

**B. CAPITALIZATION AND INDEBTEDNESS**

This section is not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

This section is not applicable.

**D. RISK FACTORS**

*You should consider the following risks described below, in addition to the other information contained in this annual report. We may face additional risks and uncertainties that are not presently known to us, or that we currently deem immaterial, which may also impair our business. In general, you take more risk when you invest in the securities of issuers in emerging markets such as Argentina than when you invest in the securities of issuers in the United States. You should understand that an investment in our common shares, ADSs and warrants involves a high degree of risk, including the possibility of loss of your entire investment.*

**Risks Related to Argentina**

***Argentina's recent growth may not be sustainable.***

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high inflation and currency devaluation. During 2001 and 2002, Argentina experienced a period of severe political, economic and social crisis, which caused a significant economic contraction and led to radical changes in government policies. Although the economy has recovered significantly since then, uncertainty remains as to whether the recent growth is sustainable, since it has depended, to a significant extent, on favorable exchange rates, high commodity prices and excess capacity. The recovery, however, has resulted in inflation and has intensified the country's need for capital investment, with many sectors, in particular the energy sector, operating near full capacity. Additionally, the global financial crisis and economic downturn has had a significant adverse impact on the country's performance and could remain a factor in the foreseeable future. The Argentine economic growth rates for fiscal years 2008 and 2009 have slowed due to, among other reasons, the global financial crisis.

The Argentine GDP has maintained its upward trend in 2009, though at a slower pace than in previous years, with a 0.9% variation according to the *Instituto Nacional de Estadística y Censos* (National Institute of Statistics and Censuses) ("INDEC").

As of June 30, 2010, the Monthly Economic Activity Estimator, as reported by INDEC and known as EMAE, increased 10.9% compared to the same month in the previous fiscal year. If this trend continues, the GDP is expected to grow 9% in 2010.

Moreover, the country's relative stability since 2002 has been affected recently by increased political tension and government intervention in the economy.

Our business depends to a significant extent on macroeconomic and political conditions in Argentina. We cannot assure you that Argentina's recent growth will continue. Deterioration of the country's economy would likely have a significant adverse effect on our business, financial condition and results of operations.

***Continuing inflation may have an adverse effect on the economy.***

The devaluation of the Peso in January 2002 created pressures on the domestic price system that generated high inflation throughout 2002, before inflation substantially stabilized in 2003. However, inflationary pressures have since reemerged, with consumer prices increasing by 12.3% in fiscal year 2005. In fiscal years 2008, 2009 and 2010, inflation was 8.5%, 7.2% and 11.0%, respectively, in part due to actions implemented by the Argentine government to control inflation, which included limitations on exports and price arrangements agreed upon with private sector companies. However, in spite of this decline in inflation, uncertainty surrounding future inflation may impact the country's growth.

In the past, inflation has undermined the Argentine economy and the government's ability to create conditions conducive to growth. A return to a high inflation environment would adversely affect the availability of long-term credit and the real estate market and may also affect Argentina's foreign competitiveness by diluting the effects of the Peso devaluation and negatively impacting the level of economic activity and employment.

If inflation remains high or continues to rise, Argentina's economy may be negatively impacted and our business could be adversely affected.

***There are concerns about the accuracy of Argentina's official inflation statistics.***

In January 2007, the INDEC modified its methodology used to calculate the consumer price index, which is calculated as the monthly average of a weighted basket of consumer goods and services that reflects the pattern of consumption of Argentine households. Several economists, as well as the international and Argentine press, have suggested that this change in methodology was related to the Argentine government's policy aimed at curbing the increase of inflation and reducing payments on inflation-linked bonds outstanding. At the time that INDEC adopted this change in methodology, the Argentine government also replaced several key officers at INDEC, prompting complaints of governmental interference from the technical staff at INDEC. In addition, the International Monetary Fund, or IMF, has requested that the government clarify its inflation rates. In June 2008, INDEC published a new consumer price index that eliminated nearly half of the items included in previous surveys and introduced adjustable weightings for fruit, vegetables and clothing, which have seasonal cost variations. INDEC has indicated that it based its evaluation of spending habits on a national household consumption survey from 2004 to 2005 in addition to other sources; however, the new index has been criticized by economists and investors after its debut report found prices rising well below expectations. These events have negatively affected the credibility of the consumer price index published by INDEC, as well as other indexes published by INDEC which require the consumer price index for their own calculation, including the poverty index, the unemployment index and real gross domestic product. Argentina's inflation rate may be significantly higher than the rates indicated by official reports.

Recently, some investigations have led to judicial proceedings to determine whether there was alteration of confidential statistical information related to the collection of data used to calculate the rates published by the INDEC. If these investigations determine that the methodology was manipulated, or if it is determined that it is necessary to correct the consumer price index and the other INDEC indexes derived from the consumer price index, there could be a significant decrease in confidence in the Argentine economy, which could, in turn, have a materially adverse effect on our ability to access international credit markets at market rates to finance our operations.

Moreover, on November 2010, the Argentine government requested the IMF to provide technical assistance in the revision of the consumer price index.

***Argentina's ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth***

During the first half of 2005, Argentina restructured part of its sovereign debt that had been in default since the end of 2001. The government announced that, as a result of the restructuring, the country's total outstanding indebtedness amounted approximately to US\$62 billion, excluding approximately US\$20 billion of defaulted bonds held by holdouts (i.e. creditors that did not participate in the restructuring).

In 2006, Argentina paid US\$9.8 billion of indebtedness owed to the IMF using Central Bank reserves. In addition, the government announced its decision to (i) pay US\$6.7 billion of indebtedness owed to the Paris Club (a group composed of 19 countries, including the United States of America and other members of the G8 industrially developed group of nations) using Central Bank reserves and (ii) make an offer to the existing holdouts of the 2005 restructuring. As of the date hereof, the Ministry of Economy has not disbursed the funds necessary to pay such indebtedness. Additionally in June 2010, Argentina completed the renegotiation of approximately 66% of the defaulted bonds that were not swapped in 2005.

With respect to the Paris Club indebtedness, on September 2, 2008, pursuant to Decree No. 1,394/2008, Argentina officially announced its decision to pay its debt owed to its creditor nations who are members of the Paris Club. Pursuant to a communication issued on September 18, 2008, the Paris Club announced that it accepted Argentina's decision. As of the date hereof, the amount of the debt to be paid and the terms of payment have not been defined. Recent discussions have been held with individual members of Paris Club. Reaching an agreement with the Paris Club is critical since, without private international funds, Argentina will not be able to repay its obligations and funding from multilateral financial institutions may become limited or unavailable. This may adversely affect the economic growth of Argentina and its public finances, which in turn could also adversely affect our operations, financial condition or results.

With respect to holdouts of the 2005 restructuring, some bondholders in the United States, Italy and Germany have filed legal actions against Argentina, including claims in the International Center for the Settlement of Investment Disputes ("ICSID"). Other holdouts may initiate new suits in the future. In an effort to reach a resolution with the holdouts of the 2005 restructuring, the government has received a proposal from Citibank S.A., Barclays Bank and Deutsche Bank, proposing (i) an exchange offer to these holdouts and (ii) the restructuring of certain of the country's liabilities which were to become due between 2009 and 2012 (the "Secured Loans"). In a press conference held on October 16, 2008, the Jefe de Gabinete (Head of the Cabinet of Ministers) announced the execution of a letter of understanding between the government and the above-mentioned banks in order to implement the restructuring of the Secured Loans. On February 2, 2009, pursuant to Joint Resolutions No.'s 8/2009 and 5/2009 of the Secretariat of Economy and the Secretariat of Finance of the Ministry of Finance, an exchange offer relating to the domestic tranche of the Secured Loans was launched. Subsequently, the government announced that approximately 97% creditors had accepted the terms of the exchange offer, representing Ps.15.08 billion of the Ps.15.60 outstanding aggregate amount of domestic Secured Loans due in 2009, 2010 and 2011. The new bonds issued pursuant to the exchange offer mature on January 2014. The government has filed a registration statement on Form S-B with the SEC on December 16, 2009, setting forth the terms and conditions of the expected exchange offer with the holdouts of the 2005 restructuring.

Through Decree No. 2010/2009 (the "Decree 2010") the executive branch of the federal government created the Fondo de Bicentenario para el Desendeudamiento y la Estabilidad (the "Bicentenary Fund") in order to (i) guarantee debt obligations due in 2010; (ii) increase the development of the local economy; and (iii) obtain financing with lower rates than the current ones, not only for the public sector but also for the private. The Decree 2010 set forth that the Bicentenary Fund would be funded with US\$ 6.569 billion of the Central Bank's international reserves in exchange for a non transferable ten-year Argentine treasury bond. Pursuant to this Decree, the president of the Central Bank, Mr. Martin Redrado, requested in-house and outside legal opinions to confirm the legality of the transfer of international reserves to the Bicentenary Fund. Since both in-house and outside legal opinions concluded that the Central Bank was not allowed to transfer the above-mentioned funds, the president of the Central Bank did not proceed with the funding of the Bicentenary Fund and the President of Argentina requested his resignation. When the president of the Central Bank did not resign, the President of Argentina dismissed him by Decreto de Necesidad y Urgencia (an emergency decree). Since the president of the Central Bank considered that this decree did not fulfill the requirements set forth by the Carta Orgánica del Banco Central (the Central Bank's bylaws), he filed a preliminary injunction to (i) request the declaration of the emergency decree as unconstitutional; and (ii) request the reinstatement of his position in the Central Bank. The judge granted the preliminary injunction and ordered his reinstatement and set forth that the Central Bank's international reserves could not be transferred to the Bicentenary Fund without the intervention and approval of the federal legislative branch. The executive branch subsequently appealed the decision. The Cámara en lo Contencioso Administrativo Federal (The Administrative Court of Appeals) confirmed the judge's resolution with respect to the Bicentenary Fund. The Administrative Court of Appeals stated that the status of the president of the Central Bank would be determined by the Comisión Bicameral Permanente (Permanent Bi-Chambered Commission) of the federal congress which was to issue a non binding opinion to the federal executive branch recommending whether to dismiss or keep Mr. Redrado as president of the Central Bank. However, the president of the Central Bank resigned prior to the Permanent Bi-Chambered Commission issuing the non binding opinion requesting Mr. Redrado's dismissal. Consequently, the federal executive branch did not accept his resignation. Once the Permanent Bi-Chambered Commission issued its opinion, the federal executive branch ratified his

dismissal and appointed Mercedes Marco del Pont as the new president of the Central Bank. The final implementation of the Bicentenary Fund is to be discussed and decided by the federal congress. Therefore, we cannot assure the outcome of the process or the impact that its implementation or non-implementation could have on the national economy and local financial markets.

Additionally, foreign shareholders of certain Argentine companies have filed claims in excess of US\$17 billion in the ICSID, alleging that certain Argentine government measures are inconsistent with the fair and equitable treatment standards set forth in various bilateral treaties to which Argentina is a party. To date, the ICSID has rendered decisions adverse to Argentina in several cases. Additionally, it should be noted that on October 7, 2008, an ICSID tribunal, in a case in which it had already awarded compensation to the claimants, issued a decision ordering Argentina to pay the compensation previously awarded to the claimants within 60 days. In its decision, the ICSID tribunal stated that, based on the interpretation of the Bilateral Treaty on Protection and Reciprocal Promotion of Investments (the "IBT"), executed between the United States and Argentina, (i) to the extent the compensation orders are not revoked, the compensation payments ordered to be made by the ICSID should be made immediately and claimants do not need to file subsequent actions or execution proceedings seeking payment of the awarded compensation and (ii) Argentina's position of waiting for the claimants to file execution proceedings to seek collection of already awarded amounts is in flagrant breach of the international law obligations undertaken by Argentina under the IBT.

Argentina's past default, its failure to completely restructure its remaining sovereign debt, and its failure to fully negotiate with the holdout creditors has prevented and may continue to prevent Argentina from re-entering the international capital markets. Additionally, litigation initiated by holdout creditors as well as ICSID claims has resulted in material judgments and may result in new material judgements against the government and could result in attachments of or injunctions relating to assets of Argentina that the government intended for other uses. As a result, the government may not have the financial resources necessary to implement reforms and foster growth, which could have a material adverse effect on the country's economy, and consequently, our financial condition.

***Significant devaluation of the Peso against the U.S. Dollar may adversely affect the Argentine economy as well as our financial performance.***

Despite the positive effects of the real depreciation of the Peso in 2002 on the competitiveness of certain sectors of the Argentine economy, it has also had a far-reaching negative impact on the Argentine economy and on businesses and individuals' financial condition. The devaluation of the Peso has had a negative impact on the ability of Argentine businesses to honor their foreign currency-denominated debt, initially led to very high inflation, significantly reduced real wages, had a negative impact on businesses whose success is dependent on domestic market demand, such as utilities and the financial industry, and adversely affected the government's ability to honor its foreign debt obligations.

If the Peso devalues significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences on our business. Moreover, it would likely result in a decline in the value of our common shares and the GDSs as measured in U.S. Dollars.

***Significant appreciation of the Peso against the U.S. Dollar may adversely affect the Argentine economy.***

A substantial increase in the value of the Peso against the U.S. Dollar also presents risks for the Argentine economy. The appreciation of the Peso against the U.S. Dollar negatively impacts the financial condition of entities whose foreign currency-denominated assets exceed their foreign currency-denominated liabilities, such as us. In addition, in the short term, a significant real appreciation of the Peso would adversely affect exports. 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. The appreciation of the Peso against the U.S. Dollar could have an adverse effect on the Argentine economy and our business.

***Government measures to preempt or respond to social unrest may adversely affect the Argentine economy and our business.***

The Argentine government has historically exercised significant influence over the country's economy. Additionally, the country's legal and regulatory frameworks have at times suffered radical changes, due to political influence and significant political uncertainties.

Moreover, during its crisis in 2001 and 2002, Argentina experienced significant social and political turmoil, including civil unrest, riots, looting, nationwide protests, strikes and street demonstrations. Despite Argentina's economic recovery and relative stabilization, social and political tension and high levels of poverty and unemployment continue. In 2008, Argentina faced nationwide strikes and protests from farmers due to increased export taxes on agricultural products, which disrupted economic activity and heightened political tension. Future government policies to preempt, or in response to, social unrest may include expropriation, nationalization, forced renegotiation or modification of existing contracts, suspension of the enforcement of creditors' rights, new taxation policies, including royalty and tax increases and retroactive tax claims, and changes in laws and policies affecting foreign trade and investment. Such policies could destabilize the country and adversely and materially affect the economy, and thereby our business.

***The nationalization of Argentina's pension funds has materially and adversely affected local capital markets and may continue to do so.***

Under Law No. 26,425, which was published in the Official Gazette in December 2008, the Argentine government transferred approximately Ps.94.4 billion (US\$29.3 billion) in assets held by the country's private Administradoras de Fondos de Jubilaciones y Pensiones (pension fund management companies, or "AFJPs") to the government-run social security agency ("ANSES").

