

## B. Capitalization and Indebtedness

This section is not applicable.

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

This section is not applicable.

## D. Risk Factors

You should carefully consider the risks described below, in addition to the other information contained in this annual report, before making an investment decision. We also may face additional risks and uncertainties not currently known to us, or which as of the date of this annual report we might not consider significant, which may adversely affect our business. In general, you take more risk when you invest in securities of issuers in emerging markets, such as Argentina, than when you invest in securities of issuers in the United States, and certain other markets. You should understand that an investment in our common shares and Global Depositary Shares ("GDSs") involves a high degree of risk, including the possibility of loss of your entire investment.

### Operations Center in Argentina

#### Risks Relating to Argentina

As of the date of this annual report, most of our operations, property and customers from our Operations Center in Argentina are located in Argentina. As a result, the quality of our assets, our financial condition and the results of our operations from our Operations Center in Argentina are dependent upon the macroeconomic, regulatory, social and political conditions prevailing in Argentina from time to time. These conditions include growth rates, inflation rates, exchange rates, taxes, foreign exchange controls, changes to interest rates, changes to government policies, social instability, and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

#### *Economic and political instability in Argentina may adversely and materially affect our business, results of operations and financial condition.*

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high levels of inflation and currency depreciation, and may experience further volatility in the future.

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Among other consequences, the crisis resulted in Argentina defaulting on its foreign debt obligations, introducing emergency measures and numerous changes in economic policies that adversely affected most sectors of the economy, particularly utilities, financial institutions, and industrial companies. The Argentine Peso also was subjected to significant real devaluation and depreciation, which resulted in many Argentine private sector debtors with foreign currency exposure to default on their outstanding debt. Following that crisis, Argentine GDP grew 8.9% in 2005, 8.0% in 2006 and 9.0% in 2007. During 2008 and 2009, however, the Argentine economy suffered a slowdown attributed to local and external factors, including an extended drought affecting agricultural activities, and the effects of the global economic crisis. Real GDP growth recovered in 2010 and 2011 to 10.1% and 6.0%, respectively. However, GDP contracted 1.0% in 2012 and then grew by 2.4% in 2013. In 2014, economic again contracted by 2.5%. The Argentine economy has remained under pressure in recent years with GDP expanding 2.6% in 2015 and contracting 2.3% in 2016 according to data reported by the National Institute of Statistics (*Instituto Nacional de Estadísticas y Censos*), or "INDEC."

Presidential and Congressional elections in Argentina were held on October 25, 2015, and a runoff election between the two leading Presidential candidates was held on November 22, 2015, which resulted in Mr. Mauricio Macri being elected President of Argentina. The Macri administration assumed office on December 10, 2015. Since taking office, the new administration has announced a policy agenda aimed at adopting measures that are market friendly and designed to ensure long-term macroeconomic performance including reducing the fiscal deficit, eliminating restrictions on capital flows and access to the exchange rate market, correcting energy and transport prices and obtaining financing through the capital markets.

The Macri administration has adopted the following key economic and policy reforms.

- *INDEC reforms.* President Macri appointed Mr. Jorge Todesca, previously a director of a private consulting firm, as head of the INDEC. On January 8, 2016, the Argentine government declared a state of administrative emergency relating to the national statistical system and the INDEC, until December 31, 2016. During 2016, the INDEC implemented certain methodological reforms and adjusted certain macroeconomic statistics on the basis of these reforms. Following the declared emergency, the INDEC ceased publishing statistical data until a rearrangement of its technical and administrative structure is finalized. During the course of implementing these reforms, however, INDEC has used official Consumer Price Index, or “CPI,” figures and other statistical information published by the Province of San Luis and the City of Buenos Aires. On June 29, 2016, the INDEC published revised GDP data for the years 2004 through 2015. On August 31, 2016, the IMF Executive Board met to consider the progress made by Argentina in improving the quality of official GDP and CPI data and noted the important progress made in strengthening the accuracy of Argentina’s statistics. On November 10, 2016, the IMF lifted the existing censure on Argentina regarding these data.
- *Agreement with holdout creditors.* The Argentine government has reached agreements with substantially all of the holdout bondholders who had not previously participated in Argentina’s sovereign debt restructurings (in terms of claims) and regained access to the international capital markets, issuing several new series of sovereign bonds since President Macri took office.
- *Foreign exchange reforms.* In addition, the Macri administration eliminated a significant portion of foreign exchange restrictions, including certain currency controls, that were imposed under the Kirchner administration. On August 9, 2016, the Central Bank issued Communication “A” 6037 which substantially changed the existing legal framework and eliminated certain restrictions limiting access to the foreign exchange market MULC. The principal measures adopted as of the date of this annual report include:
  - i. the reestablishment of Argentine residents’ rights to purchase and remit foreign currency outside of Argentina without limit and without specific allocation (*atesoramiento*);
  - ii. the elimination of the mandatory, non-transferable and non-interest bearing deposit previously required in connection with certain transactions involving foreign currency inflows by reducing the amount of the deposits from 30% to 0%;
  - iii. the elimination of the requirement to transfer and settle the proceeds from new foreign financial indebtedness incurred by the foreign financial sector, the non-financial private sector and local governments through the MULC; and
  - iv. the elimination of the requirement that proceeds from debt issuances abroad must be maintained undistributed for a minimum of 365 calendar days.
- *Foreign trade reforms.* The Kirchner and Fernández de Kirchner administrations imposed export duties and other restrictions on several sectors, particularly the agricultural sector. The Macri administration eliminated export duties on wheat, corn, beef and regional products, and reduced the duty on soybeans by 5% to 30%. Further, the 5% export duty on most industrial exports was eliminated. With respect to payments for imports of goods and services, the Macri administration announced the gradual elimination of restrictions on access to the MULC for any transactions originated before December 17, 2015. Regarding transactions executed after December 17, 2015, no quantitative limitations apply.

- *National electricity state of emergency and reforms.* Following years of very limited investment in the energy sector, as well as the continued freeze on electricity and natural gas tariffs since the 2001-2002 economic crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, the Macri administration declared a state of emergency with respect to the national electricity system, which will remain in effect until December 31, 2017. The state of emergency enables the Government to take actions designed to ensure the supply of electricity to the country, such as instructing the Ministry of Energy and Mining to design and implement, with the cooperation of all federal public entities, a coordinated program to guarantee the quality and security of the electrical grid. In addition, through Resolution No. 6/2016 of the Ministry of Energy and Mining and Resolution No. 1/2016 of the National Electricity Regulatory Agency (*Ente Nacional Regulador de la Electricidad*), the Macri administration announced the elimination of a portion of energy subsidies currently in effect and a substantial increase in electricity rates. As a result, average electricity prices have already increased and could increase further. By correcting tariffs, modifying the regulatory framework and reducing the Government's involvement in the sector, the Macri administration aims to correct distortions in the energy sector and stimulate investment. However, certain of the Government's initiatives have been challenged in the Argentine courts and resulted in judicial injunctions or rulings limiting the Government's initiatives.
- *Tariff increases.* With the aim of encouraging companies to invest and improve the services they offer and enabling the Government to assist those in need, the Macri administration has begun updating the tariffs for electricity, transportation, gas and water services. Each of the announced tariff increases contemplates a *tarifa social* (social tariff), which is designed to provide support to vulnerable groups, including beneficiaries of social programs, retirees and pensioners who receive up to two minimum pensions, workers who receive up to two minimum salaries, individuals with disabilities, individuals registered in the *Monotributo Social* program, domestic workers and individuals receiving unemployment insurance. On August 18, 2016, the Supreme Court of Argentina in "*Centro de Estudios para la Promoción de la Igualdad y la Solidaridad versus Ministry of Energy and Mining*," upheld lower court injunctions suspending the proposed increases in gas tariffs and instructed the Ministry of Energy and Mining to conduct a non-binding public hearing prior to sanctioning any such increases. The public hearings were held on September 16, 2016. Pursuant to the holding by the Supreme Court, the Gas Regulatory Entity, or "Enargas," issued Resolution No. 3960 and 3961 ordering the reestablishment of the prior tariff scheme as of March 31, 2016, and implemented an installment regime for the payment of overdue bills.
- *Tax Amnesty Law.* In July 2016, the *Régimen de Sinceramiento Fiscal*, or "Tax Amnesty Law," was introduced to promote the voluntary declaration of assets by Argentine residents. The Tax Amnesty Law allows Argentine tax residents holding undeclared funds or assets located in Argentina or abroad to (i) declare such property until March 31, 2017 without facing prosecution for tax evasion or being required to pay past-due tax liabilities on the assets, if they could provide evidence that the assets were held by certain specified cut-off dates, and (ii) keep the declared property outside Argentina and not repatriate such property to Argentina. With respect to cash that was not deposited in bank accounts by the specified cut-off dates, such amounts had to be disclosed and deposited by October 31, 2016 in special accounts opened at Argentine financial entities. Depending on the amount declared, how soon it is declared, the election to subscribe for certain investment securities and the payment method used, those who took advantage of the Tax Amnesty Law would pay a special tax of between 0 and 15% on the total amount declared. Alternatively, they could invest an equivalent amount in Argentine government bonds or a fund that would finance, among other things, public infrastructure projects and small to medium-sized businesses in general. Taxpayers may elect to subscribe for certain investment securities and reduce the tax rates payable upon disclosure of previously undisclosed assets. On April 4, 2017, the Finance Minister of Argentina announced that, as a result, US\$116,800 million undeclared assets were declared.

- *Retiree Programs.* On June 29, 2016, Congress passed a bill approving the *Ley de Reparación Histórica a los Jubilados* (Historical Reparations Program for Retirees and Pensioners), which took effect upon its publication in the official gazette. The main aspects of this program, which is designed to conform government social security policies to Supreme Court rulings, include (i) payments to more than two million retirees and the retroactive compensation of more than 300,000 retirees and (ii) the creation of a *pensión universal* (universal pension) for the elderly, which guarantees an income for all individuals over 65 years of age who are otherwise ineligible for retirement. The Historical Reparations Program for Retirees and Pensioners will give retroactive compensation to retirees in an aggregate amount of more than Ps.47.0 billion and involve expenses of up to Ps.75.0 billion to cover all potential beneficiaries.
- *Fiscal policy:* The Macri administration reduced the primary fiscal deficit by approximately 1.8% of GDP in December 2015 through a series of tax and other measures, and pursued a primary fiscal deficit target of 4.8% of GDP in 2016 through the elimination of subsidies and the reorganization of certain expenditures. However, the primary fiscal deficit for October 2016 increased 183% compared to the comparable period in 2015, while the aggregated primary fiscal deficit as of January 2016 represented a 69% increase compared to the same period of 2015, reaching 4.6% of GDP. The Macri administration's ultimate aim is to achieve a balanced primary budget by 2019.

On February 22, 2017, Finance Minister Nicolas Dujovne announced fiscal targets for the period 2017-2019, ratifying the target set in the 2017 budget—which established a primary deficit of 4.2% of GDP for 2017—and announcing a deficit target of 3.2% for 2018 and 2.2% for 2019. It also announced quarterly targets as a percentage of GDP for 2017, of 0.6% for the first quarter; 2.0% for the second, 3.2% for the third and 4.2% for the last one. Targets for the first and second quarters have been met.

- *Correction of monetary imbalances:* The Macri administration announced the adoption of an inflation targeting regime in parallel with the floating exchange rate regime and set inflation targets for the next four years. The Central Bank has increased the use of stabilization policies to reduce excess monetary imbalances and reduced Peso interest rates to offset inflationary pressure.

While some of the measures adopted have led to higher inflation, there has been an increase in the demand for pesos and a recovery of credit points toward a gradual normalization of macroeconomic conditions. To this end, access to external financing may have a positive effect, by significantly reducing the monetization of the fiscal deficit without requiring an abrupt fiscal adjustment that would put economic growth under pressure. Simultaneously, the inflow of foreign capital would generate a greater supply of foreign exchange in the MULC limiting the depreciation of the Argentine peso and its direct impact on inflation. This, in turn, would increase the demand for real balances in pesos, allowing for a reduction in interest rates and further revival of credit demand and economic activity.

As of the date of this annual report, the impact that the measures taken by the Macri administration will have on the Argentine economy as a whole and the real-estate sector in particular cannot be predicted. In addition, although the results from the mid-term elections held in October 2017, were characterized as positive for the Macri administration, opposition political parties retained a majority of the seats in the Argentine Congress, which has required and will require the Macri administration to seek political support from these parties to implement its proposals creating additional uncertainty regarding the ability of the Macri administration to effectively implement its policy agenda.

Higher rates of inflation, any decline in GDP growth rates and/or other future economic, social and political developments in Argentina, a lack of stability and competitiveness of the Peso against other currencies, and a decline in confidence among consumers and foreign and domestic investors, among other factors, may materially adversely affect the development of the Argentine economy which could adversely affect our financial condition or results of operations.

***There were concerns about the accuracy of Argentina’s official inflation statistics.***

In January 2007, the INDEC changed the methodology used to calculate the CPI. At the same time that the INDEC adopted this change in methodology the Argentine government also replaced several key officers at the INDEC, prompting complaints of governmental interference from the technical staff at the INDEC. In addition, during this period the IMF requested a number of times that INDEC clarify its methodology for measuring inflation rates.

On November 23, 2010, the Argentine government began consulting with the IMF for technical assistance in order to prepare new national CPI data with the aim of modernizing the existing statistical system. During the first quarter of 2011, a team from the IMF started collaborating with the INDEC in order to create such index. Notwithstanding these efforts, reports subsequently published by the IMF stated that its staff also used alternative measures of inflation for macroeconomic surveillance, including data produced by private sources, and such measures have shown inflation rates that are considerably higher than those published by the INDEC since 2007. Consequently, the IMF called on Argentina to adopt measures to improve the quality of data used by the INDEC. At a meeting held on February 1, 2013, the Executive Board of the IMF emphasized that the progress in implementing remedial measures since September 2012 had been insufficient. As a result, the IMF issued a declaration of censure against Argentina in connection with the breach of its related obligations to the IMF and called on Argentina to adopt remedial measures to address the inaccuracy of inflation and GDP data promptly.

In order to address the quality of official data, a new consumer price index denominated Urban National Consumers Price Index (*Índice de Precios al Consumidor Nacional Urbano*), or the “IPCNU,” was enacted on February 13, 2014. Inflation measured by the IPCNU was 23.9% for 2014, 29.2% for 2015 and 33.7% for 2016. The IPCNU represents the first national indicator in Argentina to measure changes in prices of household goods for final consumption. While the previous price index only measured inflation in the Greater Buenos Aires area, the IPCNU is calculated by measuring prices of goods across the entire urban population of the 23 provinces of Argentina and the City of Buenos Aires. On December 15, 2014, the IMF recognized the progress of Argentine authorities to remedy the inaccurate provision of data, but has delayed the definitive evaluation of the new index.

On January 8, 2016, as a result of the INDEC’s historical inability to produce reliable statistical data, the Macri administration issued an emergency decree and ceased publication of national statistics. The INDEC suspended all publications of statistical data until the technical reorganization process was completed and the administrative structure of the INDEC was recomposed. Following this process of reorganization and recovery, the INDEC began to gradually publish official data. The INDEC recalculated historical GDP data dating back to 2014, and GDP growth measures were revised to growth of 2.3% in 2013, contraction of 2.1% in 2014, growth of 2.4% in 2015 and contraction of 2.1% in 2016. GDP as reported by INDEC for the fourth quarter of 2016 grew 0.5% compared to the comparable quarter of 2015, in the seasonally adjusted measurement.

The Budget Law for fiscal year 2017 includes targets for CPI variation between 17% and 12% for 2017, between 8% and 12% for 2018 and between 3.5% and 6.5% for 2019. On November 9, 2016, the IMF, after analyzing Argentina’s progress in improving quality of official data on the CPI, decided to lift the “censure motion” that was imposed in 2013, concluding that the CPI of Argentina is now in compliance with international standards. However, we cannot assure you that such inaccuracy in relation with the economic indicators will not occur again in the future and, consequently, this circumstance may have an adverse effect on the Argentine economy and on our financial results. If despite the changes introduced in the INDEC by the new government, there are still differences between the figures published by the INDEC and those recorded by private consultants, there could be a significant decrease in confidence in the Argentine economy, which could have an impact on our results of operations and financial condition.

***Continuing high inflation may impact the Argentine economy and adversely affect our results of operations.***

Inflation has, in the past, materially undermined the Argentine economy and the government's ability to foster conditions that would permit stable growth. In recent years, Argentina has confronted inflationary pressures, evidenced by significantly higher fuel, energy and food prices, among other factors. In response, the prior Argentine administration implemented programs to control inflation and monitor prices for essential goods and services, including freezing the prices of key products and services, and price support arrangements agreed between the Argentine government and private sector companies in several industries and markets. According to data published by the INDEC, the rate of inflation reached 10.9% in 2010, 9.5% in 2011, 10.8% in 2012, 10.9% in 2013, 23.9% in 2014 and 26.9% in 2015. In November 2015, the INDEC suspended the publication of the CPI. After implementing certain methodological reforms and adjusting certain macroeconomic statistics on the basis of these reforms, in June 2016 the INDEC resumed its publications of the CPI. At the beginning of 2017, the inflation statistics started to show a stable deceleration trend in its rates accordingly with the new inflation targeting policies of the Central Bank. The inflation rates published by the INDEC for January, February, March, April, May, June, July, August and September 2017 were 1.3%, 2.5%, 2.4%, 2.6%, 1.3%, 1.2%, 1.7%, 1.4%, and 1.9%, respectively. An inflationary environment would undermine Argentina's foreign competitiveness by diluting the effects of a peso devaluation, negatively impact the level of economic activity and employment and undermine confidence in Argentina's banking system, which could further limit the availability of domestic and international credit. In addition, a portion of the Argentine debt is adjusted by the Stabilization Coefficient (*Coeficiente de Estabilización de Referencia*), or "CER," a currency index, that is strongly related to inflation. Therefore, any significant increase in inflation would cause an increase in the principal amount of sovereign external debt and consequently in Argentina's financial obligations, which could negatively affect the Argentine economy. A high level of uncertainty and a general lack of stability in terms of inflation could also lead to shortened contractual terms and affect the ability to plan and make investment decisions. Inflation remains a challenge for Argentina. The Macri administration has set goals to reduce the primary fiscal deficit as a percentage of GDP over time and also reduce the Argentine government's reliance on Central Bank financing. If despite these measures the Macri administration is unable to address Argentina's structural inflationary imbalances, the prevailing high rates of inflation may continue, which would have an adverse effect on Argentina's economy that could lead to an increase in the principal amount of Argentina's debt outstanding as measured in Pesos. Moreover, certain objectives of the Macri administration, such as the increase in tariffs to incentivize investment in the energy sector, may result in higher rates of inflation. Inflation in Argentina has contributed to a material increase in our costs of operations, in particular labor costs, and has negatively impacted our financial condition and results of operations. Inflation rates could increase further in the future, and there is uncertainty regarding the effects and effectiveness of the measures adopted, or that may be adopted in the future, by the Argentine government to control inflation. Public speculation about possible additional actions have also contributed significantly to economic uncertainty and heightened the volatility of the economy. If inflation remains high or continues to rise, Argentina's economy may be negatively impacted and our results of operations could be materially affected.

