

Operations Center in Israel

The following table shows the maximum, minimum, average and closing exchange rates for each period applicable to purchases of New Israeli Shekels (NIS).

	Maximum ⁽¹⁾⁽²⁾	Minimum ⁽¹⁾⁽³⁾	Average ⁽¹⁾⁽⁴⁾	At closing ⁽¹⁾
Fiscal year ended:				
June 30, 2014	3.6213	3.4320	3.5075	3.4320
June 30, 2015	3.9831	3.4260	3.8064	3.7747
June 30, 2016	3.9604	3.7364	3.8599	3.8596
June 30, 2017	3.8875	3.4882	3.6698	3.4882
June 30, 2018	3.6573	3.3902	3.5276	3.6573
Month ended:				
April 30, 2018	3.5995	3.5020	3.5380	3.5995
May 31, 2018	3.6260	3.5613	3.5881	3.5648
June 30, 2018	3.6573	3.5569	3.6064	3.6573
July 31, 2018	3.6708	3.6234	3.6439	3.6708
August 31, 2018	3.7173	3.6051	3.6606	3.6051
September 30, 2018	3.6373	3.5709	3.5893	3.6373
October 2018 (through October 25, 2018)	3.6982	3.6236	3.6483	3.6982

Source: Bloomberg

(1) Average between the offer exchange rate and the bid exchange rate of the New Israeli Shekel against the U.S. dollar.

(2) The maximum exchange rate appearing in the table was the highest end-of-month exchange rate in the year or shorter period, as indicated.

(3) The minimum exchange rate appearing in the table was the lowest end-of-month exchange rate in the year or shorter period, as indicated.

(4) Average exchange rates at the end of the month.

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 Depository Shares ("GDSs") involves a high degree of risk, including the possibility of loss of your entire investment.

Risks relating to Argentina

As of the date of this annual report, many of our operations, property and customers are located in Argentina. As a result, the quality of our assets, our financial condition and the results of our operations 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 GDP growth, high and variable levels of inflation and currency depreciation and devaluation. The economy has experienced high inflation and GDP growth has been sluggish in the last few years.

During 2014, the Argentine economy saw a slowdown due to the increase in exchange rates and decreases in commodity prices that adversely impacted exports. The Argentine economy continues to confront high rates of inflation and has an increasing need of capital investment, with many sectors, particularly the energy sector, operating near full capacity.

In March 2014, the Argentine Government announced a new method for calculating GDP recommended by the IMF changing the base year to 2004 from 1993. On June 29, 2016, a recalculation of estimated GDP growth rates based on 2004 prices was undertaken and resulted in calculated rates of 2.4% in 2013, (2.5)% in 2014, 2.7% in 2015, (1.8)% in 2016 and 2.9% in 2017. According to the INDEC, GDP growth in the first and second quarter of 2018 compared with the same quarter in the previous year was 3.9% and (4.2)%, respectively. According to the IMF, the estimated Argentina's real GDP growth will be (2.6)% in 2018 and (1.6)% in 2019. Economic activity in the second quarter of 2018 has been adversely affected by the Central Bank's increase in the reference rate to 60% during that period to curtail the weakening of the Argentine peso. As of August 31, 2018, the depreciation of the peso against the U.S. dollar was 50.1% comparing to the beginning of the year. In the second half of 2017 and the first half of 2018, the percentage of people below the poverty line was 25.7% and 27.3%, respectively. The unemployment rate in the first and second quarter of 2018 was 9.1% and 9.6%, respectively. The June 2018 / May 2018 variation of the Monthly Economic Activity Estimator was (1.3)%. On October 8, 2018, the IMF published the "World Economic Outlook" report, estimating an unemployment rate of 8.9% in 2018 and 9.4% in 2019.

On February 22, 2017, Minister of the Treasury Nicolas Dujovne announced fiscal targets for the period 2017-2019, ratifying the target set in the 2017 budget which established a primary deficit target of 4.2% of GDP for 2017, 3.2% for 2018 and 2.2% for 2019. On May 4, 2018, Minister Dujovne lowered the primary deficit target for 2018 to 2.7% of GDP in an effort to achieve a balanced budget by 2019. After agreeing to a stand-by arrangement with the IMF in June 2018, the Argentine Government has adjusted its primary fiscal deficit target to 1.0% of GDP for 2019 and intends to balance the budget by the end of 2020. On August 10, 2018, the IMF commenced its first review of the Argentine economy. This review is taking place during a complex period in Argentina as a bribery scandal, which involves many important businessmen, is underway and the Argentine peso is experiencing significant depreciation. On September 3, 2018, the Ministry of Treasury has adjusted its targets to a primary fiscal deficit of 2.6% of GDP in 2018, a balanced budget in 2019 and a primary fiscal surplus of 1.0% of GDP in 2019, through reducing the public primary expenditure, including reducing by half the amount of national ministries, from 20 to 10, but increasing the spending on social benefits, including the strengthening of the fair price of basic products policy and the universal child allowance (asignación universal por hijo) through the one-time granting of an extraordinary subsidy of Ps.1,200 in September 2018. On September 26, 2018, the Argentine Government agreed with the IMF an increase in the total amount of the stand by agreement from US\$50 billion to US\$57.1 billion. In this sense, the anticipated disbursements rise from US\$6 billion to US\$13.4 billion in 2018, and from US\$11.4 billion to US\$22.8 billion in 2019. On September 17, 2018, the Argentine Government submitted to the Argentine Congress the budget law for fiscal year 2019 bill, ratifying the aforementioned budgetary targets. On September 26, 2018, the Central Bank announced a new monetary policy scheme aiming to lowering the inflation rate by adopting the following measures: (i) no increase in the level of the monetary base until June 2019, when it will be adjusted with the seasonality of December 2018 and June 2019; (ii) maintenance of the reference rate at 60% until the deceleration of inflation rate is taking place; (iii) implementation of a floating exchange rate with intervention and non-intervention zones for the U.S. dollar exchange rate between Ps.34 and Ps.44, with daily adjustment at a rate of 3% per month until the end of 2018 and its revision at the beginning of 2019, intervening in the purchase or sale of foreign currency for up to US\$150 million per day to the extent that the exchange rate reaches the established upper or lower bound.

Since coming into power in December 2015, 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, based on its determination that INDEC had failed to produce reliable statistical information, particularly with respect to the consumer price index, or “CPI”, GDP and poverty and foreign trade data. 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. In June 2017, INDEC began to publish revised CPI figures based on statistical information from 39 cities in Argentina.
- *Agreement with holdout bondholders.* The Argentine government has settled claims 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.* The Macri administration eliminated a significant portion of foreign exchange restrictions, including certain currency controls, previously in effect. 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 *Mercado Único y Libre de Cambios*, or “MULC.” On May 19, 2017, the Central Bank issued Communication “A” 6244, which unified the exchange control regulations and relaxed certain controls on the foreign exchange market. In addition, on December 26, 2017, the Central Bank implemented a new unified regime effective as of December 31, 2017 that requires the filing of an annual return, which is mandatory for any person whose total cash flow or balance of assets and liabilities amounts to US\$1 million or more during the previous calendar year. 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 30% deposit previously required in connection with certain transactions involving foreign currency inflows;
 - 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;
 - iv. the elimination of the minimum stay-period that required that proceeds from certain foreign financial indebtedness must be held for a minimum of 365 calendar days; and
 - v. elimination of the requirement of minimum holding period (of 72 business hours) for purchases and subsequent sales of securities that trade in Argentina and in foreign stock markets (such as the GDSs).
- *Foreign trade reforms.* The Macri administration eliminated export duties on wheat, corn, beef and regional products, and announced a gradual reduction of the duty on soybeans by 5% to 30%. Pursuant to Decree No. 1,343/16, published in the Official Gazette on January 2, 2017, the Argentine Government announced a gradual reduction of the duty on soybeans, beans, flour and soybean oil by 0.5 % per month from January 2018 to December 2019. In addition, the 5% export duty on most industrial exports and export duties on mining 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. However, on September 4, 2018, the Argentine Government issued Decree No. 793/2018 that reimplements an export duty of 12% until December 31, 2020 on export of goods and services, with a cap of Ps.4 for each U.S. dollar for primary goods and services and Ps.3 for the rest of the manufactured goods.

- National electricity state of emergency and reforms.* Following years of minimal investment in the energy sector, exacerbated by the Argentine Government's failure to implement tariff increases on electricity and natural gas since the 2001-2002 economic crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, on December 15, 2015, the Macri administration declared a state of emergency, which remained in effect until December 31, 2017. 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 then in effect and implemented a substantial increase in electricity tariffs. As a result, average electricity prices increased substantially and could increase further in the future. Certain of Macri's Administration initiatives have been challenged in Argentine courts and resulted in judicial injunctions or determinations that limit such initiatives. On May 31, 2018, the Argentine Congress approved a law seeking to limit the increase in energy tariffs implemented by the Macri administration, which was subsequently vetoed by President Macri.
- Tax Amnesty Law.* In July 2016, the Régimen de Sinceramiento Fiscal, or "Tax Amnesty Law," was introduced to promote the voluntary disclosure of undeclared assets by Argentine residents. The Tax Amnesty Law allowed Argentine tax residents holding undeclared funds or assets located in Argentina or abroad to (i) declare such property prior to March 31, 2017 without facing prosecution for tax evasion or being required to pay past-due tax liabilities on those assets, if they could provide evidence that the assets were held as of 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 and how soon it was declared, the election to subscribe for certain investment securities and the payment method used, those who took advantage of the Tax Amnesty Law paid 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 created to finance, among other things, public infrastructure projects and small- to medium-sized businesses. Taxpayers could elect to subscribe for certain investment securities and reduce the tax rates payable upon disclosure of previously undisclosed assets. On April 4, 2017, the Minister of Finance announced that as a result of the Tax Amnesty Law, assets totaling US\$116,800 million were declared.
- Retiree Program.* On June 29, 2016, the Argentine Congress enacted the Historical Reparation Program for Retirees and Pensioners (Programa de Reparación Histórica para Jubilados y Pensionados). The main aspects of this Program, designed to reform social security policies to comply with Supreme Court decisions, include (i) payments to more than two million retirees and retroactive compensation of more than 300,000 retirees and (ii) creation of a universal pension for senior citizens, which guarantees a pension for all people over 65 years of age who would not otherwise be eligible to retire with a pension. The Historical Reparation Program for Retirees and Pensioners will provide retroactive compensation to retirees for a total amount of more than Ps.47,000 million and expenses of up to Ps.75,000 million to cover all potential beneficiaries.
- Increase in transportation fares.* In January 2018, the Macri administration announced an increase in public transport fares in the Greater Buenos Aires area effective as of February 1, 2018.
- 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 interannual inflation targets (comparing the rates as of December of each year) announced in 2016 by the Central Bank, were from 12% to 17% for 2017, from 8% to 12% for 2018, and from 3.5% to 6.5% for 2019. The Central Bank has increased the use of stabilization policies to reduce excess monetary imbalances and increased peso interest rates to offset inflationary pressure. On December 27, 2017, the Argentine Government modified the inflation targets for 2018, 2019 and 2020, increasing them to 15%, 10% and 5%, respectively. In June 2018, the Central Bank further adjusted inflation targets to 27% for 2018, 17% for 2019, 13% for 2020 and 9% for 2021 in light of the Stand-By Agreement with the IMF. In addition, on September 26, 2018, the Central Bank announced a new monetary policy scheme aiming to lowering the inflation rate mainly by adopting a floating exchange rate scheme, maintaining the reference rate at 60% until the deceleration of inflation rate is taking place and stopping the monetary base growth until June 2019, when it will be adjusted with the seasonality of December 2018 and June 2019. On October 8, 2018, the IMF published the "World Economic Outlook" report, estimating an inflation rate of 40.5% in 2018 and 20.2% in 2019.

- *Pension system reform.* On December 19, 2017, the Argentine Congress enacted the Pension Reform Law which, among other amendments, adjusted the values of pensions and social benefits in accordance with inflation and economic growth. Social security payments are subject to quarterly adjustments each year. 70% of the quarterly adjustment will be based on the CPI published by the INDEC and 30% on the variation in the *Remuneración Imponible Promedio de los Trabajadores Estables* (an index published by the Ministry of Labor that measures the salary increases of state employees). On December 20, 2017, Decree No. 1,058/17 was published and, with the aim of avoiding divergence with the application of the previous formula, established a compensatory bonus for retirees, pensioners and beneficiaries of the universal child allowance (*asignación universal por hijo*). On September 3, 2018, the Argentine Government announced the strengthening of the universal child allowance through the one-time granting of an extraordinary subsidy of Ps.1,200 in September 2018. The Pension Reform Law also amended the Labor Law to extend the age at which private sector employers may request the retirement of employees to 70 years of age (compared to 65 years under the prior regime). Notwithstanding the foregoing, private sector employees may still request pension benefits from the ages of 65 and 60 for male and female employees, respectively.
- *Tax reform.* On December 27, 2017, the Argentine Congress approved the tax reform law, enacted on December 28, 2017. The reform is intended to eliminate certain inefficiencies in the Argentine tax regime, diminish tax evasion, expand the tax base and encourage investment, with the long-term goal of restoring fiscal balance. The reform is part of a larger policy initiative of the Macri administration intended to increase employment, make the Argentine economy more competitive (by reducing the fiscal deficit, for example) and diminish poverty. The main aspects of the tax reform include the following: (i) capital gains on real estate sales by Argentine tax residents (subject to certain exceptions, including a primary residence exemption) acquired after enactment of the tax reform will be subject to tax of 15%; (ii) gains on currently exempt bank deposits and sales of securities (including sovereign bonds) by Argentine tax residents is subject to tax of (a) 5% in the case of those denominated in pesos, subject to fixed interest rate and not indexed, and (b) 15% for those denominated in a foreign currency or indexed; (iii) gains on sales of shares listed on a stock exchange remain exempt; (iv) corporate income tax will decline to 30% in 2018 and 2019 and to 25% in 2020; (v) social security contributions will be gradually increased to 19.5% starting in 2022, in lieu of the differential scales currently in effect; and (vi) the percentage of tax on debits and credits that can be credited to income tax will be gradually increased over a five-year period, from the current 17% for credits to 100% for credits and debits. The tax reform is to be implemented over a period of one to five years (depending on each modification). For further information, see “Taxation–Argentine Taxation”.
- *Corporate Criminal Liability Law.* On November 8, 2017, the Argentine Congress approved Law No. 27,401, which establishes a system of criminal liability of corporate entities for criminal offenses against public administration and national and cross-border bribery committed by, among others, its shareholders, attorneys-in-fact, directors, managers, employees, or representatives. Convicted legal persons are subject to various sanctions including a fine of between 1% and 20% of its annual gross revenue and the partial or total suspension of its activities for up to ten years. In addition, the law expands the national criminal jurisdiction to all cases of bribery including those committed outside the Argentine territory by citizens or companies with domicile or headquartered in Argentina.
- *Public-Private Participation Law.* On November 16, 2016, the Public-Private Participation Law was passed by the Argentine Congress, and has been regulated by Decree No. 118/2017. This new regime seeks to replace existing regulatory frameworks (Decrees No. 1,299/00 and 967/05) and supports the use of public-private partnerships for a wide variety of purposes including the design, construction, extension, improvement, provision, exploitation and/or operation and financing of infrastructure development, provision of public services, provision of productive services, investments, applied research, technological innovation and other associated services. The Public-Private Participation Law also includes protection mechanisms in favor of the private sector (contractors and lenders) in order to promote the development of these partnerships.
- *Productive Financing Law.* On May 9, 2018, the Argentine Chamber of Deputies approved Law No. 27,440 called “*Ley de Financiamiento Productivo*”, which creates a new financing regime for micro-, small- and medium-sized companies (“MiPyMEs”) and modifies Capital Markets Law No. 26,831, Investment Funds Law No. 24,083 and Law No. 23,576, among others, and implements certain tax provisions and regulations for derivative financial instruments.