Law No. 26,425 was supplemented, among others, by Decree No. 2103/2008 which describes the composition of the fund (Fondo de Garantía de Sustentabilidad) to be managed by ANSES and the directions for the management thereof; in turn, Decree No. 2104/08 regulates the matters concerning the transfer to the Argentine government of the contributions and all the documentation of the members of the capitalization regime retroactive as of December 1, 2008.

AFJPs were the largest participants in the country's local capital markets, leading the group of institutional investors. With the nationalization of their assets, the dynamics of the local capital markets changed due to the decrease in size, becoming substantially concentrated. In addition, the government became a significant shareholder in many of the country's publicly-held companies, a circumstance that may bring about consequences to Argentina's capital markets and companies that are difficult to measure as of the date of this annual report.

As a result, access to liquidity may be further limited, funding costs may rise and the government may have greater influence over the operations of such companies of which it became shareholder. The nationalization of the AFJPs has adversely affected investor confidence in Argentina.

In addition, we cannot assure you that the government will not take similar measures in the future that interfere with private sector businesses and adversely affect the economy in general, and/or our business in particular.

***Exchange controls and restrictions on transfers abroad and capital inflow restrictions have limited, and can be expected to continue to limit, the availability of international credit.***

In 2001 and 2002, Argentina imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. Many of these restrictions were substantially eased after the crisis. However, in June 2005, the government issued decree No. 616/2005, that established additional controls on capital inflow, including the requirement that, subject to limited exemptions, 30% of all funds remitted to Argentina remain deposited in a domestic financial institution for one year without earning any interest. This measure increases the cost of obtaining foreign funds and limits access to such financing.

The Argentine government may, in the future, impose additional controls on the foreign exchange market and on capital flows from and into Argentina, for example in response to capital flight or depreciation of the Peso. These restrictions may have a negative effect on the economy and on our business if imposed in an economic environment where access to local capital is substantially constrained.

In December, 2008 Law No. 26,476 introduced certain changes in the Argentine labor and tax regime. As part of these changes, a broad tax moratorium was declared and natural and legal persons falling under its scope were given the option to disclose their holdings in national and foreign currency and other assets, both in Argentina and abroad, for purposes of their entry to the country, subject to the payment of a tax as established in the law. Those falling under the scope of this law were not obliged to disclose to the Argentine Tax Authority ("AFIP") the date of purchase of their holdings or the source of the funds with which they had made such purchase, and were released from civil or criminal liability relating to those holdings. The period to disclose the holdings was effective from March 1, 2009 until August 31, 2009. Although the International Financial Action Group ("GAFI") has not rendered an opinion in this regard, these actions could encourage the entry of money of doubtful origin, breaching the international regulations and commitments undertaken by Argentina, which would in turn generate even more distrust in the local financial system.

Finally, under Resolution No. 82/2009, the Ministry of Economy and Public Finance suspended the mandatory deposit set forth by Decree 616/2005 during the term of the mentioned tax moratorium and until September 2009, to the extent that the incoming funds were used for any of the purposes described in Section 27 (b), (c) and (d) of Law No. 26,476. Therefore, no deposit would be required when bringing capital into Argentina, pursuant to the terms of the tax moratorium, for the following purposes: (i) assets based in the country and holdings of local and foreign currency in Argentina; (ii) foreign currency held abroad and/or foreign deposits, and local currency and/or foreign currency held in Argentina, allocated to the subscription of government securities issued by the Argentine government; (iii) foreign currency held abroad and/or foreign deposits, and local currency and/or foreign currency held in Argentina by individuals, allocated to the purchase in Argentina of newly built properties or properties that have obtained the relevant work completion certificate; and (iv) foreign currency held abroad and/or foreign deposits, and local currency and/or foreign currency held in Argentina, allocated to the building of new properties, completion of works in progress, funding of infrastructure works, real estate, agricultural, industrial, tourism and services investments in Argentina.

***Payment of dividends to non-residents has been limited in the past and may be limited again.***

Beginning in February 2002, the payment of dividends, irrespective of amount, outside Argentina required prior authorization from the Central Bank. On January 7, 2003, the Central Bank issued communication "A" 3859, 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 approved and audited financial statements. However similar restrictions may be enacted by the Argentine government or the Central Bank again and, if this were to occur, it could have an adverse effect on the value of our common shares and the GDSs. Moreover, in such event, restrictions on the transfers of funds abroad may impede your ability to receive dividend payments as a holder of GDSs.

***The stability of the Argentine banking system is uncertain.***

During 2001 and the first half of 2002, a significant amount of deposits were withdrawn from Argentine financial institutions. This massive withdrawal of deposits was largely due to the loss of confidence of depositors in the Argentine government's ability to repay its debts, including its debts within the financial system, and to maintain Peso-Dollar parity in the context of its solvency crisis.

To prevent a run on the U.S. Dollar reserves of local banks, the government restricted the amount of money that account holders could withdraw from banks and introduced exchange controls restricting capital outflows.

While the condition of the financial system has improved, adverse economic developments, even if not related to or attributable to the financial system, could result in deposits flowing out of the banks and into the

foreign exchange market, as depositors seek to shield their financial assets from a new crisis. Any run on deposits could create liquidity or even solvency problems for financial institutions, resulting in a contraction of available credit.

In the event of a future shock, such as the failure of one or more banks or a crisis in depositor confidence, the Argentine government could impose further exchange controls or transfer restrictions and take other measures that could lead to renewed political and social tensions and undermine the Argentine government's public finances, which could adversely affect Argentina's economy and prospects for economic growth.

***The Argentine economy could be adversely affected by economic developments in other global markets, in particular if the global financial and economic recovery is interrupted.***

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other global markets. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into other countries, including Argentina and the availability of funds for issuers in such countries. 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 devaluation in January 1999.

In addition, Argentina is also affected by the economic conditions of major trade partners, such as Brazil and/or other countries that have influence over world economic cycles, such as the United States. 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 would have a negative impact on us, our business, operations, financial condition and prospects.

In particular, the adverse effect of the "sub-prime" crisis in the United States in mid-2007, principally caused by the collapse of high risk mortgage market, resulted in a financial crisis that affected the U.S. financial system and quickly expanded to the international financial system. As a consequence of this global crisis, several U.S. and European financial institutions were declared insolvent and the main global stock markets, including the Argentine stock exchange, crashed. In order to curtail the effects of the global economic crisis, the governments of developed countries implemented bailout measures to help the affected financial institutions and provide liquidity to the markets.

Notwithstanding these measures, no assurance can be given with regard to the effects of the insolvency of such financial institutions on the international financial system. Moreover, the financial crisis is taking place within an environment of a world economic recession, which has led to volatile oil and commodity prices and a significant reduction in the availability of international credit. Although these recessionary conditions are easing, the world's largest economies could once again shrink or weakness in global financial institutions could lead to an even worse tightening of international credit markets, further increasing the slowdown of the world's principal economies. The current global economic crisis may have significant long-term effects in Latin America. In particular, Argentina may be adversely affected as a result of the lack of international credit, a reduction in demand for Argentine exports, a significant reduction of direct foreign investment and higher inflation rates throughout the world. The occurrence of any or all such events, as well as any event affecting Argentina's main regional partners (including the Mercosur member countries) may have a significant adverse effect on the Argentine economy and, consequently, on our operations, businesses and results.

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

Argentina's economy has historically relied on the export of commodities, the prices of which have been volatile in the past and largely outside its control. Argentina's recovery from the financial crisis in 2001 and 2002 has depended to a significant extent on the rise in commodity prices, particularly prices of its main commodity exports, such as soybeans. High commodity prices have contributed significantly to government revenues from taxes on exports. If commodity prices continue to decline, the growth of the Argentine economy could be affected. Such occurrence would have a negative impact on the levels of government revenues, the government's ability to service its debt and on our business.

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

As a result of several years of recession, and the forced conversion into Pesos and subsequent freeze of gas and electricity tariffs, there has been a lack of investment in 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.

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

#### **Risks Relating to Brazil**

***The Brazilian government has exercised and continues to exercise influence over the Brazilian economy, which together with Brazil's historically volatile political and economic conditions could adversely affect our financial condition and results of operations.***

Our business is dependent to a large extent on the economic conditions in Brazil. As of June 30, 2010, approximately 4.2% of our consolidated assets were located in Brazil through our affiliate BrasilAgro-Companhia Brasileira de Propriedades Agrícolas ("BrasilAgro").

Historically, the Brazilian government has changed monetary, credit, tariff, and other policies to influence the course of Brazil's economy. Such government actions have included increases in interest rates, changes in tax policies, price controls, currency devaluations, as well as other measures such as imposing exchange controls and limits on imports and exports.

Our operations in Brazil may be adversely affected by changes in public policy at federal, state and municipal levels with respect to public tariffs and exchange controls, as well as other factors, such as:

- fluctuation in exchange rates in Brazil;
- monetary policy;
- exchange controls and restrictions on remittances outside Brazil, such as those which were imposed on such remittances (including dividends) in 1989 and early 1990;
- inflation in Brazil;
- interest rates;
- liquidity of the Brazilian financial, capital and lending markets;
- fiscal policy and tax regime in Brazil; and
- other political, social and economical developments in or affecting Brazil.



Actions of the Brazilian government in the future could have a significant effect on economic conditions in Brazil, which could adversely affect private sector companies such as our subsidiary BrasilAgro, and thus, could adversely affect us.

***Although inflation in Brazil has stabilized in the past years, an increase in inflation could adversely affect the operations of BrasilAgro which could adversely impact our financial condition and results of operations.***

Brazil has experienced high and generally unpredictable rates of inflation for many years in the past. Inflation itself, as well as governmental policies to combat inflation, has had significant negative effects on the Brazilian economy in general. Inflation, government efforts to control inflation and public speculation about future governmental actions have had, and can be expected to continue to have, significant impact on the Brazilian economy and on our operations in Brazil. As measured by the Brazilian *Índice Nacional de Preços au Consumidor* (National Consumer Price Index), or INPC, inflation in Brazil was 2.8%, 5.2%, 6.5% 3.5% and 4.1% in 2006, 2007, 2008, 2009, and for the eleven month period ended November 30, 2010, respectively. We cannot assure you that levels of inflation in Brazil will not increase in future years having a material adverse effect on our business, on the financial condition or, the results of operations. Inflationary pressures may lead to further government intervention in the economy, including the introduction of government policies that could adversely affect the results of operations of BrasilAgro and consequently our financial condition and results of operations and the market price of our common shares and ADSs.

***The Brazilian real is subject to depreciation and exchange rate volatility which could adversely affect our financial condition and results of operations.***

Brazil's rate of inflation and the government's actions to combat inflation have also affected the exchange rate between the *real* and the U.S. dollar. As a result of inflationary pressures, the Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian federal government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini devaluations (during which the frequency of adjustments has ranged from daily to monthly), floating exchange rate systems, exchange controls and dual exchange rate markets. During 2006, 2007 2008 and 2009, the *real* appreciated 8.6%, 16.5%, 30.07% and 33.8%, respectively, against the U.S. dollar. As of the period of eleven-month ended November 30, 2010, as an impact of the world's economy crisis that unfolded in mid 2007 as a result of the disruption of the United States' subprime mortgage market, the *real* appreciated 1.67% against the U.S. dollar. Despite the recent appreciation there can be no assurance that the rate of exchange between the *real* and the dollar will not fluctuate significantly. In the event of a devaluation of the *real*, the financial condition and results of operations of our Brazilian subsidiary could be adversely affected.

Depreciation of the *real* relative to the U.S. dollar may increase the cost of servicing foreign currency-denominated debt that we may incur in the future, which could adversely affect our financial condition and results of operations. In addition, depreciation of the *real* creates additional inflationary pressures in Brazil that may adversely affect our results of operations. Depreciation generally curtails access to international capital markets and may prompt government intervention. It also reduces the U.S. dollar value of BrasilAgro's revenues, distributions and dividends, and the U.S. dollar equivalent of the market price of our common shares. On the other hand, the appreciation of the *real* against the U.S. dollar may lead to the deterioration of Brazil's public accounts and balance of payments, as well as to lower economic growth from exports, which could impact the results of our subsidiary BrasilAgro.

***The Brazilian government imposes certain restrictions on currency conversions and remittances abroad which could affect the timing and amount of any dividend or other payment we receive.***

Brazilian law guarantees foreign shareholders of Brazilian companies the right to repatriate their invested capital and to receive all dividends in foreign currency provided that their investment is registered with the *Banco Central do Brazil*, or the Brazilian Central Bank. We registered our investment in BrasilAgro with the Brazilian Central Bank on April 28, 2006. Although dividend payments related to profits obtained subsequent to April 28, 2006 are not subject to income tax, if the sum of repatriated capital and invested capital exceeds the investment amount registered with the Brazilian Central Bank, repatriated capital is subject to a capital gains tax of 15%. There can be no assurance that the Brazilian government will not impose additional restrictions or modify existing regulations that would have an adverse effect on an investor's ability to repatriate funds from Brazil nor can there be any assurance of the timing or duration of such restrictions, if imposed in the future.

***Widespread uncertainties, corruption and fraud relating to ownership of real estate may adversely affect our business.***

There are widespread uncertainties, corruption and fraud relating to title ownership of real estate in Brazil. In Brazil, ownership of real property is conveyed through filing of deeds before the relevant land registry. In certain cases, land registry recording errors, including duplicate and/or fraudulent entries, and deed challenges frequently occur, leading to judicial actions. Property disputes over title ownership are frequent, and, as a result, there is a risk that errors, fraud or challenges could adversely affect us, causing the loss of all or substantially all of our properties.

In addition, our land may be subject to expropriation by the Brazilian government. An expropriation could materially impair the normal use of our lands or have a material adverse effect on our results of operations. In addition, social movements, such as *Movimento dos Trabalhadores Rurais Sem Terra* and *Comissão Pastoral da Terra*, are active in Brazil. Such movements advocate land reform and mandatory property redistribution by the government. Land invasions and occupations of rural areas by a large number of individuals is common practice for these movements, and, in certain areas, including some of those in which we are likely to invest, police protection and effective eviction proceedings are not available to land owners. As a result, we cannot give you any assurance that our properties will not be subject to invasion or occupation by these groups. A land invasion or occupation could materially impair the normal use of our lands or have a material adverse effect on us or the value of our common shares or ADRs.

***The lack of efficient transportation, and adequate storage or handling facilities in certain of the regions in which we operate may have a material adverse effect on our business.***

One of the principal disadvantages of the agriculture industry in some of the regions where we operate is that they are located a long distance from major ports – in some cases, nearly 1,500 kilometers. Efficient access to transportation infrastructure and ports is critical to the profitability in the agricultural industry. Furthermore, as part of our business strategy, we intend to acquire and develop land in specific areas where existing transportation is poor. A substantial portion of agricultural production in certain of the regions where we operate is currently transported by truck, a means of transportation significantly more expensive than the rail transportation available to the U.S. and other international producers. As a result, we may be unable to obtain efficient transportation to make our production reach our most important markets in a cost-effective manner, if at all.

