of any clear political consensus in favor of a particular set of economic policies has also given rise to, and may perpetuate, significant uncertainties about Argentina's economic and political future. There can be no assurance that the significant domestic instability evident during 2001 and 2002 will not reemerge in response to an internal or external shock. Such instability could have a material adverse effect on Argentina's economic growth. Furthermore, 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.

***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 and that of Banco Hipotecario in which we have a significant investment.

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.

***Future exchange controls may prevent us from servicing our foreign currency denominated debt obligations.***

Since early December 2001, the Argentine authorities implemented a number of monetary and currency exchange control measures that included restrictions on the withdrawal of funds deposited with banks and tight restrictions for making transfers abroad. Although most restrictions in connection with repayments to foreign creditors have been lifted, these regulations have been changing constantly since they were first enacted, and we cannot assure you that they will not be put in place again and, if they are, whether they will be stricter than before. Currently, the government, through the Argentine Central Bank holds control over capital inflows and outflows, enacting the applicable rules. Decree No. 616/2005, issued on June 10, 2005, established that inflows and outflows of foreign currency into the local exchange market, and indebtedness transactions incurred by local residents that may result in a foreign currency-denominated payment to non-residents, need to be registered with the Argentine Central Bank. Furthermore, as of May 26, 2005, the following situations have been subject to certain requirements and conditions: (a) inflows of funds derived from foreign loans by the private financial and non financial sector; and (b) inflows of foreign currency by non-residents for the purpose of: (i) holding a position in local currency, (ii) purchasing financial debt or assets and (iii) investing in government bonds in the secondary market. In these situations, the following requirements must be met: (i) inflows must remain in Argentina for 365 days to be computed as from the day they were negotiated in the local exchange market; (ii) the funds involved in the transactions covered by this decree must be deposited in a local bank account; (iii) a non-transferable deposit denominated in U.S. Dollars for an amount equal to 30% of the relevant transaction has to be made with the resulting proceeds. This deposit will only be reimbursed after the expiration of a 365 days term, cannot bear interest (nor yield any other type of profit) and may not be used as collateral in any credit transaction. Such requirements do not apply to: (a) foreign direct investment, (b) primary placement of publicly traded debt or equity securities listed in one or more exchange markets, and (c) foreign trade and export finance related transactions.

Subsequently, Resolution No. 365/2005 from the Ministry of Economy and Production established that non-resident capital inflows used for the purchase of notes and income derived from the sale by residents of foreign assets for an amount greater than US\$2 million per month, will also be subject to the aforementioned requirements. In addition, according to this resolution non-resident capital inflows destined to the primary subscription of notes issued by the BCRA are also submitted to the non-transferable deposit requirement described above.

Moreover, said resolution provided certain exemptions to the non-transferable deposit requirement such as the following: (i) inflows derived from loans extended by multilateral and bilateral financial institutions and official credit agencies, and (ii) inflows derived from financial loans extended by foreign creditors, so long as they are devoted to investments in non-financial assets and the borrowed amounts are repaid at least 24 months after they were granted. However, neither Resolution No.365/2005 nor the relevant Argentine Central Bank Communications contain any definition or example as to what would constitute a non-financial asset that would fall under said exception. Therefore, inflows of foreign currency derived from loans extended by foreign creditors to residents destined to finance the acquisition or the construction of any real estate property are likely to be subject to the non-transferable deposit requirement even if such borrowings are to be repaid no earlier than 24 months after they were granted.

By contrast, according to Communication "C" 43075 dated September 26, 2005, inflows of foreign currency caused by a non-resident and devoted to the cancellation of payment obligations under a purchase agreement (including installment payments thereof) concerning a real estate property under construction may be registered as foreign direct investments provided that certain conditions are met.

Finally, Resolution No. 637/2005 from the Ministry of Economy and Production dated November 16, 2005 established that any inflow of foreign currency to the local exchange market 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 Argentine 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 Argentine 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.

***Argentina's sovereign debt restructuring may create certain additional uncertainties regarding future litigation and economic development.***

On December 23, 2001, interim President Rodríguez Saá announced the suspension of the payment of all of Argentina's sovereign indebtedness, which as of December 31, 2001 amounted to approximately US\$144.5 billion. On January 2, 2002, then President Duhalde ratified this decision in relation to the portion of the debt corresponding to private-sector foreign debt holders. Subsequently, the leading international credit rating agencies downgraded Argentina's sovereign debt rank. In November 2002, Argentina failed to honor certain payments then outstanding and payable to the World Bank.

On September 21, 2003, the Executive Board of the International Monetary Fund ("International Monetary Fund") approved the restructuring of US\$12.5 billion of Argentina's sovereign debt outstanding with multilateral lenders. Pursuant to the terms of the agreement with the International Monetary Fund, the maturities of this debt were extended over the next three years. In addition, Argentina committed to achieving

certain targets including a primary fiscal surplus of 3% of GDP for 2004, and left the primary fiscal surplus target for the following two years open for negotiation. Prior to arriving at an agreement, the Argentine government defaulted in a payment due to the International Monetary Fund that was cured by execution of a new standby agreement.