- *Labor reform bill.* On November 18, 2017, the Executive Branch submitted a draft labor and social security reform bill to the Argentine Chamber of Senators, intended to formalize employment, decrease labor litigation, generate employment, increase productivity, protect vulnerable populations and improve worker training. As of the date of this annual report, the draft bill has not been considered by the Argentine Congress.
- *Fiscal consensus and fiscal liability.* On December 22, 2017, the Argentine Congress enacted the “Fiscal Pact”, also known as the “Fiscal Consensus”. The Fiscal Consensus includes a commitment to lower distortive taxes by 1.5% of GDP over the next five years, a withdrawal of lawsuits by provincial governments against the Argentine Government and a Ps.21,000 million payment to the Province of Buenos Aires for the year 2018 (which amount shall be increased over the next five years) as a partial and progressive solution to a long-standing conflict related to the Buenos Aires Metropolitan Area Fund over the *Fondo del Conurbano Bonaerense*. The Fiscal Consensus also set the basis for other policy reforms that were implemented by the Macri administration in December 2017, such as the tax reform, the pension system reform and the Fiscal Responsibility Law (*Ley de Responsabilidad Fiscal*). The fiscal deficit estimated for 2018 is 2.6% of 2018 GDP. The budget law for fiscal year 2019 bill projects a balanced budget in 2019 and a primary fiscal surplus of 1.0% of GDP by 2020.
- *IMF stand-by arrangement:* On June 7, 2018, the Argentine Government entered into a US\$50 billion, 36-month stand-by arrangement with the IMF, which was approved by the IMF’s Executive Board on June 20, 2018. As of July 31, 2018, the Argentine Government had drawn on a first tranche of approximately US\$15 billion, and the additional available funds will be treated as precautionary. This measure was intended to halt the significant depreciation of the peso during the first half of 2018. On September 26, 2018, the Argentine Government agreed with the IMF an increase in the total amount of the StandBy agreement from US\$50 billion to US\$57.1 billion. As a result, the anticipated disbursements increased from US\$6 billion to US\$13.4 billion in 2018, and from US\$11.4 billion to US\$22.8 billion in 2019. On October 26, 2018, the Executive Board of the IMF completed the first review of Argentina’s economic performance under the 36-month stand-by arrangement, allowing to draw the equivalent of US\$5.7 billion, bringing total disbursements since June 2018 to about US\$20.4 billion. The Executive Board also approved an augmentation of the stand-by arrangement to increase access to about US\$56.3 billion.

The impact that these measures, and any future measures taken by a new administration, will have on the Argentine economy as a whole and the financial sector in particular cannot be predicted. Economic liberalization may be disruptive to the economy and may fail to benefit, or may harm, our business, financial condition and results of operations. In particular, we have no control over the implementation of the reforms to the regulatory framework that governs its operations and cannot guarantee that these reforms will be implemented or that they will be implemented in a manner that will benefit our business. The failure of these measures to achieve their intended goals could adversely affect the Argentine economy and our business, financial position and results of operations.

In this context, as the date of this annual report, the Argentine economy remains unstable, among others, for the following reasons:

- a persistent high rate of public spending and substantial fiscal deficit;
- investments as a percentage of GDP remain low;
- public debt as a percentage of GDP remains high;
- the inflation rate remains at high levels;
- agricultural exports, which fueled the economic recovery, have been affected by the drought and lower prices than in prior years;
- rising of international crude oil prices;
- the availability of long-term credit to the private sector is scarce;
- the current trade deficit is high and could increase;
- the effects of a restrictive U.S. monetary policy, which could generate an increase in financial costs for Argentina;
- fluctuations in the Central Bank’s monetary reserves;
- uncertainty with respect to the imposition of exchange and capital controls; and
- other political, social and economic events abroad that adversely affect the current growth of the Argentine economy.

A further decline in Argentine economic growth or an increase in economic instability could adversely affect our business, financial condition or results of operations. As of the date of this annual report, the impact of the Macri administration's policies on the Argentine economy as a whole and on the banking sector in particular cannot be predicted. In addition, congressional elections were held on October 22, 2017 and President Macri's governing coalition obtained the largest share of votes at the national level. Although the number of coalition members in Congress increased (holding in the aggregate 108 of a total of 257 seats in the House of Representatives and 24 of 72 seats in the Senate), the coalition still lacks a majority in either chamber and, as a result, some or all of the policy proposals to promote growth of the economy (including reducing the fiscal deficit, controlling inflation and adopting fiscal and labor reforms) may not be implemented, which could adversely affect continued economic growth in Argentina. Higher rates of inflation, any decline in GDP growth rates and/or other future economic, social and political developments in Argentina, fluctuations in the rate of exchange of the Peso against other currencies, and a decline in consumer confidence or foreign direct investment, among other factors, may materially and adversely affect the development of the Argentine economy which could adversely affect our business, financial condition or results of operations.

Continuing inflation may have an adverse effect on the economy and our business, financial condition and the results of our operations.

According to the INDEC, the CPI was 10.8% in 2012, 10.9% in 2013 and 23.9% in 2014. In November 2015, the INDEC suspended the publication of the CPI. Hence, there was not an official CPI publication for the year 2015. An alternative CPI report was informed by the INDEC's official website, depicting two alternative CPIs measurements: one published by the City of Buenos Aires and the other by the Province of San Luis, reaching 26.9% and 31.9%, respectively. After implementing certain methodological reforms and adjusting certain macroeconomic statistics based on these reforms, in June 2016, INDEC resumed publishing the CPI. The best available information for 2016 is the annual measurement of the index of consumer prices reported by the City of Buenos Aires of 41%. In 2017, inflation began to decrease in line with the Central Bank's inflation targeting policies. According to the INDEC, the CPI increased 24.8% in 2017 and 1.8%, 2.4%, 2.3%, 2.7%, 2.1%, 3.7%, 3.1%, 3.9% and 6.5% for January, February, March, April, May, June, July, August and September 2018, respectively. At the end of 2017, Minister Dujovne announced that the CPI targets previously set out in the 2017 budget were revised to 15% for 2018, 10% for 2019 and 5% for 2020. After agreeing to a stand-by arrangement with the IMF in June 2018, the Argentine Government has adjusted its CPI targets to 27% for 2018, 17% for 2019, 13% for 2020 and 9% for 2021. In August 2018, the Central Bank adjusted its CPI targets to 40.5% for 2018, 24.5% for 2017 and 18% for 2020. On October 8, 2018, the IMF published the "World Economic Outlook" report, estimating an inflation rate in Argentina of 40.5% in 2018 and 20.2% in 2019. On October 25, 2018, the Argentine Chamber of Deputies gave preliminary approval to the draft budget for fiscal year 2019, estimating a year-on-year inflation rate of 23% for 2019, and it is expected to be treated in the Argentine Chamber of Senators on November 14, 2018.

Historically, high rates of inflation have undermined the Argentine economy and the Argentine Government's ability to foster conditions for stable growth. High rates of inflation may also undermine Argentina's competitiveness in international markets and adversely affect economic activity and employment, as well as our business, financial condition and the results of our operations.

High rates of inflation would also adversely affect economic activity, employment, real salaries, consumption and interest rates. In addition, the dilution of the positive effects of any depreciation of the peso on the export-oriented sectors of the Argentine economy would decrease the level of economic activity in the country. In turn, a portion of the Argentine Government's outstanding debt is adjusted by the Coeficiente de Estabilización de Referencia (or "CER"), a currency index tied to inflation. Therefore, any significant increase in inflation would generate an increase in Argentina's debt measured in pesos and, consequently, its financial obligations.

In recent years, the Argentine Government has taken certain measures to contain inflation, such as implementing a fair price program that requires supermarkets to offer certain products at a government-determined price, and agreements with workers' unions to implement salary increases. Additionally, the Argentine Government enacted Law No. 26,991 (the "Supply Law"), which empowers it to intervene in certain markets when it considers that any market participant is trying to impose prices or supply restrictions. The Supply Law provides among others pecuniary sanctions, suspension, seizure of operations, and confiscation of goods. On September 3, 2018, the Argentine Government further strengthened the fair price program by incorporating more basic consumer goods and places of distribution around the country into the program.

We cannot assure you that inflation rates will not continue to escalate in the future or that the measures adopted or that may be adopted by the Argentine Government to control inflation will be effective or successful. Inflation remains a challenge for Argentina. For example, certain objectives of the Argentine Government, such as the increase in tariffs to incentivize investment in the energy sector, may create inflationary pressures. Significant inflation could have an adverse effect on Argentina's economy and in turn could increase our costs of operation, in particular labor costs, and may negatively affect our business, financial condition and the results of our operations. See "We depend on macroeconomic and political conditions in Argentina".

The Peso qualifies as a currency of a hyperinflationary economy under IAS 29. Accordingly, we will apply IAS 29 for periods ending after July 1, 2018 and our historical audited consolidated financial statements and other financial information will need to be restated.

IAS 29 requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy, whether based on the historical cost method or on the current cost method, be stated in terms of the measuring unit current at the end of the reporting period. IAS 29 does not establish a set inflation rate beyond which an economy is deemed to be experiencing hyperinflation. However, hyperinflation is commonly understood to occur when changes in price levels are close to or exceed 100% on a cumulative basis over the prior three years, along with the presence of several other qualitative macroeconomic factors.

During the six-month period ended June 30, 2018, the decreasing trend of inflation in Argentina noted in recent prior periods reversed, with variations in different indexes being higher than in previous months. The total cumulative inflation in Argentina in the 36 months prior to June 30, 2018, as measured by the wholesale price index published by the INDEC, has exceeded 100%. Qualitative macroeconomic factors, including the depreciation of the peso in recent months, also support the conclusion that Argentina is now a hyper-inflationary economy for accounting purposes. Accordingly, IAS 29 will be applicable for financial statements included in any of our filings with the SEC under the Securities Act or the Exchange Act for periods ending after July 1, 2018 and, therefore, our audited consolidated financial statements and any unaudited interim financial statements included in this annual report will need to be adjusted by applying a general price index and expressed in the measuring unit (the hyperinflationary currency) current at the end of the most recent reporting period.

Pursuant to Decree No. 664/2003, the Argentine Government prohibited regulatory entities of the national government, from receiving financial information from regulated entities that includes adjustments for inflation, changes in costs or other variations in taxes, prices or tariffs. In addition, Law No. 23,928 prohibits Argentine companies from including adjustments for inflation in their financial statements. Given the current state of Argentine law, we cannot assure you whether regulatory agencies of the Argentine national government will require us to not apply IAS 29 to financial statements furnished to such regulators. If regulatory agencies in Argentina require us not to apply IAS 29, or to only apply IAS 29 to certain, but not all, of the periods included in our audited consolidated financial statements and unaudited interim financial statements, the audited consolidated financial statements and any unaudited interim financial statements included in this prospectus may not be comparable to certain of our financial statements furnished to regulators in Argentina.

We have not estimated yet the impact of the application of IAS 29 provisions on our audited consolidated financial statements.

We cannot assure that the accuracy of Argentina's official inflation statistics will comply with international standards.

In January 2007, the INDEC modified its methodology to calculate the CPI. At the time that the INDEC adopted this change in methodology, the Argentine Government replaced several key officers at the INDEC, prompting complaints of governmental interference from the technical staff at the INDEC. The IMF requested Argentina to clarify the INDEC methodology used to calculate inflation rates.

On November 23, 2010, the Argentine Government began consulting with the IMF for technical assistance in order to prepare new CPI information with the aim of modernizing the current statistical system. During the first quarter of 2011, a team from the IMF started collaborating with the INDEC in order to create such an index. Notwithstanding such efforts, subsequently published reports by the IMF stated that its staff delivered alternative measures of inflation for macroeconomic surveillance, including information produced by private sources, and asserted that such measures resulted in inflation rates 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. In 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 and called on Argentina to adopt remedial measures to address the inaccuracy of inflation and GDP data immediately.

In order to address the quality of official data, a new consumer price index (the “IPCNU”), was enacted on February 13, 2014. Inflation as measured by the IPCNU was 23.9% in 2014, 31.6% in 2015 and 31.4% in 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 in the main urban centers of the 23 provinces of Argentina and the City of Buenos Aires. On December 15, 2014, the IMF recognized the evolution of Argentine authorities to remedy the provision of data, but delayed the definitive evaluation of the new price index.

On January 8, 2016, based on its determination that the INDEC historically failed to issue reliable statistical information, the Macri administration issued a necessity and urgency decree suspending the publication of statistical information. The INDEC suspended all publications of statistical information until the process of technical reorganization was completed and the administrative structure of the INDEC was recomposed. At the end of this process of reorganization and recovery, the INDEC gradually began to publish official information. The INDEC recalculated historical GDP and the revised measurements showed that the GDP increased 2.4% in 2013, contracted 2.5% in 2014, increased 2.7% in 2015, and contracted 1.8% in 2016.

On November 9, 2016, the IMF, after analyzing the progress made with respect to the accuracy of official statistics regarding the CPI, decided to lift the censorship imposed in 2013, and determined that the Argentine CPI currently complies with international standards. However, we cannot assure you that such inaccuracy regarding official economic indicators will not recur. If despite the changes introduced by the Macri administration these differences between the figures published by the INDEC and those registered by private consultants persist, there could be a significant loss of confidence in the Argentine economy, which could adversely affect our business, financial condition and the results of our operations.