**Risks Relating to Our Region**

***Our business is dependent on economic conditions in the countries where we operate or intend to operate.***

We had made investments in farmland in Argentina, Brazil, Paraguay and Bolivia and we may possibly make investments in other countries in and outside Latin America. Because demand for livestock and agricultural products usually is correlated to economic conditions prevailing in the local market, which in turn is dependent on the macroeconomic condition of the country in which the market is located, our financial condition and results of operations are, to a considerable extent, dependent upon political and economic conditions prevailing from time to time in the countries where we operate. Latin American countries have historically experienced uneven periods of economic growth, as well as recession, periods of high inflation and economic instability. Certain countries have experienced severe economic crises, which may still have future effects. As a result, governments may not have the financial resources necessary to implement reforms and foster growth. Any of these adverse economic conditions could have a material adverse effect on our business.

In the past year, the world's economy experienced the effects of the crisis that unfolded in mid 2007 as a result of the disruption of the United States' subprime mortgage market. Though there has been some recovery, an interruption of such recovery may have an impact on the economic conditions difficult to predict. Triggering a less favorable or an unfavorable international environment for the countries where we operate or intend to operate, forcing domestic policy adjustments, which could cause adverse economic conditions and adversely affect our business.

***We face the risk of political and economic crises, instability, terrorism, civil strife, expropriation and other risks of doing business in emerging markets.***

In addition to Argentina and Brazil, we conduct or intend to conduct our operations in other Latin-American countries. Economic and political developments in these countries, including future economic changes or crises (such as inflation or recession), government deadlock, political instability, terrorism, civil strife, changes in laws and regulations, expropriation or nationalization of property, and exchange controls could adversely affect our business, financial condition and results of operations.

Although economic conditions in one country may differ significantly from another country, we cannot assure that events in one country alone will not adversely affect our business or the market value of, or market for, our shares or ADRs.

***Governments in the countries where we operate or intend to operate exercise significant influence over their economies.***

Emerging market governments, including governments in the countries where we operate, frequently intervene in the economies of their respective countries and occasionally make significant changes in policy and regulations. Governmental actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and prospects may be adversely affected by changes in government policies or regulations, including factors, such as:

- exchange rates and exchange control policies;
- inflation rates;
- interest rates;
- tariff and inflation control policies;
- import duties on information technology equipment;
- liquidity of domestic capital and lending markets;
- electricity rationing;
- tax policies; and
- other political, diplomatic, social and economic developments in or affecting the countries where we intend to operate.

An eventual reduction of foreign investment in any of the countries where we operate may have a negative impact on such country's economy, affecting interest rates and the ability of companies such as us to access financial markets.

***Local currencies used in the conduct of our business are subject to exchange rate volatility and exchange controls.***

The currencies of many countries in Latin America have experienced substantial volatility in recent years. Currency movements, as well as higher interest rates, have materially and adversely affected the economies of many Latin American countries, including countries in which account for or are expected to account for a significant portion of our revenues. The depreciation of local currencies creates inflationary pressures that may

have an adverse effect on us generally, and may restrict access to international capital markets. On the other hand, the appreciation of local currencies against the U.S. dollar may lead to deterioration in the balance of payments of the countries where we operate, as well as to a lower economic growth.

In addition, we may be subject to exchange control regulations in these Latin-American countries which might restrict our ability to convert local currencies into U.S. dollars.

***Inflation and certain government measures to curb inflation may have adverse effects on the economies of the countries where we operate or intend to operate, our business and our operations.***

Most countries where we operate or intend to operate have historically experienced high rates of inflation. Inflation and some measures implemented to curb inflation have had significant negative effects on the economies of Latin American countries. Governmental actions taken in an effort to curb inflation, coupled with speculation about possible future actions, have contributed to economic uncertainty at times in most Latin American countries. The countries where we operate or intend to operate may experience high levels of inflation in the future that could lead to further government intervention in the economy, including the introduction of government policies that could adversely affect our results of operations. In addition, if any of these countries experience high rates of inflation, we may not be able to adjust the price of our services sufficiently to offset the effects of inflation on our cost structures. A high inflation environment would also have negative effects on the level of economic activity and employment and adversely affect our business and results of operations.

***Developments in other markets may affect the Latin American countries where we operate or intend to operate, and as a result our financial condition and results of operations may be adversely affected.***

The market value of securities of companies such as us may be, to varying degrees, affected by economic and market conditions in other global markets. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into and securities from issuers in other countries, including Latin American countries. Various Latin American economies have been adversely impacted by the political and economic events that occurred in several emerging economies in recent times. Furthermore, Latin American economies may be affected by events in developed economies which are trading partners or that impact the global economy.

***Land in Latin-American countries may be subject to expropriation or occupation.***

Our land may be subject to expropriation by governments of the countries where we operate and intend to operate. An expropriation could materially impair the normal use of our lands or have a material adverse effect on our results of operations. In addition, social movements, such as *Movimento dos Trabalhadores Rurais Sem Terra* and *Comissão Pastoral da Terra* in Brazil, are active in certain of the countries where we operate or intend to operate. Such movements advocate land reform and mandatory property redistribution by governments. Land invasions and occupations of rural areas by a large number of individuals is common practice for these movements, and, in certain areas, including some of those in which we are likely to invest, police protection and effective eviction proceedings are not available to land owners. As a result, we cannot give you any assurance that our properties will not be subject to invasion or occupation by these groups. A land invasion or occupation could materially impair the normal use of our lands or have a material adverse effect on us or the value of our shares or ADRs.

***We may invest in countries other than Argentina and Brazil and cannot give you any current assurance as to the countries in which we will ultimately invest, and we could fail to list all risk factors for each possible country.***

We have a broad and opportunistic business strategy and you should understand that we may invest in countries other than Argentina and Brazil including countries in other emerging markets outside Latin America such as Africa. As a result, it is not possible at this time to identify all risk factors that may affect our future operations and the value of our common shares and ADSs.

**Risks Relating to Our Agricultural Business**

***Fluctuation in market prices for our agriculture products could adversely affect our financial condition and results of operations.***

Prices for cereals, oilseeds and by-products, like those of other commodities, can be expected to fluctuate significantly. The prices that we are able to obtain for our agriculture products depend on many factors beyond our control, including:

- prevailing world prices, which historically have been subject to significant fluctuations over relatively short periods of time, depending on worldwide demand and supply;
- changes in the agricultural subsidy levels in certain important countries (mainly the United States and countries in the European Union) and the adoption of other government policies affecting industry market conditions and prices; and
- demand for and supply of competing commodities and substitutes.

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

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

The occurrence of severe adverse weather conditions, especially droughts, hail or floods, is unpredictable and may have a potentially devastating impact upon our crop production and, to a lesser extent, our beef cattle production. The occurrence of severe adverse weather conditions may reduce yields on our farms or require us to increase our level of investment to maintain yields. The 2008/2009 agricultural season in Argentina's main production areas has sustained one of the worst droughts in the past 70 years which adversely affected the agricultural and, livestock industry and also had a negative bearing on the expectations for the next season and for the cattle stock we experienced losses and can not assume that they will not occur. According to the United States Department of Agriculture ("USDA")'s November 2010 estimates, Argentina's crops output (wheat, corn and soybean) for the 2010/2011 season is expected to be in line to that in the previous cycle. Also according to the USDA, the area sown with soybean will be equivalent to that of the previous cycle, but has estimated soybean output for the 2010/1011 season will decrease 4,6%, to 2.80 tons per hectare, compared to a record high in 2006/07 of 2.99 tons per hectare and a five-year average of 2.69 tons per hectare. The USDA forecasts Argentine wheat production for the 2010/11 season will be 13.5 million tons, a 29% increase compared to the previous season. As regards corn, output for the previous cycle had been 22.5 million tons, whereas the USDA report for November estimated that in the 2010/2011 cycle Argentina's output will be 25.0 million tons. As regards the USDA November 2010 projections concerning soybean, Argentina's output will be 52.0 million tons, that is 4.6% lower and 62.5% higher than the production posted in the 2009/10 and 2008/09 seasons, respectively. The weather phenomenon during season 2008/2009 has also impacted on beef cattle, causing deaths and affecting beef and milk production. As a result, we cannot assure you that the present and future severe adverse weather conditions will not adversely affect our operating results and financial condition.

***Disease may strike our crops without warning potentially destroying some or all of our yields.***

The occurrence and effect of crop disease and pestilence can be unpredictable and devastating to crops, potentially destroying all or a substantial portion of the affected harvests. Even when only a portion of the crop is damaged, our results of operations could be adversely affected because all or a substantial portion of the production costs for the entire crop have been incurred. Although some crop diseases are treatable, the cost of treatment is high, and we cannot assure that such events in the future will not adversely affect our operating results and financial condition.

***Our cattle are subject to diseases.***

Diseases among our cattle herds, such as tuberculosis, brucellosis and foot-and-mouth disease, can have an adverse effect on milk production and fattening, rendering cows unable to produce milk or meat for human

consumption. Outbreaks of cattle diseases may also result in the closure of certain important markets, such as the United States, to our cattle products. Although we abide by national veterinary health guidelines, which include laboratory analyses and vaccination, to control diseases among the herds, especially foot-and-mouth disease, we cannot assure that future outbreaks of cattle diseases will not occur. A future outbreak of diseases among our cattle herds may adversely affect our beef cattle and milk sales which could adversely affect our operating results and financial condition.

***We may be exposed to material losses due to volatile crop prices since we hold a significant portion of our production unhedge, and expose to crop price risk.***

Due to the fact that we do not have 100% of our crops hedged, we are unable to have minimum price guarantees for all of our production and are therefore exposed to significant risks associated with the level and volatility of crop prices. We are subject to fluctuations in crop prices which could result in receiving a lower price for our crops than our production cost. We are also subject to exchange rate risks related to our crops that are hedged, because our futures and options positions are valued in U.S. dollars, and thus are subject to exchange rate risk.

In addition, if severe weather or any other disaster generates a lower crop production than the position already sold in the market, we may suffer material losses in the repurchase of the sold contracts.

***The creation of new export taxes may have an adverse impact on our sales.***

In order to prevent inflation and variations in the exchange rate from adversely affecting prices of primary and manufactured products (including agricultural products), and to increase tax collections and reduce Argentina's fiscal deficit, the Argentine government has imposed new taxes on exports. Pursuant to Resolution No. 11/02 of the Ministry of Economy and Production, as amended by Resolution 35/02, 160/2002, 307/2002 and 530/2002, effective as of March 5, 2002, the Argentine government imposed a 20%, 10% and 5% export tax on primary and manufactured products. On November 12, 2005, pursuant to Resolution No. 653/2005, the Ministry of Economy and Production increased the tax on beef cattle exports from 5% to 10%, and on January 2007 increased the tax on soybean exports from 23.5% to 27.5%. Pursuant to Resolutions No. 368/07 and 369/07 both dated November 12, 2007, the Ministry of Economy and Production further increased the tax on soybean exports from 27.5% to 35.0% and also the tax on wheat and corn exports from 20.0% to 28.0% and from 20.0% to 25.0%, respectively. In early March 2008, the Argentine government introduced a regime of sliding -scale export tariffs for oilseed, grains and by-products, where the withholding rate (in percentage) would increase to the same extent as the crops' price. Therefore, it imposed an average tax for soybean exports of 46%, compared to the previous fixed rate of 35%. In addition, the tax on exports of wheat was increased, from a fixed rate of 28% to an average variable rate of 38%, and the tax on exports of corn changed from a fixed rate of 25% to an average variable rate of 36%. This tariff regime, which according to farmers effectively sets a maximum price for their crops, sparked widespread strikes and protests by farmers whose exports have been one of the principal driving forces behind Argentina's recent growth. In April 2008, as a result of the export tariff regime, farmers staged a 21-day strike in which, among other things, roadblocks were set up throughout the country, triggering Argentina's most significant political crisis in five years. These protests disrupted transport and economic activity, which led to food shortages, a surge in inflation and a drop in export registrations. Finally, the federal executive branch decided to send the new regime of sliding-scale export tariffs to the federal congress for its approval. The project was approved in the House of Representatives but rejected by the Senate. Subsequently, the federal government abrogated the regime of sliding-scale export tariffs and reinstated the previous scheme of fixed withholdings.

Export taxes might have a material and adverse effect on our sales. We produce exportable goods and, therefore, an increase in export taxes is likely to result in a decrease in our products' price, and, therefore, may result in a decrease of our sales. We cannot guarantee the impact of those or any other future measures that might be adopted by the Argentine government on our financial condition and result of operations.

***The recent 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 recent credit crisis had a significant negative impact on businesses around the world. Although we believe that available borrowing capacity under the current conditions and proceeds resulting from potential farm sales will provide us with sufficient liquidity through the current economic environment, the impact of the crisis on our major customers cannot be predicted and may be quite severe. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a reduction the in their future orders of our 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.

***Government intervention in our markets may have a direct impact on our prices.***

The Argentine government has set certain industry market conditions and prices in the past. In order to prevent a substantial increase in the price of basic products as a result of inflation, the Argentine government is adopting an interventionist policy. In March 2002, the Argentine government fixed the price for milk after a conflict among producers and the government. Since 2005, the Argentine government, in order to increase the domestic availability of beef and reduce domestic prices, adopted several measures: it increased turnover tax and established a minimum average number of animals to be slaughtered. In March 2006, the registries for beef exports were temporarily suspended. This last measure was softened once prices decreased. There can be no assurance that the Argentine government will not interfere in other areas by setting prices or regulating other market conditions. Accordingly, we cannot assure you that we will be able to freely negotiate all our products' prices in the future or that the prices or other market conditions that the Argentine government could impose will allow us to freely negotiate the price of our products.

***We may increase our crop price risk since we could have a net long position in crop derivatives.***

In order to improve the use of land and capital allocation, we may have a long position in crops in addition to our own production. This strategy increases our crop price risk, generating material losses in a downward market.

***We do not maintain insurance over all of our crop storage facilities; therefore, if a fire or other disaster damages some or all of our harvest, we will not be completely covered.***

We store a significant portion of our grain production during harvest due to the seasonal drop in prices that normally occurs at that time. Currently, we store a significant portion of our grain production in plastic silos. We do not maintain insurance on our plastic silos. Although our plastic silos are placed in several different locations, and it is unlikely that a natural disaster affects all of our plastic silos simultaneously, a fire or other natural disaster which damages the stored grain, particularly if such event occurs shortly after harvesting, could have an adverse effect on our operating results and financial condition.