On September 23, 2003, the Argentine government announced the guidelines proposed for a restructuring plan in connection with approximately US\$95 billion of debt held by the private sector. These guidelines set forth that the government could require existing debt holders to accept, among other decisions, a 75% reduction in principal, honoring only 25% of the outstanding principal on such indebtedness.

In accordance with the agreement reached with the International Monetary Fund, Argentina is subject to quarterly reviews. The first reviews were approved in January 2004 and in March 2004, respectively. In August 2004, the International Monetary Fund's financial assistance program was suspended until the conclusion of the public debt restructuring process.

The Argentine debt exchange offer concluded on February 25, 2005. On March 18, 2005, the Argentine government announced the final results of the debt restructuring process, with a rate of participation by bondholders of approximately 76%. Despite the high levels of acceptance of the offer, the amounts not tendered for exchange totaled approximately US\$20 billion which creates uncertainty as to the final resolution of the sovereign debt problem and its impact on the future performance of the Argentine economy. The settlement of the debt exchange was completed on June 2, 2005 due to a delay resulting from legal action commenced by certain bondholders who did not participate in the debt exchange offer in an attempt to attach the tendered bonds.

Following the settlement of Argentina's sovereign debt restructuring, on May 18, 2005, the International Monetary Fund agreed to a one-year extension of Argentina's rescheduled debt payment amounting to US\$2.5 billion with maturities between May 20, 2005 and April 28, 2006. Additionally, certain companies have filed claims before the International Center for the Settlement of Investment Disputes. The claimants allege that the emergency measures are inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties to which Argentina is a party. Most of these claimants contend that the government's actions had the effect of expropriating their investments without adequate compensation. Their pleadings are still pending resolution. We can give no assurance that further litigation to be initiated by holdouts will not result in material judgments against the Argentine government.

After the exchange offer Argentina's sovereign debt exceeded US\$120 billion. We cannot assure you that the Argentine government will honor its obligations either under the exchange offer or under the rescheduled agreement with the International Monetary Fund. Further defaults may result in additional litigation and affect Argentina's credibility towards multilateral lenders. This would adversely affect economic growth. Under these circumstances, we cannot assure you that the economy will not suffer additional shocks which may adversely affect our business and results of operations.

***The Recent suspension of the Mayor of the City of Buenos Aires and the institution of an impeachment proceeding against him is generating political and institutional instability in the City.***

On November 14, 2005, the legislative body of the City of Buenos Aires suspended Mayor Anibal Ibarra and instituted an impeachment proceeding against him under the charge of breach of his duties arising out of an incident that caused the death of 193 people when a fire started on December 30, 2004 in a local night club which did not comply with minimum safety standards required for the issuance of a municipal permit. If Mayor Ibarra is found guilty of the charges he could be removed from office.

This impeachment proceeding is the first one of its kind that has taken place in the history of the City of Buenos Aires. The confrontation among political parties in the legislative body of the City and the trial are

generating political and institutional instability in the City where IRSA and Alto Palermo S.A. (APSA) ("APSA") are located.

***Recent changes in Kirchner's cabinet of ministers produce uncertainty as of the future development of governmental policies***

On November 28, 2005 President Kirchner announced the replacement of several Ministers of his cabinet. Felisa Josefina Miceli replaced Roberto Lavagna as head of the Ministry of Economy and Production, Jorge Enrique Taiana replaced Rafael Bielsa as head of the Ministry of Foreign Affairs, Nilda Garré replaced José Pampuro as head of the Ministry of Defense and Juan Carlos Nadalich replaced Alicia Kirchner as head of the Ministry of Social Development. After these announcements, some concerns have arisen, particularly with regards to the replacement of the Minister of Economy and Production. The most important concern is whether the new Minister will have the ability to continue the development of governmental policies favorable to the recovery of the local economy and effective in reducing the level of poverty in Argentina.

**Risks Related to Our Business**

***Our high level of debt may adversely affect our operations and our ability to pay our debt as it becomes due.***

We have had, and expect to have, substantial liquidity and capital resource requirements to finance our business. As of June 30, 2005, our consolidated financial debt amounted to Ps.483.7 million (including accrued and unpaid interests and deferred financing costs). The fact that we are highly leveraged may affect our ability to refinance existing debt or borrow additional funds to finance working capital, acquisitions and capital expenditures. This would require us 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. Our high leverage could place us at a disadvantage compared to our competitors who are less leveraged and limit our ability to react to changes in market conditions, changes in the real estate industry and economic downturns. Although we have successfully restructured our debt we cannot assure you that we will not relapse and become unable to pay our obligations.