High levels of public spending in Argentina could generate long lasting adverse consequences for the Argentine economy.

During recent years, the Argentine Government has substantially increased public spending. In 2015, government spending increased by 34.4% as compared to 2014, resulting in a primary fiscal deficit of 3.8% of GDP. In 2016, government spending increased by 42.8% as compared to 2015, resulting in a primary fiscal deficit of 4.2% of GDP. In 2017, government spending increased by 25.9% as compared to 2016, resulting in a primary fiscal deficit of 3.8% of GDP. If government spending continues to outpace revenues, the fiscal deficit is likely to increase and past sources of funding to address such deficit, such as the Central Bank and the Administración Nacional de la Seguridad Social (“ANSES”) may be utilized.

Any such increasing deficit could have a negative effect on the Argentine Government’s ability to access the long-term financial markets, and in turn, could limit the access to such markets for Argentine companies, which could adversely affect our business, financial condition and the results of our operations.

Argentina’s ability to obtain financing in the international capital markets is limited, which may impair its ability to implement reforms and public policies and foster economic growth.

Argentina has had limited access to foreign financing in recent years, primarily as a result of a default in December 2001 by Argentina on its debt to foreign bondholders, multilateral financial institutions and other financial institutions. Argentina’s 2001 default and its failure to fully restructure its sovereign debt and negotiate with the holdout creditors has limited and may continue to limit Argentina’s ability to access international capital markets. In 2005, Argentina completed the restructuring of a substantial portion of its defaulted sovereign indebtedness and settled all of its debt with the IMF. Additionally, in June 2010, Argentina completed the renegotiation of approximately 67% of the principal amount of the defaulted bonds outstanding that were not swapped in the 2005 restructuring. As a result of the 2005 and 2010 debt swaps, Argentina has restructured approximately 92.1% of its defaulted debt that was eligible for restructuring (the “Debt Exchanges”). Holdout creditors that had declined to participate in the exchanges commenced numerous lawsuits against Argentina in several countries, including the United States, Italy, Germany, and Japan.

As a result of the litigation filed by holdout bondholders and their related efforts to attach Argentina's sovereign property located in the United States and other jurisdictions, Argentina's ability to access the international capital markets was severely limited. In February 2016, the Argentine Government agreed with a group of Italian bondholders to pay in cash the total principal amount of debt owed to such holders. In mid-2016, the Argentine Government emerged from default and paid US\$900 million to the approximately 50,000 Italian bondholders who owned government securities with defaulted payments part due.

During February 2016, U.S. federal court special master Daniel Pollack ratified an agreement between the Argentine Government and the holdout creditors led by Elliot Management, Aurelius Capital, Davidson Kempner and Bracebridge Capital funds providing for a US\$4.65 billion payment in respect of defaulted sovereign bonds, representing a 25% discount to the total principal amount of principal and interest due on the defaulted bonds, as well as attorney fees and expenses incurred. This agreement stipulated that the terms of the settlement be approved by the Argentine Congress, and that Law No. 26,017 (the "Padlock Law") and the Sovereign Payment Law be repealed.

In March 2016, the Argentine Government submitted a bill to Congress seeking authorization to consummate the settlement, which was approved on April 1, 2016, by enactment of Law No. 27,249 pursuant to which, the Argentine Government was authorized to pay in cash up to US\$11.6 billion to the holdout bondholders. The proceeds for such payment were raised through an issuance of sovereign debt in the international capital markets. Among other provisions, the new law repealed the Padlock Law and Sovereign Payment Law.

At the beginning of April 2016, special master Daniel Pollack announced that the Argentine Government had reached agreements with additional holdout bondholders. As a result, the Argentine Government has reached agreements with nearly 90% of the debt holders that did not participate in the 2005 and 2010 bond exchange transactions. On April 13, 2016, the Court of Appeals lifted the restrictions on Argentina to fulfill its debt obligations. In April 2016, the Argentine Government issued US\$16.4 billion principal amount of bonds. On April 22, 2016, the Argentine Government paid amounts due under the agreement and the U.S. courts removed all previously issued sanctions and injunctions. From December 31, 2015 to December 31, 2017, Argentina's sovereign debt increased by US\$80.3 billion, according to the Ministry of the Treasury.

As of the date of this annual report, proceedings initiated by holdouts and other international creditors that did not accept Argentina's payment offer continue in several jurisdictions, although the size of the claims involved has declined considerably. The potential consequences of final judgments from courts in various jurisdictions are unclear and further adverse rulings could adversely affect the Argentine Government's ability to issue debt securities or obtain favorable terms when the need to access the international capital markets arises, and consequently, our own capacity to access these markets could also be limited.

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 ("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 (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 an adverse effect on our capacity to access to the international capital markets.

The amendment of the Central Bank’s Charter and the Convertibility Law may adversely affect the Argentine economy.

On March 22, 2012, the Argentine Congress passed Law No. 26,739, which amended the Charter of the Central Bank and Law No. 23,298 (the “Convertibility Law”). This law amends the objectives of the Central Bank (established in its Charter) and includes a mandate focused on promoting social equity programs in addition to developing monetary policy and financial stability.

A key component of the Central Bank Charter amendment relates to the use of international reserves. Pursuant to this amendment, Central Bank reserves may be made available to the Argentine Government for the repayment of debt or to finance public expenditures. During 2013, U.S. dollar reserves held at the Central Bank decreased to US\$30.6 billion from US\$43.3 billion in 2012, while during 2014 reserves increased to US\$31.4 billion. The Central Bank’s foreign currency reserves were US\$25.6 billion as of December 31, 2015, US\$39.3 billion as of December 30, 2016, US\$55.1 billion as of December 29, 2017 and US\$52.7 billion as of August 31, 2018.

The Argentine Government’s use of Central Bank reserves to repay debt or to finance public expenditures may make the Argentine economy more vulnerable to higher rates of inflation or external shocks, which could adversely affect our business, financial condition and the results of our operations.

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

Despite the positive effects of the depreciation of the peso in 2002 on the competitiveness of certain sectors of the economy, depreciation has had a negative impact on the ability of Argentine businesses to honor their foreign currency-denominated debt obligations, initially resulting in high rates of inflation and significantly reduced real wages, which has had a negative impact on businesses that depend on domestic demand, such as utilities and the financial industry, and has adversely affected the Argentine Government’s ability to honor its foreign currency-denominated debt obligations.

Since the strengthening of foreign exchange controls began in late 2011, and upon introduction of measures that gave private companies and individuals limited access to foreign currency, the implied peso exchange rate, as reflected in the quotations for Argentine securities that trade in foreign markets compared to the corresponding quotations in the local market, increased significantly compared to the official exchange rate.

In 2015, the U.S. dollar to peso exchange rate increased 53% as compared to 2014. In 2016, the U.S. dollar to peso exchange rate increased 22% as compared to 2015. In 2017, the U.S. dollar to peso exchange rate increased 18% as compared to 2016. This trend continued in the first few months of 2018, with an increase of 7% from December 31, 2017 to March 31, 2018. Further, the U.S. dollar to peso exchange rate increased approximately 97.7%, from Ps.20.69 in April 27, 2018 to Ps.40.90 as of September 28, 2018. On October 25, 2018, the Argentine Chamber of Deputies gave preliminary approval to the draft budget for fiscal year 2019, estimating an average exchange rate of Ps.40.10 for US\$1.00 in 2019, Ps.44.30 for US\$1.00 in 2020, Ps.48.20 for US\$1.00 in 2021 and Ps.50.50 for US\$1.00 in 2022, and it is expected to be treated in the Argentine Chamber of Senators on November 14, 2018.

As a result of the significant depreciation of the peso against the U.S. dollar, on October 11, 2018 the Central Bank increased the monetary policy rate to 72.73% aiming to attract investments in this currency. This high interest rate deteriorates the conditions for accessing credit by individuals and legal entities, producing an increase in debt levels paid off, which could adversely affect our business, financial condition and the results of our operations.

In addition, high interest rates in pesos may not be sustainable in the medium term, which could affect the level of economic activity reducing consumption. As a result, a contraction in GDP is expected for 2018.

A significant further depreciation of the peso against the U.S. dollar could have an adverse effect on the ability of Argentine companies to make timely payments on their debts denominated, indexed or otherwise connected to a foreign currency, could generate very high inflation rates, reduce real salaries significantly, and have an adverse effect on companies focused on the domestic market, such as public utilities and the financial industry. Such a potential depreciation could also adversely affect the Argentine Government’s capacity to honor its foreign debt, which could affect our capacity to meet obligations denominated in a foreign currency which, in turn, could have an adverse effect on our business, financial condition and the results of our operations. 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.

In addition, on June 7, 2018, the Argentine Government entered into a US\$50 billion 36-month stand-by arrangement with the IMF, which was approved by the IMF's Executive Board on June 20, 2018. The Argentine Government has drawn on a first tranche of approximately US\$15 billion, and the additional available funds will be treated as precautionary. This measure was intended to halt the significant depreciation of the peso during the first half of 2018. On September 26, 2018, the Argentine Government agreed with the IMF an increase the total amount of the stand-by agreement from US\$50 billion to US\$57.1 billion. Consequently, disbursements are expected to increase from US\$6 billion to US\$13.4 billion in 2018, and from US\$11.4 billion to US\$22.8 billion in 2019. On October 26, 2018, the Executive Board of the IMF completed the first review of Argentina's economic performance under the 36-month stand-by arrangement, allowing to draw the equivalent of US\$5.7 billion, bringing total disbursements since June 2018 to about US\$20.4 billion. The Executive Board also approved an augmentation of the stand-by arrangement to increase access to about US\$56.3 billion.

On September 26, 2018, the Central Bank announced a new monetary policy scheme aiming to lowering the inflation rate by adopting the following measures: (i) no increase in the level of the monetary base until June 2019, when it will be adjusted with the seasonality of December 2018 and June 2019; (ii) maintenance of the monetary policy rate at 60% until the deceleration of inflation rate is taking place; (iii) implementation of a floating exchange rate with intervention and non-intervention zones for the U.S. dollar exchange rate between Ps.34 and Ps.44, with daily adjustment at a rate of 3% per month until the end of 2018 and its revision at the beginning of 2019, intervening in the purchase or sale of foreign currency for up to US\$150 million per day to the extent that the exchange rate reaches the established upper or lower bound.

A substantial appreciation of the peso against the U.S. dollar could negatively impact 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 and could result in a slowdown in economic growth. This could have a negative effect on GDP growth and employment as well as reduce the Argentine public sector's revenues by reducing tax collection in real terms, given its current heavy reliance on taxes on exports. As a result, the appreciation of the peso against the U.S. dollar could also have an adverse effect on the Argentine economy and, in turn, our business, financial condition and the results of our operations.

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

Prior to December 2015, the Argentine Government accelerated its direct intervention in the economy through the implementation or amendment of laws and regulations, including with respect to nationalizations and/or expropriations; restrictions on production, imports and exports; foreign 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; and delays or denials of governmental approvals, among others.

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 (the "AFJPs"). In April 2012, the Argentine Government nationalized YPF S.A. and imposed major changes to the system under which oil companies operate, principally through the enactment of Law No. 26,714 and Decree No. 1,277/2012. In February 2014, the Argentine Government and Repsol S.A. (the former principal shareholder of YPF S.A.) announced that they had reached an agreement on the compensation payable to Repsol S.A. for the expropriation of YPF S.A. of US\$5 billion payable in Argentine sovereign bonds with various maturities. On April 23, 2014, the agreement with Repsol S.A. was approved by the Argentine Congress and on May 8, 2014, Repsol S.A. received the relevant Argentine Government bonds. On July 10, 2018, the United States Court of Appeals for the Second Circuit affirmed a U.S. federal trial court decision, finding that Burford Capital Ltd's claim for more than US\$3 billion in damages against the Argentine government in connection with the nationalization of YPF S.A. is subject to the jurisdiction of the U.S. federal courts. The claim by Burford Capital Ltd. has been referred to the trial court for substantive proceedings.

There are other examples of intervention by the Argentine Government. In December 2012 and August 2013, Argentine Congress established new regulations relating to domestic capital markets. The regulations generally provided for increased Argentine Government intervention in the capital markets authorizing, for example, the CNV to appoint observers with the ability to veto the decisions of the board of directors of publicly listed companies under certain circumstances and to suspend the board of directors for a period of up to 180 days. However, on May 9, 2018, the Argentine Congress approved Law No. 27,440, which introduced modifications to the Capital Markets Law, including the removal of the CNV's power to appoint supervisors with powers of veto over resolutions adopted by a company's board of directors.

We cannot assure you that these or similar and other measures to be adopted by the Argentine Government, such as expropriation, nationalization, forced renegotiation or modification of existing contracts, new tax policies, modification of laws, regulations and policies that affect foreign trade, investment, among others, will not have an adverse effect on the Argentine economy and, as a consequence, adversely affect our business, financial condition and the results of our operations.

The Argentine Government may mandate salary increases for private sector employees, 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. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors experienced significant pressure from their employees and labor unions to increase wages and provide additional employee benefits. In August 2012, the Argentine Government established a 25% increase in the minimum monthly salary to Ps.2,875, effective as of February 2013. The Argentine Government increased the minimum monthly salary to Ps.3,300 in August 2013, to Ps.3,600 in January 2014, to Ps.4,400 in September 2014, to Ps.4,716 in January 2015, to Ps.5,588 in August 2015 and to Ps.6,060 as of January 2016. In May 2016, the Argentine Government announced a 33% increase in the minimum monthly salary to be implemented in three installments as follows: Ps.8,060 as of July 1, 2017, Ps.9,509 as of January 1, 2018 and Ps.10,000 in July 2018, an increase of 24% compared to the prior minimum. On August 8, 2018, the National Council for Employment, Productivity and Minimum Wage (Consejo Nacional del Empleo, la Productividad y el Salario M'nimo, Vital y Móvil), summoned by the National Labor Ministry, issued Resolution No. 3/2018 increasing the minimum monthly salary in four installments as follows: Ps.10,700 as of September 1, 2018, Ps.11,300 as of December 1, 2018, Ps.11,900 as of March 1, 2019 and Ps.12,500 as of June 2019, an increase of 25% compared to the prior minimum.

It is possible that the Argentine Government could adopt measures mandating further salary increases and/or the provision of additional employee benefits in the future. Any such measures could have a material and adverse effect on our business, financial condition and the results of our operations. On February 14, 2018, the INDEC published new data regarding the evolution of private and public-sector salaries. The total salaries index registered a growth of 27.5% during 2017, as a result of the 26.5% increase in salaries of the formal private sector and an increase of 31.5% in the informal private sector.