***Worldwide competition in the markets for our products could adversely affect our business and results of operations.***

We experience substantial worldwide competition in each of our markets and in many of our product lines. The market for cereals, oil seeds and by-products is highly competitive and also sensitive to changes in industry capacity, producer inventories and cyclical changes in the world's economies, any of which may significantly affect the selling prices of our products and thereby our profitability. Argentina is more competitive in the oilseed market than in the market for cereals. Due to the fact that many of our products are agricultural commodities, they compete in the international markets almost exclusively on the basis of price. Many other producers of these products are larger than us, and have greater financial and other resources. Moreover, many other producers receive subsidies from their respective countries while we do not receive any such subsidies from the Argentine government. These subsidies may allow producers from other countries to produce at lower costs than us and/or endure periods of low prices and operating losses for longer periods than we can. Any increased competitive pressure with respect to our products could materially and adversely affect our financial condition and results of operations.

***If we are unable to maintain our relationship with our customers, particularly with the single customer who purchases our entire raw milk production each month, our business may be adversely affected.***

Though our cattle sales are diversified, we are and will continue to be significantly dependent on a number of third party relationships, mainly with our customers for crop and milk sales. In fiscal year 2010, we sold our products to approximately 135 customers. Sales to our ten largest customers represented approximately 74% of our net sales for the fiscal year ended June 30, 2010. Our biggest three customers are Cargill S.A., Mastellone Hnos. S.A. and Molinos Río de la Plata S.A., represented, in the aggregate, approximately 48% of our net sales, while the remaining seven customers in the aggregate represented approximately 26% of our net sales in fiscal year 2010.

In addition, we currently sell our entire raw milk production to one customer in Argentina, Mastellone Hnos. S.A. For the year ended June 30, 2010, these sales represented approximately 7.4% of our total revenues. There can be no assurance that this customer will continue to purchase our entire raw milk production or that, if it fails to do so, we could enter into satisfactory sale arrangements with new purchasers in the future.

We sell our crop production mainly to exporters and manufacturers that process the raw materials to produce meal and oil, products that are sent to the export markets. The Argentine crop market is characterized by a few purchasers and a great number of sellers. Although most of the purchasers are international companies with strong financial conditions, we cannot assure you that this situation will remain the same in the future or that this market will not get more concentrated in the future.

We may not be able to maintain or form new relationships with customers or others who provide products and services that are important to our business. Accordingly, we cannot assure you that our existing or prospective relationships will result in sustained business or the generation of significant revenues.

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

Our agricultural business is highly seasonal in nature. The harvest and sale of crops (corn, soybean and sunflower) generally occurs from February to June. Wheat is harvested from December to January. Our operations and sales are affected by the growing cycle of the crops we process and by decreases during the summer in the price of the cattle we fatten. As a result, our results of operations have varied significantly from period to period, and are likely to continue to vary, due to seasonal factors.

***Our principal shareholder has the ability to direct our business and affairs, and its interests could conflict with yours.***

As of November 30, 2010, Mr. Eduardo S. Elsztain, was the beneficial owner of 38.5% (on a fully diluted basis) of our common shares. As a result of his significant influence over us, Mr. Elsztain, by virtue of his position in IFISA, has been able to elect a majority of the members of our board of directors, direct our management and determine the result of substantially all resolutions that require shareholders' approval, including fundamental corporate transactions and our payment of dividends by us.

The interests of our principal shareholder and management may differ from, and could conflict with, those of our other shareholders. Pursuant to a consulting agreement we pay a management fee equal to 10% of our annual net income to Consultores Asset Management S.A., formerly known as Dolphin Fund Management S.A. ("Consultores Asset Management"), a company whose capital stock is 85% owned by Eduardo Elsztain and 15% owned by Saúl Zang, the first vice-chairman of our board of directors. This performance based fee could be viewed as an incentive for Consultores Asset Management to favor riskier or more speculative investments than would otherwise be the case. In addition, as of November 30, 2010 Mr. Elsztain was the beneficial owner, due to his indirect shareholding through Cresud of 57.60% (on a fully diluted basis) of the common shares of IRSA, an Argentine company that currently owns approximately 97.10% (on a fully diluted basis) of the common shares of its subsidiary Alto Palermo Sociedad Anónima (APSA) ("Alto Palermo" or "APSA") whose chief executive



officer is Mr. Alejandro G. Elsztain, Mr. Eduardo Elsztain's brother and our chief executive officer of Cresud. We cannot assure you that our principal shareholders will not cause us to forego business opportunities that their affiliates may pursue or to pursue other opportunities that may not be in our interest, all of which may adversely affect our business, results of operations and financial condition and the value of our common shares and the ADSs.

***We could be adversely affected by our investment in IRSA if its value declines.***

Our investment in IRSA is exposed to the common risks generally inherent in investments in commercial and residential properties, many of which are outside IRSA's control. Any of these risks could adversely and materially affect IRSA's businesses, financial position and/or results of operations. Any available returns on capital expenditures associated with real estate are dependent upon sales volumes and/or revenues from leases and the expenses incurred. Besides, there are other factors that may adversely affect the performance and the value of a property, including the local economic conditions prevailing in the area where the property is located, macroeconomic conditions in Argentina and in the rest of the world, competition from other companies engaged in real estate development, IRSA's ability to find lessees, non-performance by lessees and/or lease terminations, changes in legislation and in governmental regulations (including those governing the use of the properties, urban planning and real estate taxes), variations in interest rates (including the risk of an increase in interest rates causing a reduction in the sales of lots in properties intended for residential development) and the availability of funding. In addition, and given the relative illiquidity of the real estate market, IRSA could be unable to effectively respond to adverse market conditions and/or be compelled to undersell one or more of its properties. Broadly speaking, some significant expenses, such as debt services, real estate taxes and operating and maintenance costs do not fall when there are circumstances that reduce the revenues from an investment.

These factors and/or events could impair IRSA's ability to respond to adverse changes in the returns on its investments thus causing a significant reduction in its financial position and/or the results of its operations, which could have an adverse effect on our financial position and the results of our operations.

***We could be materially and adversely affected by our investment in BrasilAgro.***

As of June 30, 2010, our investment in BrasilAgro represented 4.2% of our total consolidated assets. BrasilAgro was formed on September 23, 2005 to exploit opportunities in the Brazilian agricultural sector. BrasilAgro seeks to acquire and develop future properties to produce a diversified range of agricultural products (which may include sugarcane, grains, cotton, forestry products and livestock). BrasilAgro is a startup company that has been operating since 2006. As a result, it has a developing business strategy and limited track record. BrasilAgro's business strategy may not be successful, and if not successful, BrasilAgro may be unable to successfully modify its strategy. BrasilAgro's ability to implement its proposed business strategy may be materially and adversely affected by many known and unknown factors. If we were to write-off our investments in BrasilAgro, this would likely materially and adversely affect our business. As of November 30, 2010, we owned 35.75% of the outstanding common shares of BrasilAgro.

***We will be subject to extensive environmental regulation.***

Our activities are subject to a wide set of federal, state and local laws and regulations relating to the protection of the environment, which impose various environmental obligations. Obligations include compulsory maintenance of certain preserved areas in our properties, management of pesticides and associated hazardous waste and the acquisition of permits for water use. Our proposed business is likely to involve the handling and use of hazardous materials that may cause the emission of certain regulated substances. In addition, the storage and processing of our products may create hazardous conditions. We could be exposed to criminal and administrative penalties, in addition to the obligation to remedy the adverse affects of our operations on the environment and to indemnify third parties for damages, including the payment of penalties for non-compliance with these laws and regulations. Since environmental laws and their enforcement are becoming more stringent in Argentina, our capital expenditures and expenses for environmental compliance may substantially increase in the future. In addition, due to the possibility of future regulatory or other developments, the amount and timing of environmental-related capital expenditures and expenses may vary substantially from those currently anticipated. The cost of compliance with environmental regulation may result in reductions of other strategic investments which may consequently decrease our profits. Any material unforeseen environmental costs may have a material adverse effect on our business, results of operations, financial condition or prospects.

As of June 30, 2010, we owned land reserves extending over more than 229,105 hectares that were purchased at very attractive prices. In addition, we have a concession over 114,048 hectares reserved for future development. We believe that there are technological tools available to improve productivity in these farms and, therefore, achieve appreciation in the long term. However, current or future environmental regulations could prevent us from fully developing our land reserves by requiring that we maintain part of this land as natural woodlands not to be used for production purposes.

***We may be negatively affected by the financial crisis in the U.S. and global and capital markets.***

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.

The capital and credit markets have been experiencing extreme volatility and disruption during the past year. 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 our prospects or the industry generally. We may not be able to successfully obtain any necessary additional financing on favorable terms, or at all.

***Increased energy prices and fuel shortages could adversely affect our operations.***

We require substantial amounts of fuel oil and other resources for our harvest activities and transport of our agricultural products. We rely upon third parties for our supply of the energy resources consumed in our operations. The prices for and availability of energy resources may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions. The prices of various sources of energy may increase significantly from current levels. An increase in energy prices could materially adversely affect our results of operations and financial condition.

***Our Financial Statements have been prepared under Argentine GAAP and may not provide investors with the information investors would have received if the financial statements were prepared under IFRS.***

Our Audited Consolidated Financial Statements are prepared in Argentine Pesos and in accordance with Argentine GAAP and the regulations of the CNV. Our Audited Consolidated Financial Statements under Argentine GAAP may not provide you with the information you would have received if our financial statements were prepared under U.S. GAAP or under IFRS. Publicly available information about public companies in Argentina is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States or European markets. Furthermore, there is a lower level of regulation of the Argentine securities markets and of the activities of the investors in these markets as compared to the securities markets in the United States, European markets and certain other international financial markets. Argentine GAAP differs in certain significant respects from U.S. GAAP, SEC rules and regulations, and IFRS. As required, the Audited Consolidated Financial Statements included in this annual report include a reconciliation of net income and shareholders' equity to U.S. GAAP. See Note 30 to the Audited Consolidated Financial Statements.

On March 20, 2009, the FACPCE issued Technical Resolution No. 26 "Adoption of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB")" which requires that companies under the supervision of the Comisión Nacional de Valores to prepare their financial statements in accordance with IFRS as published by the IASB for fiscal periods beginning on or after January 1, 2011, including comparative information for earlier periods. There are Consejos Profesionales or standard setters in each provincial jurisdiction in Argentina, which have the power to adopt, reject or modify a resolution issued by the FACPCE. The jurisdiction where we are located is the Federal District. On April 25, 2009, the CPCECABA

approved Resolution No. 26. The CNV issued Resolution No. 562/09, as amended by Resolution 576/10 formally adopting application of Resolution No. 26 to its regulated entities for fiscal years beginning on January 1, 2012. We will be required to prepare our financial statements in accordance with IFRS as issued by the IASB for our fiscal year ended June 30, 2012. Our transition date to IFRS will be July 1, 2011. On April 29, 2010, our Board of Directors approved a plan for implementing IFRS. We are in the early stages of completing a diagnosis of the principal differences between Argentine GAAP and IFRS. We have not quantified the effect any potential change in accounting principles would have on our financial condition or results of operations and therefore can give no assurance that such changes will not have an adverse effect on our financial condition or results of operations. You should rely on your own examination of our Company, the financial information contained in our Audited Financial Statements and any other information contained herein. You should consult your own professional advisors in understanding the potential differences between Argentine GAAP and IFRS, if any, and how those differences might impact our financial condition and results of operations.

***We depend on our chairman and senior management.***

Our success depends, to a significant extent, on the continued employment of Eduardo S. Elsztain, our president and chairman of the board of directors, and Alejandro G. Elsztain, our chief executive officer. The loss of their services for any reason could have a material adverse effect on our business. If our current principal shareholders were to lose their influence on the management of our business, our principal executive officers could resign or be removed from office.

Our future success also depends in part upon our ability to attract and retain other highly qualified personnel. We cannot assure you that we will be successful in hiring or retaining qualified personnel, or that any of our personnel will remain employed by us.

***The Investment Company Act may limit our future activities.***

Under Section 3(a)(3) of the Investment Company Act of 1940, as amended, an investment company is defined in relevant part to include any company that owns or proposes to acquire investment securities that have a value exceeding 40% of such company's unconsolidated total assets (exclusive of U.S. government securities and cash items). Investments in minority interests of related entities as well as majority interests in consolidated subsidiaries which themselves are investment companies are included within the definition of "investment securities" for purposes of the 40% limit under the Investment Company Act.

Companies that are investment companies within the meaning of the Investment Company Act, and that do not qualify for an exemption from the provisions of such Act, are required to register with the Securities and Exchange Commission and are subject to substantial regulations with respect to capital structure, operations, transactions with affiliates and other matters. In the event such companies do not register under the Investment Company Act, they may not, among other things, conduct public offerings of their securities in the United States or engage in interstate commerce in the United States. Moreover, even if we desired to register with the Commission as an investment company, we could not do so without an order of the Commission because we are a non-U.S. corporation, and it is unlikely that the Commission would issue such an order.

In recent years we have made a significant minority investment in the capital stock of IRSA, an Argentine company engaged in a range of real estate activities. As of November 30, 2010, we owned approximately 57.49% of IRSA's outstanding shares. Although we believe we are not an "investment company" for purposes of the Investment Company Act, our belief is subject to substantial uncertainty, and we cannot give you any assurance that we would not be determined to be an "investment company" under the Investment Company Act. As a result, the uncertainty regarding our status under the Investment Company Act may adversely affect our ability to offer and sell securities in the United States or to U.S. persons. The United States capital markets have historically been an important source of funding for us, and our future financing ability may be adversely affected by a lack of access to the United States capital markets. If an exemption under the Investment Company Act is unavailable to us in the future and we desire to access the U.S. capital markets, our only recourse would be to file an application to the SEC for an exemption from the provisions of the Investment Company Act which is a lengthy and highly uncertain process.

Moreover, if we offer and sell securities in the United States or to U.S. persons and we were deemed to be an investment company and not exempted from the application of the Investment Company Act, contracts we enter into in violation of, or whose performance entails a violation of, the Investment Company Act, including any such securities, may not be enforceable against us.

***We hold Argentine securities which might be more volatile than U.S. securities and carry a greater risk of default.***

We currently have and in the past have had certain investments in Argentine government debt, corporate debt, and equity securities. In particular, we hold a significant interest in IRSA, an Argentine company that has suffered material losses, particularly during fiscal years 2001 and 2002. Although our holding of these investments, excluding IRSA, tends to be short term, investments in such securities involve certain risks, including:

- market volatility, higher than those typically associated with U.S. government and corporate securities; and
- loss of principal.

Some of the issuers in which we have invested and may invest, including the Argentine government, have in the past experienced substantial difficulties in servicing their debt obligations, which have led to the restructuring of certain indebtedness. We cannot assure that the issuers in which we have invested or may invest will not be subject to similar or other difficulties in the future which may adversely affect the value of our investments in such issuers. In addition, such issuers and, therefore, such investments, are generally subject to many of the risks that are described in this section with respect to us, and, thus, could have little or no value.