We may not be able to generate sufficient cash flows from operations 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 financial or 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 our 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 beneficial owner is Mr. Eduardo S. Elsztain. As of November 30, 2005, such beneficial ownership consisted of:

- 931,852 of our common shares owned by Inversiones Financieras del Sur S.A. ("IFISA"), a company where Mr. Eduardo S. Elsztain is the beneficial owner;
- 77,850,702 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, the Company and our affiliates may arise in the performance of our respective business activities. Mr. Elsztain also beneficially owns (i) approximately 20.2% of the common shares of Cresud, and (ii) approximately 61.6% of the common shares of our subsidiary APSA. 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.***

While 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 of one Peso to one U.S. Dollar. The majority of our liabilities, such as the Unsecured Loan Agreement, the Series 03 Secured Notes due 2009 and the Hoteles Argentinos Loan are subject to New York law and thus have not been converted into Pesos. Moreover, our US\$ 100 million Convertible Notes (US\$ 57.0 million outstanding as of November 30, 2005) and APSA's US\$ 50 million Convertible Notes (US\$ 47.3 million outstanding as of November 30, 2005) are U.S. Dollar-denominated. See: Item 5.B. "Liquidity and Capital Resources—Our indebtedness".

We realize substantially all of our revenues in Pesos (such as lease 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 91% of our total assets as of June 30, 2005) have depreciated against our indebtedness denominated in foreign currency. As of June 30, 2005, we had outstanding debt amounting to Ps. 483.7 million, of which 89% 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 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 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. 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 and the rental market. 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 Argentine securities which are more volatile than United States securities, and carry a greater risk of default.***

We currently hold certain investments in Argentine government debt, corporate debt and equity securities. In particular, we hold a significant interest in Banco Hipotecario, an Argentine bank that has

recently suffered material losses. Although the holding of these Argentine 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 led them to restructure their indebtedness. We cannot assure that the issuers in whom 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 addition, such issuers and, therefore, such investments, are generally subject to many of the risks that are described in this section, which could also adversely affect the value of these investments.

***Failure to sell planned properties will adversely affect our financial condition***

We might have difficulty or fail to sell our futures developments. A failure or a delay in selling these properties would result in lower results of operations and have a material adverse effect on our financial condition.

***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 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 useful life of and revenue from 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 and the higher costs thereof; and
- the exercise by our tenants of their legal right to early termination of their leases.

In addition, other factors may adversely affect the productivity and value of our properties, including law reforms and governmental regulations (such as 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 the inability or unwillingness of tenants 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 such 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.

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

The real estate business is subject to extensive building and zoning regulations at the national, provincial and municipal levels. 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 the level 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 national, provincial 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 those regulations will not change in a manner that could cause material adverse effects on our business.

***Argentine Leasing Law No. 23,091 imposes 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 many 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 adjust the amounts owed to us under our 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. 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.***

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 the courts and the numerous procedural steps required have generally delayed landlords' efforts to evict tenants. Eviction proceedings generally last 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 province of Buenos Aires and a substantial portion of our revenues are derived from such properties.

For the fiscal year ended June 30, 2005, a substantial part of our sales were derived from properties in the City of Buenos Aires and the province of Buenos Aires area. Although we own properties and may acquire or develop additional properties outside Buenos Aires, we expect to continue to depend to a very large extent on economic conditions affecting those areas, and therefore, an economic downturn in those areas could have a material adverse effect on our financial condition.

***If the court extends Inversora Dársena Norte S.A.’s bankruptcy to Puerto Retiro, we will lose the significant investment we made to acquire a unique waterfront land reserve by the City of Buenos Aires where we plan to develop a financial center.***

On November 18, 1997, through the acquisition of the capital stock of the old Alto Palermo (Alto Palermo S.A., currently Inversora Bolívar S.A.), Pérez Companc’s real estate subsidiary, we indirectly acquired 35.2% capital stock of Puerto Retiro. The Old Alto Palermo had purchased such shares of Puerto Retiro from Redona Investments Ltd. N.V. in 1996. In addition, pursuant to the execution of several stock purchase agreements in May and June 1999, we -through Inversora Bolívar S.A.- increased our interest in Puerto Retiro up to 50% of its capital stock.

On April 18, 2000 Puerto Retiro received notice of a complaint filed by the Federal Government, through the Ministry of Defense, with the purpose of requiring the extension of the bankruptcy of Inversora Dársena Norte S.A. (“Indarsa”). Concurrently with the complaint, at the request of plaintiff, the bankruptcy court granted an order restraining the ability of Puerto Retiro to sell or dispose in any manner the real estate property purchased from Tandanor S.A. (“Tandanor”).

Indarsa had purchased 90% of the capital stock of Tandanor, a formerly government owned company privatized in 1991 engaged in the shipyard industry, which owned a large piece of land near Puerto Madero of approximately 8 hectares, divided into two spaces: Planta 1 and 2. Such property did not have (and still does not have) approved zoning established in the Urban Planning Code and therefore no project can be currently developed.

After the purchase of Tandanor by Indarsa, 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 deed was executed in June, 1993.

Indarsa did not comply with the payment of the outstanding price for the purchase of the capital stock of Tandanor, and therefore the Ministry of Defense requested the bankruptcy of Indarsa. Since the only asset of Indarsa was the shareholdings in Tandanor, the Ministry of Defense is pursuing to extend the bankruptcy to other companies or individuals which, according to its view, acted as an economic group, and therefore, requested the extension of the bankruptcy to Puerto Retiro, which acquired Planta 1 from Tandanor.