***Significant fluctuations in the value of the Peso may adversely affect the Argentine economy as well as our financial performance.***

Since the strengthening of exchange controls began in late 2011 and after measures were introduced to limit access to foreign currency by private companies and individuals (such as requiring an authorization from tax authorities to access the foreign currency exchange market), the implied exchange rate, as reflected in the quotations for Argentine securities that traded on foreign securities markets compared to the corresponding quotations in the local market, had increased significantly over the official exchange rate. These measures were mostly lifted on December 16, 2015. Any reenactment of these measures may prevent or limit us from offsetting the risk derived from our exposure to the U.S. dollar and, if so, we cannot predict the impact of these changes on our financial condition and results of operations.

After several years of moderate variations in the nominal exchange rate, in 2012 the peso depreciated approximately 14.3% against the U.S. dollar. This was followed in 2013 and 2014 by a 32.5% depreciation of the peso against the U.S. dollar in 2013 and 30.3% in 2014, including a loss of approximately 21.6% in January 2014 alone. In 2015, the Peso depreciated 52.7% against the dollar with a 33% depreciation in the last weeks of December 2015. In 2016 the Peso depreciated a further 20.5% against the dollar. During the first and second quarter of 2017 the exchange rate has remained stable, mainly as a consequence of the Tax Amnesty Law and its effects on the foreign currency market. During the third quarter of 2017, the political impact of the mid term elections caused certain volatility in the exchange market.

From time to time the Central Bank may intervene in the foreign exchange market in order to stabilize the exchange rate of the peso. Additional volatility, appreciation or depreciation of the peso, or reduction of the Central Bank's foreign currency reserves as a result of currency intervention, could adversely affect the Argentine economy and our ability to service our obligations as they become due.

If the Peso continues to depreciate, the Argentine economy may be negatively affected with adverse consequences on our business and financial condition. Particularly as a result of our exposure to liabilities denominated in U.S. dollars. While certain of our office leases are set in U.S. dollars, we are only partially protected against depreciation of the Peso and there can be no assurance we will be able to maintain our U.S. dollar-denominated leases.

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

***Certain measures that may be taken by the Argentine government may adversely affect the Argentine economy and, as a result, our business and results of operations***

In the past, the Argentine government has increased its intervention in the economy through the implementation or change of laws and regulations; nationalizations and expropriations; restrictions on production, imports and exports; exchange and/or transfer restrictions; direct and indirect price controls; tax increases, changes in the interpretation or application of tax laws and other retroactive tax claims or challenges; cancellation of contract rights; or delays or denials of governmental approvals.

In November 2008, the Argentine government enacted Law No. 26,425 which provided for the nationalization of the *Administradoras de Fondos de Jubilaciones y Pensiones*. Beginning in April 2012, the Argentine government moved to nationalize YPF S.A., or "YPF," and imposed major changes to the system under which oil companies operate, principally through the enactment of Law No. 26,741 and Decree No. 1277/2012. In February 2014, the Argentine government and Repsol S.A., or "Repsol," announced that they had reached an agreement on the terms of the compensation payable to Repsol, as the former principal shareholder of YPF for the expropriation of Repsol's YPF shares. Such compensation totaled US\$5 billion, payable by delivery of Argentine sovereign bonds with various maturities. On April 23, 2014, the agreement with Repsol was approved by the Argentine Congress and the matter was resolved on May 8, 2014.

Additionally, on December 19, 2012, the Argentine government issued Decree No. 2,552/12, which ordered the expropriation of the Predio Rural de Palermo. On January 4, 2013, the Federal Civil and Commercial Chamber granted an injunction that blocked the enforceability of such Decree. However, on June 1, 2015, the injunction was removed. This decision was appealed and the injunction was reinstated. The Argentine government lost an appeal to have the injunction revoked. The government filed a request for dismissal in April 2016. The court granted registration of the matter and ordered a formal notification to plaintiff Sociedad Rural Argentina, which filed its response in November 2016. As of the date of this annual report, the proceedings are still pending before the Federal Civil and Commercial Courts No. 8, Secretariat No. 15 of the City of Buenos Aires. The expropriation of this development without fair compensation may affect our interest in Entertainment Holding S.A., or "EHSA," a joint venture and the entity that owns the property.

Furthermore, on May 18, 2015, we were notified that the *Agencia de Administración de Bienes del Estado*, or “AABE,” revoked the concession agreement granted to our subsidiary Arcos del Gourmet S.A., through Resolution No. 170/2014. On June 2, 2015, we filed before the AABE a request to declare the notification void, as certain formal proceedings required under Argentine law were not complied with by the AABE. Furthermore, we filed an administrative appeal requesting the dismissal of the revocation of the concession agreement and a lawsuit seeking to declare Resolution No. 170/2014 void. We also filed a lawsuit in order to judicially pay the monthly rental fees of the property. As of the date of this annual report, the “Distrito Arcos” shopping mall continues to operate normally.

Other examples of government intervention by the prior administration, include regulations relating to domestic capital markets approved by the Argentine Congress in December 2012 and August 2013. These regulations generally provide for increased intervention in the capital markets by the government, authorizing, for example, the CNV to appoint observers with authority to veto the decisions of the board of directors of publicly-listed companies under certain circumstances and suspend the board of directors for a period of up to 180 days. Nevertheless, since November 2016 the government has been working on an amendment to the Capital Markets Law No. 26,831, or the “Capital Markets Law” which, if approved, will eliminate CNV’s authorization to appoint the aforementioned observers.

We cannot assure you that these or other measures that may be adopted by the Argentine government, such as expropriation, nationalization, forced renegotiation or modification of existing contracts, new taxation policies, changes in laws, regulations and policies affecting foreign trade, investment, among others, will not have a material adverse effect on the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations and the market value of our securities.

***The Argentine government may order that salary increases be paid to employees in the private sector, which would increase our operating costs.***

In the past, the Argentine government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees and may do so again in the future. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors experienced significant pressure from their employees and labor organizations to increase wages and to provide additional employee benefits. Since July 2017, the minimum monthly salary of employees is Ps.8,860. Due to persistent high rates of inflation, employers in both the public and private sectors continue to experience significant pressure from unions and their employees to increase minimum salaries.

In the future, the government could take new measures requiring salary increases or additional benefits for workers, and the labor force and labor unions may apply pressure for such measures. As of the date of this annual report, the government and labor representatives were engaged in negotiations to set national guidelines for salary increases during 2017. Any such increase in wage or worker benefit could result in added costs and adversely affect the results of operations of Argentine companies, including us.

***Property values in Argentina could decline significantly.***

Property values are influenced by multiple factors that are beyond our control, such as a decrease in the demand for real estate properties due to a deterioration of macroeconomic conditions or an increase in supply of real estate properties that could adversely affect the value of real estate properties. We cannot assure you that property values will increase or that they will not be reduced. A significant part of our properties are located in Argentina. As a result, a reduction in the value of properties in Argentina could materially affect our business and our financial statements due to the valuation of our investment properties at fair market value.



***Restrictions on transfers of foreign currency and the repatriation of capital from Argentina may impair our ability to pay dividends and distributions.***

According to Argentine practices, the Argentine government may impose restrictions on the exchange of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from investments in Argentina in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. Beginning in December 2001, the Argentine government implemented a number of monetary and foreign exchange control measures that included restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad without prior approval by the Central Bank. With the administration of President Macri, many of the former restrictions were lifted.

On January 7, 2003, the Central Bank issued communication "A" 3859, as amended, which is still in force and pursuant to which there are no limitations on companies' ability to purchase foreign currency and transfer it outside Argentina to pay dividends, provided that those dividends arise from net earnings corresponding to approved and audited financial statements. The transfer of funds abroad by local companies to pay annual dividends only to foreign shareholders, based on approved and fully audited financial statements, does not require formal approval by the Central Bank.

Notwithstanding the above, for many years, and as a consequence of a decrease in availability of U.S. dollars in Argentina, the previous Argentine government imposed informal restrictions on certain local companies and individuals for purchasing foreign currency. These restrictions on foreign currency purchases started in October 2011 and tightened thereafter. As a result of these informal restrictions, local residents and companies were prevented from purchasing foreign currency through the MULC for the purpose of making payments abroad, such as dividends, capital reductions, and payment for imports of goods and services.

Such restrictions and other foreign exchange control measures were lifted by the new administration, moving towards opening Argentina's foreign exchange market. In this sense, on December 17, 2015, Communication "A" 5850 of the Central Bank reestablished the possibility for non-residents to repatriate their investment capital and, recently, Communication "A" 6037 of the Central Bank defined the new regulations that apply to the acquisition of foreign currency and the elimination of all other restrictions that impair residents and non-residents to have access to the foreign exchange market. However, in the future, the Argentine government or the Central Bank may impose formal restrictions to the payment of dividends abroad, on capital transfers and establish additional requirements. Such measures may negatively affect Argentina's international competitiveness, discouraging foreign investments and lending by foreign investors or increasing foreign capital outflow which could have an adverse effect on economic activity in Argentina, and which in turn could adversely affect our business and results of operations. Furthermore, any restrictions on transferring funds abroad imposed by the government could undermine our ability to pay dividends on our ADSs in U.S. dollars.

***Exchange controls, restrictions on transfers abroad and capital inflow restrictions may limit the availability of international credit.***

Until December 2015, many foreign exchange restrictions and controls had limited the access the exchange market. On December 16, 2015, the new authorities issued Communication "A" 5850 of the Central Bank, lifting most of the restrictions then in place. Among these measures, free access to the exchange market was granted for the purchase of foreign currency intended for general purposes, without requiring prior approval of the Central Bank or the Federal Administration of Public Revenues (*Administración Federal de Ingresos Públicos*), or "AFIP," and the requirement to deposit 30% of certain capital inflows into Argentina was eliminated. Towards the end of 2016, the remaining exchange control restrictions were also lifted by the Central Bank's Communication A 6037 and "A" 6150, so to date there is free access to the exchange market. Pursuant to Resolution E 1/2017 of the Ministerio de Hacienda and the Communication "A" 6150 of the Argentine Central Bank, it was deleted the obligation that required non-residents to perform portfolio investments in the country intended for the holding of private sector financial assets to maintain for a period of 120 days of permanence the funds in the country. As of that resolution and the provisions of Communication "A" 6244 of the Argentine Central Bank, there are no restrictions on entry and exit in the MULC.

Notwithstanding recent measures adopted by the Macri administration, in the future the Argentine government could impose further exchange controls or restrictions on the movement of capital and/or take other measures in response to capital flight or a significant depreciation of the peso, which could limit our ability to access the international capital markets. Such measures could lead to political and social tensions and undermine the Argentine government's public finances, as has occurred in the past, which could adversely affect Argentina's economy and prospects for economic growth. For more information, see "Item 3. Key Information - Local Exchange Market and Exchange Rates."

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

Argentina's economy is vulnerable to external shocks that could be caused by adverse developments affecting its principal trading partners. A significant decline in the economic growth of any of Argentina's major trading partners (including Brazil, the European Union, China and the United States) could have a material adverse impact on Argentina's balance of trade and adversely affect Argentina's economic growth. In 2016, there were declines in exports of 4.5% with Chile, 14.3% with MERCOSUR (Brazil) and 13.5% with China. On the other hand, exports increased 15.6% with NAFTA (the United States, Mexico and Canada), 3.6% with the European Union and 26.7% with Asian countries each as compared to 2015. Declining demand for Argentine exports could have a material adverse effect on Argentina's economic growth. For example, the recent significant depreciation of the Brazilian and Chinese currencies and the current slowdown of their respective economies may negatively affect the Argentine economy. Moreover, the political and social instability in Brazil, which includes the recent removal of the President Dilma Rousseff from office following an impeachment vote in the Senate, and the uncertainties arising therefrom and the contraction of Brazil's economy, may have an adverse impact on Argentina's economy.

In addition, financial and securities markets in Argentina have been influenced by economic and market conditions in other markets worldwide. Such was the case in 2008, when the global economic crisis led to a sudden economic decline in Argentina in 2009, accompanied by inflationary pressures, depreciation of the peso and a drop in consumer and investor confidence. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into other countries. International investors' reactions to events occurring in one market sometimes demonstrate a "contagion" effect in which an entire region or class of investment is disfavored by international investors. Argentina could be adversely affected by negative economic or financial developments in other countries, which in turn may have an adverse effect on our financial condition and results of operations. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. Moreover, Argentina may also be affected by other countries that have influence over world economic cycles.

In addition, emerging market economies have been affected by the recent change in the U.S. monetary policy, resulting in the unwinding of investments and increased volatility in the value of their currencies. If interest rates rise significantly in developed economies, including the United States, emerging market economies, including Argentina, could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. There is also global uncertainty about the degree of economic recovery in the United States. Moreover, the recent challenges faced by the European Union to stabilize certain of its member economies, such as Greece, have had and may continue to have international implications affecting the stability of global financial markets, which has hindered economies worldwide.

***The effects of the United Kingdom's vote to exit from the European Union and its impact on economic conditions in Latin America and Argentina and, particularly, on our business, financial condition, results of operations, prospects and trading of our notes are uncertain.***

On June 23, 2016, the United Kingdom voted in favor of the United Kingdom exiting the European Union, or "Brexit." The possible negative consequences of Brexit include an economic crisis in the United Kingdom, a short-term recession and a decrease of investments in public services and foreign investments. The greatest impact of Brexit may be on the United Kingdom, however the impact may also be significant to other members states. As of the date of this annual report, the actions that the United Kingdom will take to effectively exit from the European Union or the length of such process are uncertain. Brexit has caused, and is anticipated to continue causing, volatility in the financial markets, which may adversely affect business activity and economic and market conditions in the United Kingdom, the Eurozone and globally, and could contribute to instability in global financial and foreign exchange markets. All these effects could in turn have a material adverse effect on our business, financial condition and results of operations.

***The possible independence of Catalonia may have an impact on economic conditions in Latin America and Argentina and, particularly, on our business, financial condition, results of operations, prospects, generating uncertainty over the trading of our notes.***

In these days, Spain is going through a very critical and delicate situation, since Catalonia intends to become independent and to be a separate country from Spain. At the moment, several debates, confrontations and political, economic and social conflicts are carried out to define the situation between the Spanish government and the Catalan. On October 27, 2017 the Parliament of Catalonia approved a resolution creating an independent Republic unilaterally by a vote considered illegal by the lawyers of the Parliament of Catalonia for violating the decisions of the Constitutional Court of Spain. As of October 28, 2017, the Catalan Republic is unrecognized by the international community, which regards the region as part of Spain.

As of the date of this annual report, the actions that Spain and Catalonia will take to define independence or not are uncertain. Such a situation together with any measure that the European Union may take, could cause volatility in financial markets, which may adversely affect business activity and economic and market conditions in Spain and therefore in the United Kingdom and the European Union. All these effects could in turn have a material adverse effect on our business, financial condition and results of operations.

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

In December 2015, the Argentine administration announced a plan to gradually reduce the exports tax payable on certain agricultural products. Export taxes on soy products and wheat, maize, sorghum and sunflower have since been eliminated in an attempt to increase agricultural production. However, this reliance on the export of certain commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. If international commodity prices decline, the Argentine government's revenues would decrease significantly affecting Argentina's economic activity. Accordingly, a decline in international commodity prices could adversely affect Argentina's economy, which in turn would produce a negative impact on our financial condition and results of operations.

In addition, adverse weather conditions can affect the production of commodities by the agricultural sector, which account for a significant portion of Argentina's export revenues. These circumstances would have a negative impact on the levels of government revenues, availability of foreign exchange and the government's ability to service its sovereign debt, and could either generate recessionary or inflationary pressures, depending on the government's reaction. Either of these results would adversely impact Argentina's economy growth and, therefore, our business, financial condition and results of operations.

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

As a result of prolonged recession, and the forced conversion into Pesos and subsequent freeze of natural gas and electricity tariffs in Argentina, there has been a lack of investment in natural gas and electricity supply and transport capacity in Argentina in recent years. At the same time, domestic demand for natural gas and electricity has increased substantially, driven by a recovery in economic conditions and the implementation of price constraints, which has prompted the government to adopt a series of measures that have resulted in industry shortages and/or costs increase. In particular, Argentina has been importing natural gas in order to compensate for shortages in local production. In order to pay for natural gas imports, the Argentine government has frequently used the Central Bank reserves due to the absence of incoming currencies from investment. If the government is unable to pay for the natural gas imported in order to produce electricity, business and industries may be adversely affected.

The Argentine government has been taking a number of measures to alleviate the short-term impact of energy shortages on residential and industrial users. If these measures prove to be insufficient, or if the investment that is required to increase natural gas production, transportation capacity and energy generation over the medium and long-term fails to materialize on a timely basis, economic activity in Argentina could be curtailed which may have a significant adverse effect on our business.

As a first step of these measures, subsidies on energy tariffs were withdrawn from industries and high income consumers. Additionally, since 2011, a series of rate increases and the reduction of subsidies mainly among industries and high-income consumers were implemented. On December 17, 2015 and after the publication of Decree No. 134/2015, the new government declared the National Electricity System Emergency until December 31, 2017, and ordered the Energy and Mining Ministry to prepare and propose measures and guarantee the electrical supply in suitable technical conditions. Within this context, and by the Energy and Mining Ministry Resolution No. 06/2016 of January 2016, the new seasonal reference prices for power and energy in the "Mercado Electrónico Mayorista" were issued for the period from February 1, 2016 and April 30, 2016. The objective of the aforementioned resolution was to adjust the quality and security of electricity supply and ensure the provision of public electricity services under technical and economically appropriate conditions.