**Risks relating to our investment in IRSA.**

***IRSA's performance is subject to risks associated with its properties and with the real estate industry.***

IRSA's economic performance and the value of their real estate assets, and consequently the value of the securities issued by them, are subject to the risk that if IRSA's properties do not generate sufficient revenues to meet its operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to their shareholders will be adversely affected. Events or conditions beyond IRSA's control that may adversely affect its operations or the value of its properties include:

- downturns in the national, regional and local economic climate;
- volatility and decline in discretionary spending;
- competition from other shopping centers and office, industrial and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for office, or other commercial or industrial space;
- decreases in consumption levels;
- changes in interest rates and availability of financing;
- the exercise by IRSA's tenants of its legal right to early termination of its leases;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;

- increased operating costs, including insurance expense, salary increases, utilities, real estate taxes, state and local taxes and heightened security costs;
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;
- declines in the financial condition of its tenants and its ability to collect rents from its tenants;
- changes in its ability or its tenants' ability to provide for adequate maintenance and insurance, possibly decreasing the useful life of and revenue from property; and
- changes in law or governmental regulations (such as those governing usage, zoning and real property taxes) or government action such as expropriation or confiscation.

If any one or more of the foregoing conditions were to affect IRSA's business, it could have a material adverse effect on its financial condition and results of operations.

***IRSA's investment in property development, redevelopment and construction may be less profitable than it anticipates.***

IRSA is engaged in the development and construction of office space, retail and residential properties, shopping centers and residential apartment complexes, frequently through third-party contractors. Risks associated with our development, re-development and construction activities include the following, among others:

- abandonment of development opportunities and renovation proposals;
- construction costs of a project may exceed IRSA's 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 its purchase contracts or units in new buildings may remain unsold upon completion of construction;
- the unavailability of favorable financing alternatives in the private and public debt markets;
- sale prices for residential units may be insufficient to cover development costs;
- construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs;
- impossibility to obtain, 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 IRSA 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 IRSA's tenants' demand for rental properties outside of the city of Buenos Aires; and
- IRSA may incur capital expenditures that could result in considerable time consuming efforts and which may never be completed due to government restrictions.

In addition, IRSA 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 IRSA's policies with respect to expansion, renovation and development activities are intended to limit some of the risks otherwise associated with such activities, IRSA is 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 its control, as well as financing costs, 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 its operating results.

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

IRSA's real estate and construction 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 it 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 in Argentina, further increasing this competition. To the extent that one or more of IRSA's competitors are able to acquire and develop desirable properties, as a result of greater financial resources or otherwise, its business could be materially and adversely affected. If IRSA is not able to respond to such pressures as promptly as its competitors, or the level of competition increases, its financial condition and results of its operations could be adversely affected.

In addition, many of IRSA's shopping centers are located in close proximity to other shopping centers, numerous retail stores and residential properties. The number of comparable properties located in the vicinity of its property could have a material adverse effect on its ability to lease retail space in its shopping centers or sell units in its residential complexes and on the rent price or the sale price that IRSA is able to charge. IRSA cannot assure you that other shopping center operators, including international shopping center operators, will not invest in Argentina in the near future. As additional companies become active in the Argentine shopping center market, such increased competition could have a material adverse effect on IRSA's results of operations.

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

IRSA has in the past acquired, and intends to acquire in the future, properties, including large properties (such as the acquisition of Edificio República, Abasto de Buenos Aires, or Alto Palermo Shopping) that would increase its size and potentially alter its capital structure. Although IRSA believes that the acquisitions that it has completed in the past and that it expects to undertake in the future have, and will, enhance its future financial performance, the success of such transactions is subject to a number of uncertainties, including the risk that:

- IRSA may not be able to obtain financing for acquisitions on favorable terms;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be higher than its estimates;
- acquired properties may be located in new markets where it may have limited knowledge and understanding of the local economy, absence of business relationships in the area or unfamiliarity with local governmental and permitting procedures; and
- IRSA may not be able to efficiently integrate acquired properties, particularly portfolios of properties, into its organization and to manage new properties in a way that allows it to realize cost savings and synergies.

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

IRSA owns several plots of land which are not zoned for the type of projects it intends to develop. In addition, IRSA does not yet have the required land-use, building, occupancy and other required governmental permits and authorizations. IRSA cannot assure you that it will continue to be successful in its 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, IRSA may be affected by building moratorium and anti-growth legislation. If it is unable to obtain all of the governmental permits and authorizations it needs to develop its present and future projects as planned, IRSA may be forced to make unwanted modifications to such projects or abandon them altogether.

***Acquired properties may subject IRSA to unknown liabilities.***

Properties that IRSA acquires may be subject to unknown liabilities for which it would have no recourse, or only limited recourse, to the former owners of such properties. As a result, if a liability were asserted against it based upon ownership of an acquired property, IRSA might be required to pay significant sums to settle it, which could adversely affect its financial results and cash flow. Unknown liabilities relating to acquired properties could include:

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

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

IRSA currently carries insurance policies that cover potential risks such as civil liability, fire, loss of profit, floods, including extended coverage and losses from leases on all of its properties. Although IRSA believes the policy specifications and insured limits of these policies are generally customary, there are certain types of losses, such as lease and other contract claims, terrorism and acts of war that generally are not insured. Should an uninsured loss or a loss in excess of insured limits occur, IRSA could lose all or a portion of the capital it has

invested in a property, as well as the anticipated future revenue from the property. In such an event, IRSA might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. IRSA 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 its operations, delay revenue and result in large expenses to repair or rebuild the property. Moreover, IRSA does not purchase life or disability insurance for any of our key employees. If any of its key employees were to die or become incapacitated, it would experience losses caused by a disruption in its operations which will not be covered by insurance, and this could have a material adverse effect on its financial condition and results of operations.

In addition, IRSA cannot assure you that it will be able to renew its 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.

***IRSA's dependence on rental income may adversely affect its ability to meet its debt obligations.***

The substantial part of IRSA's income is derived from rental income from real property. As a result, IRSA's performance depends on its ability to collect rent from its tenants. IRSA's income and funds for distribution would be negatively affected if a significant number of its tenants or any of its major tenants (as discussed in more detail below):

- 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 the tenant's leases and the loss of rental income attributable to the terminated leases. In addition, IRSA 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. 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 and other financial obligations.

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

IRSA has focused on development projects intended to cater to affluent individuals and has entered into property swap agreements pursuant to which IRSA contributes its undeveloped properties to ventures with developers who will deliver to its units in premium locations. At the time the developers return these properties to it, demand for premium residential units could be significantly lower. In such case, IRSA would be unable to sell these residential units at the prices or in the time frame it estimated, which could have a material adverse effect on its financial condition and results of operations.

***It may be difficult to buy and sell real estate quickly and transfer restrictions apply to some of IRSA's properties.***

Real estate investments are relatively illiquid and this tends to limit its ability to vary its portfolio promptly in response to changes in economic or other conditions. In addition, significant expenditures associated with each equity investment, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a decrease in income from a certain investment. If income from a property declines while the related expenses do not decline, IRSA's business would be adversely affected. Some of its properties are mortgaged to secure payment of its indebtedness, and if IRSA is unable to meet its mortgage payments, it could lose money as a result of foreclosure on such mortgages and even lose such property. In addition, if it becomes necessary or desirable for it to dispose of one or more of the mortgaged properties, IRSA might not be



able to obtain a release of the lien on the mortgaged property without payment of the associated debt. The foreclosure of a mortgage on a property or inability to sell a property could adversely affect its business. In transactions of this kind, IRSA may also agree, subject to certain exceptions, not to sell the acquired properties for significant periods of time.

***An adverse economic environment for real estate companies and the credit crisis may adversely impact IRSA's results of operations and business prospects significantly.***

The success of IRSA's business and profitability of IRSA's operations are dependent on continued investment in the real estate markets and access to capital and debt financing. A long term crisis of confidence in real estate investments and lack of available credit for acquisitions would be likely to constrain its business growth. As part of its business goals, IRSA intends to increase its properties portfolio with strategic acquisitions of core properties at advantageous prices, and core plus and value added properties where IRSA believes it can bring necessary expertise to enhance property values. In order to pursue acquisitions, IRSA may need access to equity capital and/or debt financing. Recent disruptions in the financial markets, including the bankruptcy and restructuring of major financial institutions, may adversely impact its 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 tempered by decreasing property values. Its ability to make scheduled payments or to refinance its obligations with respect to indebtedness depends on its operating and financial performance, which in turn is subject to prevailing economic conditions. If a recurrence of the disruptions in financial markets presents itself in the future, there can be no assurances that government responses to the disruptions in the financial markets will restore investor confidence, stabilize the markets or increase liquidity and the availability of credit.

***IRSA's level of debt may adversely affect its operations and its ability to pay its debt as it becomes due.***

IRSA had, and expects to continue to have, substantial liquidity and capital resource requirements to finance its business. As of June 30, 2010, our consolidated financial debt was Ps.1, 641 million (including short-term and long-term debt, accrued interest and deferred financing costs).

Although IRSA is generating sufficient funds from operating cash flows to satisfy its debt service requirements and its capacity to obtain new financing is adequate given the current availability of credit lines with the banks, IRSA cannot assure you that it will maintain such cash flow and adequate financial capacity in the future.

The fact that we are leveraged may affect our ability to refinance existing debt or borrow additional funds to finance working capital, 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 circumstances may last.

This would require IRSA to allocate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. Its leverage could also affect its competitiveness and limit its ability to react to changes in market conditions, changes in the real estate industry and economic downturns.

IRSA may not be able to generate sufficient cash flows from operations to satisfy its debt service requirements or to obtain future financing. If IRSA cannot satisfy its debt service requirements or if IRSA default on any financial or other covenants in its debt arrangements, the lenders and/or holders of its debt will be able to accelerate the maturity of such debt or cause defaults under the other debt arrangements. IRSA's ability to service debt obligations or to refinance them will depend upon its future financial and operating performance, which will, in part, be subject to factors beyond its control such as macroeconomic conditions (including the recent international credit crisis) and regulatory changes in Argentina. If it cannot obtain future financing, it may have to delay or abandon some or all of its planned capital expenditures, which could adversely affect its ability to generate cash flows and repay its obligations.

***IRSA may be negatively affected by a financial crisis in the U.S., the European Union and global capital markets.***

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

The capital and credit markets have been experiencing extreme volatility and disruption during the last credit crisis. If its current resources do not satisfy our liquidity requirements, IRSA 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 its credit ratings, as well as the possibility that lenders could develop a negative perception of the prospects of its company or the industry generally. IRSA may not be able to successfully obtain any necessary additional financing on favorable terms, or at all.

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

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

***IRSA is subject to risks inherent to the operation of shopping centers that may affect its profitability.***

Shopping centers are subject to various factors that affect their development, administration and profitability. These factors include:

- the accessibility and the attractiveness of the area where the shopping center is located;
- the intrinsic attractiveness of the shopping center;
- the flow of people and the level of sales of each shopping center rental unit;
- increasing competition from internet sales;
- the amount of rent collected from each shopping center rental unit;
- changes in consumer demand and availability of consumer credit, both of which are highly sensitive to general macroeconomic conditions; and
- the fluctuations in occupancy levels in the shopping centers.

An increase in operating costs, caused by inflation or other factors, could have a material adverse effect on IRSA if its tenants are unable to pay higher rent due to the increase in expenses. Moreover, the shopping center business is closely related to consumer spending and to the economy in which customers are located. All of IRSA's shopping centers are in Argentina, and, as a consequence, their business could be seriously affected by potential recession in Argentina. For example, during the economic crisis in Argentina, spending decreased significantly, unemployment, political instability and inflation significantly reduced consumer spending in Argentina, lowering tenants' sales and forcing some tenants to leave IRSA's shopping centers. If the international financial crisis has a substantial impact on economic activity in Argentina, it will likely have a material adverse effect on the revenues from the shopping center activity.

***The loss of significant tenants could adversely affect both the operating revenues and value of IRSA's shopping center and other rental properties.***

If certain of IRSA's most important tenants were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, or if it simply failed to retain its patronage, IRSA's business could be adversely affected. IRSA's shopping centers and, to a lesser extent, its office buildings are typically anchored by significant tenants, such as well known department stores who generate shopping traffic at the mall. A decision by such significant tenants to cease operations at IRSA's shopping centers or office buildings could have a material adverse effect on the revenues and profitability of the affected segment and, by extension, on its financial condition and results of operations. The closing of one or more significant tenants may induce other major tenants at an affected property to terminate their leases, to seek rent relief and/or cease operating their stores or otherwise adversely affect occupancy at the property. In addition, key tenants at one or more properties might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies in the retail industry. The bankruptcy and/or closure of one or more significant tenants, if IRSA is 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.

***IRSA's future acquisitions may be unprofitable.***

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

- IRSA estimates of the cost of improvements needed to bring the property up to established standards for the market may prove to be inaccurate;
- properties IRSA acquire may fail to achieve within the time frames IRSA projects the occupancy or rental rates IRSA projects at the time IRSA makes the decision to acquire, which may result in the properties' failure to achieve the returns IRSA projected;
- IRSA's pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs, which could significantly increase its total acquisition costs; and
- IRSA's investigation of a property or building prior to its acquisition, and any representations IRSA 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 IRSA's acquisition cost.

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

***IRSA's ability to grow will be limited if it cannot obtain additional capital.***

IRSA's growth strategy is focused on the redevelopment of properties it already owns and the acquisition and development of additional properties. As a result, IRSA is likely to depend to an important degree on the availability of debt or equity capital, which may or may not be available on favorable terms or at all. IRSA cannot guarantee that additional financing, refinancing or other capital will be available in the amounts it desires or on favorable terms. IRSA's access to debt or equity capital markets depends on a number of factors, including the market's perception of its growth potential, its ability to pay dividends, its financial condition, its credit rating and its current and potential future earnings. Depending on the outcome of these factors, IRSA could experience delay or difficulty in implementing its growth strategy on satisfactory terms, or be unable to implement this strategy.

***Serious illnesses and pandemics, such as the 2009 outbreak of Influenza A H1N1 virus, also known as the “swine flu”, have in the past adversely affected consumer and tourist activity, may do so in the future and may adversely affect the results of operations of IRSA.***

As a result of the outbreak of Influenza A H1N1 during the winter of 2009, consumers and tourists dramatically changed their spending and travel habits to avoid contact with crowds. Further, several governments enacted regulations limiting the operation of schools, cinemas and shopping centers. Even though the Argentine government only issued public service recommendations to the population regarding the risks involved in visiting crowded places, such as shopping centers, and did not issue specific regulations limiting access to public places, a significant number of consumers nonetheless changed their habits vis-a-vis shopping centers and malls. Additionally, the outbreak of Influenza A H1N1 contributed significantly to a decrease in the number of tourists visiting Argentina in 2009.