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. Many of the properties we own 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, 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 GDSs in U.S. dollars.

Exchange controls and restrictions on transfers abroad and capital inflow restrictions, if re-imposed, could limit the availability of international credit.

Until December 2015, there were many foreign exchange restrictions and controls that limited access to the MULC. However, in December 2015, the Macri administration announced certain reforms to the foreign exchange market with the intention of providing greater flexibility and ease of access to the foreign exchange market for individuals and private sector entities. On December 16, 2015, the Central Bank issued Communication "A" 5850, lifting most of the restrictions then in place. Among these measures, free access to the MULC was granted for the purchase of foreign currency intended for general purposes, without the need for obtaining the Central Bank's or the Administración Federal de Ingresos Públicos (the "AFIP") previous consent, 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 when the Central Bank issued Communications "A" 6037 and "A" 6150, thereby granting free access to the MULC. Pursuant to Resolution E 1/2017 of the Ministry of Treasury and Communication "A" 6,150 modified by Communication "A" 6,244 of the Central Bank, the obligation requiring non-residents who make portfolio investments in the country aimed at holding private sector financial assets to maintain for a period of 120 days the funds in the country was abolished. Pursuant to this resolution and the Central Bank Communication "A" 6,244, and its amendments, there are no restrictions on entry and exit in the MULC. Accordingly, due to lifting most of the restrictions to access to the MULC, the Central Bank eliminated the obligation to enter and settle funds in foreign currency originated from the export of services to non-residents through the MULC, to the extent that they are not part of the Free On Board ("FOB") value and/or Cost, Insurance and Freight ("CIF") of assets exported, eliminated the requirement of a minimum holding period of 72 business hours in relation to the purchase and sale of public securities authorized to trade on the different local and international stock markets, and eliminated the requirement of compulsory entry and liquidation of flows resulting from external debt, including principal and interests. However, the results of capital inflows in the exchange market must be accredited on an account opened by a local financial institution.

Although the Macri administration eliminated such restrictions, we cannot assure you that foreign exchange regulations will not be amended, or that new regulations will not be enacted in the future imposing greater limitations on funds flowing into and out of the Argentine foreign exchange market. Any such new measures, as well as any additional controls and/or restrictions, could materially affect our ability to access the international capital markets and, may undermine our ability to make payments of principal and/or interest on our obligations denominated in a foreign currency or transfer funds abroad to make payments on our obligations (which could affect our financial condition and results of operations). Therefore, Argentine resident or non-resident investors should take special notice of these regulations (and their amendments) that limit access to the foreign exchange market. In the future we may be prevented from making payments in U.S. dollars and/or making payments outside of Argentina due to the restrictions in place at that time in the foreign exchange market and/or due to the restrictions on the ability of companies to transfer funds abroad

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

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other global markets. The international scenario shows contradictory signals of global growth, as well as high financial and exchange uncertainty. Although such conditions may vary from country to country, investor reactions to events occurring in one country may affect capital flows to issuers in other countries, and consequently affect the trading prices of their securities. Decreased capital inflows and lower prices in the securities market of a country may have an adverse effect on the real economy of those countries in the form of higher interest rates and foreign exchange volatility.

During periods of uncertainty in international markets, investors generally choose to invest in high-quality assets (“flight to quality”) over emerging market assets. This has caused and could continue to cause an adverse impact on the Argentine economy and could continue to adversely affect the country’s economy in the near future. On June 20, 2018, MSCI Inc., a leading provider of indexes and portfolio construction and risk management tools and services for global investors (“MSCI”), reclassified and promoted Argentina to emerging markets status after being dropped to frontier status in May 2009. The MSCI Argentina Index will be included in the MSCI Emerging Markets Index in May 2019. However, MSCI will continue to restrict the inclusion in the index to only foreign listings of Argentinian companies, such as American Depositary Receipts, as the feedback from international institutional investors stated that higher liquidity across the domestic market is needed before considering a shift from offshore to onshore listings. MSCI will reevaluate this decision as liquidity conditions on the BYMA continue to improve.

Most emerging economies have been affected by the change in the U.S. monetary policy, resulting in the sharp unwinding of speculative asset positions, depreciations and increased volatility in the value of their currencies and higher interest rates. The general appreciation of the U.S. dollar resulting from a more restrictive U.S. monetary policy contributed to the fall of the international price of raw materials, increasing the difficulties of emerging countries which are exporters of these products. There is global uncertainty about the degree of economic recovery in the United States, with no substantial positive signals from other developed countries and an increased risk of a general deceleration in developing countries, specifically China, which is the main importer of Argentine commodities. Moreover, the recent challenges faced by the European Union to stabilize certain of its member economies, such as Greece, have had international implications affecting the stability of global financial markets, which has hindered economies worldwide. The Eurozone finance ministers, at a meeting held in August 2015, agreed a third bailout deal for Greece, which required the approval of several countries such as Germany, one of its main creditors.

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 the results of our operations. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including those in Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian depreciation in January 1999.

Likewise, the “flight to quality” has also affected Argentina, causing a deterioration of its sovereign spread that reached 783 basis points on September 4, 2018, based on the J.P. Morgan EMBI+ Index, worsening the conditions for accessing new external financing. On October 26, 2018, the Argentine country risk index reached 670 basis points by.

Argentina is affected by economic conditions of its major trade partners, such as Brazil, which devalued its currency in early February 2015, causing the Brazilian real to suffer the steepest depreciation in over a decade.

Brazil, which is Argentina's main trading partner, has experienced GDP contraction in recent years (3.5% in 2015 and 3.5% in 2016). Although Brazil's economic outlook seems to be improving, a further deterioration of economic activity, a delay in Brazil's expected economic recovery or a slower pace of economic improvement in Brazil may have a negative impact on Argentine exports and on the overall level of economic and industrial activity in Argentina, particularly with respect to the automotive industry. In February 2016, Standard & Poor's downgraded Brazil's credit rating to BB. In December 2015 and February 2016, Fitch Ratings and Moody's, respectively, also downgraded Brazil's credit ratings to BB+ and Ba2, respectively. In 2017, Brazil experienced a slight increase in its GDP, increasing by 1.0%. If the Brazilian economy's current recovery stalls or once again deteriorates, the demand for Argentine exports may be adversely impacted. In turn, on October 28, 2018, the presidential elections were held in Brazil, with the conservative candidate Jair Bolsonaro as the winner in the final round with 55.1% of the votes, who will take office on January 1, 2019. We can not predict the impact on the global economy, and particularly in Argentina, of the policies of the Bolsonaro's administration and, consequently, the results of our business, financial condition and the results of our operations.

Moreover, Argentina may be affected by other countries that have influence over world economic cycles, such as the United States or China. In particular, China, which is the main importer of Argentine commodities, saw the yuan depreciate since the end of 2015, which has adversely affected companies with substantial exposure to that country. Depreciation of the yuan continued during 2016, and Chinese economic growth slowed in 2016 and 2017. The slowdown of the Chinese economy and increased volatility of its financial markets could impact financial markets worldwide, which, in turn, could increase the cost and availability of financing both domestically and internationally for Argentine companies. Starting in April 2018, the U.S. imposed tariffs on steel and aluminum imports from China, as well as Canada and countries in the European Union. On July 6, 2018, the United States imposed 25% tariffs on US\$34 billion worth of Chinese goods, which then led China to respond with similarly sized tariffs on United States' products. On July 10, 2018, the Office of the U.S. Trade Representative (USTR) announced a 10% tax on a US\$200 billion list of 5,745 Chinese products, implemented as of September 24, 2018. Also, on September 18, 2018, the Chinese government announced a 5% to 10% tax on a US\$60 billion list of 5,207 American goods, implemented as of September 24, 2018. A new global economic and/or financial crisis or the effects of deterioration in the current international context, could affect the Argentine economy and, consequently, the results of our operations, financial condition and the trading price for our GDSs.

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

In a non-binding referendum on the United Kingdom's membership in the European Union on June 23, 2016, a majority of those who voted approved the United Kingdom's withdrawal from the European Union. Any withdrawal by the United Kingdom from the European Union (referred to as "Brexit") would occur after, or possible concurrently with, a process of negotiation regarding the future terms of the United Kingdom's relationship with the European Union, which could result in the United Kingdom losing access to certain aspects of the single EU market and the global trade deals negotiated by the European Union on behalf of its members. Negotiations for the exit of the United Kingdom began in early 2017 and the probable date for the departure is March 2019. As a result of Brexit, London could cease to be the financial center of Europe and some banks have already announced their intention to transfer many jobs to continental Europe and Ireland and have indicated that Germany could replace London as the financial center of Europe. 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 investment. The greatest impact of Brexit would be on the United Kingdom, however the impact may also be significant to the other member states.

As for Argentina, the consequences of Brexit are linked to the weakening of the pound and the euro, which has led to a significant appreciation of the U.S. dollar worldwide. An appreciation of the U.S. dollar and increased risk aversion could lead to a negative effect on the price of raw materials, which would be reflected in the products that Argentina exports to Europe. Another direct consequence of "Brexit" could be a decrease in prices of most commodities, a factor that could affect Argentina if prices stay low in the long term. Bilateral trade could also suffer, but would not be material, as the United Kingdom currently only represents approximately 1% of Argentina's total imports and exports. In addition, it is possible that Brexit could complicate Argentina's ability to issue additional debt in the international capital markets, as funding would be more expensive.

Donald Trump was elected president on November 8, 2016 and took office on January 20, 2017. The election of the new administration has generated volatility in the global capital markets. The new administration has implemented a comprehensive tax reform and has begun implementing more protectionist policies. The U.S. Federal Reserve recently increased the U.S. federal funds target rate, which has created additional volatility in the U.S. and the international markets. Changes in social, political, regulatory, and economic conditions in the United States or in laws and policies governing foreign trade could create uncertainty in the international markets and could have a negative impact on emerging market economies, including the Argentine economy, which in turn could adversely affect our business, financial condition and results of operations. The effect of these protectionist policies in the global economy remains uncertain.

Global economic conditions may also result in depreciation of regional currencies and exchange rates, including the Peso, which would likely also cause volatility in Argentina. The effect of global economic conditions on Argentina could reduce exports and foreign direct investment, resulting in a decline in tax revenues and a restriction on access to the international capital markets, which could adversely affect our business, financial condition and results of operations. A new global economic and/or financial crisis or the effects of deterioration in the current international context, could affect the Argentine economy and, consequently, our results of operations, financial condition and the trading price for our GDSS.

A decline in the international prices for Argentina’s main commodity exports or appreciation of the peso against the U.S. dollar could affect the Argentine economy and adversely affect the foreign exchange market, and have an adverse effect on our business financial condition and results of operations.

High commodity prices have contributed significantly to the increase in Argentine exports since the third quarter of 2002 as well as in government revenues from export taxes. However, this reliance on the export of commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. For example, the average monthly price of soybeans has decreased from US\$684 per metric ton in August 2012 to US\$404 per metric ton in August in July 2018. If international commodity prices decline, the Argentine Government’s revenues would decrease significantly, which could adversely affect Argentina’s economic activity.

In addition, adverse weather conditions can affect agricultural production, which accounts for a significant portion of Argentina’s export revenues. In 2018, Argentina suffered a severe drought, resulting in a year-on-year contraction of GDP of 4.2% in the second quarter of 2018, mainly as a result of the year-on-year decrease of 31.6% in the agricultural, livestock, hunting and forestry sectors. These circumstances could have a negative impact on the levels of government revenues, available foreign exchange and the Argentine Government’s ability to service its sovereign debt, and could either generate recessionary or inflationary pressures, depending on the Argentine Government’s reaction. Either of these results would adversely impact Argentina’s economy growth and, therefore, our business, financial condition and results of operations.

A significant increase in the real appreciation of the peso could affect Argentina’s competitiveness, substantially affecting exports, and this in turn could prompt new recessionary pressures on the country’s economy and a new imbalance in the foreign exchange market, which could lead to a high degree of volatility in the exchange rate. More importantly, in the short term, a significant appreciation of the real exchange rate could substantially reduce Argentine public sector’s tax revenues in real terms, given the strong reliance on taxes on exports (withholdings). The occurrence of the foregoing could lead to higher inflation and potentially materially and adversely affect the Argentine economy, as well as 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 of energy tariffs 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, demand for natural gas and electricity has increased substantially, driven by a recovery in economic conditions and price constraints, which prompted the Argentine Government to adopt a series of measures that have resulted in industry shortages and/or higher costs. In particular, Argentina has been importing natural gas to compensate for shortages in local production. In order to pay for natural gas imports the Argentine Government has frequently used Central Bank reserves given the absence of foreign direct investment. If the Argentine Government is unable to pay for imports of natural gas, economic activity, business and industries may be adversely affected.

The Argentine Government has taken 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 required to increase natural gas production and electric energy transportation capacity and generation over the medium- and long-term is not available, economic activity in Argentina could be curtailed, and with it our operations. As a first step of these measures, a series of tariff increases and subsidy reductions (primarily applicable to industries and high-income consumers) were implemented. On December 17, 2015, and after publication of Decree No. 134/2015, the Macri administration declared the National Electricity System Emergency until December 31, 2017 and ordered the Ministry of Energy and Mining to propose measures and guarantee the electrical supply. Ministry of Energy and Mining Resolution No. 06/2016 of January 2016 set new seasonal reference prices for power and energy on the Mercado Electrónico Mayorista (MEM) for the period from February 1, 2016 to April 30, 2016 and set an objective to adjust the quality and security of electricity supply.

In February 2016, the Argentine Government reviewed the schedule of electricity and gas tariffs and eliminated the subsidies of these public services, which would have resulted in increases of 500% or more in energy costs, except for low-income consumers. By correcting tariffs, modifying the regulatory framework and reducing the Argentine Government's participation in the energy sector, the Argentine Government sought to correct distortions in the energy sector and make the necessary investments. In July 2016, a federal court in the city of La Plata suspended the increase in the gas tariff throughout the Province of Buenos Aires. On August 3, 2016, a federal court in San Martín suspended the increase in gas tariffs throughout the country until a public hearing was held to discuss the rate increase. The judgment was appealed to the Supreme Court, and on August 18, 2016, the Supreme Court ruled that the increase in the gas tariff of residential users could not be imposed without a public hearing. On September 16, 2016, the public hearing was held where it was agreed that the gas tariff would increase by approximately 200% in October 2016, with biannual increases through 2019.