In February 2016, the Argentine government revised the tariff schedule for electricity and gas rates and eliminated the subsidies for these utilities that would have resulted in increases in energy costs of 500% or more, except for tariffs for certain lower income consumers. By correcting tariffs, modifying the regulatory framework and reducing the federal government's involvement in the energy sector, the Macri administration aims to correct distortions in the energy sector and stimulate necessary investment. In July 2016, a federal court in the city of La Plata suspended the increase in gas tariffs across the Province of Buenos Aires. In addition, on August 3, 2016, a federal court in San Martín suspended the increase in gas tariffs across the country until a public hearing to discuss the electricity tariff increase was held. The case was appealed, and heard by, the Supreme Court on August 18, 2016, which court agreed that the gas tariff increases to residential customers could not be imposed without public hearings. A public hearing was held on September 16, 2016, where it was agreed that the gas tariffs would be increased approximately 200% in October 2016, with semi-annual increases until 2019.

In relation to other services, including electricity, on October 28, 2016, a public hearing was held to consider a 31% increase in tariffs requested by power distributors. Afterwards, the government announced electricity tariff increases that will raise customers' invoices 60% to 148%. In addition, on March 31, 2017, the Energy Ministry reported a new tariff schedule with increases of approximately 36% for the supply of natural gas for networks that have been partially regulated since April 1, 2017, and which will have two additional adjustments in November and April of 2018. On September 22, 2017, the Ministry of Energy and Mines announced the release of the fuel price, where oil companies could modify the sale price of their fuels for consumption in the automotive market, which was effective as of October, 2017. This change in the regulatory framework and the fixing of new economic values in the supply of gas and electricity could change our cost structure, increasing the operating and utilities costs inherent to fixed assets.

***High public expenditure could result in long-lasting adverse consequences for the Argentine economy.***

Over the last several years, the Argentine government has substantially increased public expenditures. In 2014, public sector expenditures increased 43% as compared to 2013 and the government reported a primary fiscal deficit of 0.9%. During recent years, the Argentine government has resorted to the Central Bank and to the *Administración Nacional de la Seguridad Social*, or “ANSES,” to source part of its funding requirements. In 2015, this trend continued as the primary fiscal balance showed a deficit of 5.4% as of December 31, 2015.

The Argentine government has begun to adopt measures to reduce the deficit, adjusting its subsidy policies, particularly those related to energy, electricity and gas, water and public transportation, among other measures. On December 31, 2016, the primary fiscal result was Ps.359,382 million, which represents a deficit of 4.6% of GDP. Changes in these policies could materially and adversely impact consumer purchase capacity and economic activity and may lead to an increase in prices.

Moreover, the primary fiscal balance could be negatively affected in the future if public expenditures increase at a rate higher than revenues as a result of subsidies to lower-income sectors, social security benefits, financial assistance to provinces with financial problems, increased spending on public works and subsidies to the energy and transportation sectors. A further deterioration in fiscal accounts could negatively affect the government’s ability to access the long-term financial markets and could in turn result in more limited access to such markets by Argentine companies.

***Failure to adequately address actual and perceived risks of institutional deterioration and corruption may adversely affect Argentina’s economy and financial condition.***

A lack of institutional framework and notorious incidents of corruption have been identified as, and continue to be, a significant problem for Argentina. In Transparency International’s 2015 Corruption Perceptions Index of 167 countries, Argentina was ranked 107, the same as in 2014. In the World Bank’s Doing Business 2016 report, Argentina ranked 121 out of 189 countries, up from 124 in 2015. Recognizing that the failure to address these issues could increase the risk of political instability, distort decision-making processes and adversely affecting Argentina’s international reputation and ability to attract foreign investment, the Macri administration has announced several measures aimed at strengthening Argentina’s institutions and reducing corruption. These measures include entering plea bargaining arrangements with convicted officials providing increased access to public information, seizing assets from convicted officials, increasing the powers of the Anticorruption Office (*Oficina Anticorrupción*) and adopting a new public ethics law, among others. The government’s ability to implement these initiatives is uncertain as it would require the involvement of the judiciary branch as well as legislative support from opposition parties. We cannot assure you that the implementation of such measures will be successful.

***Foreign shareholders of companies operating in Argentina have initiated investment arbitration proceedings against Argentina that have resulted and could result in arbitral awards and/or injunctions against Argentina and its assets and, in turn, limit its financial resources.***

In response to the emergency measures implemented by the Argentine government during the 2001-2002 economic crisis, a number of claims were filed before the International Centre for Settlement of Investment Disputes, or “ICSID,” against Argentina. Claimants allege that the emergency measures were inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties by which Argentina was bound at the time. Claimants have also filed claims before arbitral tribunals under the rules of the United Nations Commission on International Trade Law, or “UNCITRAL,” and under the rules of the International Chamber of Commerce, or “ICC.” As of the date of this annual report, it is not certain that Argentina will prevail in having any or all of these cases dismissed, or that if awards in favor of the plaintiffs are granted, that it will succeed in having those awards annulled. Ongoing claims before the ICSID tribunal and other arbitral tribunals could lead to new awards against Argentina, which could have a material adverse effect on our capacity to access international credit or equity markets.

*The Argentine government may lack of political support on the Senators and the Deputies Chamber and may have a negative impact on argentiniean economy and, subsequently affect our financial condition and results of operations.*

The legislative elections held on October 22, 2017 for the partial renovation of both chambers of the Congress had a favorable outcome for the Macri government. Macri administration outnumbered its opponents in some of the most important districts of Argentina, making it the most voted force nationwide, but do not have enough seats to reach the quorum in either of the chambers which could prevent or limit the Macri government to continue its policies and effectively implement economic reforms or react appropriately in future circumstances.

A lack of political support that prevents the Macri administration from fully implementing its agenda may adversely affect the Argentine economy and financial condition and, therefore, our business, financial condition and results of operations.

#### **Risks relating to our business in Argentina**

*We are subject to risks inherent to the operation of shopping malls that may affect our profitability.*

Our shopping malls are subject to various factors that affect their development, administration and profitability, including:

- decline in our lease prices or increases in levels of default by our tenants due to economic conditions, increases in interest rates and other factors out of our control;
- the accessibility and the attractiveness of the area where the shopping mall is located;
- the intrinsic attractiveness of the shopping mall;
- the flow of people and the level of sales of each shopping mall rental unit;
- the increasing competition from internet sales;
- the amount of rent collected from each shopping mall rental unit;
- changes in consumer demand and availability of consumer credit (considering the limits impose by the Central Bank to interest rates charged by financial institutions), both of which are highly sensitive to general macroeconomic conditions; and
- fluctuations in occupancy levels in our shopping malls.

An increase in our operating costs, caused by inflation or by other factors, could have a material adverse effect on us if our tenants are unable to pay higher rent as a result of increased expenses. Moreover, the shopping mall business is closely related to consumer spending and affected by prevailing economic conditions. All of our shopping malls and commercial properties, under Operations Center in Argentina, are located in Argentina, and, as a consequence, their business is vulnerable to recession and economic downturns in Argentina. For example, during the economic crisis in Argentina that began in 2001, consumer spending decreased significantly, and higher unemployment, political instability and high rates of inflation significantly reduced consumer spending and resulted in lower sales that led some tenants to shutdown. Persistently poor economic conditions in Argentina in the future could result in a decline in discretionary consumer spending which will likely have a material adverse effect on the revenues from shopping mall activity and thus on our business.

***Our assets are highly concentrated in certain geographic areas and an economic downturn in such areas could have a material adverse effect on our results of operations and financial condition.***

For the fiscal year ended June 30, 2017, 80% of our sales from leases and services provided by the Shopping Malls segment were derived from shopping malls located in the City of Buenos Aires and the Greater Buenos Aires area. In addition, all of our office buildings are located in the City of Buenos Aires and a substantial portion of our revenues in Argentina are derived from such properties. Although we own properties and may acquire or develop additional properties outside of the City of Buenos Aires and the Greater Buenos Aires area, we expect to continue to depend to a large extent on economic conditions affecting those areas. Consequently, an economic downturn in those areas could have a material adverse effect on our financial condition and results of operations by reducing our rental income and adversely affect our ability to meet our debt obligations and fund our operations.

***Our performance is subject to risks associated with our properties and with the real estate industry.***

Our operating performance and the value of our real estate assets are subject to the risk that our properties may not be able to generate sufficient revenues to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to service our debt and to cover other expenses may be adversely affected.

Events or conditions beyond our control that may adversely affect our operations or the value of our properties include:

- downturns in the national, regional and local economic climate;
- volatility and decline in discretionary spending;
- competition from other shopping malls and office, and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for retail, office, or other commercial space;
- decreases in consumption levels;
- changes in interest rates and availability of financing;
- the exercise by our tenants of their legal right to early termination of their leases;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;
- increased operating costs, including insurance expense, salary increases, utilities, real estate taxes, state and local taxes and heightened security costs;
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs;
- declines in the financial condition of our tenants and our ability to collect rents from our tenants;
- 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;
- changes in law or governmental regulations (such as those governing usage, zoning and real property taxes) or government action such as expropriation, confiscation or revocation of concessions; and
- judicial interpretation of the New Civil and Commercial Code (in force since August 1, 2015) which may be adverse to our interests.

If any one or more of the foregoing conditions were to affect our business, it could have a material adverse effect on our financial condition and results of operations could be materially adversely affected.

***An adverse economic environment for real estate companies such as a credit crisis may adversely impact our results of operations and business prospects significantly.***

The success of our business and profitability of our operations depend on continued investment in real estate and access to capital and debt financing. A prolonged crisis of confidence in real estate investments and lack of credit for acquisitions may constrain our growth. As part of our strategy, we intend to increase our properties portfolio through strategic acquisitions of core properties at favorable prices, where we believe we can bring the necessary expertise to enhance property values. In order to pursue acquisitions, we may need access to equity capital and/or debt financing. Any disruptions in the financial markets may adversely impact our ability to refinance existing debt and the availability and cost of credit in the near future. Any consideration of sales of existing properties or portfolio interests may be offset by lower property values. Our ability to make scheduled payments or to refinance our existing debt obligations depends on our operating and financial performance, which in turn is subject to prevailing economic conditions. If a recurrence of the disruptions in financial markets remains or arises in the future, there can be no assurances that government responses to such disruptions will restore investor confidence, stabilize the markets or increase liquidity and the availability of credit.

***The loss of tenants could adversely affect the operating revenues and value of our properties.***

Although no single tenant represents more than 3% of our revenue, if a significant number of tenants at our retail or office properties were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, or if we failed to retain them, our business could be adversely affected. Further, our shopping malls typically have a significant “anchor” tenant, such as well-known department stores that generate consumer traffic at each mall. A decision by such tenants to cease operations at our shopping malls or our office buildings, as applicable, could have a material adverse effect on our financial condition and the results of our operations. In addition, the closing of one or more stores with high consumer traffic may motivate other tenants to terminate or to not renew their leases, to seek rent relief and/or close their stores or otherwise adversely affect the occupancy rate at the property. Moreover, tenants at one or more properties might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies. The bankruptcy and/or closure of multiple stores, if we are not able to successfully re-lease the affected space, could have a material adverse effect on both the operating revenues and underlying value of the properties involved.

***We may face risks associated with property acquisitions.***

We have in the past acquired, and intend to acquire in the future, properties, including large properties that would increase the size of our company and potentially alter our capital structure. Although we believe that the acquisitions that we have completed in the past and that we expect to undertake in the future have, and will, enhance our future financial performance, the success of such transactions is subject to a number of uncertainties, including the risk that:

- we may not be able to obtain financing for acquisitions on favorable terms;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates; and
- acquired properties may be located in new markets where we may have limited knowledge and understanding of the local economy, absence of business relationships in the area or unfamiliarity with local governmental and permitting procedures.

If we acquire new properties, we may not be able to efficiently integrate acquired properties, particularly portfolios of properties, into our organization and to manage new properties in a way that allows us to realize cost savings and synergies, which could impair our results of operations.



***Our future acquisitions may not be profitable.***

We seek to acquire additional properties to the extent that we manage to acquire them on favorable terms and conditions and they meet our investment criteria. Acquisitions of commercial properties entail general investment risks associated with any real estate investment, including:

- our estimates of the cost of improvements needed to bring the property up to established standards for the market may prove to be inaccurate;
- properties we acquire may fail to achieve, within the time frames we project, the occupancy or rental rates we expect to achieve at the time we make the decision to acquire, which may result in the properties' failure to achieve the returns we projected;
- our pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs, which could significantly increase our total acquisition costs; and
- our investigation of a property or building prior to its acquisition, and any representations we may receive from the seller of such building or property, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase our acquisition cost.

If we acquire a business, we will be required to merge and integrate the operations, personnel, accounting and information systems of such acquired business. In addition, acquisitions of or investments in companies may cause disruptions in our operations and divert management's attention away from day-to-day operations, which could impair our relationships with our current tenants and employees.

***Properties we acquire may subject us to unknown liabilities.***

Properties that we acquire may be subject to unknown liabilities and we generally would have no recourse, or only limited recourse to the former owners of the properties in respect thereof. Thus, if a liability were asserted against us based on ownership of an acquired property, we may be required to pay significant sums to settle it, which could adversely affect our financial results and cash flow. Unknown liabilities relating to acquired properties could include:

- liabilities for clean-up of undisclosed environmental contamination;
- law reforms and governmental regulations (such as those governing usage, zoning and real property taxes); and
- liabilities incurred in the ordinary course of business.

***Our dependence on rental income may adversely affect our ability to meet our debt obligations.***

A substantial part of our income is derived from rental income from real property. As a result, our performance depends on our ability to collect rent from tenants. Our income and funds for distribution would be negatively affected if a significant number of our tenants:

- delay lease commencements;
- decline to extend or renew leases upon expiration;
- fail to make rental payments when due; or
- close stores or declare bankruptcy.

Any of these actions could result in the termination of leases and the loss of related rental income. In addition we cannot assure you that any tenant whose lease expires will renew that lease or that we will be able to re-lease space on economically advantageous terms or at all. The loss of rental revenues from a number of our tenants and our inability to replace such tenants may adversely affect our profitability and our ability to meet debt service and other financial obligations.

***It may be difficult to buy and sell real estate quickly and transfer restrictions may apply to part of our portfolio of properties.***

Real estate investments are relatively illiquid and this tends to limit our ability to vary our portfolio in response to economic changes or other conditions. In addition, significant expenditures associated with each investment, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a decrease in income from an investment. If income from a property declines while the related expenses do not decline, our business would be adversely affected. Further, if it becomes necessary or desirable for us to dispose of one or more of our mortgaged properties, we may not be able to obtain a release of the lien on the mortgaged property without payment of the associated debt. The foreclosure of a mortgage on a property or inability to sell a property could adversely affect our business.

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

We own several plots of land which are not zoned for the type of projects we intend to develop. In addition, we do not yet have the required land-use, building, occupancy and other required governmental permits and authorizations for these properties. We cannot assure you that we will continue to be successful in our attempts to rezone land and to obtain all necessary permits and authorizations, or that rezoning efforts and permit requests will not be unreasonably delayed or rejected. Moreover, we may be affected by building moratorium and anti-growth legislation. If we are unable to obtain all of the governmental permits and authorizations we need to develop our present and future projects as planned, we may be forced to make unwanted modifications to such projects or abandon them altogether.

***Our ability to grow will be limited if we cannot obtain additional financing.***

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

Our growth strategy is focused on the development and redevelopment of properties we already own and the acquisition and development of additional properties. As a result, we are likely to depend to an important degree on the availability of debt or equity capital, which may or may not be available on favorable terms or at all. We cannot assure you that additional financing, refinancing or other capital will be available in the amounts we require or on favorable terms. Our access to debt or equity capital markets depends on a number of factors, including the market's perception of risk in Argentina, of our growth potential, our ability to pay dividends, our financial condition, our credit rating and our current and potential future earnings. Depending on these factors, we could experience delays or difficulties in implementing our growth strategy on satisfactory terms or at all.

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

***Disease outbreaks or other public health concerns could reduce traffic in our shopping malls.***

As a result of the outbreak of Swine Flu during the winter of 2009, consumers and tourists dramatically changed their spending and travel habits to avoid contact with crowds. Furthermore, several governments enacted regulations limiting the operation of schools, cinemas and shopping malls. Even though the Argentine government only issued public service recommendations to the population regarding the risks involved in visiting crowded places, such as shopping malls, and did not issue specific regulations limiting access to public places, a significant number of consumers nonetheless changed their habits vis-à-vis shopping centers and malls. Similarly, the current Zika virus pandemic may result in similar courses and outcomes. We cannot assure you that a new disease outbreak or health hazard (such as the Ebola outbreak in recent years) will not occur in the future, or that such an outbreak or health hazard would not significantly affect consumer and/or tourists activity. The occurrence of such a scenario could adversely affect our businesses and our results of operations.

***Adverse incidents that occur in our shopping malls may result in damage to our image and a decrease in the number of customers.***

Given that shopping malls are open to the public, with ample circulation of people, accidents, theft, robbery and other incidents may occur in our facilities, regardless of the preventative measures we adopt. In the event such an incident or series of incidents occurs, shopping mall customers and visitors may choose to visit other shopping venues that they believe are safer and less violent, which may cause a reduction in the sales volume and operating income of our shopping malls.

***Argentine Law governing leases imposes restrictions that limit our flexibility.***

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

- a prohibition on including automatic price adjustment clauses based on inflation increases in lease agreements; and
- the imposition of a two-year minimum lease term for all purposes, except in particular cases such as embassy, consulate or international organization venues, room with furniture for touristic purposes for less than three months, custody and bailment of goods, exhibition or offering of goods in fairs or in cases where due to the circumstances, the subject matter of the lease agreement requires a shorter term.