Although there was not an outbreak of A H1N1 influenza in the winter of 2010, IRSA cannot assure you that a new outbreak or health hazard will not occur in the future, or that such an outbreak or hazard would not significantly negatively affect consumer and/or tourist activity, and that such scenario would not adversely affect IRSA's businesses.

***IRSA is subject to risks inherent to the operation of office buildings that may affect its profitability.***

Office buildings are subject to various factors that affect their development, administration and profitability. The profitability of IRSA's office buildings may be affected by:

- a decrease in demand for office space;
- a deterioration in the financial condition of our tenants, which 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.

***IRSA is subject to risks affecting the hotel industry.***

The full-service segment of the lodging industry in which IRSA's hotels operate is highly competitive. The operational success of IRSA's hotels is highly dependent on its ability to compete in areas such as access, location, quality of accommodations, rates, quality food and beverage facilities and other services and amenities. IRSA's hotels may face additional competition if other companies decide to build new hotels or improve their existing hotels to increase their attractiveness.

In addition, the profitability of IRSA's hotels depends on:

- IRSA's ability to form successful relationships with international and local operators to run its hotels;
- changes in tourism and travel patterns, including seasonal changes and changes due to pandemic outbreaks, such as the H1N1 virus;
- 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.

***An uninsured loss or a loss that exceeds the policies on IRSA's properties could subject IRSA to lost capital or revenue on those properties.***

Under the terms and conditions of the leases currently in force on IRSA's properties, tenants are required to indemnify and hold IRSA 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 its 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, IRSA cannot assure the holders that the 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, IRSA could lose all or part of its 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.

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

The activities of IRSA are subject to federal, state and municipal laws, and to regulations, authorizations and licenses required with respect to construction, zoning, use of the soil, environmental protection and historical patrimony, consumer protection and other requirements, all of which affect its ability to acquire land, buildings and shopping centers, 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. IRSA is required to obtain licenses and authorizations with different governmental authorities in order to carry out our projects. Maintaining its licenses and authorizations can be a costly provision. In the case of non-compliance with such laws, regulations, licenses and authorizations, IRSA may face fines, project shutdowns, 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 IRSA's 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 IRSA's 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. IRSA 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 operations and profitability of IRSA.

***Argentine Lease Law No. 23,091 imposes restrictions that limit flexibility of IRSA.***

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

- lease agreements may not contain inflation adjustment clauses based on consumer price indexes or wholesale price indexes. Although many of IRSA's lease agreements contain readjustment clauses,

these are not based on an official index nor do they reflect the inflation index. In the event of litigation these provisions may not be enforceable and therefore it may be impossible for IRSA to adjust the amounts owed to IRSA under its lease agreements;

- residential leases must comply with a mandatory minimum term of two years and retail leases must comply with a mandatory minimum term of three years except in the case of stands and/or spaces for special exhibitions;
- lease terms may not exceed ten years, except for leases regulated by Law No. 25,248 (which provides that leases containing a purchase option are not subject to term limitations); and
- tenants may rescind commercial and office lease agreements after the initial six-month period.

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

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

Although Argentine law permits a summary proceeding to collect unpaid rent and a special proceeding to evict tenants, eviction proceedings in Argentina are difficult and time-consuming. Historically, the heavy 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.

IRSA has usually attempted to negotiate the termination of lease agreements with defaulting tenants after the first few months of non-payment in order to avoid legal proceedings. Delinquency may increase significantly in the future, and such negotiations with tenants may not be as successful as they have been in the past. Moreover, new Argentine laws and regulations may forbid or restrict eviction proceedings, and in such case, they would likely have a material and adverse effect on IRSA's financial condition and results of operation.

***IRSA is subject to great competitive pressure.***

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

***IRSA's assets are concentrated in the Buenos Aires area.***

The principal properties of IRSA are located in the City of Buenos Aires and the Province of Buenos Aires and a substantial portion of their revenues are derived from such properties. For both its fiscal year ended June 30, 2009 and 2010, approximately 89% of our consolidated revenues were derived from properties in the Buenos Aires metropolitan area including the City of Buenos Aires. Although IRSA owns properties and may acquire or develop additional properties outside Buenos Aires, it expects to continue to depend to a large extent on economic conditions affecting those areas, and therefore, an economic downturn in those areas could have a material adverse effect on its financial condition and results of operations.

***IRSA faces risks associated with the expansion to other Latin American markets.***

From 1994 to 2002, IRSA had substantial investments outside of Argentina, including Brazil Realty, which was sold in 2002, and Fondo de Valores Inmobiliarios in Venezuela, which was sold in 2001.

IRSA continues to believe that Brazil, Uruguay and other Latin American countries offer attractive opportunities for growth in the real estate sector. IRSA will continue to consider investment opportunities outside of Argentina as they arise.

Investments in Brazil and other Latin American countries are subject to significant risks including sovereign risks and risks affecting these countries' real estate sectors. These risks include competition by well-established as well as new developers, unavailability of financing or financing on terms that are not acceptable to us, exchange rate fluctuations, lack of liquidity in the market, rising construction costs and inflation, extensive and potentially increasing regulation and bureaucratic procedures for obtaining permits and authorizations, political and economic instability that may result in sharp shifts in demand for properties, risks of default in payment and difficulty evicting defaulting tenants.

Recently, IRSA has acquired a property in Partido de la Costa, Department of Canelones, Uruguay, near Montevideo, where it plans to develop a real estate housing units and commercial premises.

***IRSA faces risks associated with its expansion in the United States.***

On July 2, 2008, IRSA acquired a 30% interest in Metropolitan, a limited liability company organized under the laws of Delaware, United States of America. Metropolitan's main asset is the Lipstick Building, a 34-story building located on Third Avenue between 53rd and 54th streets in Manhattan, New York City. Metropolitan has incurred mortgage debt in connection with the Lipstick Building. For more information about Metropolitan, please see *"Recent Developments"* and *"Significant Changes"*.

During the fiscal year 2010, IRSA acquired in the aggregate a 10.9% equity interest in Hersha Hospitality Trust ("Hersha"), a real estate investment trust which owns controlling interests in 77 hotels most of which are located on the east coast of the United States. For more information about Hersha, see *"Business--International Investments--Investment in Hersha Hospitality Trust"*.

The U.S. markets have recently experienced extreme dislocations and a severe contraction in available liquidity globally as important segments of the credit markets were frozen. Global financial markets have been disrupted by, among other things, volatility in securities prices, rating downgrades and declining valuations, and this disruption has been acute in real estate and related markets. This disruption has lead to a decline in business and consumer confidence and increased unemployment and has precipitated an economic recession around the globe. As a consequence, owners and operators of commercial real estate, including hotels and resorts, and commercial real estate properties such as offices, have experienced dramatic declines in property values and may continue to experience declines in business and real estate values in the U.S. or elsewhere. IRSA is unable to predict the likely duration or severity of the effects of the disruption in financial markets and adverse economic conditions and the effects they may have on their business, financial condition and results of operations.

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

On November 18, 1997, in connection with the acquisition of its subsidiary Inversora Bolívar S.A. ("Inversora Bolívar"), IRSA indirectly acquired 35.2% of the capital stock of Puerto Retiro. Inversora Bolívar had purchased such shares of Puerto Retiro from Redona Investments Ltd. N.V. in 1996. In 1999, IRSA, through Inversora Bolívar, increased its interest in Puerto Retiro to 50.0% of its capital stock. On April 18, 2000, Puerto Retiro received notice of a complaint filed by the Argentine government, through the Ministry of Defense, seeking to extend the bankruptcy of Inversora Dársena Norte S.A. ("Indarsa"). Upon filing of the complaint, the bankruptcy court issued an order restraining the ability of Puerto Retiro to dispose of, in any manner, the real property it had purchased in 1993 from Tandanor S.A. ("Tandanor"). Puerto Retiro appealed the restraining order which was confirmed by the court on December 14, 2000.

In 1991, Indarsa purchased 90% of Tandanor, a formerly government-owned company, which owned a large piece of land near Puerto Madero of approximately 8 hectares, divided into two spaces: Planta 1 and 2. After

the purchase of Tandador by Indarsa, in June 1993 Tandador sold “Planta 1” to Puerto Retiro, for a sum of US\$ 18 million pursuant to a valuation performed by J.L. Ramos, a well-known real estate brokerage firm in Argentina. Indarsa failed to pay to the Argentine government the outstanding price for its purchase of the stock of Tandador. As a result, the Ministry of Defense requested the bankruptcy of Indarsa. Since the only asset of Indarsa was its holding in Tandador, the Argentine government is seeking to extend Indarsa’s bankruptcy to the companies or individuals which, according to its view, acted as a single economic group. In particular, the Argentine government has requested the extension of the bankruptcy to Puerto Retiro, which acquired Planta 1 from Tandador.

The time for producing evidence in relation to these legal proceeding has expired. The parties have submitted their closing arguments and are awaiting a final judgment. However, the judge has delayed his decision until a final judgment in the criminal proceedings against the former Defense Minister and former directors of Indarsa has been delivered. IRSA cannot give you any assurance that it will prevail in this proceeding, and if the plaintiff’s claim is upheld by the courts, all of the assets of Puerto Retiro would likely be used to pay Indarsa’s debts and its investment in Puerto Retiro, valued at Ps.54.6 million as of June 30, 2010, would be lost. As June 30, 2010, IRSA had not established any reserve in respect of this contingency.

***Property ownership through joint ventures or minority participation may limit IRSA’s ability to act exclusively in its interest.***

IRSA develops and acquires properties in joint ventures with other persons or entities when IRSA believes circumstances warrant the use of such structures. For example, in its Shopping Center segment, as of June 30, 2010, it owned approximately 63.4% of Alto Palermo, while Parque Arauco S.A. owns another 29.6%. However, on October 15, 2010, IRSA executed the option to purchase all of Parque Arauco’s interest in Alto Palermo. For more information, please see “Recent Developments” and “Significant Changes”.

Through IRSA’s subsidiary Alto Palermo, IRSA owns 80% of Panamerican Mall S.A., while another 20% is owned by Centro Comercial Panamericano S.A. In its Development and Sale of Properties segment, IRSA has ownership of 50% in Puerto Retiro. In addition IRSA has a 90% stake in Solares de Santa María S.A. while Unicity S.A. owns the remaining 10%. In IRSA’s Hotel segment, it owns 50% of the Llao Llao Hotel, while the other 50% is owned by the Sutton Group. IRSA owns 80% of the Hotel Libertador, Hoteles Sheraton de Argentina S.A. owns 20%. IRSA owns 76.34% of Hotel Intercontinental. In the Financial Operations and others segment, IRSA currently owns approximately 29.78% of Banco Hipotecario, while the Argentine government has a controlling interest in it. Finally, IRSA owns a 30% interest in Metropolitan. For more information, please see “Recent Developments” and “Significant Changes”.

IRSA could become engaged in a dispute with one or more of its joint venture partners that might affect its ability to operate a jointly-owned property. Moreover, its joint venture partners may, at any time, have business, economic or other objectives that are inconsistent with IRSA’s objectives, including objectives that relate to the timing and terms of any sale or refinancing of a property. For example, the approval of certain of the other investors is required with respect to operating budgets and refinancing, encumbering, expanding or selling any of these properties. In some instances, IRSA’s joint venture partners may have competing interests in its markets that could create conflicts of interest. If the objectives of IRSA’s joint venture partners are inconsistent with its own objectives, it will not be able to act exclusively in its 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 its financial performance. Should a joint venture partner be declared bankrupt, IRSA could become liable for its partner’s share of joint venture liabilities.

***Dividend restrictions in IRSA’s subsidiaries’ debt agreements may adversely affect it.***

IRSA has subsidiaries and an important source of funds for it are cash dividends and other permitted payments from its subsidiaries. The debt agreements of IRSA’s subsidiaries contain covenants restricting their ability to pay dividends or make other distributions. If the subsidiaries of IRSA are unable to make payments to it, or are able to pay only limited amounts, IRSA may be unable to pay dividends or make payments on its indebtedness.



***IRSA is dependent on its chairman Eduardo Elsztain and certain other senior managers.***

IRSA's success depends on the continued employment of Eduardo S. Elsztain, its Chief Executive Officer and Chairman of the Board of Directors, who has significant expertise and knowledge of its business and industry. The loss of or interruption in his services for any reason could have a material adverse effect on IRSA's business. Its future success also depends in part upon IRSA's ability to attract and retain other highly qualified personnel. IRSA cannot assure you that it will be successful in hiring or retaining qualified personnel. A failure to hire or retain qualified personnel may have a material adverse effect on its financial condition and results of operations.

***IRSA may face potential conflicts of interest relating to its principal shareholders.***

IRSA's largest beneficial owner is Mr. Eduardo S. Elsztain, through his indirect shareholding through our Company. As of November 30, 2010, such beneficial ownership consisted of: (i) 292,811,013 shares held by Cresud, (ii) 39,855,739 shares held by Agrology, S.A. ("Agrology"), a 99.9% subsidiary controlled by our Company, (iii) 628,070 shares held by Consultores Assets Management S.A., and (iv) 1,850 shares held directly by Mr. Elsztain.

Conflicts of interest between our Company's management, IRSA, and its affiliates may arise in the performance of IRSA's business activities. As of June 30, 2010, Mr. Elsztain also beneficially owned (i) approximately 38.48% of Cresud's common shares (on a fully diluted basis) and (ii) approximately 97.50% (on a fully diluted basis) of the common shares of IRSA's subsidiary Alto Palermo. IRSA cannot assure you that its principal shareholders and their affiliates will not limit or cause it to forego business opportunities that its affiliates may pursue or that the pursuit of other opportunities will be in IRSA's interest.

***Due to the currency mismatches between IRSA's assets and liabilities, it has significant currency exposure.***

As of June 30, 2010, the majority of its liabilities, such as IRSA's 8.5% notes due 2017, Alto Palermo's Series I Notes and Alto Palermo's convertible notes are denominated in U.S. Dollars, while a significant portion of IRSA's revenues and assets as of June 30, 2010, are denominated in Pesos. This currency gap exposes IRSA to a risk of exchange rate volatility, which would negatively affect its financial results if the Dollar were to appreciate against the Peso. Any further depreciation of the Peso against the U.S. Dollar will correspondingly increase the amount of IRSA's debt in Pesos, with further adverse effects on its results of operation and financial condition and may increase the collection risk of its leases and other receivables from its tenants and mortgage debtors, most of whom have Peso-denominated revenues.

On July 20, 2010, IRSA issued US\$ 150.0 million of 11.5% non-convertibles notes due 2020 ("Series II Notes") under its global note program for the issuance of notes in one or more series up to a nominal value of US\$ 400.0 million. The issue price was 97.838% of the nominal value. Interest on the Series II is payable semi-annually on January and June 20, each year, commencing on January 20, 2011. For more information about IRSA's Series II Notes, please see "*Recent Developments*" and "*Significant Changes*".