As for other services, including electricity, a public hearing was held on October 28, 2016 to consider a proposed 31% tariff increase sought by energy distributors. Subsequently, the Argentine Government announced increases in electricity rates of between 60% and 148%. On March 31, 2017, the Ministry of Energy and Mining published a new tariff schedule with increases of approximately 24% for supply of natural gas by networks that had been partially regulated since April 1, 2017. In addition, on November 17, 2017, a public hearing convened by the Minister of Energy and Mining was held to update the tariff schedule for natural gas and electricity. The new tariff schedule foresees a gradual reduction of subsidies, resulting in an increase, between December 2017 and February 2018, between 34% and 57% (depending on the province) for natural gas and 34% for electricity. In addition, on May 31, 2018, the Argentine Congress approved a law seeking to limit the increase in energy tariffs implemented by the Macri administration, which was subsequently vetoed by President Macri. On August 1, 2018, pursuant Resolution No. 208/2018 of the National Electricity Regulatory Board (ENRE), the Ministry of Energy published a new tariff schedule with increases in electricity rates.

Changes change in energy regulatory framework and the establishment of increased tariffs for the supply of gas and electricity could affect our cost structure and increase operating and public service costs. Moreover, the significant increase in the cost of energy in Argentina, could have an adverse effect on the Argentine economy, and therefore, on our business, financial condition and results of operations.

Failure to adequately address actual and perceived risks of institutional deterioration and corruption may adversely affect the Argentine economy and financial condition, which in turn could adversely affect our business, financial condition and results of operations.

The lack of a solid institutional framework and the notorious incidents of corruption that have been identified as a significant problem for Argentina. In Transparency International's Corruption Perceptions Index survey, Argentina ranked 85 out of 180 in 2017, 95 out of 167 in 2016 and 106 out of 167 countries in 2015. In the World Bank's "Doing Business 2017" report, Argentina ranked 116 out of 190 countries.

Recognizing that the failure to address these issues could increase the risk of political instability, distort decision-making processes and adversely affect Argentina's international reputation and its ability to attract foreign investment, the Macri administration announced various measures aimed at strengthening Argentina's institutions and reducing corruption. These measures include the signing of collaboration agreements with with the judicial Branch in corruption investigation, greater access to public information, the seizure of assets of officials prosecuted for corruption, the increase of the powers of the Argentine Anti-Corruption Office and the approval of a new public ethics law, among others. The Argentine Government's ability to implement these initiatives remains uncertain since it would require the participation of the judiciary as well as the support of opposition legislators. We cannot guarantee that the implementation of these measures will be successful.

As of the date of this annual report, a large-scale corruption investigation in Argentina has been announced by the Argentine government. The investigation related to a decade's worth of payments to government officials from businessmen who had been awarded large government contracts. Since the scandal became public, Argentine authorities have raided high-profile businesses, and President Macri stated that he hoped the case would be a watershed moment in the fight against corruption in Argentina.

Current corruption investigations in Argentina could have an adverse impact on the development of the economy and investor confidence.

The Argentine Government has announced a large-scale corruption investigation in Argentina. The investigation relates to payments over the past decade to government officials from businessmen and companies who had been awarded large government contracts. As of the date of this annual report, several Argentine businessmen, mainly related to public works, and approximately fifteen former government officials of the Fernández de Kirchner administration are being investigated for bribery to the State. As a result, on September 17, 2018, the former president of Argentina, Cristina Fernandez de Kirchner, and several businessmen were prosecuted for illegal association, and goods for Ps. 4 billion were seized.

Depending on the results of such investigations and the time it takes to conclude them, the companies involved could face, among other consequences, a decrease in their credit rating, be subject to claims by their investors, as well as experiencing restrictions on financing through the capital markets. These adverse effects could hamper the ability of these companies to meet their financial obligations on time. In connection with the aforementioned, the lack of future financing for these companies could affect the realization of the projects or works that are currently in execution.

In addition, the effects of these investigations could affect the investment levels in infrastructure in Argentina, as well as the continuation, development and completion of public works and Public-Private Participation projects, which could ultimately lead to lower growth in the Argentine economy.

As of the date of this annual report, we have not estimated the impact that this investigation could have on the Argentine economy. Likewise, we cannot predict for how long corruption investigations could continue, what other companies might be involved, or how important the effects of these investigations might. In turn, the decrease in investors' confidence, among other factors, could have a significant adverse impact on the development of the Argentine economy, which could adversely affect our business, financial condition and the results of our operations.

If Argentina's implementation of laws relating to anti-money laundering and to combating the financing of terrorism (AML/CRT) are insufficient, Argentina may have difficulties in obtaining international financing and/or attracting foreign direct investments.

In October 2010, the Financial Action Task Force ("FATF") issued a Mutual Evaluation Report (the "Mutual Report") on Anti-Money Laundering and Combating the Financing of Terrorism in Argentina, including the evaluation of Argentina as of the time of the on-site visit which took place in November 2009. This report stated that since the latest evaluation, finalized in June 2004, Argentina had not made adequate progress in addressing a number of deficiencies identified at the time, and the FATF has since placed Argentina on an enhanced monitoring process. Moreover, in February 2011, Argentina, represented by the Minister of Justice and Human Rights, attended the FATF Plenary, in Paris, in order to present a preliminary action plan. FATF granted an extension to implement changes. In June 2011, Argentina made a high-level political commitment to work with the FATF to address its strategic AML/CFT deficiencies. In compliance with recommendations made by the FATF on money laundering prevention, on June 1, 2011 the Argentine Congress enacted Law No. 26,683. Under this law, money laundering is now a crime per se, and self-laundering money is also considered a crime. Additionally, in June 2012, the Plenary meeting of the FATF held in Rome highlighted the progress made by Argentina but also urged the country to make further progress regarding its AML/CFT deficiencies. Notwithstanding the improvements that Argentina made, in October 2012 the FATF determined that certain strategic AML/CFT deficiencies continued, and that Argentina would be subject to continued monitoring.

Since October 2013, Argentina has taken steps towards improving its AML/CFT regime, including issuing new regulations to strengthen suspicious transaction reporting requirements and expanding the powers of the financial sector regulator to apply sanctions for AML/CFT deficiencies. Such progress has been recognized by the FATF. In this regard, the FATF (pursuant to its report dated June 27, 2014) concluded that Argentina had made significant progress in adopting measures to address AML/CFT deficiencies identified in the Mutual Report, and that Argentina had strengthened its legal and regulatory framework, including: (i) reforming and strengthening penalties for money laundering by enhancing the scope of reporting parties covered and transferring AML/CFT supervision to the Financial Information Unit (Unidad de Información Financiera or "UIF") of the Ministry of Treasury; (ii) enhancing terrorist financing penalties, in particular by criminalizing the financing of terrorist acts, terrorists, and terrorist organizations; (iii) issuing, through the UIF, a series of resolutions concerning customer due diligence (CDD) and record-keeping requirements as well as other AML/CFT measures to be taken by reporting parties; and (iv) creating a framework to comply with United Nations Security Council Resolutions 1,267 and 1,373. As a result of such progress, the FATF Plenary concluded that Argentina had taken sufficient steps toward technical compliance with the core and key recommendations and should thus be removed from the monitoring process. In addition, on October 24, 2014, the FATF acknowledged Argentina's significant progress in improving its AML/CFT regime and noted that Argentina had established the legal and regulatory framework to meet commitments in its action plan and would no longer be subject to the FATF's AML/CFT compliance monitoring process, and concluded that Argentina would continue to work with the FATF and the Financial Action Task Force of Latin America (Grupo de Acción Financiera de América del Sur, or "GAFISUD") to address any other issues identified in its Mutual Report.

In February 2016, the “National Coordination Program for the Prevention of Asset Laundering and the Financing of Terrorism” was created by Executive Decree No. 360/2016 as an instrument of the Ministry of Justice and Human Rights, charged with the duty to reorganize, coordinate and strengthen the national system for the prevention of money laundering and the financing of terrorism, taking into consideration the specific risks that might impact Argentina and the global emphasis on developing more effective compliance with international regulations and the standards of the FATF. In addition, relevant rules were modified to designate the Ministry of Justice and Human Rights as the coordinator at the national level of public and private agencies and entities, while the UIF coordinate activities that relate to financial matters.

Recently, in the context of the voluntary disclosure program under the Argentine tax amnesty, Law No. 27,260 and its regulatory decree No. 895/2016, clarified that the UIF has the power to communicate information to other public agencies that deal with intelligence and investigations if the UIF is in possession of evidence that crimes under the Anti-Money Laundering Law may have been committed. In addition, pursuant to the UIF Resolution No. 92/2016, reporting agents must adopt special risk management system to address the complying with the law as well as to report operations carried out under the tax amnesty.

Although Argentina has made significant improvements in its AML/CFT regulations, and is no longer subject to the FATF’s on-going global AML/CFT monitoring process, no assurance can be given that Argentina will continue to comply with AML/CFT international standards, or that Argentina will not be subject to compliance monitoring in the future, any of which could adversely affect Argentina’s ability to obtain financing from international markets and attract foreign investments.

We are exposed to risks in relation to compliance with anti-corruption and anti-bribery laws and regulations.

Our operations are subject to various anti-corruption and anti-bribery laws and regulations, including the Corporate Criminal Liability Law and the U.S. Foreign Corrupt Practices Act of 1977 (the “FCPA”). Both the Corporate Criminal Liability Law and the FCPA impose liability against companies who engage in bribery of government officials, either directly or through intermediaries. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of our business, we may deal with entities in which the employees are considered government officials. We have a compliance program that is designed to manage the risks of doing business in light of these new and existing legal and regulatory requirements.

Although we have internal policies and procedures designed to ensure compliance with applicable anti-corruption and anti-bribery laws and regulations, there can be no assurance that such policies and procedures will be sufficient. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on us, limits being placed on our activities, our authorizations and licenses being revoked, damage to our reputation and other consequences that could have a material adverse effect on our business, results of operations and financial condition. Further, litigations or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could be costly.

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 outside our control;
- the accessibility and 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 rental units in our shopping malls;
- the increasing competition from internet sales;
- the amount of rent collected from tenant at our shopping mall;
- changes in consumer demand and availability of consumer credit (considering the limits imposed 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 shut down. 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, 2018, 86% of our sales from leases and services provided by the Shopping Malls segment were derived from shopping malls in the City of Buenos Aires and the Greater Buenos Aires. 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 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 consumer 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 expenses, employee expenses, utilities, real estate taxes and 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 when due;
- changes in our 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 Civil and Commercial Code (effect 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, our financial condition and results of operations could be materially and 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.

Our revenue and net income may be materially and adversely affected by continuing inflation and any economic slowdown in Argentina.

Our business is mainly driven by consumer spending since a portion of our revenue from our shopping mall segment derives directly from the sales of our tenants. In addition, our tenants' revenue relies mainly on the sales to customers. As a result, our revenue and net income are impacted to a significant extent by economic conditions in Argentina, including the development in the textile industry and domestic consumption, which has suffered a significant low in 2018. The Argentine economy and level of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, inflation, political uncertainty, level of employment, interest rates, taxation and currency exchange rates.

Any continuing economic slowdown, whether actual or perceived, could significantly reduce domestic consumer spending in Argentina and therefore adversely affect our business, financial condition and results of operations.

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.

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Our business is mainly driven by consumer spending since a portion of our revenue from our shopping mall segment derives directly from the sales of our tenants. In addition, our tenants' revenue relies mainly on the sales to costumers. As a result, our revenue and net income are impacted to a significant extent by economic conditions in Argentina, including the development in the textile industry and domestic consumption, which has suffered a significant low in 2018. The Argentine economy and level of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, inflation, political uncertainty, level of employment, interest rates, taxation and currency exchange rates.

Any continuing economic slowdown, whether actual or perceived, could significantly reduce domestic consumer spending in Argentina and therefore adversely affect our business, financial condition and results of operations.

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 or at all;
- 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 are unfamiliar 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 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;
- liabilities related to changes in laws or in 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 on 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 malls and shopping malls. Similarly, the 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 recurrence 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 reputation 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 certain 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 mall and commercial office properties 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 both 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 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, 2018, our consolidated financial debt amounted to Ps.296,633 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.

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.

Labor relations may negatively impact us.

As of June 30, 2018, 62.7% 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.

As of June 30, 2018, we had fair value gains on investment properties of Ps.22,605 million. 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.

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

As of June 30, 2018, 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 Commercial Properties ("IRCP"), 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, which 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.

If the bankruptcy of Inversora Dársena Norte S.A. is extended to our subsidiary Puerto Retiro S.A., 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 vicinities 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 and requested the case records to issue 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 that reason the case will not be assigned until a final judgment is issued 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 assessment cannot be considered 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 this decision, which was rejected. The other two objections were considered in the verdict.

On September 7, 2018, Court read its verdict, according to which the preliminary objection of limitation filed by Puerto Retiro was successful. However, the deadline for appeals will not begin until The Court publishes the grounds of the ruling, on November 30, 2018. Nevertheless, in the criminal procedure -where Puerto Retiro is not a party- Court ordered the seizure ("*decomiso*") of the land known as "Planta 1". This Court's verdict is not final, as it is subject to further appeals by any party of the legal proceeding.

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

We develop and acquire properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. For example, we currently own 50% of Quality Invest S.A. ("Quality Invest"), a joint venture that holds our investment in the Nobleza Piccardo plant. 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 may face potential conflicts of interest relating to our principal shareholders.

Our largest beneficial owner is Mr. Eduardo S. Elstain, through his indirect shareholding through Cresud S.A.C.I.F.y A. (“Cresud”). As of June 30, 2018, such beneficial ownership consisted of: (i) 366,788,243 common shares held by Cresud. 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, 2018, Mr. Elstain also beneficially owned (i) approximately 34.74% of Cresud’s common shares and (ii) approximately 86.3% of the common shares of our subsidiary IRSA CP. 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.

Risks Related to our Investment in Banco Hipotecario

As of June 30, 2018, we owned approximately 29.9% 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

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 growth and profitability of Argentina’s financial system partially depend on the development of long-term funding. Since most deposits in the Argentine financial system are short-term, a substantial portion of the loans have the same or similar maturities, and there is a small portion of long-term credit lines. The uncertainty with respect to the level of inflation in future years, is a principal obstacle to a faster recovery of Argentina’s private sector long-term lending. This uncertainty has had, and may continue to have a significant impact on both the supply of and demand for long-term loans as borrowers try to hedge against inflation risk by borrowing at fixed rates while lenders hedge against inflation risk by offering loans at floating rates. If longer-term financial intermediation activity does not grow, the ability of financial institutions, including Banco Hipotecario, to generate profits will be negatively affected.

Banco Hipotecario issues debt in the local and international capital markets as one of its main sources of funding and its capacity to successfully access the local and international markets on favorable terms affects our cost of funding.