On April 18, 2001, the judicial procedure entered into trial stage. At the present time, a provisional measure prohibiting changes and disposition of this building is still in effect. We are currently awaiting the Court’s ruling on this matter.

We cannot assure the success of the outcome of this judicial proceeding. If the plaintiff's claim is favored by the court or by the court of appeals, such decision may cause a material adverse effect on our financial situation, since all of the assets of Puerto Retiro will be used to pay the debts incurred by Indarsa.

The Company's investment in Puerto Retiro amounts to Ps. 45.5 million at June 30, 2005.

***We face a potential economic loss with regards to a judicial proceeding involving the acquisition of Llao Llao Hotel.***

Llao Llao Holding S.A. purchased Hotel Llao Llao on November, 1997, from National Parks Administration. Llao Llao Holding S.A. (in the process of dissolution due to merger with IRSA), predecessor of Llao Llao Resorts S.A. was sued in 1997 by National Parks Administration to obtain collection of the unpaid balance of the purchase price in Argentine sovereign debt securities amounting to US\$ 2.87 million. The trial court ruled in favor of the plaintiff. The ruling was appealed, and the court of appeals confirmed the judgment ordering the payment of US\$ 2.87 million in Argentine sovereign debt securities available at the date of the ruling, plus compensatory and punitive interest and attorneys' fees. On March 2, 2004, the Company made a payment deposit of Ps. 7.19 million with Banco de la Ciudad de Buenos Aires in favor of the National Parks Administration and deposited Argentine sovereign debt securities class FRB - FRB L+13/16 2005 for a total nominal value of US\$ 4.12 million. The total amount settled on that date was Ps. 9.15 million.

The court served notice of payment made on the plaintiff. On June 30, 2004 the plaintiff filed a brief rejecting said payment considering it partial and requested the court the determination of term for the deposit of funds until final payment of the total debt.

The trial court pesified the plaintiff's credit and the plaintiff appealed this decision. The court of appeal ruled in favor of the plaintiff mantaining their credit in U.S. Dollars. We have appealed this decision and the appellate court declared it inadmissible. We appealed before the Federal Supreme Court and the final decision is still pending.

A report of the legal advisors states that the balance remains unpaid and outlines that the Company has deposited with the court the debt instruments determined in the unpaid balance, and an amount in cash of Ps. 7.19 million, whereas the unpaid balance approved in the court records was US\$ 3.78 million. Consequently, as of June 30, 2005 our management recorded a reserve in the amount of Ps. 3.77 million which was determined calculating the difference between the amount claimed for in concept of compensatory and punitive interest (US\$ 3.8 million) and the amount deposited in payment (Ps 7.19 million).

In September 2001 Llao Llao Resorts S.A. entered into an agreement with six of the plaintiff's attorneys by which the company agreed to pay them the amount of US\$ 1.2 million in concept of fees which would be paid in twelve equal monthly installments of US\$ 100,000 each to be deposited with Banco de la Ciudad de Buenos Aires. The first three installments were paid before the devaluation of the Peso and the following nine installments were paid in Pesos after the devaluation.

One of the six attorneys never challenged these payments. The remaining five attorneys filed a motion alleging that that the amount agreed should have been paid in U.S. Dollars and not in Pesos and calculating the difference between the amounts paid in Pesos and the U.S. Dollar amount agreed in concept of fees which they understood amounted to US\$ 384,000. In March 2005, at the request of two of the attorneys the court issued

an order to attach the amount of Ps. 788,000 from the Company's checking accounts. As of June 30, 2005 the attachment amounted to Ps. 861,000.

Our legal advisors challenged the liquidation performed by these two plaintiffs for several reasons. Firstly, the first three installments paid prior to the pesification need not be readjusted because they were made when the Peso was at a 1 to 1 parity with the U.S. Dollar. Secondly, the interest claim made by the plaintiffs is unlawful and exorbitant. On December 2, 2005 the court resolved ordering the payment of the currency difference with regards to the last nine installments which would be calculated using the exchange rate in force at the time the deposits were made and rejecting the interest claim considering that the relief sought was already covered by the readjustment ordered. This court order may be appealed by the plaintiffs.

We are currently negotiating an out-of-court agreement with the remaining three attorneys. The liquidation presented by them includes the amount of US\$ 288,112.35 in concept of capital applied to the currency difference between the payments made in Pesos and the original fee agreement and US\$ 72,528.78 in concept of interest which results in a total amount of US\$ 360,641.13. We understand that they are willing to arrive at an agreement which could include an installment payment plan.

In accordance with the probable contingency reported by the lawyers as of June 30, 2005, the Company management has reserved the amount of Ps. 2.3 million.

***If we cannot reach an agreement with the sellers regarding our acquisition of a significant interest in the Neuquén Project, the sale may be voided and we may not recover our original investment.***

On July 6, 1999 APSA acquired 94.6% ownership of Shopping Neuquén S.A. for Ps. 4.2 million. APSA paid Ps. 0.9 million on September 1, 1999 and the remaining Ps. 3.3 million were originally scheduled to be paid on or before July 5, 2001 or at the completion of the construction of the shopping center, whichever happened first. We clarify that said amounts are in Pesos according to the emergency legislation in force. See Item 3.D. "Risks Factors". However, Shopping Neuquén S.A.'s former shareholders have challenged the constitutionality of such legislation, and no final decision has been issued. As of November 30, 2005 the purchase price balance remains unpaid.