***The shift of consumers to purchasing goods over the Internet may negatively affect sales in IRSA's shopping centers.***

During the last years, retail sales by means of the Internet have grown significantly in Argentina, even though the market share of Internet sales related to retail sales is still not significant. The Internet enables manufacturers and retailers to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and shopping centers. IRSA believes that its 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. If e-commerce and retail sales through the Internet continue to grow, consumers' reliance on traditional distribution channels such as its shopping centers could be materially diminished, having a material adverse effect on its financial condition, results of operations and business prospects.

**Risks relating to IRSA's Investment in Banco Hipotecario**

***IRSA's investment in Banco Hipotecario is subject to risks affecting Argentina's financial system.***

As of June 30, 2010, IRSA owned approximately 28.03% of the outstanding capital stock of Banco Hipotecario (without considering treasury shares) which represented 14.8% of its consolidated assets as of such date. Substantially 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 to a significant extent on economic and political conditions prevailing in Argentina. The political and economic crisis in Argentina during 2002 and 2003 and the Argentine government's actions to address it have had and may continue to have a material adverse effect on Banco Hipotecario's business, financial condition and results of operations.

Financial institutions are subject to significant regulation relating to functions that historically have been mandated by the Central Bank and other regulatory authorities. Measures adopted by the Central Bank have had, and future regulations may have, a material adverse effect on Banco Hipotecario's financial condition and results of operations.

Laws and decrees implemented during and after the economic crisis in 2001 and 2002 have substantially altered contractual obligations affecting Argentina's financial sector. In this context, the Argentine Congress has considered various initiatives intended to reduce or eliminate a portion of the mortgage loan portfolio on the debt owed to Banco Hipotecario. Also, there have been certain initiatives intended to review the terms pursuant to which Banco Hipotecario was privatized. As a result, we cannot assure you that the Argentine legislature will not enact new laws that will have a significant adverse effect on Banco Hipotecario's shareholders' equity or that the Argentine government would compensate Banco Hipotecario for the resulting loss. These uncertainties could have a material adverse effect on the value of our investment in Banco Hipotecario.

During previous years, the financial markets in the most important countries in the world were affected by volatility, lack of liquidity and credit, which entailed a significant drop in international stock indexes, and an economic slow-down started to become evident worldwide. During 2009 and as of the date of this annual report, this situation is gradually reverting to normal. IRSA's management is closely monitoring the effects in order to implement the necessary measures to minimize the impact of the financial crisis on its operations.

***Banco Hipotecario relies heavily on mortgage lending and the value of IRSA's investment in it depends in part on its ability to implement successfully its new business diversification strategy.***

Historically, Banco Hipotecario has been engaged exclusively in mortgage lending and related activities. As a result, factors having an adverse effect on the mortgage market have a greater adverse impact on Banco Hipotecario than on its more diversified competitors. Due to its historic concentration in this recession-sensitive sector, Banco Hipotecario is particularly vulnerable to adverse changes in economic and market conditions in Argentina due to their adverse effect on demand for new mortgage loans and the asset quality of outstanding mortgage loans. The past economic crisis had a material adverse effect on its liquidity, financial conditions and results of operations. In addition, a number of governmental measures that apply to the financial sector have had a material adverse effect particularly on Banco Hipotecario, impairing its financial condition.

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

In the past years Banco Hipotecario has made several investments that are designed to enable it to develop retail banking activities. Banco Hipotecario must overcome significant challenges to achieve this goal including, among others, its lack of experience and client relationships outside the mortgage sector, the existence of large, well-positioned competitors and significant political, regulatory and economic uncertainties in Argentina. As a

result, IRSA cannot give you any assurance that Banco Hipotecario will be successful in developing significant retail banking activities in the foreseeable future, if at all. If Banco Hipotecario is unable to diversify its operations by developing its retail banking activities and other non-mortgage banking activities, the value of IRSA's substantial investment in Banco Hipotecario would likely be materially and adversely affected.

***Banco Hipotecario's mortgage loan portfolio is not adequately indexed for inflation and any significant increase in inflation could have a material adverse effect on its financial condition.***

In accordance with Emergency Decree No. 214/02 and its implementing regulations, pesified assets and liabilities were adjusted for inflation as of February 3, 2002 by application of the *Coefficiente de Estabilización de Referencia* ("CER") a consumer price inflation coefficient. On May 6, 2002, the Executive Branch issued a decree providing that mortgages originally denominated in U.S. Dollars and converted into Pesos pursuant to Decree No. 214/2002 and mortgages on property constituting a borrower's sole family residence may be adjusted for inflation only pursuant to a coefficient based on salary variation, the CVS, which during 2002 was significantly less than inflation as measured by the wholesale price index, or WPI. Through December 31, 2002, the WPI and the CVS posted cumulative increases of 118.2% and 0.2%, respectively, and the CER increased 41.4%. During 2003, inflation increased 4.3% as measured by the WPI, 3.7% as measured by the CER and 15.8% as measured by the CVS. As a result, only 10% of Banco Hipotecario's mortgages loans are adjusted for inflation in accordance with the CER, 30% are adjusted in accordance with the CVS and 60% remain entirely unindexed. Additionally, pursuant to Law No. 25,796, Section 1, repealed effective April 1, 2004, the CVS as an indexation mechanism applied to the relevant portion of Banco Hipotecario's mortgages loans. The CVS increased until it was repealed by 5.3%, whereas the increase in CER was 5.5% as of December 31, 2004 and the WPI increased 7.9%. During 2005, the CER increased to 11.75% and the WPI 10.7%, while in 2006 the CER and WPI increased 10.3% and 7.1%, respectively. In 2008, 2009 and during the first six month of 2010, CER increased 8.0% 7.0% and 6.1%, respectively, and WPI increased 8.8%, 10.3% and 8.3% respectively.

Argentina's history prior to the adoption of the Convertibility Law, which set the exchange rate of the Argentine Peso to the U.S. Dollar at Ps.1.00 = US\$1.00, raises serious doubts as to the ability of the Argentine government to maintain a strict monetary policy and control inflation. As a result of the high inflation in Argentina from 2002 onwards, Banco Hipotecario's mortgage loan portfolio experienced a significant decrease in value and if inflation continues increasing, it might continue to undergo a major decrease in value. Accordingly, an increase in Banco Hipotecario's funding and other costs due to inflation might not be offset by indexation, which could adversely affect its liquidity and results of operations.

***Legislation limiting Banco Hipotecario's ability to foreclose on mortgaged collateral may have an adverse effect on it.***

Like other mortgage lenders, the ability to foreclose on mortgaged collateral to recover on delinquent mortgage loans impacts the conduct of Banco Hipotecario's business. In February 2002, the Argentine government amended Argentina's Bankruptcy Law, suspending bankruptcies and foreclosures on real estate that constitutes the debtor's primary residence, initially for a six-month period and subsequently extended until November 14, 2002. Since 2003, the Argentine government has approved various laws that have suspended, in some cases, foreclosures for a period of time in accordance with Law No. 25,972 enacted on December 18, 2004, and, in some cases, temporarily suspended all judicial and non-judicial mortgage and pledge enforcement actions. Several laws and decrees extended this mortgage foreclosure suspension period. Most recently, on June 14, 2006, Argentine Law 26,103 was enacted which established a 180-day suspension period for mortgage foreclosure proceedings affecting debtors where the subject mortgage related to the debtor's sole residence and where the original loan was not greater than Ps.100,000.

Law No. 25,798, enacted November 5, 2003, and implemented by Decrees No. 1284/2003 and No. 352/2004, among others, sets forth a system to restructure delinquent mortgage payments and to prevent foreclosures on a debtor's sole residence (the "Mortgage Refinancing System"). The Mortgage Refinancing System establishes a trust composed of assets contributed by the Argentine government and income from restructured mortgage loans. Banco de la Nación Argentina, in its capacity as trustee of said trust, enters into debt restructuring agreements with delinquent mortgage debtors establishing the following terms: (i) a grace period on

the mortgage loan of one year and (ii) monthly installment payments on the mortgage loan not to exceed 30% of the aggregate income of the family living in the mortgaged property. Banco de la Nación Argentina then subrogates the mortgagee's rights against the debtor, by issuing notes delivered to the mortgagee to settle the amounts outstanding on the mortgage loan. The sum restructured under the Mortgage Refinancing System may not exceed the appraisal value of the property securing the mortgage after deducting any debts for taxes and maintenance. The Mortgage Refinancing System was established for a limited period of time, during which parties to mortgage loan agreements could opt to participate and was subsequently extended by a number of decrees and laws.

Law No. 26,167 enacted on November 29, 2006, suspended foreclosures and also established a special proceeding for the enforcement of certain mortgage loans. Such special proceedings give creditors a 10-day period to inform the court of the amounts owed under the mortgage loans. Soon thereafter, the judge will call the parties for a hearing in order to reach an agreement on the amount and terms of payment thereunder. In case of failure by the parties to reach such agreement, they will have a 30-day negotiation period, and if the negotiations do not result in an agreement, then, payment and conditions will be determined by the courts.

On November 29, 2006, Law No. 26,177 created the *Unidad de Reestructuración*, a government agency responsible for the revision of each of the mortgage loans granted by the state-owned Banco Hipotecario Nacional, the predecessor of Banco Hipotecario, before the enactment of the Convertibility Law in 1991. The Unidad de Reestructuración was authorized to make non-binding recommendations to facilitate the restructuring of such mortgage loans. The Unidad de Reestructuración submitted a proposal to the National Congress recommending forgiveness or other write-off of such loans, extensions of their scheduled maturities or other subsidies that were capable of adversely affecting Banco Hipotecario's ability to foreclose on such mortgage loans. On November 21, 2007, the National Congress enacted Law No. 26,313, establishing a procedure for the restructuring of certain mortgage loans made by its predecessor, the former Banco Hipotecario Nacional. Law No. 26,313 restructures the affected loans by recalculating and reducing their unpaid balance (which had been previously restructured pursuant to a prior law). In December 2008, the applicability of Law No. 26,313 was limited to certain of Banco Hipotecario's mortgage loans made prior to April 1, 1991 to finance the construction of residential complexes which as of December 31, 2008, had been delinquent since November 2007 or earlier. As a result of the recalculation of loans, Banco Hipotecario has forgiven its right to enforce 6,627 mortgage loans representing approximately Ps.100 million in the aggregate. As of June 30, 2010, Banco Hipotecario had constituted loan allowances in connection with the results of this recalculation.

IRSA cannot assure you that the Argentine government will not enact further new laws restricting Banco Hipotecario's ability to enforce its rights as creditor. Any such limitation on its ability to successfully implement foreclosures could have a material adverse effect on its financial condition and results of operations.

***Banco Hipotecario's non-mortgage loan portfolio has grown rapidly and is concentrated in the low- and middle-income segments.***

As a result of Banco Hipotecario's strategy to diversify its banking operations and develop retail and other non-mortgage banking activities, in recent years its portfolio of non-mortgage loans has grown rapidly. During the period between December 31, 2009 and June 30, 2010, Banco Hipotecario's portfolio of non-mortgage loans increased 16.5% from Ps.2,525.7 million to Ps.2,942.0, million. A substantial portion of its portfolio of non-mortgage loans consists of loans to low- and middle-income individuals and, to a lesser extent, middle-market companies. These individuals and companies are likely to be more seriously affected by adverse developments in the Argentine economy than high income individuals and large corporations. Consequently, in the future Banco Hipotecario may experience higher levels of past due non-mortgage loans that would likely result in increased provisions for loan losses. In addition, large-scale lending to low- and middle-income individuals and middle-market companies is a new business activity for Banco Hipotecario, and as a result its experience and loan-loss data for such loans are necessarily limited. Therefore, IRSA cannot assure you that the levels of past due non-mortgage loans and resulting charge-offs will not increase materially in the future.

***Given the current valuation criteria of the Central Bank for the recording of BODEN and other government securities on Banco Hipotecario's balance sheets, its most recent financial statements may not be indicative of its current financial condition.***

Banco Hipotecario prepares its financial statements in accordance with Central Bank GAAP which differ in certain material respects from Argentine GAAP. During 2002, Central Bank GAAP was modified in several respects that materially increased certain discrepancies between Central Bank GAAP and Argentine GAAP. In accordance with Central Bank GAAP, Banco Hipotecario's consolidated balance sheet as of June 30, 2010 includes US\$425.0 million of BODEN issued by the Argentine government as compensation for pesification. Banco Hipotecario's consolidated balance sheet as of June 30, 2010 also includes Ps.17.1 million representing Central Bank borrowings which Banco Hipotecario incurred to finance its acquisition of the additional BODEN. In accordance with Central Bank GAAP, the BODEN reflected on Banco Hipotecario's consolidated balance sheet as of June 30, 2010 have been recorded at their technical residual value plus accrued interest.

Because of its large holdings of BODEN and other government securities, Banco Hipotecario has significant exposure to the Argentine public sector. On December 23, 2001, the Argentine government declared the suspension of payments on most of its sovereign debt, which as of December 31, 2001, totaled approximately US\$144.5 billion, a substantial portion of which was restructured by the issuance of new bonds in the middle of 2005.

Banco Hipotecario's exposure to the public sector as of June 30, 2010 amounted US\$5.86.0 million consisting mainly by BODEN 2012. Government securities represent approximately 20.2% of Banco Hipotecario's total assets as of June 30, 2010. Considering Banco Hipotecario's BODEN holdings, it has a significant exposure to the Government's solvency. Furthermore, defaults by the Argentine government on its debt obligations, including Boden and other government securities held by Banco Hipotecario, would materially and adversely affects its financial condition which would in turn affect our investment.

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

As of June 30, 2010, Banco Hipotecario's foreign currency-denominated assets exceeded its foreign-currency-denominated liabilities by approximately US\$55.5 million. Substantially all of Banco Hipotecario's foreign currency assets consist of Dollar-denominated BODEN, but Banco Hipotecario's liabilities in foreign currencies are denominated in both U.S. Dollars and Euros. This currency gap exposes Banco Hipotecario to risk of exchange rate volatility which would negatively affect Banco Hipotecario's financial results if the U.S. Dollar were to depreciate against the Peso and/or the Euro. We cannot assure you that the U.S. Dollar will not appreciate against the Peso, or that we will not be adversely affected by Banco Hipotecario's exposure to risks of exchange rate fluctuations.

Banco Hipotecario has acquired and will continue to acquire on a regular basis Dollar futures and other derivatives in order to hedge its exposure to foreign currency and interest rate mismatches of its assets and liabilities.

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

Financial institutions are subject to significant regulation relating to functions that historically have been mandated by the Central Bank and other regulatory authorities. Measures adopted by the Central Bank have had, and future regulations may have, a material adverse effect on Banco Hipotecario's financial condition and results of operations. For example, on July 25, 2003, the Central Bank announced its intention to adopt new capital adjustment requirements which will be gradually implemented until 2009. Furthermore, the IMF and other multilateral agencies encouraged the Government to impose minimum capital adjustment, solvency and liquidity requirements, in accordance with the international guidelines, which may produce significant operating restrictions on Banco Hipotecario.