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

In addition, on October 1, 2014, the Argentine Congress adopted a new Civil and Commercial Code which is in force since August 1, 2015. The Civil and Commercial Code requires that lease agreements provide for a minimum term of two years, and a maximum term of 20 years for residential leases and of 50 years for non-residential leases. Furthermore, the Civil and Commercial Code modifies the regime applicable to contractual provisions relating to foreign currency payment obligations by establishing that foreign currency payment obligations may be discharged in Pesos. This amends the prior legal framework, pursuant to which debtors could only discharge their foreign currency payment obligations by making payment in that currency. Although certain judicial decisions have held that this feature of the regulation can be set aside by the parties to an agreement, it is still too early to determine whether or not this is legally enforceable. Moreover, and regarding the new provisions for leases, there are no judicial decisions on the scope of this amendment and, in particular, in connection with the ability of the parties to any contract to set aside the new provision and enforce such agreements before an Argentine court.

***We may be liable for some defects in our buildings.***

According to the Civil and Commercial Code, real estate developers (*i.e.*, any person who sells real estate built by either themselves or by a third party contractor), builders, technical project managers and architects are liable in case of property damage—damages that compromise the structural integrity of the structure and/or defects that render the building no longer useful—for a period of three years from the date of possession of the property, including latent defects, even when those defects did not cause significant property damage.

In our real estate developments, we usually act as developers and sellers while construction is carried out by third-party contractors. Absent a specific claim, we cannot quantify the potential cost of any obligation that may arise as a result of a future claim, and we have not recorded provisions associated with them in our financial statements. If we were required to remedy any defects on completed works, our financial condition and results of operations could be adversely affected.

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

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

Historically, we have sought 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, and in each such case they would likely have a material and adverse effect on our financial condition and results of operation.

***We are subject to risks inherent to the operation of office buildings that may affect our profitability.***

Office buildings are subject to various factors that affect their development, administration and profitability, including:

- a decrease in demand for office space;
- a deterioration in the financial condition of our tenants may result in defaults under leases due to bankruptcy, lack of liquidity or for other reasons;
- difficulties or delays renewing leases or re-leasing space;
- decreases in rents as a result of oversupply, particularly of newer buildings;
- competition from developers, owners and operators of office properties and other commercial real estate, including sublease space available from our tenants; and
- maintenance, repair and renovation costs incurred to maintain the competitiveness of our office buildings.

If we are unable to adequately address these factors, any one of them could adversely impact our business, which would have an adverse effect on our financial condition and results of operations.

***Our investment in property development and management activities may be less profitable than we anticipate.***

We are engaged in the development and management of shopping malls, office buildings and other rental properties, frequently through third-party contractors. Risks associated with our development and management activities include the following, among others:

- abandonment of development opportunities and renovation proposals;
- construction costs of a project may exceed our original estimates for reasons including raises in interest rates or increases in the costs of materials and labor, making a project unprofitable;
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on our investment;
- pre-construction buyers may default on their purchase contracts or units in new buildings may remain unsold upon completion of construction;
- the unavailability of favorable financing alternatives in the private and public debt markets;
- aggregate sale prices of 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;
- failure or delays in obtaining necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, or building moratoria and anti-growth legislation;
- significant time lags between the commencement and completion of projects subjects us to greater risks due to fluctuation in the general economy;
- construction may not be completed on schedule because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, or man-made or natural disasters (such as fires, hurricanes, earthquakes or floods), resulting in increased debt service expense and construction costs;

- general changes in our tenants' demand for rental properties; and

- we may incur capital expenditures that could result in considerable time consuming efforts and which may never be completed due to government restrictions.

In addition, we may face contractors' claims for the enforcement of labor laws in Argentina (sections 30, 31, 32 under Law No. 20,744), which provide for joint and several liability. Many companies in Argentina hire personnel from third-party companies that provide outsourced services, and sign indemnity agreements in the event of labor claims from employees of such third company that may affect the liability of such hiring company. However, in recent years several courts have denied the existence of independence in those labor relationships and declared joint and several liabilities for both companies.

While our policies with respect to expansion, renovation and development activities are intended to limit some of the risks otherwise associated with such activities, we are nevertheless subject to risks associated with the construction of properties, such as cost overruns, design changes and timing delays arising from a lack of availability of materials and labor, weather conditions and other factors outside of our control, as well as financing costs that, may exceed original estimates, possibly making the associated investment unprofitable. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these redevelopment projects and harm our operating results.

***Greater than expected increases in construction costs could adversely affect the profitability of our new developments.***

Our businesses activities include real estate developments. One of the main risks related to this activity corresponds to increases in constructions costs, which may be driven by higher demand and new development projects in the shopping malls and buildings sectors. Increases higher than those included in the original budget may result in lower profitability than expected.

***We face significant competitive pressure.***

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

Substantially all of our shopping malls and commercial offices are located in Argentina. There are other shopping malls and numerous smaller retail stores and residential properties within the market area of each of our properties. The number of competing properties in a particular area could have a material adverse effect on our ability to lease retail space in our shopping malls or sell units in our residential complexes and on the amount of rent or the sale price that we are able to charge. We cannot assure you that other shopping mall operators, including international shopping mall operators, will not invest in Argentina in the near future. If additional companies become active in the Argentine shopping mall market in the future, such competition could have a material adverse effect on our results of operations.

Substantially all of our offices and other non-shopping mall rental properties are located in developed urban areas. There are many office buildings, shopping malls, retail and residential premises in the areas where our properties are located. This is a highly fragmented market, and the abundance of comparable properties in our vicinity may adversely affect our ability to rent or sell office space and other real estate and may affect the sale and lease price of our premises. In the future, both national and foreign companies may participate in Argentina's real estate development market, competing with us for business opportunities.

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

We currently carry insurance policies that cover potential risks such as civil liability, fire, loss profit, floods, including extended coverage and losses from leases on all of our properties. Although we believe the policy specifications and insured limits of these policies are generally customary, there are certain types of losses, such as lease and other contract claims, terrorism and acts of war that generally are not insured under the insurance policies offered in the national market. Should an insured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. If any of our key employees were to die or become incapacitated, we could experience losses caused by a disruption in our operations which will not be covered by insurance, and this could have a material adverse effect on our financial condition and results of operations.

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

***An uninsured loss or a loss that exceeds policies on our properties could subject us to lost capital or revenue on those properties.***

Under the terms and conditions of the leases currently in force on our properties, tenants are required to indemnify and hold us harmless from liabilities resulting from injury to persons, or property, on or off the premises, due to activities conducted on the properties, except for claims arising from our negligence or intentional misconduct or that of our agents. Tenants are generally required, at the tenant's expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies. In addition, we cannot ensure you that our tenants will properly maintain their insurance policies or have the ability to pay the deductibles.

Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more of the properties, which could have a material adverse effect on our operating results and financial condition.

***Demand for our premium properties may not be sufficient.***

We have focused on development projects that cater to affluent individuals and have entered into property barter agreements pursuant to which we contribute our undeveloped properties to ventures with developers who will deliver us units at premium locations. At the time the developers return these properties to us, demand for premium residential units could be significantly lower. In such case, we would be unable to sell these residential units at the estimated prices or time frame, which could have an adverse effect on our financial condition and results of operations.

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

We had, and expect to have, substantial liquidity and capital resource requirements to finance our business. As of June 30, 2017, our consolidated financial debt amounted to Ps.129,415 million (including IDBD's debt outstanding as of that date plus accrued and unpaid interest on such indebtedness and deferred financing costs). We cannot assure you that we will have sufficient cash flows and adequate financial capacity in the future. While the commitments and other covenants applicable to IDBD's debt obligations do not have apply IRSA since such it is not recourse to IRSA and it is not guaranteed by IRSA's assets, these covenants and restrictions may impair or restrict our ability to operate IDBD and implement our business strategy.

The fact that we are highly leveraged may affect our ability to refinance existing debt or borrow additional funds to finance working capital requirements, acquisitions and capital expenditures. In addition, the recent disruptions in the global financial markets, including the bankruptcy and restructuring of major financial institutions, may adversely impact our ability to refinance existing debt and the availability and cost of credit in the future. In such conditions, access to equity and debt financing options may be restricted and it may be uncertain how long these economic circumstances may last. 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 leverage could also affect our competitiveness and limit our ability to changes in market conditions, changes in the real estate industry and economic downturns.

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 lenders and/or 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 as they become due.

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

The global credit crisis that began in 2008 had a significant negative impact on businesses around the world. The impact of a future credit crisis on our major tenants cannot be predicted and may be quite severe. A disruption in the ability of our significant tenants to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their future orders of their products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity.

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

The full-service segment of the lodging industry in which our hotels operate is highly competitive. The operational success of our hotels is highly dependent 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, the profitability of our hotels depends on:

- our ability to form successful relationships with international and local operators to run our hotels;
- changes in tourism and travel trends, including seasonal changes and changes due to pandemic outbreaks, such as the A H1N1 and zika viruses, a potential ebola outbreak, among others, or weather phenomena's or other natural events, such as the eruption of the Puyehué and the Calbuco volcano in June 2011 and April 2015, respectively;
- affluence of tourists, which can be affected by a slowdown in global economy; and
- taxes and governmental regulations affecting wages, prices, interest rates, construction procedures and costs.

***The shift of consumers to purchasing goods over the Internet, where barriers to entry are low, may negatively affect sales at our shopping malls.***

In recent years, internet retail sales have grown significantly in Argentina, even though the market share of such sales is still modest. The Internet enables manufacturers and retailers to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and shopping malls. We believe that our target consumers are increasingly using the Internet, from home, work or elsewhere, to shop electronically for retail goods, and this trend is likely to continue. Retailers at our properties face increasing competition from online sales and this could cause the termination or non renewal of their lease agreements or a reduction in their gross sales, affecting our Percentage Rent (as defined below) based revenue. If e commerce and retail sales through the Internet continue to grow, retailers' and consumers' reliance on our shopping malls could be materially diminished, having a material adverse effect on our financial condition, results of operations and business prospects.

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

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

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

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

***Labor relations may negatively impact us.***

As of June 30, 2017, 47.8% of our workforce was represented by unions under two separate collective bargaining agreements. Although we currently enjoy good relations with our employees and their unions, we cannot assure you that labor relations will continue to be positive or that deterioration in labor relations will not materially and adversely affect us.



***Our results of operations include unrealized revaluation adjustments on investment properties, which may fluctuate significantly over financial periods and may materially and adversely affect our business, results of operations and financial condition.***

During the fiscal years ended on June 30, 2017 and 2016, IRSA had unrealized fair value gains on investment properties. Although the upward revaluation adjustments reflect unrealized capital gains on our investment properties during the relevant periods, the adjustments were not actual cash flow or profit generated from the sales or rental of our investment properties. Unless such investment properties are disposed of at similarly revalued amounts, we will not realize the actual cash flow. The amount of revaluation adjustments has been, and will continue to be, significantly affected by the prevailing property markets and will be subject to market fluctuations in those markets.

We cannot guarantee whether changes in market conditions will increase, maintain or decrease the fair value gains on our investment properties at historical levels or at all. In addition, the fair value of our investment properties may materially differ from the amount we receive from any actual sale of an investment property. If there is any material downward adjustment in the revaluation of our investment properties in the future or if our investment properties are disposed of at significantly lower prices than their valuation or appraised value, our business, results of operations and financial condition may be materially and adversely affected.

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

On April 18, 2000, Puerto Retiro S.A. ("Puerto Retiro") was served notice of a filing made by the Argentine Government, through the Ministry of Defense, seeking to extend bankruptcy of Inversora Dársena Norte S.A. ("Indarsa") to the Company. Upon filing of the complaint, the bankruptcy court issued an order restraining the ability of Puerto Retiro to dispose of, in any manner, the real property purchased in 1993 from Tandanor. Indarsa had acquired 90% of the capital stock in Tandanor from the Argentine Government in 1991. Tandanor's main business involved ship repairs performed in a 19-hectare property located in the vicinity of La Boca neighborhood and where the Syncrolift is installed. As Indarsa failed to comply with its payment obligation for acquisition of the shares of stock in Tandanor, the Ministry of Defense filed a bankruptcy petition against Indarsa, seeking to extend it to us.

The evidentiary stage of the legal proceedings has concluded. We lodged an appeal from the injunction order, and such order was confirmed by the Court of Appeals on December 14, 2000. The parties filed the arguments in due time and proper manner. After the case was set for judgment, the judge ordered the suspension of the judicial order requesting the case records for issuance of a decision based on the alleged existence of pre-judgmental status in relation to the criminal case against former officials of the Ministry of Defense and our former executive officers, for which reason the case will not be adjudicated until a final judgment is entered in respect of the criminal case.

It has been made known to the commercial court that the expiration of the statute of limitations has been declared in the criminal action and the criminal defendants have been acquitted. However, this decision was reversed by the Criminal Court (*Cámara de Casación Penal*). An extraordinary appeal was filed and rejected, therefore an appeal was directly lodged with the Argentine Supreme Court for improper refusal to permit the appeal, and a decision is still pending.

Our Management and external legal counsel believe that there are sufficient legal and technical arguments to consider that the petition for an extension of the bankruptcy will be dismissed by the court. However, in view of the particular features and progress of the case, this position cannot be held to be conclusive.

In turn, Tandanor filed a civil action against Puerto Retiro and the other defendants in the criminal case for violation of Section 174 (5) based on Section 173 (7) of the Criminal Code. Such action seeks -on the basis of the nullity of the decree that approved the bidding process involving the Dársena Norte property- a reimbursement in favor of Tandanor for all such amounts it has allegedly lost as a result of a suspected fraudulent transaction involving the sale of the property disputed in the case.

In July 2013, the answer to the civil action was filed, which contained a number of defenses. Tandanor requested the intervention of the Argentine Government as third party co-litigant in this case, which petition was granted by the Court. In March 2015, both the Argentine Government and the criminal complainant answered the asserted defenses. On July 12, 2016, Puerto Retiro was legally notified of the decision adopted by the Tribunal Oral Federal No. 5 related to the preliminary objections above mentioned. Two of them were rejected -lack of information and lack of legitimacy (passive). We filed an appeal with regard to the rejection of these two objections. But, on the other hand, the other two objections will be considered at sentencing by the court, which is an important step in order to obtain a favorable decision. As of the date hereof, no resolution has been issued in such regard. We cannot assure you that we will be successful in getting this case dismissed.

***Property ownership through joint ventures or minority participation may limit our ability to act exclusively in our interest.***

In some cases, we develop and acquire properties through joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. For example, we currently own 80% of Panamerican Mall S.A. ("PAMSA"), while another 20% is owned by Centro Comercial Panamericano S.A., and 50% of Quality Invest S.A. ("Quality Invest"). We could engage in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, our joint venture partners may, at any time, have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the timing and terms of any sale or refinancing of a property. For example, the approval of certain of the other investors is required with respect to operating budgets and refinancing, encumbering, expanding or selling any of these properties. In some instances, our joint venture partners may have competing interests in our markets that could create conflicts of interest. If the objectives of our joint venture partners are inconsistent with our own objectives, we will not be able to act exclusively in our interests.

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

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

Dividends paid by our subsidiaries are an important source of funds for us as are other permitted payments from subsidiaries. The debt agreements of our subsidiaries contain covenants restricting their ability to pay dividends or make other distributions. If our subsidiaries are unable to make payments to us, or are able to pay only limited amounts, we may be unable to make payments on its indebtedness.

***We are dependent on our Board of Directors and our personnel.***

Our success, to a significant extent, depends on the continued employment of Eduardo Sergio Elsztain and certain other members of our board of directors and senior management, who have significant expertise and knowledge of our business and industry. The loss or interruption of their services for any reason could have a material adverse effect on our business and results of operations. Our future success also depends in part upon our ability to attract and retain other highly qualified personnel. We cannot assure you that we will be successful in hiring or retaining qualified personnel, or that any of our personnel will remain employed by us.

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

Our largest beneficial owner is Mr. Eduardo S. Elsztain, through his indirect shareholding through Cresud S.A.C.I.F.y A. ("Cresud"). As of June 30, 2017, such beneficial ownership consisted of: (i) 366,788,251 common shares held by Cresud, and (ii) 900 common shares held directly by Mr. Elsztain. See "Item 7 - Major Shareholders and Related Party Transactions." Conflicts of interest between our management, Cresud and our affiliates may arise in the performance of our business activities. As of June 30, 2017, Mr. Elsztain also beneficially owned (i) approximately 30.9% of Cresud's common shares and (ii) approximately 94.6% of the common shares of our subsidiary IRSA Commercial Properties ("IRSA CP"). Likewise, on October 27, 2017, we reported that it has been completed the sale in the secondary market of 2,560,000 ADSs of IRSA CP, which represents 8.1% of IRSA CP. For more information please see "*Recent developments - Selling of IRSA CP ADSs.*" We cannot assure you that our principal shareholders and their affiliates will not limit or cause us to forego business opportunities that our affiliates may pursue or that the pursuit of other opportunities will be in our interest.

***Due to the currency mismatches between our assets and liabilities, we have currency exposure.***

As of June 30, 2017, the majority of our liabilities in our Operations Center in Argentina, such as our Series II and VIII Notes issued by the us, and the Series II and IV issued by IRSA CP, were denominated in U.S. dollars while our revenues are mainly denominated in Pesos. This currency gap exposes us to a risk of volatility in the rate of exchange between the Peso and the U.S. dollar, and our financial results are adversely affected when the U.S. dollar appreciates against the Peso. Any depreciation of the Peso against the U.S. dollar correspondingly increases the nominal amount of our debt in Pesos, with further adversely effects our results of operation and financial condition and may increase the collection risk of our leases and other receivables from our tenants, most of which generate Peso-denominated revenues.