Shopping Neuquén S.A.'s sole asset is a plot of land of approximately 50,000 square meters on which a shopping center is proposed to be built. The proposed project contemplates the building of a shopping center, a hypermarket, a hotel and a housing complex none of which have been commenced.

#### *Legal issues with Shopping Neuquén S.A.'s former shareholders*

On August 15, 2003 APSA was informed that the former shareholders of Shopping Neuquén S.A., who had a 85.75% interest, filed a complaint against APSA seeking recovery of the purchase price balance, interest and legal costs. In September 2003, APSA answered the complaint opposing several defenses such as, plaintiffs' non-compliance with their duties under the contract and the pesification of the purchase price balance according to the emergency legislation. Moreover, APSA filed a counterclaim alleging there should be a readjustment of the effects of the contract which became excessively burdensome for unforeseeable reasons given the 2001 economic, social and political crisis. In November 2003 the plaintiffs replied to APSA's counterclaim alleging that the payment under the purchase agreement was overdue before the economic and social crisis emerged and thus APSA's contract readjustment claim was inadmissible. As of November 30, 2005 the trial is under discovery stage.

#### *Legal issues with the Municipality of Neuquén*

In June 2001 Shopping Neuquén S.A. 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 performed by Shopping Neuquén S.A. would be lost and accrued in favor of the Municipality of Neuquén, leaving Shopping Neuquén S.A. with no right to compensation.

On January 21, 2003 Shopping Neuquén S.A. submitted its response to the Decree 1437/02 requesting its revocation. It also requested 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 this. On June 25, 2003 Shopping Neuquén S.A. 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 S.A. had expired. The decision, however, is not final. APSA 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 APSA will file an appeal directly with the Federal Supreme Court.

Shopping Neuquén S.A. is currently seeking to negotiate with the Municipality of Neuquén the terms of an agreement that might permit reactivation of the proposed development. Nevertheless, we cannot give you any assurance that APSA will be able to achieve such an agreement on commercially reasonable terms, if at all, and if APSA cannot, the Municipality of Neuquén would be entitled to request the restitution of the property and APSA will likely lose all or substantially all of its investment which amounts to Ps. 10 million.

We maintain a provision of Ps. 2.3 million which represents our best estimate of the probable loss to be incurred in connection with these claims.

***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. One of our principal investments is in APSA, onto where we own a 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 these entities 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 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:

- abandonment of development opportunities and renovation proposals;

- construction costs of a project may exceed our original estimates, making a project unprofitable;
- occupancy rates and rents of a newly completed project may be insufficient to make such 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 affect our 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 us if our tenants are unable to pay 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 shift of consumers to purchasing goods over the Internet may negatively affect sales in our shopping centers.***

During the last years, retail sales by means of the Internet have grown significantly in Argentina even though the market share of Internet sales related to retail sales is still not significant. The Internet enables manufacturers and retailers to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and shopping centers. We believe that our target consumers are increasingly using the Internet, at home, work or elsewhere, to shop electronically for retail goods, and that this trend will



continue. 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 may prove to be inaccurate.

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

All of our shopping centers are located in Argentina. 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 rent price 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, difficulty in obtaining 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
- salary depreciation.

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. 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.

***We may not be able to recover the mortgage loans we have provided to purchasers of units in our residential development properties.***

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 1 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% 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, 2005, aggregated approximately Ps. 1.4 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.

Law No. 25,798 enacted on November 5, 2003 and regulated by Decrees No. 1284/2003 and No. 352/2004, among others, sets forth a system to refinance delinquent mortgage loans in order to prevent foreclosures of the housing units constituting the only dwelling of debtors (the "Mortgage Refinancing System"). The system comprises both delinquent debtors in the financial system and those outside the financial system. Pursuant to Law No. 25,798, a trust is created whose assets are composed of financial resources to be contributed by the Argentine government and the income derived from the amortization installments of refinanced loans. *Banco de la Nación Argentina*, in its capacity as Trustee of the trust, enters into refinancing agreements with the debtors under the following terms: a grace period of one year and amortization in monthly installments not to exceed 30% of the aggregate income of the family living in such housing unit. Banco de la Nación Argentina will then issue bonds that shall be delivered in lieu of payment to the mortgagee and will subrogate the mortgagee's rights with regards to the debtors. The amounts to be refinanced may not exceed the appraisal value of the secured real property, after deduction of debts for taxes and maintenance expenses. The trust shall pay the mortgagee only the amount corresponding to overdue defaulted principal and, with regards to the outstanding debt, Banco de la Nación Argentina shall repay principal plus interest and adjustments according to the terms and conditions of the original mortgage loan agreement. The parties to secured loan agreements were given a period to express their decision to participate in the Mortgage Refinancing System. This term was extended twice first by Decree No. 352/2004 and then by Law No. 26,062, effective as of November 4, 2005. The latter not only extends the term 120 days from the day of its publication but also suspends foreclosure proceedings for the same period.