The ability of Banco Hipotecario to successfully access the local and international capital markets and on acceptable terms depends largely on capital markets conditions prevailing in Argentina and internationally. Banco Hipotecario have no control over capital markets conditions, which can be volatile and unpredictable. If Banco Hipotecario is unable to issue debt in the local and/or international capital markets and on terms acceptable to us, whether as a result of regulations, a deterioration in capital markets conditions or otherwise, we would likely be compelled to seek alternatives for funding, which may include short-term or more expensive funding sources. If this were to happen, Banco Hipotecario may be unable to fund our liquidity needs at competitive costs and our business results of operations and financial condition may be materially and adversely affected.

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, 9.2% in 2016, 10.4% in 2017 and 10.5% as of June 30, 2018. 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, 2018, such securities issued by the Central Bank represented approximately 9.4% of the total assets of the Argentine financial system. As of June 30, 2018, Banco Hipotecario’s total exposure to the public sector was Ps. 3,856.8 million, which represented 5.9% of its assets as of that date, and the total exposure to securities issued by the Central Bank was Ps.10,660.3 million, which represented 22.2% of its total assets as of June 30, 2018.

The quality of Banco Hipotecario’s assets of banco Hipotecario and that of other financial institutions may deteriorate if the Argentine private sector is affected by economic events in Argentina or international macroeconomic conditions.

The capacity of many Argentine private sector debtors to repay their loans has in the past deteriorated as a result of certain economic events in Argentina or macroeconomic conditions, materially affecting the asset quality of financial institutions, including us. From 2009 to 2011, the ratio of non-performing private sector lending declined, with a record non-performing loan ratio of 1.4% as of December 31, 2011 for the financial system as a whole. The improvement was reflected in both the consumer loan portfolio and the commercial portfolio. From 2012, the ratio of non-performing private sector loans for the financial system as a whole increased, reaching 2.0% as of December 31, 2014. In 2015, the ratio of non-performing private sector lending of the financial system as a whole decreased to 1.7% in 2016 and to 1.8% in 2017. Banco Hipotecario experienced the following non-performing loan rates: 2.3%, 2.0%, 2.7% and 3.8% as of December 31, 2014, 2015, 2016 and 2017, respectively. The quality of its loan portfolio is highly sensitive to economic conditions prevailing from time to time in Argentina, and as a result if Argentina were to experience adverse macroeconomic conditions, the quality of Banco Hipotecario’s loan portfolio and the recoverability of our loans would likely be adversely affected. This might affect the creditworthiness of Banco Hipotecario’s loan portfolio and the results of operations.

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.

The effects of legislation that restricts our ability to pursue mortgage foreclosure proceedings could adversely affect us.

The ability to pursue foreclosure proceedings through completion, in order to recover on defaulted mortgage loans, has an impact on financial institutions activities. On December 13, 2006, pursuant to Law No. 26,177, the “Restructuring Unit Law” was created to allow all mortgage loans to be restructured between debtors and the former Banco Hipotecario Nacional, insofar as such mortgages had been granted prior to the effectiveness of the Convertibility Law. Law No. 26,313, the “Pre-convertibility Mortgage Loans Restructuring Law,” was enacted by the Argentine Congress on November 21, 2007 and partially signed into law on December 6, 2007 to establish the procedure to be followed in the restructuring of mortgage loans within the scope of Section 23 of the Mortgage Refinancing System Law in accordance with the guidelines established by the Restructuring Unit Law. To this end, a recalculation was established for certain mortgage loans originated by the former Banco Hipotecario Nacional before April 1, 1991.

Executive Branch Decree No. 2,107/08 issued on December 19, 2008 regulated the Pre-convertibility Mortgage Loans Restructuring Law and established that the recalculation of the debt applies to the individual mortgage loans from global operations in effect on December 31, 2008 and agreed upon prior to April 1, 1991, and in arrears at least since November 2007 and remaining in arrears on December 31, 2008. In turn, the Executive Branch Decree No. 1,366/10, published on September 21, 2010, expanded the universe of Pre-convertibility loans subject to restructuring to include the individual mortgage loans not originating in global operations insofar as they met the other requirements imposed by Executive Branch Decree No. 2,107/08. In addition, Law No. 26,313 and its regulatory decrees also condoned the debts on mortgage loans granted before the Convertibility Law in so far as they had been granted to deal with emergency situations and in so far as they met the arrears requirement imposed on the loans subject to recalculation.

Subject to the Central Bank’s supervision, Banco Hipotecario implemented the recalculation of mortgage loans within the scope of the aforementioned rules by adjusting the value of the new installments to a maximum amount not in excess of 20% of household income. In this respect, we estimate that Banco Hipotecario has sufficient loan loss provisions to face any adverse economic impact on the portfolio involved. We cannot assure that the Argentine Government will not enact additional laws restricting our ability to enforce our rights as a creditor and/or imposing a condition or a reduction of principal on the amounts unpaid in our mortgage loan portfolio. Any such circumstance could have a significant adverse effect on our financial condition and the results of our 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. However, in recent years some court decisions have established the obligation to pay the in foreign currency when it was so freely agreed by the parties. 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.

The exposure of Banco Hipotecario to individual borrowers could lead to higher levels of past due loans, allowances for loan losses and charge-offs.

A substantial portion of Banco Hipotecario's loan portfolio consists of loans to individual customers in the lower-middle to middle income segments of the Argentine population. The quality of Banco Hipotecario's portfolio of loans to individuals is dependent to a significant extent on economic conditions prevailing from time to time in Argentina. Lower-middle to middle income individuals are more likely to be exposed to and adversely affected by adverse developments in the Argentine economy than corporations and high-income individuals. As a result, lending to these segments represents higher risk than lending to such other market segments. Consequently, Banco Hipotecario may experience higher levels of past due amounts, which could result in higher provisions for loan losses. Therefore, there can be no assurance that the levels of past due amounts and subsequent charge-offs will not be materially higher in the future.

An increase in fraud or transaction errors may adversely affect Banco Hipotecario.

As with other financial institutions, Banco Hipotecario is susceptible to, among other things, fraud by employees or outsiders, unauthorized transactions by employees and other operational errors (including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). Given the high volume of transactions that may occur at a financial institution, errors could be repeated or compounded before they are discovered and remedied. In addition, some of our transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult to detect quickly or at all. Losses from fraud by employees or outsiders, unauthorized transactions by employees and other operational errors might adversely affect Banco Hipotecario's reputation, business, the results of operations and financial condition.

Risks relating to our business in the United States

If we are not able to occupy the vacant lease positions of our buildings we could suffer a negative impact in the cash flows of the property that could adversely affect our business, financial condition and results

On July 2008, IRSA decided to expand internationally into the United States, taking advantage of certain investment opportunities generated after the global financial crisis. IRSA acquired a 49% interest in Metropolitan 885 3rd Ave ("Metropolitan"), whose main asset is a 34-story building with 59,000 sqm of gross leasable area named Lipstick Building, located at 885 Third Avenue, New York. The building is currently 97% occupied and comprises 54,340 sqm of office, 720 sqm of retail and 3,940 sqm of below grade storage and potential amenity space. Latham & Watkins occupies 40,035 sqm of the office and storage space on a lease expiring on June 30, 2021. In April 2018, Latham & Watkins communicated to us its intention to not renew its lease. As a consequence of that, new investments and capital expenditures will be required to upgrade the lobby, amenity spaces and common areas of the building in order to maximize building rents going forward, as well as to market the impending vacancy in the building.

If we are not able to lease the space that Latham & Watkins occupies with other tenants, the cash flows of the property that we receive from this will decrease, which could adversely affect IRSA's business, financial condition and results of operation

Risks relating to Israel

The implementation of the Law to Promote Competition and Reduce Concentration, 5774-2013 may have implications on IDBD, DIC and their respective subsidiaries.

In December 2013, the Law to Promote Competition and Reduce Concentration, 5774- 2013, was published in the Official Gazette (hereinafter, in this section: the **“Reduced Centralization Act”**):

1. According to the provisions of the Reduced Centralization Act, a pyramid structure for the control of “reporting corporations” (in general, corporations whose securities were offered to and are held by the public) is restricted to 2 tiers of reporting corporations (where a first tier company may not include a reporting corporation which does not have a controlling shareholder). In accordance with transitional provisions which were determined in the Reduced Centralization Act, a third tier company or higher tier company is no longer entitled to control reporting corporations, except for corporations as stated above which are under its control as of the publication date of the Law in the Official Gazette (herein, the **“Publication Date”**), regarding which it will be required to discontinue control by no later an December 2017 (the **“2017 Requirement”**). It is noted that so long as a reporting corporation is considered a second tier company in accordance with the law, it is not entitled to control reporting corporations, and insofar as, on the publication date, it holds control of reporting corporations, it must discontinue its control of such corporations by no later than December 2019 (the **“2019 Requirement”**).
2. On the date of the Reduced Centralization Act’s publication in the Official Gazette, DIC was considered a third tier company, and the reporting corporations controlled by DIC were considered fourth and fifth tier companies. In May 2014, the control of IDBD changed as part of the completion of the creditors’ settlement in IDB Holding Corporation Ltd. (**“IDB Holding”**), and subsequently, DIC ceased being considered a third tier company, and is as of that date was considered a second tier company.
3. In August 2014, the Boards of Directors of IDBD and DIC each resolved to appoint (separate) advisory committees to evaluate various alternatives for dealing with the implications of the law, and of its fulfillment of the restrictions specified therein, with respect to the control of companies through a pyramid structure, with the intention to allow the continued control by IDBD and/or DIC of “other tier companies” (which are currently directly held by DIC) also after December 2019. It is noted that the alternatives which were evaluated by the advisory committee of DIC’s Board of Directors included, inter alia, possible structural changes to all tiers (i.e., both on the tier of IDBD, which was DIC’s controlling shareholder at the time, and on the tiers of DIC, PBC and its investee companies), including a preliminary evaluation of several alternatives with respect to the 2017 Requirement.
4. Further to the above, due to the fact that some of the possible actions and/or structural changes may have included transactions in which DIC’s controlling shareholders may have had a personal interest, and in accordance with the recommendations of the advisory committee, the DIC’s Board of Directors resolved, on March 22, 2017, to authorize the audit committee to evaluate various alternatives for the DIC’s dealing with the requirements of the Reduced Centralization Act with respect to the 2017 Requirement, and also in light of the 2019 requirement and possible structural changes on the first tier (i.e., IDBD and its holdings, at the time, in DIC). DIC was also informed, at that time, by IDBD that IDBD is also evaluating various alternatives for dealing with the requirements of the law with respect to the 2017 requirement, and also in consideration of the 2019 requirement, and accordingly, the Board of Directors of IDBD established an independent committee of the Board, which is comprised of outside and independent directors only (herein, the **“Committee”**).
5. With the consent of the DIC’s audit committee, as stated above, it held a series of discussions, in which it evaluated several alternatives for the manner by which DIC, and all tiers in the Group, will address the 2017 requirement, including an evaluation of the feasibility of alternatives to which DIC is not directly party, and an evaluation of the feasibility of other alternatives. The committee’s work was accompanied by external independent advisors, who were appointed and chosen by the committee.
6. In parallel, and further to a series of discussions which were held by the independent committee of IDBD, the aforementioned independent committee of IDBD decided that the preferred alternative, from the perspective of IDBD, in terms of IDBD’s response to the 2017 requirement, is the alternative in which IDBD sells all of its shares in DIC (as of the date of implementation of the alternative) to a special purpose entity (which will be a private company incorporated in Israel, and a “non-reporting corporation”, as this term is defined in the Securities Law, 5728-1968) wholly owned by corporations under the control of the controlling shareholder of IDB Development, Mr. Eduardo Elsztain (the **“Preferred Alternative”**).

7. Further to the decision of the independent committee of the Board of Directors of IDBD on this matter, on May 25, 2017, the Audit Committee and Board of Directors of IDBD, respectively, adopted the recommendations of the aforementioned committee, and its decision regarding the preferred alternative for IDBD's dealing with the 2017 requirement.
8. In light of the decisions of the independent committee, the audit committee and the Board of Directors of IDBD, the audit committee of DIC on August 16, 2017, decided that the aforementioned alternative is preferred, from its perspective for the way in which DIC should cope with the provisions of the Reduced Centralization Act in relation to the requirement for 2017, and that it will continue evaluating, if necessary, and insofar as may be required, additional potential alternatives for DIC's dealing with the provisions of the Reduced Centralization Act.
9. Further to the foregoing, in September 2017, following the negotiations between the committee, with the accompaniment of its independent advisors (legal and economic), and Dolphin Netherlands, as well as additional discussions between the parties, and following the receipt of the committee's approval, IDBD and Dolphin Netherlands signed a memorandum of understanding in connection with the implementation of the transaction (herein, the **"Transaction"**) for the sale of all DIC shares which are held by IDBD to a private company which is incorporate, or which incorporated, in Israel, which is affiliated with Dolphin Netherlands, and controlled by DIC's controlling shareholder, based on the principles which were determined by the committee (herein, the **"Memorandum of Understanding"**). In October 2017, after discussions had been held with the holders of IDBD's bonds and their representatives, and also after meetings had been held of the holders of all of the series of IDBD's bonds, and after the receipt of the Committee's approval, IDBD and Dolphin Netherlands signed on an amendment to the Memorandum of Understanding.
10. On November 22, 2017, after the legally required approvals were received, the transaction was completed. Accordingly, inter alia, all of DIC's shares which were held by IDBD (106,780,853 shares) were transferred to Dolphin IL., a private company incorporated in Israel, and which is wholly owned by Dolphin Netherlands (herein: the **"Buyer"**), the Buyer issued the debenture to IDBD, and additionally, IDBD received a total of NIS 70 million from the buyer, in accordance with the determined terms of the transaction. Additionally, within the framework of the completion of the transaction, as part of the collateral which was provided by the buyer to IDB Development, in connection with the debenture, the buyer deposited 9,636,097 DIC shares with I.B.I. Trust Management, which serves as the trustee for the debenture on behalf of IDBD and the Buyer, in accordance with the debenture's terms.
11. Beginning from the transaction closing date, DIC ceased being considered a second tier company, and is now considered a first tier company only, as defined in the Reduced Centralization Act, which led to the postponement of the application of the requirements of the Reduced Centralization Act with respect to reporting corporations which constitute other tier companies, and which under his control until December 2019.
12. As part of the process in IDBD of dealing with the requirements of the provisions of the Reduced Centralization Act, in November 2017, IDBD sold all of the shares of DIC which were held by it to Dolphin IL Investments Ltd. (**"Dolphin IL"**), a private company incorporated in Israel, which is wholly owned by Dolphin Netherlands B.V. (**"Dolphin Netherlands"**), a corporation controlled by the Company's controlling shareholder (in this section, the **"Transaction"**). Accordingly, beginning on the closing date of the transaction, IDBD no longer holds control of any "other tier companies", and therefore, it now complies with the requirements of the Reduced Centralization Act with respect to pyramid structures. For more information, see "Item 4. Business Overview - General regulations applicable to our business in Israel - Reduced Centralization Act."
13. DIC's Board of Directors appointed an advisory committee in order to evaluate various alternatives for DIC's dealing with the implications of the Reduced Centralization Act, and for its fulfillment of the restrictions specified therein, with respect to the control of companies through a pyramid structure.