**Risks Related to our Investment in Banco Hipotecario**

As of June 30, 2017, we owned approximately 29.91% of the outstanding capital stock of Banco Hipotecario S.A. (“Banco Hipotecario”), which represented 0.7% of our consolidated assets from our operations center in Argentina as of such date. All of Banco Hipotecario’s operations, properties and customers are located in Argentina. Accordingly, the quality of Banco Hipotecario’s loan portfolio, financial condition and results of operations depend on economic, regulatory and political conditions prevailing in Argentina. These conditions include growth rates, inflation rates, exchange rates, changes to interest rates, changes to government policies, social instability and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

**Risks Relating to the Argentine Financial System and Banco Hipotecario**

***Capital stock in Banco Hipotecario***

As of June 30, 2017, we owned approximately 29.91% of the outstanding capital stock of Banco Hipotecario, which represented 0.7% of our consolidated assets from our operations center in Argentina as of such date. All of Banco Hipotecario’s operations, properties and customers are located in Argentina. Accordingly, the quality of Banco Hipotecario’s loan portfolio, financial condition and results of operations depend on economic, regulatory and political conditions prevailing in Argentina. These conditions include growth rates, inflation rates, exchange rates, changes to interest rates, changes to government policies, social instability and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

***The short-term structure of the deposit base of the Argentine financial system, including Banco Hipotecario, could lead to a reduction in liquidity levels and limit the long-term expansion of financial intermediation.***

Given the short-term structure of the deposit base of the Argentine financial system, credit lines are also predominantly short-term, with the exception of mortgages, which represent a low proportion of the existing credit base. Although liquidity levels are currently reasonable, no assurance can be given that these levels will not be reduced due to a future negative economic scenario. Therefore, there is still a risk of low liquidity levels that could increase funding cost in the event of a withdrawal of a significant amount of the deposit base of the financial system, and limit the long-term expansion of financial intermediation including Banco Hipotecario.

***The stability of the financial system depends upon the ability of financial institutions, including ours, to maintain and increase the confidence of depositors.***

The measures implemented by the Argentine government in late 2001 and early 2002, in particular the restrictions imposed on depositors to withdraw money freely from banks and the “pesification” and restructuring of their deposits, were strongly opposed by depositors due to the losses on their savings and undermined their confidence in the Argentine financial system and in all financial institutions operating in Argentina.

If depositors once again withdraw their money from banks in the future, there may be a substantial negative impact on the manner in which financial institutions, including ours, conduct their business, and on their ability to operate as financial intermediaries. Loss of confidence in the international financial markets may also adversely affect the confidence of Argentine depositors in local banks.

In the future, an adverse economic situation, even if it is not related to the financial system, could trigger a massive withdrawal of capital from local banks by depositors, as an alternative to protect their assets from potential crises. Any massive withdrawal of deposits could cause liquidity issues in the financial sector and, consequently, a contraction in credit supply.

The occurrence of any of the above could have a material and adverse effect on Banco Hipotecario’s expenses and business, results of operations and financial condition.

***The asset quality of financial institutions is exposed to the non-financial public sector's and Central Bank's indebtedness.***

Financial institutions carry significant portfolios of bonds issued by the Argentine government and by provincial governments as well as loans granted to these governments. The exposure of the financial system to the non-financial public sector's indebtedness had been shrinking steadily, from 49.0% of total assets in 2002 to 10.3% in 2015 and 9.6% for the period of six months ended as June 30, 2017. To an extent, the value of the assets held by Argentine banks, as well as their capacity to generate income, is dependent on the creditworthiness of the non-financial public sector, which is in turn tied to the government's ability to foster sustainable long-term growth, generate fiscal revenues and reduce public expenditure.

In addition, financial institutions currently carry securities issued by the Central Bank in their portfolios, which generally are short-term. As of June 30, 2017, such securities issued by the Central Bank represented approximately 27.6% of the total assets of the Argentine financial system. As of June 30, 2017, Banco Hipotecario's total exposure to the public sector was Ps.3,122.1 million, which represented 6.3% of its assets as of that date, and the total exposure to securities issued by the Central Bank was Ps.3,306.8 million, which represented 6.3% of its total assets as of June 30, 2017.

***The Consumer Protection Law may limit some of the rights afforded to Banco Hipotecario***

Argentine Law N° 24,240 (the "Consumer Protection Law") sets forth a series of rules and principles designed to protect consumers, which include Banco Hipotecario's customers. The Consumer Protection Law was amended by Law N° 26,361 on March 12, 2008 to expand its applicability and the penalties associated with violations thereof. Additionally, Law N° 25,065 (as amended by Law N° 26,010 and Law N° 26,361, the "Credit Card Law") also sets forth public policy regulations designed to protect credit card holders. Recent Central Bank regulations, such as Communication "A" 5388, also protect consumers of financial services.

In addition, the Civil and Commercial Code has a chapter on consumer protection, stressing that the rules governing consumer relations should be applied and interpreted in accordance with the principle of consumer protection and that a consumer contract should be interpreted in the sense most favorable to it.

The application of both the Consumer Protection Law and the Credit Card Law by administrative authorities and courts at the federal, provincial and municipal levels has increased. This trend has increased general consumer protection levels. If Banco Hipotecario is found to be liable for violations of any of the provisions of the Consumer Protection Law or the Credit Card Law, the potential penalties could limit some of Banco Hipotecario's rights, for example, with respect to its ability to collect payments due from services and financing provided by us, and adversely affect Banco Hipotecario's financial results of operations. We cannot assure you that court and administrative rulings based on the newly-enacted regulation or measures adopted by the enforcement authorities will not increase the degree of protection given to Banco Hipotecario's debtors and other customers in the future, or that they will not favor the claims brought by consumer groups or associations. This may prevent or hinder the collection of payments resulting from services rendered and financing granted by us, which may have an adverse effect on Banco Hipotecario's business and results of operations.

***Class actions against financial institutions for unliquidated amounts may adversely affect the financial system's profitability.***

Certain public and private organizations have initiated class actions against financial institutions in Argentina. The National Constitution and the Consumer Protection Law contain certain provisions regarding class actions. However, their guidance with respect to procedural rules for instituting and trying class action cases is limited. Nonetheless, through an ad hoc doctrine, Argentine courts have admitted class actions in some cases, including various lawsuits against financial entities related to "collective interests" such as alleged overcharging on products, interest rates and advice in the sale of public securities, etc. If class action plaintiffs were to prevail against financial institutions, their success could have an adverse effect on the financial industry in general and indirectly on Banco Hipotecario's business.

***Banco Hipotecario operates in a highly regulated environment, and its operations are subject to regulations adopted, and measures taken, by several regulatory agencies.***

Financial institutions are subject to a major number of regulations concerning functions historically determined by the Central Bank and other regulatory authorities. The Central Bank may penalize Banco Hipotecario and its directors, members of the Executive Committee, and members of its Supervisory Committee, in the event of any breach of the applicable regulation. Potential sanctions, for any breach on the applicable regulations may vary from administrative and/or disciplinary penalties to criminal sanctions. Similarly, the CNV, which authorizes securities offerings and regulates the capital markets in Argentina, has the authority to impose sanctions on us and Banco Hipotecario's Board of Directors for breaches of corporate governance established in the capital markets laws and the CNV Rules. The Financial Information Unit (*Unidad de Información Financiera*, or "UIF" as per its acronym in Spanish) regulates matters relating to the prevention of asset laundering and has the ability to monitor compliance with any such regulations by financial institutions and, eventually, impose sanctions.

We cannot assure you whether such regulatory authorities will commence proceedings against Banco Hipotecario, its shareholders or directors, or its Supervisory Committee, or penalize Banco Hipotecario. This notwithstanding, and in addition to "Know Your Customer" compliance, Banco Hipotecario has implemented other policies and procedures to comply with its duties under currently applicable rules and regulations.

In addition to regulations specific to the banking industry, Banco Hipotecario is subject to a wide range of federal, provincial and municipal regulations and supervision generally applicable to businesses operating in Argentina, including laws and regulations pertaining to labor, social security, public health, consumer protection, the environment, competition and price controls. We cannot assure that existing or future legislation and regulation will not require material expenditures by Banco Hipotecario or otherwise have a material adverse effect on Banco Hipotecario's consolidated operations.

***Increased competition and M&A activities in the banking industry may adversely affect Banco Hipotecario.***

Banco Hipotecario foresees increased competition in the banking sector. If the trend towards decreasing spreads is not offset by an increase in lending volumes, the ensuing losses could lead to mergers in the industry. These mergers could lead to the establishment of larger, stronger banks with more resources than us. Therefore, although the demand for financial products and services in the market continues to grow, competition may adversely affect Banco Hipotecario's results of operations, resulting in shrinking spreads and commissions.

***Future governmental measures may adversely affect the economy and 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. We cannot assure you that the laws and regulations currently governing the economy or the banking sector will remain unaltered in the future or that any such changes will not adversely affect Banco Hipotecario's business, financial condition or results of operations and Banco Hipotecario's ability to honor its debt obligations in foreign currency.

Several legislative bills to amend the Financial Institutions Law have been sent to the Argentine Congress. If the law currently in force were to be comprehensively modified, the financial system as a whole could be substantially and adversely affected. If any of these legislative bills were to be enacted or if the Financial Institutions Law were amended in any other way, the impact of the subsequent amendments to the regulations on the financial institutions in general, Banco Hipotecario's business, its financial condition and the results of operations is uncertain.

Law N° 26,739 was enacted to amend the Central Bank's charter, the principal aspects of which are: (i) to broaden the scope of the Central Bank's mission (by establishing that such institution shall be responsible for financial stability and economic development while pursuing social equity); (ii) to change the obligation to maintain an equivalent ratio between the monetary base and the amount of international reserves; (iii) to establish that the board of directors of the institution will be the authority responsible for determining the level of reserves required to guarantee normal operation of the foreign exchange market based on changes in external accounts; and (iv) to empower the monetary authority to regulate and provide guidance on credit through the financial system institutions, so as to "promote long-term production investment."

In addition, the Civil and Commercial Code, among other things, modifies the applicable regime for contractual provisions relating to foreign currency payment obligations by establishing that foreign currency payment obligations may be discharged in Pesos. This amends the legal framework, pursuant to which debtors may only discharge their foreign currency payment obligations by making payment in the specific foreign currency agreed upon in their agreements; provided however that the option to discharge in Pesos a foreign currency obligation may be waived by the debtor is still under discussion.

We are not able to ensure that any current or future laws and regulations (including, in particular, the amendment to the Financial Institutions Law and the amendment to the Central Bank's charter) will not result in significant costs to us, or will otherwise have an adverse effect on Banco Hipotecario's operations.

***Banco Hipotecario's obligations as trustee of the Programa de Crédito Argentino del Bicentenario para la Vivienda Única Familiar ("PROCREAR") trust are limited.***

Banco Hipotecario currently acts as trustee of the PROCREAR Trust, which aims to facilitate access to housing solutions by providing mortgage loans for construction and developing housing complexes across Argentina. Under the terms and conditions of the PROCREAR Trust, all the duties and obligations under the trust have to be settled with the trust estate. Notwithstanding, if the aforementioned is not met, Banco Hipotecario could have its reputation affected. In addition, if the Argentine government decides to terminate the PROCREAR Trust and/or terminate Banco Hipotecario's role as trustee of the PROCREAR Trust, this may adversely affect Banco Hipotecario's results of operations.

#### ***Operations Center in Israel***

#### ***Risks relating to Israel***

***The implementation of the provision of the Israeli Law to Promote Competition and Reduce Concentration, 5774-2013 may have implications on IDBD and its subsidiaries.***

In December 2013, the official "Reshumot" published in Israel the Promotion of Competition and Reduction of Centralization Law, No. 5774-2013 (the "Reduced Centralization Act") which limits the use of pyramidal structures (or multiholding companies) that control "reporting entities" (principally entities whose securities are held by public shareholders) such regulation limits to two layers of reporting entities, being the holding company the first layer without including a reporting entity that has no controlling shareholder. Pursuant to the terms of this law, we may have to sell or dispose certain subsidiaries.

Following the implementation of the Reduced Centralization Act, in August 2014, IDBD's board of directors appointed an advisory committee to examine various alternatives to comply with the limitations set forth in the Reduced Centralization Act. Since then, the Company and IDBD have been taking measures and steps towards streamlining their organization to comply with such requirements, including the appointment of independent directors and the divestment from certain subsidiaries. For more information, see "Item 4. Business Overview - General regulations applicable to our business in Israel - Reduced Centralization Act." In case that a "layer" is not eliminated in IDBD and its subsidiaries by December 2017, the applicable authority in Israel may impose penalties on IDBD pursuant to the terms of the Reduced Centralization Act.

On August 2017, Dolphin Netherlands B.V. ("Dolphin") made a non-binding offer to purchase all the shares held by IDBD in Discount Investment Corporation Ltd. ("DIC"). On September 20, 2017, complying with the Reduced Centralization Act in respect to the pyramid participation structure, Dolphin executed a binding term sheet for the acquisition of the entire shares held by IDBD in DIC. The term sheet has been approved by the independent directors committee created for the purposes of such transaction which has been participated in the negotiations, analyzed and assessed the term sheet. This term sheet shall continue in negotiations between the parties so as to define the terms and conditions of the definitive documents to be executed. The Audit Committee of the Company has issued an opinion without objections to make with respect to the referred transaction. On September 2017, IDBD announced that following the negotiations of DIC's independent board committee such non-binder offer was accepted pursuant to which Dolphin bought all IDBD's interest in DIC at a price of NIS 16.6 per share (and in total of NIS 1.77 billion in respect of all the shares which will be sold) by means of a debenture that will be issued by the purchaser to IDBD, for the entire amount of the consideration for the shares.

The offer is subject to the parties' executing the final agreement (which is subject to further negotiation) until November 16, 2017 as well as to the approval of the transaction by the companies' corporate bodies and the fulfillment of additional conditional terms by December 10, 2017. No assurance may be given that the parties will execute or perform any binding agreement. This transaction could significantly extend over time or could fail to be consummated or be consummated under different terms, as it must be approved by IDBD's corporate bodies and other entities, which could withhold their consent.

***The deterioration of the global economy and changes in capital markets in Israel and around the world may affect IDBD and its subsidiaries.***

A recession or deterioration of capital markets around the world and in Israel (including volatility in securities prices, exchange rates and interest rates), whether those which affect the entire economy, or those which affect specific market branches, are affecting and may affect IDBD and its subsidiaries, inter alia, as follows:

- Negative effects on the state of their business affairs (including the demand for products of the subsidiaries of IDBD);
- Negative effects on the value of the marketable securities and on the value of non-marketable assets which are held by them;
- Negative effects on their ability to generate profits or an increase in capital attributed to shareholders of the companies, and realization of their holdings;
- Negative effects on their liquidity and equity;
- Negative effects on their ability to perform issuances on stock exchanges, in Israel and abroad;
- Negative effects on the financial ratios of those companies, in a manner which could impose difficulties on capital raisings and/or affect their terms, or harm the fulfillment of financial covenants, insofar as any have been determined, in connection with the provision of loans by financing entities, or require them to provide additional securities to financing entities, and even to repay the foregoing credit, or constitute grounds for demanding the realization of securities which were given to secure the foregoing credit;
- Negative effects on their debt ratings, as given by rating entities and their debt repayment ability;
- Negative effects on their ability to distribute dividends;
- Negative effects on the need for recording of impairment and on the data reported in their financial statements, due to the accounting standards which apply to them; and
- Difficulties imposed on the identification of financing sources and on the raising or refinancing of debt funds, if these are required by them in order to finance their operating activities and long term activities, as well as on the terms of financing from financial entities and from banks.

Certain subsidiaries import or buy raw materials which are required for their activities, and therefore, their business results may also be affected by changes in the prices of raw materials around the world.

***Changes in legislation, standardization and regulation may have an impact on IDBD operations.***

In recent years, a trend of increased legislation, standardization and regulation has taken place, horizontally and in various operating segments in the Israeli economy. This trend has an effect, including a significant effect, on the operations of certain material subsidiaries of IDBD, on their financial results, and on the prices of their securities, as well as on the activities of IDBD.

Legislative amendments in various areas in Israel and abroad, such as legislation regarding concentration, promotion of competition and antitrust laws, tax laws, regulation over the communication market, supervision of insurance business operations, legislation in the field of encouragement of capital investments, companies and securities laws, laws pertaining to the supervision of prices of products and services, increased competition in the food market, consumer protection laws, environmental laws, planning and construction laws, etc., may have an effect on the business operations and results of IDBD and of its subsidiaries. Additionally, there may be such effects due to changes in the policy which is adopted by the various authorities by virtue of these laws.

***Changes in the tariffs and in the policy regarding protection of local products may affect the results of some of the subsidiaries which are held by IDBD.***

Some of the subsidiaries which are held by IDBD operate abroad, or have securities which are traded on foreign stock exchanges. Changes in legislation and in the regulatory policies of the relevant foreign countries, as well as the characteristics of the business environment in the country of operation, may affect the financial results and the business position of those companies.

Changes in IFRS or in the accounting principles which apply to IDBD and its subsidiaries may have an impact, and even a significant impact, on their financial results, on various lines (including capital attributable to shareholders and profit) reported in the financial statements of IDBD and its subsidiaries, on their fulfillment of financial covenants, insofar as any have been determined for them, on their fulfillment of the conditions of permits and licenses which were given to them, and on their ability to distribute dividends.

***IDBD and its subsidiaries are exposed to financial risks.***

IDBD and its subsidiaries are exposed to changes in interest rates and price indexes, and to changes in exchange rates which affect, directly or indirectly, their business results and the value of their assets and liabilities (due to the scope of their CPI-linked liabilities and due to their investments in real estate properties outside Israel). There is also an effect on capital attributable to shareholders of IDBD, with respect to the reserve for adjustments to capital due to the translation of financial statements of subsidiaries in foreign currency, primarily Real Estate Corporations in Las Vegas and foreign subsidiaries of PBC.

***IDBD and its subsidiaries are exposed to risks associated with foreign operations.***

IDBD and its subsidiaries operate in the real estate segment outside Israel, and primarily in the United States, both in the revenue-generating properties segment and in the residential construction segment. Material adverse changes in the state of the economy in a country in which such properties are located affect the ability to operate and realize such investments, and the receipt of financing under reasonable conditions. A global economic crisis and a recession in the global economy may adversely affect the various markets in which IDBD and its subsidiaries operate, especially in the United States. The characteristics of the business environment outside Israel, including the local regulation, the purchasing power of consumers, the financing possibilities (under reasonable conditions, if at all), and the selection of entities (including local entities in Israel) which are engaged in the field on financing with whom the collaboration is done with, and these entities business status, may affect the possibilities for financing, their terms, and the success of the foreign operation, and accordingly, may have an adverse effect on their business operations and the results of operations of IDBD and its subsidiaries.