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

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

Additionally, on December 2001, we securitized almost the entire mortgage portfolio held by us since late 1992, amounting to Ps. 29.9 million, through the sale of this portfolio to Fideicomiso IRSA I. Banco Sudameris Argentina acted 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 held 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. They 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.

This portfolio was originally denominated in U.S. Dollars and mandatorily 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 2002, inflation adjustment on residential mortgages granted to individuals was eliminated until October 2002, when adjustment was performed according to the CVS a different inflation index. Pursuant to Decree 117/04 and Law No. 25,796, the CVS became unenforceable on April 1, 2004. The terms and conditions of the certificates of deposit were modified again to reflect this new change.

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

As of June 30, 2005, Classes A, B and C were completely amortized.

As of June 30, 2005, Class D's equity value amounted to Ps. 3,259 for IRSA, Ps. 519 for Inversora Bolívar S.A and Ps.133 for Baldovinos S.A.

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 represent actual results. 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 Economy and Production, which could further affect 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 operational success of our hotels is highly dependant on our ability to compete in areas such as access, location, quality of accommodations, rates, quality 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 to increase their attractiveness.

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 affecting wages, prices, interest rates, construction procedures and costs.

***We are dependent on our senior manager and chairman 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. 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.

***Our investment in Banco Hipotecario subjects us to risks affecting the banking sector.***

We have an investment in the banking sector, a different industry with different risks. As of June 30, 2005, we owned 11.76% of Banco Hipotecario, which represented 9% of our consolidated assets. Banco Hipotecario has been the leading mortgage lender, largest mortgage servicer and provider of mortgage-related insurance in Argentina. Substantially all of its operations, property 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, described below, have had and may continue to have a material adverse effect on Banco Hipotecario's business, financial condition and results of operations.

***Banco Hipotecario strongly relies on mortgage lending and its ability to continue to develop its financial intermediation strategy depends in part on Banco Hipotecario's ability to successfully implement a new business 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 (i) demand for new mortgage loans and (ii) the asset quality of outstanding mortgage loans.

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

In the past two years Banco Hipotecario has made several investments designed to enable the development of retail banking activities. Banco Hipotecario must overcome significant challenges to achieve this goal 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, Banco Hipotecario cannot give any assurance that it will be successful in developing significant retail banking activities in the foreseeable future, if at all. If Banco Hipotecario is unable to effectively transition to a new and viable operating model, it cannot assure that it will be able to comply with its debt obligations.

***Banco Hipotecario cannot assure that its business or diversification strategy will be successfully achieved to the extent it requires concurrence or approval of the Argentine government, with whom it has recently disagreed.***

Banco Hipotecario faces significant challenges in seeking to develop its business plan through internal growth and therefore continuously explores the possibility of acquiring other banks or financial institutions or a significant portion of their assets and liabilities. The fast 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 the future. The Argentine government has also disagreed with Banco Hipotecario over other issues, such as board compensation. If we, as shareholders, are not able to receive government support to successfully implement new business strategies, Banco Hipotecario's financial condition may be adversely affected.

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

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. Banco Hipotecario's bylaws provide that if at any time the Class A shares represent less than 42% of its aggregate voting stock, Class D shares will automatically lose their triple voting rights. If this were to occur and if the Argentine government retained a sufficient number of Class A shares, the government would prevail in general shareholder meetings (except for certain decisions that require qualified majorities) and exercise effective control over the decisions to be submitted to the consideration of such meetings.

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

Financial institutions are subject to significant regulation historically entrusted to the Argentine Central Bank and other regulatory authorities. Measures adopted by the Argentine Central Bank have had and may continue to have a material adverse effects on Banco Hipotecario's financial condition and results of operations. On July 25, 2003, the Argentine Central Bank announced its intention to adopt new capital adequacy requirements, effective as of January 2004 that it will implement gradually through 2009. In addition, the International Monetary Fund and other multilateral agencies have been encouraging the Argentine government to impose minimum capital adequacy, solvency and liquidity requirements consistent with international standards, which could impose operating restrictions on Banco Hipotecario.

Similarly, the Comisión Nacional de Valores, which regulates the public markets in Argentina, has authority to impose sanctions on Banco Hipotecario and its board of directors for breaches of corporate governance and market regulatory standards.

Laws and decrees implemented during the outburst of the economic crisis in 2002 had substantially altered contractual obligations. Recently, various initiatives have been presented to Congress intended to reduce or eliminate a portion of its mortgage loan portfolio on the debt owed to Banco Hipotecario. Also, there were initiatives intended to review the terms pursuant to which Banco Hipotecario Nacional was privatized. As a result, we cannot assure you that the legislative branch will not enact new laws that will have a significant adverse 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.