Following the Transaction, DIC became a first tier company, as this term is defined in the Reduced Centralization Act, which led to the postponement of the requirement to apply the provisions of the Reduced Centralization Act with respect to reporting corporations which are other tier companies, and which are under the DIC's control, to December 2019. Bearing that in mind in June 2018, a transaction was completed in which DIC sold 16.6% of the issued share capital of Shufersal, for a total net consideration of NIS 848 million. DIC's stake in the issued share capital of Shufersal decreased to approximately 33.6%, and on the sale date, it ceased holding control of Shufersal. DIC continues to consider various alternatives for dealing with the demand for 2019. These alternatives may include possible structural changes in some of the companies in the DIC Group, that are affected by the demand for 2019 (that is, at the level of DIC's layer or at the level of PBC or companies under its control).

The deterioration of the global economy and changes in capital markets in Israel and around the world may affect IDBD, DIC and their respective subsidiaries.

A recession or deterioration of capital markets around the world and in Israel (including volatility in securities prices, exchange rates and interest rates), are affecting and may have a negative affect IDBD, DIC and their subsidiaries, on the profits of operations due to lower demand for products of the subsidiaries of IDBD or DIC, on the value of the marketable securities or other assets owned by them, liquidity and equity position of IDBD, DIC and their subsidiaries, raise of capital or access the capital markets in Israel and abroad on the financial terms acceptable to IDBD, DIC and their respective subsidiaries, which could limit their ability to or financial covenants under IDBD's credit agreement and other financial agreements, on their ratings, their ability to distribute dividends; 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 and regulation may have an impact on IDBD's and DIC's operations.

In recent years, an increase in legislation and regulation had a negative effect in various operating segments in the Israeli economy, including in the segments in which IDBD and DIC operates.

New legislation in various areas in Israel and abroad, such as concentration, promotion of competition and antitrust laws, tax laws, regulation of the communication market, supervision of the insurance business operations, capital investments initiatives, 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, that have had a negative effect and sometimes a significantly negative effect, on the business operations, on their financial results and on the prices of their securities, and the results of IDBD's, DIC's and of their respective subsidiaries. Additionally, the segments in which IDBD operates are subject to regulation by government agencies and may impose penalties to breach of those regulations. An increase of these penalties, monetary or otherwise may effect in our reports of operations. The Company believes that the foregoing has a significant impact on IDBD, DIC and on their business operations.

Some of IDBD's and DIC's subsidiaries operate of Israel, have securities which are traded on foreign stock exchanges. Changes in legislation and in the regulatory policies of those 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 these companies.

In addition, changes in IFRS or in the accounting principles which apply to IDBD and DIC and their subsidiaries may have a negative impact on their financial results of IDBD and its subsidiaries, on their fulfillment of financial covenants, permits and licenses under which we distribute dividends.

IDBD, DIC and their subsidiaries are exposed to fluctuations of the interest rate and the value of the risks.

IDBD and DIC and their 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 (i.e. due to the scope of their CPI-linked liabilities of IDBD 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 Property & Building ("PBC").

IDBD and DIC hold assets and manages its business affairs in Israel. Therefore, almost all of IDBD's and DIC's assets, liabilities, income and expenses are in NIS. IDBD's and DIC'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 and DIC'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 basis of its financial assets and liabilities (hedging transactions). However, an increase of the rate at which the company finance our operations or the lack of financing at acceptable terms, may have an adverse effect on IDBD's and DIC's results of operations.

IDBD, DIC and their subsidiaries are exposed to risks associated with foreign operations.

IDBD, DIC and their 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 results of operation and the ability to finance those operations under reasonable conditions.

A global economic crisis and a recession in the global economy may adversely affect the various markets in which IDBD, DIC and their 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, DIC and their subsidiaries.

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

Some of the subsidiaries of IDBD and DIC 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, 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 and DIC 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 initiative for foreign investments by regulatory entities in Israel, including certain tax benefits. If the aforementioned benefits are and/or restricted it have a negative effect over the results of the operations and the business results of IDBD and DIC.

Regional conflict may affect IDBD, DIC and their subsidiary’s activities, especially Cellcom Israel Ltd. (“Cellcom”) activities.

The activities of IDBD, DIC and their subsidiaries 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 Cellcom’s operations, which may 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 (such as the increasing international pressure to boycott Israeli companies, especially when such companies operate in territories held by Israel in Judea and Samaria, as IDBD and other Israeli operators are required to do under our license), and could make it more difficult for us to raise capital. 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.

A deterioration in the political security and economical situation in Israel may affect IDBD, DIC or their subsidiaries’ 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 the results of operations of IDBD's operations, especially PBC's operations. Additionally, all of Shufersal Ltd.’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’s 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 Insurance Enterprises Holdings’ (“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, DIC and their subsidiaries are exposed to capital market and finance regulations that may affect our ability to finance our operations.

IDBD, DIC and some of their subsidiaries are affected by the "Proper Conduct of Banking Directives" of the Commissioner of Banks in Israel, which include, inter alia, restrictions on the volume of loans that a banking corporation in Israel can provide to a “single borrower”, one "group of borrowers", and borrowers and the largest "borrower groups" in the banking corporation (as these terms are defined in the said directives). These restrictions might impose difficulties on the ability of IDBD, DIC and some of their subsidiaries to borrow additional amounts from banks in Israel and/or their ability to refinance its obligations through bank credit and/or on their ability to perform investments for which bank credit is required, and/or on their ability to invest in companies which have taken out credit in a larger scope than certain banks in Israel, and on their ability to perform certain business activities in collaboration with entities which have taken credit, as aforesaid. However, in recent years the scope of credit used from the banking system in Israel to the group of borrowers which includes IDBD and DIC has decreased, including due to the change in its control.

Furthermore, legislation and regulation which applies to investments by institutional entities, including those relating to the granting of credit to business groups, may have an impact on the possibilities of raising capital from institutional entities, including the terms and the price of such capital raise.

The desire of banking corporations to reduce their credit exposure to corporations controlled by the controlling shareholder of IDBD and DIC, may adversely affect the rating of IDBD's and DIC's bonds and/or make it difficult for DIC to raise capital and/or refinance its obligations, if it wishes to do so (and/or worsen the conditions for carrying out such debt refinancing).

Risks relating to our business in Israel

IDBD, DIC and their subsidiaries are exposed to changes in permits and licenses.

IDBD, DIC and some of their subsidiaries operate under certain approvals, permits or licenses which were granted to them by various authorities in parallel, such as the Commissioner of the Capital Market Insurance and Saving (the "**Commissioner**"), the Ministry of Communication, the Ministry of Environmental Protection, and the Commissioner of Oil Affairs in the Ministry of National Infrastructures, Energy and Water, the Minister of Transportation (with respect to the granting of licenses for operational and commercial operation of flights). A breach of the terms of these approvals, permits or licenses may lead to the imposition of penalties and other liabilities (including criminal) against IDBD, DIC or the relevant subsidiaries, including fines and/or revocation of such approvals, licenses or permits. Revocation of such approvals, permits or licenses may prevent of finance opportunity certain businesses or retained the way we currently operate, which may adversely affect such subsidiaries (such as companies in the insurance sector). Some licenses are subject to an expiration date, and are subject to renewal from time to time, in accordance with their terms and the provisions of the law. There is no certainty that we will be able to renew such licenses in the future and/or under which conditions. Non-renewal of a permit or license, as stated above, and/or the directives of regulators in sectors in which subsidiaries of IDBD and DIC operates, may have an adverse effect on the business position, capital, cash flows and profitability of our consolidated that operate under such permit or license, and accordingly, our results of operations.

Litigation, including actions on consumer issues and environmental protection issues may have an impact on IDBD, DIC and their respective subsidiaries.

Subsidiaries of IDBD, primarily Clal, and subsidiaries of DIC primarily including Cellcom, Shufersal and Clal, may be subject, from time to time, to litigation, including class actions, related to consumer and environmental issues, which may involve material amounts, which may have an adverse effect on our results of operations. We cannot anticipate the results of such claims, which may have an adverse effect on the our operations, or the cost to.

IDBD, DIC and their respective subsidiaries may face environmental risks.

Some of the subsidiaries which are held by IDBD or by DIC, 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, which has caused an increase in the amount of costs of operations of IDBD, DIC and their respective subsidiaries. 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 and DIC, respectively.

IDBD, DIC maybe exposed to restrictions by virtue of agreements with financing entities.

The provisions of existing or future financing agreements of IDBD, and DIC and the scope of the debt of IDBD or DIC and its maturity dates have a significant impact on IDBD, DIC and their businesses, with regard to agreements with financing entities.

- i. Loan from a guaranteed creditor of IDBD, dated May 2012, (entities from the Menorah group ("Menorah")), according to which IDBD received from financial entities of the Menorah Group a CPI-

- ii. linked loan bearing CPI-linked interest at an annual rate of 6.9%, secured by a pledge on shares of DIC and of Clal Holdings Insurance Enterprises
- iii. Loan from financial institution, dated December 2016, according to which IDBD signed a loan agreement with a financial institution which had extended a loan to IDBD.
- iv. In March 2017, IDBD signed an agreement with a banking corporation, according to which the (semi-annual and equal) principal payments of the loan will be scheduled for earlier dates, such that, in place of an arrangement whereby the balance of payments will be repaid on a semi-annual basis, until January 2019, they will be repaid in three payments in 2017, such that the first payment was paid on March 8, 2017, and amounted to a total of NIS 26.7 million plus interest until that date; the second payment was paid on June 29, 2017 and amounted to a total of NIS 13.3 million (half of the unpaid balance of the loan as of that date) plus interest until that date; and the third payment was paid on November 22, 2017, and comprised the entire unpaid balance of the loan
- v. In March 2017, IDBD signed an agreement with a banking corporation, according to which the (semi-annual) principal payments of the loans will be scheduled for earlier dates, such that, in place of an arrangement whereby the balance of payments will be repaid on a semi-annual basis, until March 2018, they will be repaid in four payments in 2017, such that the first payment was paid on March 8, 2017, and amounted to a total of NIS 83.3 million plus interest until that date on the paid amount; the second payment was paid on March 13, 2017 and amounted to a total of NIS 83.3 million plus the interest which accrued until that date; the third payment was paid on September 18, 2017 and amounted to a total of NIS 41.7 million plus the interest which accrued until that date; and the fourth payment was paid on November 22, 2017, and comprised the entire unpaid balance of the loan.

IDBD and DIC are exposed to potential steps if such will be taken by its debenture holders.

The taking of legal action against IDBD or DIC by their debenture holders may harm the ability of IDBD or DIC to continue repaying its debts according to their amortization schedules and may lead to a demand to make future liabilities (mainly to the borrowing corporations) for immediate repayment.

IDBD , DIC and some of their subsidiaries may be affected by restrictions on the sale of assets and guarantees.

IDBD, DIC and some of their subsidiaries are subject to legal and contractual restrictions, including those which are included in permits and licenses, which may restrict the possibility of realizing its securities or the possibility of pledging them (including due to restrictions on the realization of such pledges) by IDBD, DIC or by their subsidiaries.

IDBD, DIC 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 DIC and the group's holding structure, claims in material amounts may be filed against IDBD and DIC, 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 IDBD's or DIC's controlling shareholders. For more information, see "Item 8. Financial Information – Legal Proceedings – Operation Center in Israel."

Damage to the business situation of DIC

In view of the amount of the DIC 's bond, and the fact that it is secured by a lien on DIC shares without the right of recourse to Dolphin IL, IDBD is exposed to adverse changes in the business condition of DIC and as a result to DIC's share price, in a manner that the worsening of DIC's business and/or its financial situation (including as a result of the weakening of the business and/or financial situation of any of DIC's subsidiaries) may result in a decrease in the value of DIC and as such harm the value of the guarantee against the bond.

Furthermore, an adverse impact on DIC's business may affect DIC's ability to distribute dividends to its shareholders, including Dolphin IL, which is a holding company, apart from holding DIC shares, and therefore Dolphin IL's repayment ability is affected, inter alia, from the scope of dividends that DIC distributes, if any.

In addition, to the extent that regulatory changes (including legislative amendments and changes in accounting standards) are adopted, which are stringent with the conditions for distribution of dividends, these may harm the ability of DIC to distribute dividends to its shareholders and as a result affect the solvency of Dolphin IL, which may affect the ability of Dolphin IL to repay the debt with IDBD.

The outline for the sale of the shares of Clal

As long as IDBD does not find a buyer for its controlling shares in Clal, which will receive the approvals required by law, including the approval of the Commissioner, the Commissioner is expected to proceed with the realization of the outline set by her, carried out by way of 5% tranches of the share capital of Clal, for the sale of the holdings of IDBD in Clal. The sale of IDBD's holdings in the shares of Clal in accordance with the provisions of the outline may result in a lower consideration than the consideration IDBD would have received if it sold all of its shares of Clal as a bundle (i.e. without the involvement of the Commissioner) including the sale of the controlling interest.

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

The cash flows of IDBD and 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 IDBD's and DIC's current cash flows includes dividends distributed by its subsidiaries (if and insofar as any are distributed). An additional source for IDBD's and 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 IDBD's and DIC's cash flows.

Cellcom is exposed to aggressive competition.

The communication market is characterized by significant competition in many of its segments. The current, pr the increase, of competition in most of the markets in which Cellcom operates, may cause any of the following, which may have an adverse impact on Cellcom's profitability:

- (a) An additional decrease in the prices for our services;
- (b) 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), or a change to the current regulation that will be less favorable towards Cellcom, considering Cellcom's dependence on the wholesale landline for supplying landline infrastructure services, the increased competition by Bezeq and Hot, considering their dominance in the landline 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;
- (c) Cancellation or easement of the structural separation which applies to the Bezeq and Hot groups;
- (d) 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;
- (e) Non-acquisition or wide independent deployment of a landline infrastructure or entering into a cooperation agreement for the use of such infrastructure with an operator who owns an infrastructure, by Cellcom, taking into consideration the growth of Cellcom's television and internet services, especially if one of the competitors, who currently does not own such an infrastructure, will deploy infrastructure or will enter into such cooperation, and this may limit the bandwidth included in Cellcom's proposals vis-à-vis the competitors, since today it depends on the stationary wholesale market;
- (f) Regulatory changes which facilitate the transition of customers between operators;
- (g) The ability of some of Cellcom's competitors to obtain better access and contractual terms with international suppliers or foreign operators than Cellcom due to their affiliation with international groups;
- (h) Should the transition to other frequencies, adversely affect Cellcom's services or Cellcom will be required to bear the costs of changing frequencies, which will not affect competitors;
- (i) Continued increased competition in the end user equipment market.