***Some activities of IDBD and/or its subsidiaries may be restricted by the terms of certain government grants and benefits and/or budgetary policy.***

Some of the subsidiaries of IDBD receive funds from government entities, such as grants for research and development activities, which are provided in accordance with the Encouragement of Industrial Research and Development Law, 5744-1984, and regulations enacted pursuant thereto, as well as grants and/or various tax benefits which are provided in accordance with the Encouragement of Capital Investments Law, which are granted under certain conditions. These conditions may restrict the activities of the companies which receive such funds. Non-compliance of such restrictions may lead to the imposition of various penalties on them, including financial and criminal sanctions. Additionally, a decrease or other changes in the budgets of the aforementioned government entities, in a manner which prevents or reduces the grants and/or benefits which the subsidiaries of IDBD may receive from them in the future, may adversely affect the operations and results of those companies.

Additionally, investments of foreign entities, and particularly in the technology and communication sectors, receive certain benefits derived from the encouragement of foreign investments by regulatory entities in Israel, including certain tax benefits. If the aforementioned benefits are stopped and/or restricted, the foregoing may negatively affect investments of foreign entities in subsidiaries which are held by IDBD may cause them to lose such benefits which, may negatively affect their business results, which may adversely affect the business results of IDBD, or the marketability of their securities.



***Regional conflict may affect IDBD or its subsidiary’s activities, especially Cellcom (“Cellcom”) activities.***

The activities of Cellcom and its network are located in Israel, as are some of its suppliers. A significant part of Cellcom’s communication network, as well as a significant part of Cellcom’s information systems, are located within the range of missile attacks launched from the Gaza Strip and Lebanon. Any damage caused to the communication network and/or to the information systems may adversely affect Cellcom’s ability to continue providing services, in whole or in part, and/or may negatively affect the activities of Cellcom in other ways, and may adversely affect its business results and IDBD’s business. Additionally, negative effects of this kind may materialize due to an increase in criticism of Israel by international community. In general, any armed conflict, terror attack or political instability in the region may result in a decrease in Cellcom’s income, including from roaming services of incoming tourism, and may thereby adversely affect its business results.

***Changes in the characteristics of the foreign business environment may impact in IDBD or its subsidiary’s activities, especially Property & Building (“PBC”) foreign operations.***

In its foreign activities, it is the practice of PBC to cooperate with local entities engaged in the segment. The characteristics of the foreign business environment, including local regulation, the purchasing power of citizens, and/ or financing possibilities, may affect the success of the foreign operation, which is also dependent upon the choices of the local entities. Additionally, if the profitability considerations of PBC failed to take into account all of the relevant factors in the relevant country, the foregoing may adversely affect the results of operations of PBC, which in turn would have an adverse effect on IDBD’s results of operations.

***A deterioration in the political-security and economical situation in Israel may affect IDBD or its subsidiary’s activities.***

A significant deterioration in the political-security situation in Israel, and in light of the political instability in the Middle East, may result in decreased demand for rental areas and residential units, an exacerbation of the manpower deficit in the construction and agriculture segment, and the increased costs of works. These factors may adversely affect the results of PBC, and consequently affect IDBD’s results of operations. Additionally, all of Shufersal’s (“Shufersal”) income is produced in Israel, and a significant part of the products sold by it are grown, produced or processed in Israel. Therefore, the business results of Shufersal are directly affected by the political, economic and security conditions in Israel. A significant deterioration in the security situation or political situation in Israel may adversely affect Shufersal’s business operations, financial position and results of operations, which in turn would have an negatively effect on IDBD’s results of operations.

Shufersal management routinely evaluates the possible impact and implication of the general economic situation in Israel, in particular on the retail food market. Developments and shocks in the Israeli economy, as well as an economic downturn or recession due to an economic crisis, may have negative effects on the food retail market in Israel, and as a result, also on Shufersal’s revenues and profitability, due to the intensification of competition and due to changes in the consumption habits of its customers. Likewise, the cost of living issue may affect Shufersal’s business results, due to the considerable pressure from consumers which is being applied on Shufersal to reduce the prices of the products which it sells, and the increasing competition from the discount chains, which are expanding their operations. Deceleration in the Israeli economy may negatively impact Clal’s business, particularly in the long term savings segment. Additionally, as a result of the aforementioned deceleration, the risk associated with the exposure of Clal to entities in Israel through its investments may increase due to the deterioration of Israel’s political and economic situation.

***IDBD and its subsidiaries are exposed to capital market and finance risks.***

IDBD and certain of its affiliates are subject to supervision by the Israeli Supervisor of Banks relating to “Proper Conduct of Banking Business” which impose, among others limits on the aggregate principal amount of loans a financial institution can have outstanding to a single borrower, a group of related borrowers, and to the largest borrowers and groups of related borrowers of a banking entity (as these terms are defined in the aforesaid directives).

Changes to Proper Banking Management Directives, changes to the list of entities and corporations which are associated, jointly with IDBD, under the same group of borrowers, and the balance of their debt to banks in Israel, as well as changes in equity of the banks themselves, may restrict the ability of the banking system in Israel to provide credit to IDBD and its subsidiaries. However, since 2013 and until the publication date of this report, a decrease has occurred in the scope of credit used from the banking system in Israel for the group of borrowers which includes IDBD due, among other reasons, to changes of control of certain subsidiaries.

The legislation and regulation which apply to the investments of institutional entities, including the implementation of the provision of credit to business groups, may have an impact on the possibilities to raise capital from institutional entities, and on the conditions of its raising.

IDBD holds assets and manages its business affairs in Israel. Therefore, almost all of IDBD's assets, liabilities, income and expenses are in NIS. IDBD's financing income and expenses are also subject to volatility due to changes in interest rates on loans from banks and deposits which were deposited in banks. IDBD's policy regarding the management of market risks, certain subsidiaries used, in 2016, derivative financial instruments with the aim of adjusting, where possible, the linkage bases of its financial assets and liabilities (hedging transactions). However, an increase of the rate at which we finance our operations or the lack of financing at acceptable terms, may have an adverse effect on IDBD's results of operations.

Lastly, developments and shocks in the state of the economy, as stated above, may have negative effects on the business results of IDBD and its subsidiaries, on their liquidity, the value of their assets, results of operations, their credit rating, their ability to distribute dividends, and their ability to raise financing for its operations at acceptable terms, insofar as it will be required to do so, and also on their financing terms.

In addition, the prices of assets and returns in capital markets in Israel and around the world have a very significant impact on the business results of Clal. The amount of management fees (fixed or variable) charged by Clal may be reduced as the value of managed assets decreases, both as a result of the negative returns, and as a result of the decrease in the value of deposits or accruals.

#### **Risks relating to our business in Israel**

##### ***IDBD and its subsidiaries are exposed to changes in permits and licenses.***

IDBD and some of its subsidiaries operate in accordance with approvals, permits or licenses which were granted to them by various authorities, such as the Commissioner of Capital Markets, the Ministry of Communication, the Ministry of Environmental Protection, and the Commissioner of Oil Affairs in the Ministry of National Infrastructures, Energy and Water. A breach of the terms of these approvals, permits or licenses may lead to the imposition of penalties (including criminal) against the IDBD or the relevant subsidiaries, including fines and/or revocation of such approvals, licenses or permits. Revocation of such approvals, permits or licenses may adversely affect such subsidiaries, whose operations are dependent upon them (such as Clal and Cellcom). Some of the aforementioned licenses are subject to an expiration date, and are renewable from time to time, in accordance with their terms and the provisions of the law. There is no certainty that the aforementioned licenses will be renewed in the future and/or under conditions acceptable for IDBD. Non-renewal of a permit or license, as stated above, and/or the directives of regulators in segments in which subsidiaries of IDBD operate, may have an adverse effect on the business position, capital, cash flows and profitability of the relevant company which holds the aforementioned permit or license, and accordingly, on the results of operations of IDBD.

##### ***Class actions on consumer issues and environmental protection issues may have an impact on IDBD and its subsidiaries.***

Subsidiaries of IDBD, primarily including Cellcom, Shufersal and Clal, may be subject, from time to time, to class actions on consumer issues and on environmental issues (including in connection with non-ionizing radiation from mobile devices, air emissions, and water, noise and odor pollution), in material amounts, which are sometimes even higher than their equity, and must defend themselves against them at significant cost, even if such claims are unfounded from the outset.

***The provision of the Antitrust Law may affect IDBD operations.***

IDBD is subject to, inter alia, the provisions of the Restrictive Trade Practices Law, with respect to its transactions or transactions of its subsidiaries, which constitute a merger and/or which include restrictive arrangements, as these terms are defined in the aforementioned law.

***IDBD and its subsidiaries may face environmental risks.***

Some of the subsidiaries which are held by IDBD are subject to various requirements from different authorities which oversee environmental protection. In recent years, there is an ongoing trend of increased regulatory requirements with respect to the environment, health and agriculture, in Israel and around the world, which has and may cause an increase in the costs of the companies in the aforementioned segments. Changes in the policy of those supervising authorities, new regulation or enhanced requirements to comply with these regulations may affect the profitability of the relevant subsidiaries, and in turn, the profitability of IDBD.

***If debenture holders decide to initiate actions IDBD activities may be affected.***

The trustee for the debenture holders (Series I) of IDBD (the "Trustee") raised, in early 2016 (including within the framework of legal proceedings in amendment of the debt settlement in IDB Holding Corporations Ltd. ("IDBH")) assertions regarding IDBD being insolvency, and the debenture holders (Series I) also decided to appoint a representation for that series. In June 2016, the trustee filed with the District Court of Tel Aviv-Yafo (the "Court") a motion to order the liquidation of IDBD, and a motion to order the appointment of a provisional liquidator (the "Motion To Appoint A Provisional Liquidator"). On July 18, 2016, the Court issued a ruling, in which the Court accepted the consensus motion which was filed by the trustee to strike the motion to liquidate. The initiation of legal actions against IDBD by its debenture holders may harm the ability of IDBD to continue repaying its debts in accordance with their current amortization schedules, and may also lead to a demand for the immediate repayment of future liabilities (primarily to lending corporations).

***IDBD is exposed to changes in cash flows from subsidiaries.***

IDBD is a holding company and, as such, relies on the dividends from its subsidiaries. In recent years, the cash flows of IDBD have primarily been used to repay debt (principal and interest payments). In recent years, the amount of dividends distributed by the subsidiaries of IDBD has decreased significantly, as a result of changes in the operating results, in regulation, in profitability (including a decrease in the balance of distributable earnings, or the existence of negative balances of profits). Changes which have occurred in connection with Clal, including capital requirements from insurers which are held by it, and the appointment of a trustee has affected, and may continue to adversely affect the dividend flows from Clal. We have not received a dividend from Clal in the last four years. DIC distributed a dividend recently, but that was a relatively extraordinary event, after more than two years during which dividends were not distributed by DIC.

A decrease of the cash flows from the subsidiaries may adversely affect the cash flows of IDBD, and its business activities.

***IDBD and some of its subsidiaries may be affected by restrictions on the sale of assets, including shares in subsidiaries.***

IDBD and some of its subsidiaries are subject to legal and contractual restrictions, including those which are included in permits and licenses, which may restrict the possibility of selling and transferring IDBD's equity interest in its subsidiaries, or the possibility of pledging such interests (including due to restrictions on the realization of such pledges) by IDBD or by its subsidiaries. For example, the sale by IDBD of control over Clal may be subject to the purchaser receiving a consent from the Insurance Commissioner, IDB is restricted from pledging more than 5% of the shares of Clal without an approval from the Insurance Commissioner and the sale of shares of DIC representing more than 10% equity interest in Cellcom requires an approval from the Ministry of Communications.

***IDBD and some of its subsidiaries may be affected by restrictions on the performance of investments and continued investment in existing companies.***

IDBD and some of its subsidiaries may be restricted from making new investments in certain areas or the increase of its investments in subsidiaries. IDBD and some of its subsidiaries are also subject to restrictions in accordance with the law or in accordance with the provisions of various regulatory entities with respect to their business activities, in Israel and abroad. These restrictions may limit the possibility of IDBD to take advantage of business opportunities for new investments, or to increase or realize existing investments, and thus, may affect IDBD's results of operations.

***IDBD and some of its subsidiaries may be affected by changes in legal proceedings in the field of companies laws and securities laws.***

In recent years, an increasing trend has taken place in the filing of class actions and derivative claims in the field of companies laws and securities laws. In consideration of the above, and of the financial position of IDBD and the Group's holding structure, claims in material amounts may be filed against IDBD, including in connection with its financial position and cash flows, issuances which it performs, and transactions which were performed or which were not completed, including in connection with assertions and claims by the Company's controlling shareholders.

***Changes in controlling shareholder status may impact DIC's results of operations.***

The intention of financial institutions to reduce their credit exposure to corporations in the IDB Group, may have an adverse impact on the ratings given for DIC's debentures and/or may impose difficulties on DIC's ability to raise capital and/or to refinance its debts, if it is interested in doing so (and/or may worsen the refinancing terms with respect to such debt). As of the publication date of the report, DIC is unable to estimate the full impact of the results of the aforementioned proceedings and events on DIC.

***DIC may be affected by cash requirements, reliance on cash flows of subsidiaries and liquidity.***

The cash flows of DIC are used to repay debt (principal and interest payments), to finance general and administrative expenses, to make investments, and, if relevant, to distribute dividends as well. One of the main sources for DIC's current cash flows includes dividends distributed by its subsidiaries (if and insofar as any are distributed). An additional source for DIC's cash flows is the sale of assets, including the sale of equity interests in subsidiaries. Changes in the amount of dividends and/or in the value of asset realizations accordingly affects DIC's cash flows.

The state of capital markets in Israel and around the world (which affects, inter alia, the value of DIC's investments), the financial ratios of DIC, the decline in the value of its main holdings, and the returns at which DIC's debentures are traded, may have an adverse effect on the rating of DIC's debentures and/or may impair DIC's ability to raise capital and/or to refinance its debts, if it wishes to do so (and/or may worsen the refinancing terms with respect to such debt).

***DIC and/or its subsidiaries may be affected by changes in financial institutions which hold cash deposits and financial assets.***

Cash deposits and material financial assets of DIC or of its subsidiaries (including listed shares of their subsidiaries) are held on their behalf by financial institutions and brokers. DIC and its subsidiaries, as stated above, are exposed to the risk of losses in connection with these assets, in certain cases involving a deterioration in the financial stability of those financial institutions and brokers.

***Cellcom is exposed to an aggressive competition.***

The communication market is characterized by significant competition in many of its segments, including mobile communication and internet provider services. The current level of competition in all markets in which Cellcom is active, including the market for the sale of end user devices and the offering of aggressive price plans by Cellcom's competitors, is expected to continue. The materialization of any one of the developments described below will result in a significantly adverse impact on Cellcom's profitability, and, thus, in its ability to pay dividends to IDBD:

- (a) Difficulties or non-execution of the network sharing and hosting agreement with Electra, which came into force as of the beginning of the second quarter of 2017, or any other development which will result in loss of income from Golan, and an inability for Cellcom to compensate for the foregoing, for example, in case of Golan's insolvency, or increased efforts by the other competitors on the market to recruit Golan's customers;
- (b) Tariffs remaining at their current rates, or an additional decrease in rates, including as part of a package of services;

- (c) An ineffective wholesale market for landline communication, including due to the effective exclusion of Hot infrastructure, the effective exclusion of telephone services from the wholesale market, the offering of services not in accordance with the criteria of the wholesale market, without implementation of enforcement measures by the Ministry of Communication, or the pricing thereof in a manner which could negatively affect Cellcom's ability to offer competitive services packages, and to compete against Bezeq and Hot (due to their dominant status in the landline communication market), particularly if the structural separation which applies to the Bezeq and Hot groups is canceled before the creation of an effective landline wholesale market;
- (d) Cancellation or easement of the structural separation which applies to the Bezeq and Hot groups;
- (e) The entry of new competitors into markets in which Cellcom is engaged, or the entry of existing competitors into segments in which they were not previously active, or were partially active;
- (f) Distribution or acquisition of a landline infrastructure by one of Cellcom's competing companies, which does not own such infrastructure, or collaboration of a competitor company with an operator which has such infrastructure, if Cellcom does not distribute or acquire such infrastructure, or enter into a collaboration with an operator which holds such infrastructure;
- (g) Regulatory changes which facilitate the transition of customers between operators; or
- (h) Continued increased competition in the end user equipment market, and the entry of additional competitors into the end user equipment market and/or legislation or new judicial decisions which may restrict Cellcom's activities in the end user equipment sale market, and adversely affect its income or profitability.

***Changes in legislation and significant regulatory intervention may have an impact on Cellcom activities.***

Cellcom develops its activity in a highly regulated market and relies on a license issued by the Ministry of Communications of Israel to operate its business. Such License has to be renewed every six years and may be amended without Cellcom's consent. See "Item 4. Business - Regulation - Telecommunications." Other changes in legislation and the extent of such regulatory changes may have adverse effects on Cellcom's activities, including but not limited to:

- (a) cancellation or easement of the structural separation obligation which applies to Bezeq and Hot, particularly if such cancellation or easement is given before the creation of an effective wholesale market in the landline communication market;
- (b) competition-encouraging tariffs;
- (c) the provision of easements and benefits to competitors, over Cellcom;
- (d) granting permissions for other operators to provide services to Cellcom subscribers which were previously provided only by Cellcom;
- (e) non-renewal of Cellcom's licenses and/or frequencies, or restriction of their use, and non-allocation of additional frequencies, if required;
- (f) the establishment of additional requirements for the provision of easements to competitors with respect to safety or health, including with respect to the construction and operation of base sites;
- (g) the establishment of additional restrictions or requirements regarding the provision of services and products and/or intervention in their terms of marketing, advertising and provision, including regarding existing agreements;
- (h) the establishment of a higher standard of service;
- (i) the establishment of a more stringent policy with respect to protection privacy; or
- (j) the imposition of regulations on Cellcom's television over internet service, the establishment of non-beneficial conditions for the use of DTT broadcasts, or the imposition of such non-beneficial conditions on Cellcom and not on other operators of the television over internet service.

Regulatory developments also affect the risk factors of tariff oversight, licensing of sites and the indemnification obligation, non-ionizing radiation and dependence on licenses.