***Uncertainties affecting Banco Hipotecario's business could negatively affect the value of our investment.***

Banco Hipotecario's financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina. The political and economic crisis of late 2001 and early 2002 and the Argentine government's actions to address such crisis have had a significant adverse effect on Banco Hipotecario's business activity. Currently, Banco Hipotecario is highly dependent on the Argentine Government's ability to perform on its obligations owed to Banco Hipotecario and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and its obligation to approve and deliver government securities under various laws and regulations. As of June 30,

2005, we owned 11.76% of Banco Hipotecario, and 5.22% of such ownership is through our subsidiary Ritelco S.A. The future outcome of the uncertainties described above could have an adverse effect on the value of our investment in Banco Hipotecario.

***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 CER. 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. Through December 31, 2002, the wholesale price index and the CVS posted cumulative increases of 118.2% and 0.2%, respectively, and the CER increased 41.4%. During 2003, inflation rose by 4.3% as measured by the wholesale price index, 3.7% as measured by the CER and 15.8% as measured by the CVS. As a result, only 10% of Banco Hipotecario's mortgage loans were adjusted for inflation in accordance with the CER, 30% were adjusted in accordance with the CVS and 60% remain entirely unindexed. Additionally, 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 mortgage loans. The CVS increased until its repeal by 5.3%, whereas the increase in CER was 5.5% as of December 31, 2004 and the wholesale price index increased by 7.9%. 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 loan portfolio experienced significant erosion in value. If inflation were to increase significantly once again, it might continue to materially erode value. Accordingly, an increase in Banco Hipotecario's funding and other costs due to inflation might not be offset by indexation which could adversely affect its liquidity and results of operations.

***If Banco Hipotecario's ratio of non-performing loans increases significantly, Banco Hipotecario's operations results could be materially adversely affected.***

Banco Hipotecario has traditionally been an active lender to individuals in the middle and lower-middle income segment of the population. The quality of Banco Hipotecario's loan portfolio to such individuals is highly dependent on household income. In 2000, Banco Hipotecario established a Ps.550.2 million provision for loan losses in an effort to rectify recurring asset quality problems in its pre-1991 loans (and in certain post-1991 loans). The overall asset quality of Banco Hipotecario's mortgage loan portfolio has been materially and adversely affected by the Argentine crisis of 2002 and 2003 and its aftermath. According to INDEC the official unemployment rate was 12.1% in the second quarter of 2005, and household disposable income decreased significantly as a result of continuing high inflation rates. As of June 30, 2005, Banco Hipotecario's non-performing mortgage loans represented 10.1% of its total loan portfolio compared to 11.3% as of December 31, 2004. Should political and macroeconomic uncertainties persist, including further high levels of inflation, such circumstances might lead to continuing increases in the level of Banco Hipotecario's non-performing loan portfolio, provisions for loan losses and charge-offs, all of which would have a substantial adverse effect on its financial condition and results of operations.

***Banco Hipotecario's ability to foreclose on mortgaged collateral has been materially impaired.***

Like other mortgage lenders, the ability to foreclose on mortgaged collateral to recover delinquent mortgage loans is very important in conducting a business. In February 2002, the Argentine government amended Argentina's Bankruptcy Law, suspending bankruptcies and foreclosures on real estate that constitutes the debtor's primary residence, initially for a six-month period and subsequently extended until November 14, 2002. By agreement reached between the Argentine Banking Association and the Argentine government, Banco Hipotecario and other large financial institutions "voluntarily" agreed to continue the suspension of

bankruptcy and foreclosure proceedings due to the likelihood of significant social and political resistance to any collection efforts, particularly in light of social protests at the time directed at commercial banks. Moreover, on June 2, 2003, the Congress passed a law formally suspending Banco Hipotecario's ability to foreclose on mortgaged properties for a term of ninety days (ending on November 14, 2003), reinstating the earlier "formal" suspension on foreclosures.

Moreover, on January 17, 2005, the Province of Buenos Aires enacted Law No. 13,302 suspending foreclosures on real estate that constitutes the debtor's primary dwelling within the territory of such province for a period of 180 days, provided that the current tax value of such real estate does not exceed Ps.90,000. This limitation of Law No. 13,302 has expired. Furthermore, this provincial law establishes that the above mentioned foreclosure suspension on the debtor's primary dwelling will be extended to one year for unemployed borrowers, as of the date of enactment of that law.

Law No. 25,798 enacted on November 5, 2003 and regulated by Decrees No. 1284/2003 and No. 352/2004, among others, sets forth a system to refinance delinquent mortgage loans in order to prevent foreclosures of the housing units constituting the only dwelling of debtors ("the Mortgage Refinancing System"). The system comprises both delinquent debtors in the financial system and those outside the financial system. Financial institutions are free to participate in the system, and should they decide to do so, they may refinance their mortgage loan portfolio eligible for foreclosure either in whole or in part. Pursuant to Law No. 25,798, a trust is created whose assets are composed of financial resources to be contributed by the Argentine government and the income derived from the amortization installments of refinanced loans. Banco de la Nación Argentina, in its capacity as Trustee of the trust, enters into refinancing agreements with the debtors under the following terms: a grace period of one year and amortization in monthly installments not to exceed 30% of the aggregate income of the family living in such housing unit. Banco de la Nación Argentina will then issue bonds that shall be delivered in lieu of payment to mortgagees and will subrogate the mortgagees' rights with regards to the debtors. The amounts to be refinanced may not exceed the appraisal value of the secured real property, after deduction of debts for taxes and maintenance expenses. The trust shall pay the mortgagee institutions only the amount corresponding to overdue defaulted principal and with regards to the outstanding debt, Banco de la Nación Argentina shall repay principal plus interest and adjustments according to the terms and conditions of the original mortgage loan agreement. Financial institutions were given a period that expired on June 22, 2004 to express their decision to participate in the this Mortgage Refinancing System. This period was extended twice first by Decree No. 352/2004 and then by Law No. 26,062 effective as of November 4, 2005. The latter not only extends the term 120 days as from the day of its publication but also suspends foreclosure proceedings for the same period.