Changes in legislation or significant regulatory intervention may have an adverse effect 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, including:

(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, including high tariffs for services or non-enforcement of market regulation or a mechanism that does not prevent Bezeq and Hot from reducing tariffs, thereby reducing the gap between wholesale and retail tariffs ("margin squeeze") or fail to enforce regulation with respect to the landline wholesale market resulting in our continued inability to use additional wholesale services;

(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) Setting a timetable for the implementation of new requirements in a license that cannot be met;

(j) the establishment of a more stringent policy with respect to protection privacy;

(k) the imposition of regulations on Cellcom's television over internet service, the establishment of non-beneficial conditions for the use of digital terrestrial television (DTT) broadcasts, or the imposition of such non-beneficial conditions on Cellcom and not on other operators of the television over internet service.

(l) 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.

As of December 31, 2017, Cellcom operated a small portion of our cell sites without building permits or applicable exemptions and approximately 33% of Cellcom's cell sites without building permits in reliance on an exemption from the requirement to obtain a building permit, mainly for radio access devices. Such reliance had been challenged and under an interim order issued by the Supreme Court of Israel in September 2010, Cellcom is unable to rely on the exemption under cellular networks, other than to replace or relocate existing radio access devices under certain conditions. In 2017, new draft regulations setting procedures for making changes in existing radio access devices including replacement thereof and for the construction of a limited number of new radio access devices exempt from building permits, but requiring certain municipal procedures, were deliberated in the Israeli Parliament's Economic Committee.

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 Cellcom from achieving the service quality targets set by in Cellcom's mobile license, which may result in loss of customers, which would adversely affect its business results.

Cellcom depends significantly on its licenses

Cellcom provides communication services under licenses granted by the Ministry of Communication, which are subject to changes, including changes that may negatively affect Cellcom's interests and operations. A breach of the terms of the licenses may result in the revocation of the licenses. The inability to function as it currently does or the imposition of fines may adversely affect Cellcom's operation and may result in Cellcom's inability to continue operating in each of the segments in which it operates.

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.

In order to meet the increasing demand for data communication, Cellcom is required to upgrade its transmission network, and also to invest in its 4G network. To meet the growing demand for data traffic on the fixed-line network and in order to find more cost-effective alternatives for acquiring capacity from large-scale infrastructure providers, Cellcom has begun deploying its infrastructure to residential areas and promoting further alternatives. The deployment of such infrastructure is expensive and requires managerial attention that can be directed at other activities. In addition, the Ministry of Communications is promoting the replacement of Cellcom's MHz 850 frequencies with other frequencies (some of which are not specifically specified in national outline plan (TAMA) 36) that comply with the international standards for the Israeli region, which, if implemented, will include a complex and sensitive engineering project, which includes substantive investments in Cellcom's network, including replacement of Radio equipment in all the cellular sites, which may, during this project, adversely affect the products and service of Cellcom.

Cellcom depends on certain suppliers.

Cellcom is dependent on a number of suppliers that provide it with network equipment, end-user equipment, content and content management services, information systems and infrastructures. Cellcom's business results may be adversely affected if any of its suppliers will not supply its products and/or services at the required quality or on time, or on terms which are not beneficial to Cellcom, or provide Cellcom's competitors with better conditions or if the suppliers fail to produce successful products/content in the absence of an equivalent alternative. In addition, Cellcom relies on agreements with foreign operators to provide cellular roaming capabilities to its cellular subscribers, cellular services to its cellular and cellular subscribers.

Cellcom may be affected by its debt.

Cellcom has raised a significant amount of debt. 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 by raising additional debt. As of June 30, 2018, Cellcom's debenture balance value in books amounts to approximately NIS 3,037.012 million. In addition, in January 2018, Cellcom issued NIS 400.6 million par value bonds (series 12) for the net consideration of NIS 400 million. In July 1, 2018, after the end of the reporting period, Cellcom's issued NIS 220 million principal amount of additional series K debentures according to its undertaking from June 2017. A change for the worse in Cellcom's results of operations, and any additional reduction of Cellcom's rating and its bonds may adversely affect also the price and terms of Cellcom's current debt, and the raising of additional debt. In addition, as of today, interest rates are very low and an increase in interest rates may increase debt raising costs in the future.

Cellcom is a party to legal proceedings filed against it from time to time, including applications for approval of claims as class actions in material amounts.

In addition, due to the volume and size of Cellcom's activity, including the risk of discrepancies between the tariff plans and the large information processed in Cellcom's information systems, and in view of the frequent changes in Cellcom's activity and its price plans following regulatory changes or changes in the market and the involvement of thousands of sale representatives and customer service representatives in the sale process, and the connection with the customer following after, the risk of discrepancy between the price plans and the information processed in Cellcom's information systems or the provision of insufficient information increases, and despite Cellcom's efforts to prevent this, Cellcom has exposure to a large number of claims, including class actions in material amounts.

The employees' union may limit Cellcom's ongoing activity, including the possibility of Cellcom making organizational and personnel changes, and may demand managerial attention

In addition, disagreements with representatives of the workers' organization, such as disagreements regarding the renewal of the collective agreement, may result in organizational steps and a negative affect on Cellcom's customer services, and other required changes that may in result fail or take place in a manner materially different than planned, resulting in lower savings.

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.

Shufersal may be affected by the competition.

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 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 Shufersal's 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 Shufersal sells that product, as well as the entire family of products which is marketed under the same brand.

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 center which is 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. In addition, Shufersal, like any other company, is exposed to the risk of infiltration and theft by foreign entities of its information and computer systems. Shufersal operates in accordance with internal procedures to reduce its exposure to such hacking activity, and it also has an insurance policy covering cyber risks.

Shufersal growth 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. In addition, our ability to grow through acquisitions may be impaired and the restrictions of the Food Law. Due to this limitations Shufersal may not be able to grow or take advantage of certain market opportunities.

The termination of the operating agreement with Leumi Card Ltd may imply a risk for Shufersal.

In August 2017, Shufersal notified Leumi Card that it does not wish to renew the operating agreement with Leumi Card in connection with the issuance of “Shufersal” and “Yesh” credit cards, therefore the agreement terminated on January 18, 2018. Accordingly, as of said date, credit cards are issued to Shufersal's customers by Visa Cal. Following the termination of the operating agreement with Leumi Card, Shufersal is required to reissue the credit cards to its customers, which may impose costs on Shufersal and may affect the volume of credit card activity, including diminish the number of credit-card holders. In addition, Shufersal terminated its cooperation with Paz, pursuant to which benefits were granted to holders of Shufersal credit cards issued by Leumi Card (such benefits will be granted for an additional year from the date of termination of the cooperation). Ending this cooperation may affect the number of credit card holders

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. A decrease in the interest rate may lead to an impairment in the solvency ratio. In the current interest rate environment, Clal is exposed 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. However, Clal may also be exposed to certain scenarios of an increase in interest rates. It should be noted that from a long-term perspective, Clal is also exposed to a continuing low level of interest rates, with an emphasis on the linked interest rate.

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.

In the first half of 2018, inflation increased by 0.9% relative to the CPI, with no change in the corresponding period last year. In summary of the second quarter on 2018, inflation slightly increased relative to the first quarter of 2018. Expectation based on the capital market increased in all ranged. After the balance sheet date, the Central Bureau of Statistics published the price index for June 2018, which rose by approximately, and the index for July, which remained unchanged,

According to the estimate of the Bank of Israel's Research Division from July 2018, in 2018, GDP is expected to grow at a rate of 3.7%, while in 2019, it is expected to grow at a rate of 3.5%. The inflation rate in the coming year is expected to amount to 1.4%. Then monetary interest rate is expected to remain at its current level (0.1%) and to rise to a rate of 0.25% in the last quarter.

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.

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, slowdowns 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 in the insurance activity mainly to risks related to changes in the risk factors which affect the frequency and severity of events compared to the actuarial assumptions and the risk of a single large loss or accumulation of damages in respect of a catastrophic event, that may have an adverse effect on the business results of the Clal.

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.

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, which is considered a significant catastrophe event to which Clal is exposed to. With regard to life and health insurance, Clal is mainly exposed to other catastrophic events such as war and terrorism risks in Israel.

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

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. In addition, the operations of these institutional entities and agencies in Clal are conditional upon holding the licenses and permits required for activity in the areas of operations of Clal, including withstanding the regulatory capital requirement. 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.

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. 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, which manages, as of December 31, 2017, assets totaling approximately NIS 181 billion (of which, a total of approximately NIS 150 billion involve assets managed for others), 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.

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, 2018, owned approximately 63.4% of our common shares (or approximately 366,788,243 common shares which may be exchanged for an aggregate of 36,678,824 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 past and projected composition of our income and assets and the valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company “PFIC” for United States federal income tax purposes for the taxable year ending June 30, 2018, 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 12, 2013, Law No. 26,893, which amended Law No. 20,628 (the “Income Tax Law”), was enacted and published in the Official Gazette on September 23, 2013. According to the amendments, the distribution of dividends by an Argentine corporation was subject to income tax at a rate of 10.0%, unless such dividends were distributed to Argentine corporate entities (the “Dividend Tax”).

The Dividend Tax was repealed by Law No. 27,260, enacted on June 29, 2016, and consequently no income tax withholding was applicable on the distribution of dividends in respect of both Argentine and non-Argentine resident shareholders, except when dividends distributed were greater than the income determined according to the application of the Income Tax Law, accumulated at the fiscal year immediately preceding the year in which the distribution is made. In such case, the excess was subject to a rate of 35%, for both Argentine and non-Argentine resident shareholders. This treatment still applies to dividends to be distributed at any time out of retained earnings accumulated until the end of the last fiscal year starting before January 1, 2018.

However, pursuant to Law No. 27,430, dividends to be distributed out of earnings accrued in fiscal years starting on or after January 1, 2018, and other profits paid in cash or in kind —except for stock dividends or quota dividends—by companies and other entities incorporated in Argentina referred to in the Income Tax Law, to Argentine resident individuals and foreign beneficiaries will be subject to income tax at a 7% rate on profits accrued during fiscal years, resident undivided estates starting January 1, 2018 to December 31, 2019, and at a 13% rate on profits accrued in fiscal years starting January 1, 2020 and onwards. If dividends are distributed to Argentine corporate taxpayers (in general, entities organized or incorporated under Argentine law, certain traders and intermediaries, local branches of foreign entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina), no dividend tax should apply.

In addition, capital gains originated from the disposal of shares and other securities, including securities representing shares and deposit certificates, are subject to capital gains tax. Law No. 27,430 effective as of January 1, 2018, provides that capital gains obtained by Argentine resident individuals from the disposal of shares and GDSs are exempt from capital gains tax in the following cases: (i) when the shares are placed through a public offering authorized by the CNV, (ii) when the shares are traded in stock markets authorized by the CNV, under segments that ensure priority of price-time and interference of offers, or (iii) when the sale, exchange or other disposition of shares is made through an initial public offering and/or exchange of shares authorized by the CNV.

Such law also provides that the capital gains tax applicable to non-residents for transactions entered into until December 30, 2017 is still due, although no taxes will be claimed to non-residents with respect to past sales of Argentine shares or other securities traded in the CNV's authorized markets (such as GDSs) as long as the cause of the non-payment was the absence of regulations stating the mechanism of tax collection at the time the transaction was closed. General Resolution (AFIP) No. 4,227, which came into effect on April 26, 2018, stipulates the procedures through which the income tax should be paid to the AFIP. The payment of capital gains tax applicable for transactions entered into before December 30, 2017 was due on June 11, 2018.

In addition, Law No. 27,430 and Decree 279/2018 maintain the 15% capital gains tax (calculated on the actual net gain or a presumed net gain equal to 90% of the sale price) on the disposal of shares or securities by non-residents. However, non-residents are exempt from the capital gains tax on gains obtained from the sale of (a) Argentine shares in the following cases: (i) when the shares are placed through a public offering authorized by the CNV, (ii) when the shares were traded in stock markets authorized by the CNV, under segments that ensure priority of price-time and interference of offers, or (iii) when the sale, exchange or other disposition of shares is made through an initial public offering and/or exchange of shares authorized by the CNV; and (b) depositary shares or depositary receipts issued abroad, when the underlying securities are shares (i) issued by Argentine companies, and (ii) with authorization of public offering. The exemptions will only apply to the extent the foreign beneficiaries reside in, or the funds used for the investment proceed from, jurisdictions considered as cooperating for purposes of fiscal transparency.

In case the exemption is not applicable and, to the extent foreign beneficiaries do not reside in, or the funds do not arise from, jurisdictions not considered as cooperative for purposes of fiscal transparency, the gain realized from the disposition of shares would be subject to Argentine income tax at a 15% rate on the net capital gain or at a 13.5% effective rate on the gross price. In case such foreign beneficiaries reside in, or the funds arise from, jurisdictions not considered as cooperative for purposes of fiscal transparency, a 35% tax rate on the net capital gain or at a 31.5% effective rate on the gross price should apply.

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.

You might be unable to exercise preemptive or accretion rights with respect to the common shares underlying your GDSs.

Under Argentine corporate law, if we issue new common shares as part of a capital increase, our shareholders will generally have the right to subscribe for a proportional number of common shares of the class held by them to maintain their existing ownership percentage, which is known as preemptive rights. In addition, shareholders are entitled to the right to subscribe for the unsubscribed common shares of either the class held by them or other classes which remain unsubscribed at the end of a preemptive rights offering, on a pro rata basis, which is known as accretion rights. Under the deposit agreement, the GDS Depositary will not exercise rights on your behalf or make rights available to you unless we instruct it to do so, and we are not required to give that instruction. In addition, you may not be able to exercise the preemptive or accretion rights relating to the common shares underlying your GDSs unless a registration statement under the US Securities Act of 1933 is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the common shares relating to these preemptive rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration is available, you may receive only the net proceeds from the sale of your preemptive rights by the GDS Depositary or, if the preemptive rights cannot be sold, they will be allowed to lapse. As a result, US holders of common shares or GDSs may suffer dilution of their interest in our company upon future capital increases.