***Cellcom may face difficulties in obtaining approvals related to the construction and operation of certain infrastructure.***

Cellcom (and its competitors) encounters difficulties in obtaining some of the required approvals for the construction and operation of base sites, and particularly in obtaining the building permits from the various planning authorities. Cellcom's ability to maintain the quality of its mobile services is partially based on Cellcom's ability to build base sites. The difficulties encountered by Cellcom in obtaining the required permits and approvals may adversely affect the currently existing infrastructure, and the continued development of its mobile network. Additionally, the inability to obtain these approvals on time may also prevent achievement of the mobile service quality targets which were determined in Cellcom's mobile license, may result in loss of customers, and may adversely affect its business results, which, in turn, may adversely affect IDBD's results of operations.

Cellcom provides communication services in accordance with licenses which were given by the Ministry of Communication, which are subject to changes by such Ministry, including changes that may negatively affect Cellcom's interests and operations. A breach of the terms of the licenses may result in the cancellation of the licenses. The inability to function as it currently does or the imposition of fines may adversely affect Cellcom's operation which, in turn, may affect IDBD's operating results. and, as a result, in Cellcom's inability to continue operating in each of the fields of communication in which it operates by virtue of the aforementioned licenses. Also, a breach of the provisions of the licenses may result in the imposition of significant financial sanctions on Cellcom.

***If the public's concern with respect to non-ionizing radiation increases, that may have a significantly adverse impact on Cellcom.***

Non-ionizing radiation is emitted from two sources: end user equipment and mobile sites of various kinds. The construction and operation of base sites is conditional upon the receipt of a construction permit and an operation permit from the Radiation Commissioner.

If it is determined or perceived that there are health risks connected to non-ionizing radiation, or that the radiation standards in the sites or in the end user equipment are being exceeded, or a court rules against Cellcom or against another mobile operator, or if a settlement is reached in a claim which pertains to health damages derived from radiation, claims of various types for damages with respect to property damage and physical injury of significant scopes may increase, regulation in the construction, operation and rental of sites, decrease in income as a result of a decrease in the use of mobile communication, and realization of letters of indemnity which were deposited with planning institutions in connection with section 197 of the Planning and Construction Law. Cellcom has no insurance coverage for such cases. The increase in litigation or a reduction in our revenues may have an adverse effect on Cellcom's and IDBD's operating results.

***Cellcom depends significantly on technology and technological improvements which require investments in order to maintain competitive.***

The communication market is characterized by rapid and significant changes in technology, requiring investment in advanced technologies in order to stay competitive.

The increase in the consumption of internet and content provider services through advanced mobile end user equipment has resulted in increased data communication volumes on mobile networks, and is expected to continue growing rapidly. The transition of subscribers to unlimited packages has significantly contributed to the increasing demand for data transmission on Cellcom's network, as well as text messages and calls. In order to meet the increasing demand for data communication, Cellcom is required to upgrade its transmission network, and also to continue investing in its 4G network, which will allow greater capacity and faster data transfer. Additionally, in order to provide provider performance on the 4G network, Cellcom makes use of additional frequencies on the Cellcom network, beyond those which were allocated to it in the 4G frequencies auctions.

Cellcom's activities are dependent upon several complex information systems and technologies. Additionally, Cellcom's array of packages including mobile and landline services has increased the number of information systems and complex technological systems which are involved in the provision of service to Cellcom customers. Malfunctions in the constantly changing and expanding complex systems are unavoidable. A malfunction in any one of Cellcom's systems which adversely affects its ability to provide services and products to its customers, or to charge for them, may result in loss of income for Cellcom, and may adversely affect the perception of Cellcom's brand, and could expose Cellcom to claims. Additionally, Cellcom is in the process of implementing a shared customer service system for the mobile segment and the landline segment, which may result in higher costs than expected, may require significant managerial attention, which could have been referred to routine management, and may also result in unexpected operational difficulties and failures, which may result in loss of income, legal claims and regulatory sanctions. All of the above may have an adverse effect on Cellcom's results of operations.

Cellcom is exposed, to frequent cyber attacks. Additionally, unauthorized penetration to the information systems of Cellcom, or disruptions to their operation, including due to internet hacks (including in customer systems which are protected by information security products provided by Cellcom), may cause damages and losses to Cellcom and its customers, including due to the inability to provide certain services, or due to the provision of such services in a disrupted manner, which may lead to the inability to charge those services, loss of information of Cellcom or of customers, or malicious use of customer information. Cellcom has no insurance coverage for this type of claims and liabilities.

A decrease of Cellcom's operating income and result due to higher costs vinculated to technological changes, malfunctions or cyberattacks may have an adverse effect on IDBD's operating results.

***Cellcom depends on the provision of services from other operators.***

Cellcom's roaming services are provided through foreign operators. Connecting to the other networks requires certain infrastructure and the ability to connect the networks between Cellcom and those operators. The absence of accessible or high-quality service may negatively affect Cellcom's ability to compete in the market, and may affect its business results and, thus, IDBD's operating results.

***Cellcom may have to face emergency situations.***

In emergency situations, the applicable laws and certain provisions of the mobile license confer upon the entities which are authorized by law to take steps as required to ensure state security and/or public peace, including, requiring Cellcom (as a mobile license holder) to provide service to the security forces, the recruitment of Cellcom's engineering equipment and facilities, and even taking control of the system. Such measures may have an adverse effect on our assets and operating results.

***Cellcom may be affected by its debt.***

Cellcom has raised a significant amount of debt and it is highly leveraged. This situation increases Cellcom's exposure to market changes, and makes it difficult to respond quickly to changes in the industry and in the competitive market conditions, including raising additional debt. As of June 30, 2017, Cellcom's net debt amounts to approximately NIS 3,166 million (includes NIS 43 million which is attributed to accrued interest). A change for the worse in Cellcom's results of operations, and any additional reduction of Cellcom's rating and its debentures may adversely affect also the price and terms of Cellcom's current debt, and the raising of additional debt. An increase of interest debt services may cause us to default and our obligations which may have an adverse effect on Cellcom and IDBD.

***Cellcom depends on certain suppliers.***

Cellcom is dependent upon several suppliers which provide it with network equipment, end user equipment, content and content operation services, information systems and infrastructures. Cellcom's business results may be adversely affected if any of those suppliers do not provide its support products and/or services at the required level of quality or on time, or in conditions which do not benefit Cellcom, or provides to Cellcom's competitors preferable conditions, or if the suppliers do not succeed in creating successful or in-demand products or content, in the absence of an equivalent alternative. Thus, for example, Bezeq suffered from strikes and breaches of regulatory duties with respect to the provision of wholesale services in an egalitarian manner to those which are provided to its retail customers, or refused to offer services at all. Similar scenarios to the foregoing may occur in the future and adversely affect Cellcom.

***Cellcom is subject to a dividend distribution policy.***

If Cellcom does not comply with its dividend distribution policy, or if it distributed dividends at a rate lower than expected by the investors, this may result in an adverse impact on Cellcom's share price. Furthermore, the aforementioned dividend policy may reduce Cellcom's cash balances and adversely affect its ability to finance unexpected expenses in the future. As a result, Cellcom may be required to borrow additional funds or to issue additional shares in accordance with unattractive conditions which may dilute IDBD's equity interest in Cellcom, or Cellcom may encounter difficulties in obtaining financing sources for these funds, which may affect its financial results.

***Cellcom may not be successful with its investments in new lines of business.***

Cellcom invested, and is expected to continue investing, in the development of new lines of business, with the aim of expanding and supplementing its services and its array of offered products, such as television over internet services, and a possible investment in a nationally distributed, broad scale cable infrastructure which Cellcom is considering. These efforts involve significant risks and uncertainties, including deviating managerial attention, loss of focus in sales and marketing efforts from core operations, absence of sufficient income to balance out the liabilities and expenses which are associated with the new investments, adverse effects on cash flows, particularly in business operations which require a long term investment and fixed amounts, such as with respect to the acquisition of content for the television over internet service, insufficient return on investment, regulatory changes which may impose additional unplanned liabilities, inability to effectively compete with the current competitors in the market or with new competitors entering the market, issues which were not identified in the evaluation of the aforementioned strategies and products, such as operational difficulties and significant investments which were insufficiently predicted, if at all. Such circumstances may also affect Cellcom's ability to distribute dividends and, thus, adversely affects IDBD's results of operations. These investments are risky by nature, and therefore, there is no certainty that the aforementioned strategies or products will be successful, and, if not, that they will not have a significantly adverse effect on Cellcom's goodwill, financial position and results of operations. Additionally, its entry to new business operations, as stated above, may result in the intensification of the competitive pressures by the current suppliers of competing services over Cellcom's core operations, in order to prevent its efforts to compete against them in the relevant market.



***Employee unions may limit Cellcom's operating activities.***

The employee union may restrict Cellcom's operating activities, including Cellcom's possibility of implementing organizational and personnel changes, and may require significant managerial attention. Additionally, future disputes with representatives of the employee union, such as concerning the renewed fight over the collective agreement, may result in the initiation of organizational steps and in adverse effects on the services and on the customer service of Cellcom. Such measures may also cause changes, may fail to be implemented in a manner significantly different than planned, and as a result, may result in lower savings than planned, or in conflicts with our employees.

***An increase in construction costs may affect PBC results of operations.***

Changes in the consumer price index and/or in the construction input price index may have an adverse effect on the construction price of new properties, and indirectly on the results of operations of PBC. Additionally, the economic situation of the executing contractors in Israel may have an effect on PBC, due to the decrease in the supply of contractors, the increase in construction costs, and the extension of timetables for the construction of projects. An increase of the construction costs may affect our operating margins and profitability, and thus have a negative effect on PBC's results of operations.

***PBC results of operations may be affected by the increase of the supply of rental areas.***

A significant decrease in the growth rate in the Israeli economy, and a significant increase in the surplus supply of rental areas, due to the construction of additional office and commercial areas which may cause a decrease in the rental prices, and may affect the income of PBC from revenue-generating properties.

***PBC's operational activities depends on availability of raw materials and workforce.***

An ongoing delay or shortage in raw materials or skilled construction workers may affect the ability of the prime contractors with whom PBC engages to meet the original timetables for the completion of the PBC's projects, and the cost of the works which are paid by PBC. Intensification of the shortage of workforce in the construction segment in general, and of the foreign workers in the construction segment in particular, also affect wages in the construction segment, which may affect construction costs and timetables for the completion of projects. The cost of salary also affects the operations of PBC, such as security and cleaning works, by changes in the minimum wage in the market, and to collective agreements which apply to the aforementioned activities.

***PBC is exposed to changes in legislation and standardization.***

Changes in permits, regulations, restrictions and government oversight, such as changes in municipal tax laws in areas where PBC properties are located, may increase costs and negatively affect the operations and results of PBC. The activities of PBC in the residential segment may also be affected by regulatory changes in connection with the marketing of apartments and lands, and in taxation in connection therewith. Higher taxes on costs related to the compliance with new regulations may adversely affect PBC's results.

***PBC is exposed to changes in securities prices.***

PBC is exposed volatility in the prices of securities (primarily debentures) on the stock exchange, with respect to the investment of some of its cash surplus in such securities.

***PBC is exposed to foreign currency fluctuations.***

The activities of PBC in Israel are not directly affected by fluctuations in the US\$:NIS exchange rate, due to the fact that the rent charged by PBC from its customers, and the loans which it has raised, are linked to the consumer price index. However, PBC has foreign currency risk due to its foreign investing activities, the financing used in connection therewith, and the operating cost related to those investments. Additionally, in light of the fact that some of the customers of PBC in Israel are international companies, which managed their activities in US\$, in case of a decrease in the exchange rate, rent becomes more expensive relative to the US\$, and therefore, there is pressure on international lessees to reduce the NIS rent accordingly. In addition, an increase in the rent we charge may cause some clients to terminate their agreements and, thus, affect our results. Therefore, a decrease in the rent we charge or the decrease of occupancy of our buildings may negatively affect our results of operations.

***Important changes in interest rate risks may affect the value of PBC's properties.***

Extreme changes in interest rate risks in Israel and abroad may affect the value of PBC's properties. The higher the interest rates increase, the higher the required return on the properties, and the lower the value of the property as a result, and vice versa.

***PBC may have to face difficulties in financing and raising capital.***

Developments in the financial crisis in Israel and around the world may negatively affect the possibilities of PBC to raise funding for additional investments. Additionally, restrictions on the maximum scope of credit which the commercial banks in Israel are entitled to provide to each of the member companies of the IDB Group as a "single borrower," including PBC and the other member companies of PBC, may affect the ability of PBC to receive financing from financial institutions, or the scope thereof. Additionally, PBC may be affected by specific restrictions which could affect the banks' ability to provide financing to the real estate segment, such as stringent requirements regarding capital adequacy and restrictions regarding branch-specific exposure.

***Shufersal on key suppliers.***

Shufersal business depends on the provision of certain products by key providers. There is no certainty that these key suppliers, or other large suppliers, will continue to provide their products or maintain the terms at which we acquire them, or that they will not significantly change their pricing policies, or encounter difficulties in the provision of products to Shufersal. In such cases, we may not continue to offer our products in the current terms or provide them at all, therefore Shufersal's business affairs, financial position and results of operations may be negatively affected.

***Shufersal may have to affront risks related to approvals and licenses.***

The operation of branches in the Shufersal chain, acquisition of new branches, and Shufersal's operations with respect to land development, require obtaining approvals and licenses from governmental entities. Some of the branches in the Shufersal chain require licenses or approvals which have not yet been obtained, or whose validity has expired, and require renewal. If Shufersal is unsuccessful in obtaining or renewing such approvals or licenses, including those related to its main branches, Shufersal may be required to close those branches, or to take corrective actions with respect to such branches or real estate developments. The inability to open new shops or maintain our main branches may have a negative effect on our operations.

***Shufersal may have to face risks related to changes in regulation.***

Shufersal is subject to legislation with respect to business and sanitation, as well as new consumer legislation which confers extensive authorities upon the Israel Consumer Protection and Fair Trade Authority, consumer legislation, price regulation and the minimum wage legislation. Changes in such regulations may adversely affect the business affairs of Shufersal, its financial position and its results of operations. It is noted that an increase in the minimum wage may result in adverse effects to the financial results of Shufersal, including its profitability. Additionally, the Commissioner's determinations regarding the rules for conduct between the large marketing chains, of which Shufersal is one, and dominant suppliers in the good segment, including by virtue of the provisions of the Food Law, and regarding the merger of Shufersal with Clubmarket, may adversely affect Shufersal's business affairs, financial position and results of operations.

***Shufersal may be affected by the competition.***

The retail business in Israel is highly competitive. Shufersal closely monitors the developments in the Israel retail sector, and adjusts its operations, if and insofar as is required, in accordance with those developments. Shufersal is dealing with the competition in this sector, by continuing the implementation of its business plan. Competitive pressures, including the responses of competitors and of the market to Shufersal's strategy and the manner of its implementation, may result in adverse effects to Shufersal's ability to deal with the foregoing, and may lead to the reduction of prices, lower margins, and the loss of market share in a manner which may have an adverse effect on Shufersal's business affairs, financial position and results of operations.

***Shufersal may have to face risks associated with changes of real estate.***

Shufersal owns, wholly or partially, several shopping malls and commercial centers, in which its branches constitutes anchor stores, as well as additional areas which are used by Shufersal branches. The ownerships of these properties is exposed to risks associated with real estate properties, such as adverse changes in the state of the local economy, excess of supply, decreased demand, adverse regional real estate markets, and lower occupancy rates, rent, and revenues, and changes in the value of the properties. Such events may have an adverse effect on Shufersal's operations and financial position. In addition, a failure by Shufersal to recruit or maintain tenants to occupy its properties in general, and tenants of large properties in particular, may have an adverse effect on Shufersal's real estate business activities.

Additionally, an ongoing recession, if any, due to an economic downturn or crisis, may cause an increase of vacancy of the rented properties and/or a reduction in rent we charge for those properties.

***Shufersal is subject to risks related to product liability and production quality.***

Shufersal, through a wholly owned subsidiary, operates three production plants, and accordingly, Shufersal is subject to risks related to the manufacturing of food products. A significant defect in those products or in its design may adversely affect Shufersal's business affairs, financial position and results of operations.

Shufersal markets different products, including drugs, food products and hygiene products, which have a particular impact on the health of our customers. Many laws and regulations grant the rights and causes of actions to an injured party or a group of injured parties which suffered any damage due to a defective product which is assembled, stored, marketed or sold by Shufersal. Although Shufersal is insured against risks with respect to the aforementioned product liability, if damage is caused to a consumer and/or to a group of consumers as a result of such products, Shufersal may be liable for such damage in a manner which could have an adverse effect on Shufersal's business affairs, financial position and results of operations.

***If Shufersal is unable to make use of its logistical centers, for any reason whatsoever, its ability to distribute its products to its branches may be impaired.***

According to Shufersal's estimate, it will be able to prepare for direct distribution of the majority of its products to all of its stores within a reasonable period of time, and in accordance with the ability of suppliers to supply the products directly to the stores. In light of Shufersal's insurance coverage, Shufersal estimates that this matter will not significantly affect its results. Additionally, if physical damage is caused to the building of the logistical center where Shufersal management is located or to the aforementioned logistical centers, the matter may have a significantly adverse impact on Shufersal's operations and results.

***Shufersal may have risks related to the collective labor agreement.***

Most of Shufersal's employees are covered by collective labor agreement, and Shufersal cannot be certain that this agreement will be renewed, from time to time, or renegotiated in the same or familiar terms, or without involving any direct action by the union, such as a strike. If a dispute arises with employees which involves a strike or adverse effect to the activities of Shufersal or such events may have an adverse effect on Shufersal's business affairs, financial position and results of operations. Additionally, any re-negotiation of collective agreements results in additional payroll expenses which may affect our profitability and result of operations.

***A defect in a product of Shufersal's brand may imply a fall in reputation.***

Shufersal has a wide variety of branded food and beverage products which enjoy many years of reputation, as well as products under the private brand. Negative publicity to this reputation by means of various publications, or by other means, may affect our sales and adversely affect Shufersal's profitability, regardless of the correctness of those publications. Additionally, a defect in a certain product may also affect the brand under which we sell that product, as well as the entire family of products which is marketed under the same brand. However, Shufersal endeavors to protect its brands and reputation, by strictly overseeing the quality of the raw materials which it uses in the manufacturing of the products, the production processes, the finished products and the advertising messages.