We cannot assure you that laws and regulations related to foreclosure on real estate will not continue to change in the future or that any changes will not adversely affect Banco Hipotecario's business, financial condition or result 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 November 30, 2005, the exchange rate as reported by Banco de la Nación Argentina was approximately Ps.2.96 = 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 assets 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 or the Euro 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 us 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 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.***

The asymmetric pesification of Banco Hipotecario's assets and liabilities created a significant currency inconsistency between Banco Hipotecario's pesified loans and non-pesified debt denominated in foreign currencies. On September 16, 2002, Banco Hipotecario requested the Argentine government to deliver US\$418.5 million U.S. Dollar-denominated BODEN issued as compensation for the negative effects of pesification. Further, Banco Hipotecario has elected to acquire US\$ 812.2 million additional BODEN to eliminate this currency inconsistency. In April 2005, Banco Hipotecario made a new filing of the calculation of compensations in response to the Argentine Central Bank's objections and requested amendments to its original request, requiring US\$ 374.7 million of BODEN as compensation for the pesification and an additional US\$ 845.7 million of BODEN to eliminate the currency inconsistency. To the extent domestic inflation exceeds the rate of devaluation of the Peso against the U.S. Dollar, the value of Banco Hipotecario's BODEN holdings will erode. Moreover, the BODEN are long-term bonds denominated in U.S. Dollars that currently bear interest at a rate equal to six-month LIBOR, while their plan to purchase additional BODEN with Central Bank advances adjusted by CER that bear interest at a rate of 2%.

As of June 30, 2005 and at December 31, 2004, Banco Hipotecario's foreign currency-denominated assets exceeded its foreign currency denominated liabilities by US\$ 350.4 million and US\$ 350 million, respectively. 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 June 1, 2002, the Argentine government announced that it would issue BODEN to compensate financial institutions for the adverse effects of pesification. Accordingly, on September 16, 2002, Banco Hipotecario notified the Argentine Central Bank its option to (i) receive US\$418.5 million in U.S. Dollar-denominated BODEN, as compensation for the pesification of certain of its assets and liabilities at different exchange rates, and (ii) purchase US\$812.2 million in additional U.S. Dollar-denominated BODEN, as compensation for the currency inconsistency between Banco Hipotecario's non-pesified liabilities and pesified assets. [In April 2005, Banco Hipotecario filed a recalculation of compensation in response to the Argentine Central Bank's objections and requests for amendments to Banco Hipotecario's original calculation, requiring US\$ 374.7 million of BODEN in U.S. Dollars issued as compensation for the pesification and an additional US\$ 845.7 million of BODEN designed to eliminate the currency mismatch]. On June 30, 2005, Banco Hipotecario had received approximately US\$356.0 million of BODEN issued as compensation for the pesification, but no BODEN was issued to eliminate the currency asymmetry. As a result, including the additional BODEN that Banco Hipotecario expects to acquire (recorded at nominal value), as of June 30, 2005 Banco Hipotecario's holdings of Argentine government securities and loans to the Argentine government represented approximately 53.8% of Banco Hipotecario's total assets.

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 mid-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. 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 our investment.

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

On May 31, 2005, approximately 3,894 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.87 million. If Banco Hipotecario does not prevail in these proceedings or settles 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 such 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 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.300 million in the aggregate. Although Banco

Hipotecario has appealed the May 2003 judgment 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.

In addition, an Argentine social security agency has 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's predecessor, Banco Hipotecario. 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 their notes issued prior to their 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 3% 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 the Global Depositary Shares and the Shares***

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

The market prices of our common shares and Global Depositary Shares could decline as a result of sales by our 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 to sell equity securities in the future at a time and at a price that we deem appropriate.

The Global Depositary Shares are freely transferable under U.S. securities laws, including shares sold to our affiliates. Cresud, which as of November 30, 2005 owns approximately 21.4% of our common shares (or approximately 77,850,702 common shares which may be exchanged for an aggregate of 7,785,070.2 Global Depositary Shares), are free to dispose of any or all of its common shares or Global Depositary Shares at any time in its discretion. Sales of a large number of our common shares and/or Global Depositary Shares would likely have an adverse effect on the market price of our common shares and the Global Depositary Shares. Different Corporate Disclosure and Accounting Standards.

***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 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.