***Shufersal is exposed to risks associated with the issuance of the voucher cards, including as regards fraud and theft.***

Shufersal issues vouchers and electronic voucher cards for the acquisition of products in its stores and at other retailers with whom Shufersal has engaged for this purpose. Despite the fact that Shufersal has taken measures to reduce these risks, significant fraud may have an adverse effect on Shufersal's business affairs, financial position and results of operations.

***A failure in information processing and IT systems may adversely affect Shufersal's operating activities.***

Shufersal makes use of various information and IT systems. Shufersal's central information systems (and their backup systems) are located in and around the logistical centers which are used to manage its distribution network. Shufersal takes various steps in order to ensure the functionality and reliability of the various information and IT systems, including by securing and backing up the information. However, a collapse of the information and IT systems may have an adverse effect on Shufersal's operating activities. Shufersal makes use of systems and computer programs, some in accordance with licenses which it has acquired. A significant part of the aforementioned licenses are not restricted by time. However, Shufersal engages with the license holders in agreements for the receipt of service and support for the aforementioned systems and programs, for periods of one year. Shufersal ensures to engage with suppliers with a solid reputation and financial stability. However, if such suppliers are unable to continue providing Shufersal with their services, Shufersal will be forced to engage with other suppliers, which may have an adverse effect on our processes which may have an adverse effect on our results.

***Shufersal may face restrictions of the Bank of Israel regarding a "single borrower" and a "group of borrowers."***

Shufersal is considered as belonging to a "group of borrowers," as part of the IDB Group. As of the reporting date, the balance of bank credit of Shufersal and its subsidiaries is insignificant.

***Shufersal may be limited by the Anti-trust law in case it pursues any future operations in the food retail segment.***

Shufersal achieved a significant part of its past growth by acquiring various retail operations. Future acquisitions of various operations in the food retail segment by Shufersal may require approval of the Antitrust Authority, which may not be granted or under terms favorable to Shufersal. As of the reporting date, taking into consideration of the structure of the retail market, the restrictions which are imposed on Shufersal by law, and the provisions of the Food Law we estimate that Shufersal may not be able to acquire material entity in the retail segment.

***Important variations in interest rates may affect the value of Clal.***

One of the primary exposure of Clal is to interest rate decreases, since the average lifetime of its liabilities is significantly longer than the average lifetime of the assets. Clal invests its assets in different securities and such return of investments is subject to the variations of the interest rates. Therefore our capacity and results depend, in part, on the return of our investments. In the current interest rate environment, the Clal is also exposed, from an accounting perspective, to losses in certain scenarios involving an interest rate decrease due to the impact of such changes on the discount rates that are used in the calculation of the reserves for pension, and in the liability adequacy test ("LAT") and in a scope which may exceed the capital gains which will be created in that scenario with respect to interest-sensitive assets.

***Clal may have to face risks related to inflation.***

Clal is exposed to an increase in the inflation rate, due to the fact that the majority of insurance liabilities of Clal are adjusted on a quarterly basis in accordance with the inflation rate, while the assets held against them are not necessarily CPI-linked. Our results depend on our revenues and return of investments, so, in a high inflation environment our assets may not generate enough return to cover the CPI- adjusted liabilities.

***Other assets price risk.***

Some of the assets of Clal and some of the assets managed for others are invested in alternative investments, which include investments in real estate and in real estate funds, investment funds, non-marketable stocks and additional investment instruments which are exposed changes in their value.

***International economic slowdown and price declines in capital markets may affect Clal's operating activities.***

Clal invests in financial assets in international capital markets, and in other foreign assets. Therefore, a price decline due to a global or regional crisis or slowdown may affect our investment portfolio and the return of such investments.

***Clal may face credit risks.***

Clal is exposed to the possibility of financial loss as a result of the insolvency of borrowers and other debtors (through financial assets in the assets portfolio, through activities involving policies in accordance with the Sales Law, and credit insurance) with respect to its investments in debt instruments. Additionally, an increase in insolvency of businesses in Israel may also increase the amounts of claims of the directors' and officers' liability insurance sector in which Clal operates, and the scope of employers' debts with respect to the non-transfer of payments for pension insurance with respect to their employees. In its portfolio of assets, Clal is exposed to the various market sectors, of which the main ones are the banking and financial industries, the real estate in Israel sector, and the infrastructure and energy sector. A decline in activity, slow downs or crisis in such sectors may have a negative impact on our investments and, thus, on the results of our operations.

***Clal may face insurance risks.***

Clal is primarily exposed to the occurrence of more events or to greater severity of events covered by its policies, as compared with the actuarial assumptions, or an accumulation of damages due to a catastrophic event, which may cause liabilities higher than our reserves and provisions. Loss reserves are established such that the provision for losses and benefits represents an amount that is believed to be greater than the mathematically expected amount that will be required to ultimately settle all claims incurred in a certain period of time. As such the provision makes allowance for identified sensitivities underlying the reserve estimates. These estimates are based on actuarial and statistical projections, at a given time, of facts and circumstances known at that time and estimates of trends in loss severity and other variable factors, including new concepts of liability or other changes in legal precedents and general economic conditions.

***A decrease on the portfolio level may imply a risk for Clal.***

The rates of cancellation, freezing and transfers constitute a significant assumption in the life and health insurance businesses, due to the fact that the profitability in this segment is based on a margin in premiums, and on the collection of management fees throughout the lifetime of the policy. The cancellation of policies also leads to the write-off of deferred acquisition costs with respect to those policies. Likewise, stability of reinsurers also means a risk for Clal. Clal transfers some of their business risk with reinsurance, mostly through foreign reinsurers. However, the reinsurance does not release the direct insurers from their obligation towards their policyholders according to the insurance policies. Such reinsurers may become financially unable or unwilling to honour their commitments by the time they are called upon to pay amounts due, which may not occur for many years. In addition, reinsurance may prove inadequate to protect against losses or may become unavailable in the future at commercially reasonable rates.

***Clal may affront claims due to catastrophes.***

Clal may be subject to a sudden increase in claims due to a single large impact event (catastrophe) with a large scope of damages, such as an earthquake. Clal is exposed to other catastrophic events such as war and terrorism risks in Israel.

***Changes in legislation and regulation may affect Clal.***

Clal is an insurance company and, as such, develops its business in a highly regulated industry and is exposed to continuing changes in legislation and regulation pertaining to its operating segments. In particular, some of the regulatory changes which were recently performed and which are proposed, some as non-final drafts, may have an adverse effect on Clal's business model. Additionally, changes in legislation and regulation, including circulars, determinations in principle, position papers and provisions which the Commissioner of Capital Markets is authorized to impose in connection with changes to policy terms, including tariffs which may affect Clal, including to products which were sold in the past, both by way of retroactive application and due to their effect on the interpretation of agreements which were signed in the past, may have an adverse effect on Clal's business.

***Significant operations in Clal are subject to detailed and complex regulation.***

In particular, the insurance and long term savings activities are subject to regulatory directives which change from time to time, with respect to products which were sold over many years, and which have long insurance coverage periods and/or savings periods.

The institutional entities in Clal are exposed to the risk of decline below the minimum capital required, which may result in the initiation of regulatory actions against them. Clal is subject to restrictions and conditions by virtue of control permits for the institutional entities which are under its control, including the capital maintenance requirement.

***Clal may face liquidity risks.***

Clal may face liquidity challenges due to the uncertainty associated with the date in which Clal will be required to pay claims and other benefits to policyholders and to other beneficiaries, relative to the total amount of reserves which are available for this purpose at that time. Loss reserves are established based on certain assumptions and actuarial calculations. An increase of claims, lower return on investments or the inability to sell our investments on time or at attractive prices may cause our claims to be in excess of our loss reserves. Liquidity risk may increase upon the materialization of a significant catastrophic event.

***Clal may have to face risks related to model, risk and underwriting risk.***

Clal is exposed, in its insurance activities, to the risk of the selection of a wrong model for pricing, for the estimation of insurance liabilities, to risk of the use of incorrect parameters in models, and to risk of the use of incorrect pricing as a result of deficiencies in the underwriting process.

***Clal is exposed to operational risks.***

Risk of loss due to inadequacy or failure of internal processes, people and systems, or due to external events. In light of the scope of activities of Clal, and despite the actions taken by it to identify the risks and to establish appropriate controls, the scope of its exposure to the operational risks of the type specified above is significant.

***Clal depends significantly on technology and technological changes may imply investments in order to maintain competitive.***

A significant part of the activities of Clal relies on different information systems. The absence of sufficient infrastructure and/or deficiencies and/or failures in the computerized information systems may cause significant adverse effects to Clal operations. A disruption of operations may have significant operating and financial losses.

***The activities of Clal depends of external suppliers, and any change on them may imply a risk for Clal.***

As part of its activities, Clal engages in agreements with various suppliers and service providers. Clal is exposed to the risk of harm to its reputation and profitability as a result of harm to the service quality which is provided to it and to its customers, as well as risks associated with difficulty in finding an alternative provider, if necessary.

***The non-binding offer for Clal shares may have a negative impact on its market price and, consequently, on our results of operations.***

On May 2017, IDBD agreed to the sale of 5% of Clal's shares jointly with a swap transaction. Accordingly, such shares were sold on May 4, 2017, free from any encumbrance, for a price of NIS59.86 per share (i.e., for an aggregate amount of approximately NIS166 million, equivalent to approximately US\$697 million at the exchange rate prevailing on such date).

Under the terms of the swap agreement, IDBD retains the main risks and benefits of all of Clal's shares; for such reason, as of June 2017 all of Clal's shares were recorded as a financial assets held for sale, and a liability of Ps.783 million was recorded. The valuation of such shares as of June 30, 2017, is Ps.8,564 million and a gain of Ps.2,513 million has been recorded under net financial results for this fiscal year as a result of the increase in the fair value of these shares.

Following instructions imparted by Israel's Capital Market, Insurance and Savings Commission to the Trustee regarding the guidelines for selling Clal's shares, on August 2017, IDBD sold 5% of its equity interest in Clal by way of a swap transaction, pursuant to terms identical to those applied to the swap transaction made and reported to the market on May 2017. The consideration for the transaction was an amount of approximately NIS 164 million. Upon completion of the transaction, IDBD's equity interest in Clal was reduced from 49.9% to 44.9% of its stock capital.

On September 2017, IDBD's Board of Directors approved entering into a non-binding offer with Huabang Financial Holdings Limited for the sale of its entire equity interest in Clal, representing 44.9% of its stock capital. The transaction is subject to a due diligence process, to be conducted by the purchaser for a term of 60 days after the execution of a memorandum of understanding, and the execution of a binding agreement among the parties, among other requirements. Moreover, the consummation of the transaction is subject to the approval of Israel's Capital Market, Insurance and Savings Commission reporting to the Israeli Ministry of Finance. For more information, see "Recent development – Operations Center in Israel – Sale of Interest in Clal." On September 5, 2017 it was announced that Clal had made an erroneous calculation of the amounts standing to the credit of the plaintiff and the members of the class in profit-sharing policies, and regarding the filing of a settlement in the action and a motion to approve it, the Company gave an update that Clal reported, since the Attorney- General did not file any opposition, the Tel Aviv District Labor Law Court approved the settlement between the parties.

The request to sell the shares of CLAL in 5% tranches and the non-binding offer could cause a negative impact on the market price. A decrease in the market price of Clal's shares would cause an immediate effect in our income statements and financial results.

#### **Risks Related to the GDSs and the Common Shares**

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

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

The GDSs are freely transferable under U.S. securities laws, including common shares sold to our affiliates. Cresud, which as of June 30, 2017, owned approximately 63.38% of our common shares (or approximately 366.788.251 common shares which may be exchanged for an aggregate of 36.678.825 GDSs), is free to dispose of any or all of its common shares or GDSs at any time in its discretion. Sales of a large number of our common shares and/or GDSs would likely have an adverse effect on the market price of our common shares and GDSs.

***If we issue additional equity securities in the future, you may suffer dilution, and trading prices for our equity securities may decline.***

We may issue additional shares of our common stock for financing future acquisitions or new projects or for other general corporate purposes. Any such issuance could result in a dilution of your ownership stake and/or the perception of any such issuances could have an adverse impact on the market price of the GDSs.

***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 Argentine stock exchanges than information publicly available about domestic issuers of listed securities in the United States and certain other countries.

Although the GDSs are listed on the NYSE, as a foreign private issuer we are able to rely on home country governance requirements rather than relying on the NYSE corporate governance requirements. See "Item 16G. Corporate Governance—Compliance with NYSE listing Standards on Corporate Governance." Additionally, as a foreign private issuer, we are exempt from certain rules under the Exchange Act including (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act; (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers are not required to file their annual report on Form 20-F until four months after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file their annual report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, you may not have the same protections afforded to shareholders companies that are not foreign private issuers.

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

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

***If we are considered to be a passive foreign investment company for United States federal income tax purposes, U.S. Holders of our common shares or GDSs would suffer negative consequences.***

Based on the current and projected composition of our income and valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company, or "PFIC" for United States federal income tax purposes for the taxable year ending June 30, 2017, and do not currently expect to become a PFIC, although there can be no assurance in this regard. The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may be a PFIC in the current or any future taxable year due to changes in our asset or income composition or if our projections are not accurate. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of our income and assets and the accuracy of our projections. In addition, this determination is based on the interpretation of certain U.S. Treasury regulations relating to rental income, which regulations are potentially subject to differing interpretation. If we become a PFIC, U.S. Holders (as defined in "Item 10. Additional Information—Taxation—United States Taxation") of our common shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for U.S.



Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our common shares or GDSs at a gain, as well as reporting requirements. See “Item 10. E–Taxation–United States Taxation–Passive Foreign Investment Company” for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

***Changes in Argentine tax laws may affect the tax treatment of our common shares or GDSs.***

On September 23, 2013, the Argentine income tax law was amended by the passage of Law No. 26,893. Under the amended law, the sale, exchange or other transfer of shares and other securities is subject to a capital gain tax at a rate of 15% for Argentine resident individuals and foreign beneficiaries. There is an exemption for Argentine resident individuals if certain requirements are met; however, there is no such exemption for non-Argentine residents. See “Item 10. Additional Information–Taxation–Argentine Taxation.” However, as of the date hereof many aspects of the amended tax law remain unclear and, pursuant to certain announcements made by Argentine tax authorities, they are subject to further rulemaking and interpretation, which may adversely affect the tax treatment of our common shares and/or the GDSs. Also, the amended law had established an income tax at a rate of 10% in the distribution of dividends; however, this has been repealed by Law No. 27,260.

The income tax treatment of income derived from the sale of GDSs or exchanges of shares from the GDSs facility may not be uniform under the revised Argentine income tax law. The possibly varying treatment of source income could impact both Argentine resident holders as well as non-Argentine resident holders.

In addition, should a sale of GDSs be deemed to give rise to Argentine source income, as of the date of this annual report no regulations are in force regarding the mechanism for paying the Argentine capital gains tax when the sale exclusively involves non-Argentine parties, despite the fact that Law No. 27,260 further provides that in such case (i.e. both seller and buyer are non residents) the buyer is in charge of paying the tax.

In this connection, on July 20, 2017, General Resolution (AFIP) 4095-E suspended for 180 days the entry into force of General Resolution 4094-E by which, almost four years after Congress –by virtue of passing Law No 26,893- imposed a capital gains tax on the gains recognized by nonresidents on the sale of shares, quotas or other equity participations in Argentine companies as well as “other securities” of Argentine residents, the AFIP had implemented a payment mechanism for resident and nonresident buyers. The new resolution, currently suspended, was applicable to transactions that occurred on or after September 23, 2013.

Therefore, holders of our common shares, including in the form of GDSs, are encouraged to consult their tax advisors as to the particular Argentine income tax consequences under their specific facts.

***Holders of the GDS may be unable to exercise voting rights with respect to the common shares underlying their GDSs.***

As a holder of GDS, we will not treat you as one of our shareholders and you will not have shareholder rights. The depositary will be the holder of the common shares underlying your GDSs and holders may exercise voting rights with respect to the common shares represented by the GDSs only in accordance with the deposit agreement relating to the GDSs. There are no provisions under Argentine law or under our bylaws that limit the exercise by GDS holders of their voting rights through the depositary with respect to the underlying common shares. However, there are practical limitations on the ability of GDS holders to exercise their voting rights due to the additional procedural steps involved in communicating with these holders. For example, holders of our common shares will receive notice of shareholders’ meetings through publication of a notice in the CNV’s website, an Official Gazette in Argentina, an Argentine newspaper of general circulation and the bulletin of the Buenos Aires Stock Exchange, and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. GDS holders, by comparison, will not receive notice directly from us. Instead, in accordance with the deposit agreement, we will provide the notice to the GDS Depositary. If we ask the GDS Depositary to do so, the GDS Depositary will mail to holders of GDSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDS holders must then instruct the GDS Depositary as to voting the common shares represented by their GDSs. Under the deposit agreement, the GDS Depositary is not required to carry out any voting instructions unless it receives a legal opinion from us that the matters to be voted would not violate our by-laws or Argentine law.

We are not required to instruct our legal counsel to give that opinion. Due to these procedural steps involving the GDS Depositary, the process for exercising voting rights may take longer for GDS holders than for holders of common shares and common shares represented by GDSs may not be voted as you desire.

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

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

***Restrictions on the movement of capital out of Argentina may impair your ability to receive dividends and distributions on, and the proceeds of any sale of, the common shares underlying the GDSs.***

The Argentine government may impose restrictions on the conversion of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Argentina. Argentine law currently permits the government to impose these kind of restrictions temporarily in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. We cannot assure you that the Argentine government will not take measures in the future. In such a case, the GDS Depositary for the GDSs may hold the Pesos it cannot convert for the account of the GDS holders who have not been paid.

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

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

***We may not pay any dividends.***

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

***Our ability to pay dividends is limited by law and our by-laws.***

In accordance with Argentine corporate law, we may pay dividends in Pesos out of retained earnings, if any, to the extent set forth in our audited financial statements. Our ability to generate retained earnings is subject to the results of our operations. Therefore, our ability to pay dividends is subject to the compliance with the Argentine Corporate Law.