Similarly, the *Comisión Nacional de Valores*, which authorizes Banco Hipotecario's offerings of securities and regulates the public markets in Argentina, has the authority to impose sanctions on Banco Hipotecario and its board of directors for breaches of corporate governance requirements. Under applicable law, the *Comisión Nacional de Valores* has the authority to impose penalties that range from minor regulatory enforcement sanctions to significant monetary fines, to disqualification of directors from performing board functions for a period of time, and (in the most serious cases) prohibiting issuers from making public offerings, if they were to determine that there was wrongdoing or material violation of law. Although Banco Hipotecario is not currently party to any proceeding before the *Comisión Nacional de Valores*, IRSA cannot assure you that the *Comisión Nacional de Valores* will not initiate new proceedings against Banco Hipotecario, its shareholders' or directors or impose further sanctions.

Commencing in early 2002, laws and decrees have been implemented that have substantially altered the prevailing legal regime and obligations established in contract. In the recent past, various initiatives have been presented to Congress intended to reduce or eliminate the debt owed to Banco Hipotecario on a portion of its mortgage loan portfolio and there were initiatives intended to review the terms pursuant to which Banco Hipotecario Nacional was privatized. As a result, we cannot assure you that the legislative branch will not enact new laws that will have a significant adverse impact on Banco Hipotecario's shareholders' equity or that, if this were to occur, the Argentine government would compensate us for the resulting loss.

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

According to the Privatization Law and Banco Hipotecario's by-laws, holders of Class A and Class D Shares have special voting rights relating to certain corporate decisions. Whenever such special rights do not apply (with respect to the Class A Shares and the Class D Shares) and in all cases (with respect to the Class B Shares and the Class C Shares), each share of common shares entitles the holder to one vote. Pursuant to Argentine regulations, Banco Hipotecario may not issue new shares with multiple votes.

The holders of Class D Shares have the right to elect nine of Banco Hipotecario's board members and their respective alternates. In addition, for so long as Class A Shares represent more than 42.0% of Banco Hipotecario's capital, the Class D Shares shall be entitled to three votes per share, provided that holders of Class D Shares will be entitled to only one vote per share in the case of a vote on:

- a fundamental change in Banco Hipotecario's corporate purpose;
- a change in Banco Hipotecario's domicile outside of Argentina;
- dissolution prior to the expiration of Banco Hipotecario's corporate existence;
- a merger or spin-off after which Banco Hipotecario would not be the surviving corporation;
- a total or partial recapitalization following a mandatory reduction of capital; and
- approval of voluntary reserves, other than legally mandated reserves, when their amount exceeds Banco Hipotecario's capital stock and its legally mandated reserves.

In addition, irrespective of what percentage of Banco Hipotecario's outstanding capital stock is represented by Class A Shares, the affirmative vote of the holders of Class A Shares is required to adopt certain decisions. Class D Shares will not be converted into Class A Shares, Class B Shares or Class C Shares by virtue of their reacquisition by the Argentine government, PPP or Programa de Propiedad Participada (or the Shared Property Program) participants or companies engaged in housing development or real estate activities.

According to the Privatization Law, there are no restrictions on the ability of the Argentine government to dispose of its Class A shares, and all but one of such shares could be sold to third parties in a public offering. If the Class A shares represent less than 42% of Banco Hipotecario's total voting stock as a result of the issuance of

new shares other than Class A shares or otherwise, the Class D shares we hold would automatically lose their triple voting rights. If this were to occur, IRSA would likely lose its current ability, together with its affiliates that also hold Class D shares of Banco Hipotecario, to exercise substantial influence over decisions submitted to the vote of Banco Hipotecario's shareholders.

***Banco Hipotecario will continue to consider acquisition opportunities which may not be successful.***

From time to time in recent years, Banco Hipotecario has considered certain possible acquisitions or business combinations, and Banco Hipotecario expects to continue considering acquisitions that it believes offer attractive opportunities and are consistent with its business strategy. IRSA cannot assure you, however, that Banco Hipotecario will be able to identify suitable acquisition candidates or that Banco Hipotecario will be able to acquire promising target financial institutions on favorable terms. Additionally, its ability to obtain the desired effects of past and future acquisitions will depend in part on its ability to successfully complete the integration of those businesses. The integration of acquired businesses entails significant risks, including:

- unforeseen difficulties in integrating operations and systems;
- problems assimilating or retaining the employees of acquired businesses;
- challenges retaining customers of acquired businesses;
- unexpected liabilities or contingencies relating to the acquired businesses; and
- the possibility that management may be distracted from day-to-day business concerns by integration activities and related problem solving.

**Risks related to IRSA's investment in Tarshop S.A.**

***IRSA is subject to payment default risks due to its investments in credit card activities and personal loans through its subsidiary Tarshop S.A.***

As of June 30, 2010, IRSA owned a 100% interest in Tarshop S.A. ("Tarshop"), a company dedicated to the Consumer financing business that originates credit cards accounts and personal loans to promote sales from its tenants and other selected retailers. On December 29, 2009, we entered into an agreement with Banco Hipotecario to sell an 80 % interest in Tarshop for US\$ 26.8 million. On May 21, 2010, and as part of the above mentioned agreement, we and Tarshop entered into an agreement pursuant to which Tarshop sold to us 18,400,000 registered, non-endorsable common shares of a par value of Ps. 1 each and entitled to 1 vote per Class "A" share, representing 50% of Metroshop's stock capital. The transaction was subject to the approval of the Banco Central de la Republica Argentina and certain other customary closing conditions which were obtained on August 30, 2010. As a result, on September 13, 2010 APSA transferred 107,037,152 common shares of Tarshop to Banco Hipotecario. Immediately after the sale, APSA's interest in Tarshop was 20 % of its capital stock. In addition, Alto Palermo owns 50% of Metroshop S.A.'s ("Metroshop") capital stock. For the fiscal year ended June 30, 2010, Tarshop had net revenues of Ps. 251.7 million, representing 19.0% of its consolidated revenues for such period and had a net gain of Ps 27.1 million.

The Consumer financing businesses such as Tarshop, are adversely affected by defaults on credit card accounts and personal loans, defaults by card holders, difficulties enforcing collection of payments, fraudulent accounts and the writing off of past due receivables. Tarshop provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns and management judgment.

The present rates of delinquency, collection proceedings and loss of receivables may vary and be affected by numerous factors beyond its control, which, among others, include:

- adverse changes in the Argentine economy;
- adverse changes in the regional economies;

- political instability;
- changes in regulations;
- increases in unemployment; and
- erosion of real and/or nominal salaries.

These and other factors may have an adverse effect on rates of delinquency, collections and receivables, any one or more of which could have a material adverse effect on the results of operations of Tarshop's credit card and personal loan business. In addition, if its consumer financing business is adversely affected by any of the above factors, the quality of its securitized receivables is also likely to be adversely affected. Therefore, IRSA could be adversely affected to the extent that IRSA holds an interest in any such securitized receivables.

Tarshop's accounts receivables, which consist of cash flows from consumer financing and personal loans, are placed into a number of trust accounts that securitize those receivables. Tarshop sells beneficial interests in these trust accounts through the sale of debt certificates, but remains a beneficiary of these trust accounts by holding Ps.127.4 million in equity certificates as of June 30, 2010.

The securitization market is still open and Tarshop completed securitization programs during the recent months with no disruptions. As of June 30, 2010, Tarshop credit risk exposure is contractually limited to the subordinated retained interests representing Ps.127.4 million and Ps.4.7 million escrow reserves for losses. As of June 30, 2010 Tarshop records a level of allowance for doubtful accounts of Ps.38.0 million.

IRSA cannot assure you that collection of payments from credit card accounts and personal loans will be sufficient to distribute earnings to holders of participation certificates, which would reduce Tarshop's earnings. In addition, local authorities might increase credit card or trust account regulations, negatively affecting Tarshop's revenues and results of operation. IRSA may also face higher liquidity risks on financial trusts.

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

Through IRSA's subsidiary Tarshop, IRSA participates in the consumer financing business. Tarshop operates in the issuance, processing and marketing of its own non-banking credit card called Tarjeta Shopping and grants personal loans. Tarshop's accounts receivables which consist of cash flows from consumer financing and personal loans are placed into a number of financial trusts that securitize those receivables. These financial trusts issue trust debt securities which are placed through public offering, while Tarshop keeps a subordinated interest by holding participation certificates. Such participation certificates amounted to Ps.127.4 million as of June 30, 2010. The trust debt securities accrue variable interest rates, subject to floors and caps. As a result, the value of subordinated interests in Tarshop Financial Trust and Metroshop could be adversely affected by an increase in interest rates.

IRSA cannot assure you that collection of payments from credit card accounts and personal loans will be sufficient to recover the participation certificates, which would reduce Tarshop's earnings. In addition, local authorities might increase credit card or trust account regulations, negatively affecting Tarshop's revenues and results of operation.

**Risks Related to Our ADSs and Common Shares**

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

The market prices of our common shares and American Depositary Shares ("ADS") could decline as a result of sales by our existing shareholders of common shares or ADSs 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 ADSs are freely transferable under U.S. securities laws, including shares sold to our affiliates. Inversiones Financieras del Sur S.A., which as of November 30, 2010, owned approximately 38.49% of our common shares (on a fully diluted basis) (or approximately 187,361,550 common shares which may be exchanged for an aggregate of 18,736,155 ADSs), is free to dispose of any or all of its common shares or ADSs at any time in its discretion. Sales of a large number of our common shares and/or ADSs would likely have an adverse effect on the market price of our common shares and the ADSs.



***We are subject to certain different corporate disclosure requirements and accounting standards than domestic issuers of listed securities in the United States.***

There is less publicly available information about the issuers of securities listed on the Buenos Aires Stock Exchange than information publicly available about domestic issuers of listed securities in the United States and certain other countries. In addition, all listed Argentine companies must prepare their financial statements in accordance with Argentine GAAP and the regulations of the *Comisión Nacional de Valores* which differ in certain significant respects from U.S. GAAP. For this and other reasons, the presentation of Argentine financial statements and reported earnings may differ from that of companies in other countries in this and other respects.

We are exempted from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempted from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

We are a publicly held corporation (*sociedad anónima*) organized under the laws of Argentina. Most of our directors and our senior managers, and most of our assets are located in Argentina. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or 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 as to whether the Argentine courts will enforce to the same extent and in as timely a manner as a US 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 of ADSs would suffer negative consequences.***

Based on the current composition of our income 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, 2010. 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. 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 "Taxation United States Taxation") of our common shares or ADSs 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 ADSs at a gain, as well as additional reporting requirements. See "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.

***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 US 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 ADSs at a potential disadvantage.

***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 US company.

***Holders of common shares may determine to 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 Argentine GAAP. 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 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.***

In accordance with Argentine corporate law, we may pay dividends in Pesos only out of retained earnings, if any, to the extent set forth in our audited financial statements prepared in accordance with Argentine GAAP.

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

We have subsidiaries and hence an important source of funds for us is cash dividends and other permitted payments from our 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 pay dividends or make payments on our indebtedness.

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

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

The market prices of IRSA's common shares and GDS could decline as a result of sales by IRSA's 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 IRSA to sell equity securities in the future at a time and at a price that IRSA deem appropriate.

The GDSs are freely transferable under U.S. securities laws, including shares sold to IRSA's affiliates. Our company, which as of November 30, 2010, owned approximately 57.49% of IRSA's common shares (or approximately 332,666,752 common shares which may be exchanged for an aggregate of 33,266,675 GDSs), is free to dispose of any or all of our common shares or GDSs at any time in our discretion. In this calculation we

are including 39,855,739 IRSA's common shares owned by our subsidiary Agrology. Sales of a large number of IRSA's common shares and/or GDSs would likely have an adverse effect on the market price of IRSA's common shares and the GDS.

***IRSA is subject to certain different corporate disclosure requirements and accounting standards than domestic issuers of listed securities in the United States.***

There is less publicly available information about the issuers of securities listed on the *Bolsa de Comercio de Buenos Aires* than information publicly available about domestic issuers of listed securities in the United States and certain other countries. In addition, all listed Argentine companies must prepare their financial statements in accordance with Argentine GAAP and the regulations of the *Comisión Nacional de Valores* which differ in certain significant respects from U.S. GAAP. For this and other reasons, the presentation of Argentine financial statements and reported earnings may differ from that of companies in other countries in this and other respects.

IRSA is exempted from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and IRSA's officers, directors and principal shareholders are exempted from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

IRSA is a publicly held corporation (*sociedad anónima*) organized under the laws of Argentina. Most of IRSA's directors and senior managers, and most of IRSA's assets are located in Argentina. As a result, it may not be possible for investors to effect service of process within the United States upon IRSA or such persons or to enforce against IRSA or them, in United States courts, judgments obtained in such courts predicated upon the civil liability provisions of the United States federal securities laws. IRSA has been advised that there is doubt as to whether the Argentine courts will enforce to the same extent and in as timely a manner as a US 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 IRSA.

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

IRSA's corporate affairs are governed by their by-laws and by Argentine corporate law, which differ from the legal principles that would apply if they 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 IRSA's common shares to protect your or their interests in connection with actions by IRSA's 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 US 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 IRSA's common shares and GDSs at a potential disadvantage.

***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 IRSA's minority shareholders to enforce their rights against IRSA or IRSA's directors or controlling shareholder than it would be for shareholders of a US company.

***Holders of common shares may determine not to pay any dividends.***

In accordance with Argentine corporate law IRSA may pay dividends to shareholders out of net and realized profits, if any, as set forth in IRSA's audited financial statements prepared in accordance with Argentine GAAP. The approval, amount and payment of dividends are subject to the approval by IRSA's shareholders at their annual ordinary shareholders meeting. The approval of dividends requires the affirmative vote of a majority of the shareholders entitled to vote at the meeting. As a result, IRSA cannot assure you that they will be able to generate enough net and realized profits so as to pay dividends or that IRSA's shareholders will decide that dividends will be paid.

***IRSA's ability to pay dividends is limited by law, by their by-laws and by certain restrictive covenants in their debt instruments.***

In accordance with Argentine corporate law, IRSA may pay dividends in Pesos only out of retained earnings, if any, to the extent set forth in IRSA's audited financial statements prepared in accordance with Argentine GAAP. In addition, IRSA's ability to pay dividends on their common shares is limited by certain restrictive covenants in their debt instruments.

On February 2, 2007, IRSA issued 8.5% notes due 2017 in an aggregate principal amount of US\$150.0 million. These notes contain a covenant limiting their ability to pay dividends which may not exceed the sum of:

- 50% of IRSA's cumulative consolidated net income; or
- 75% of IRSA's cumulative consolidated net income if their consolidated interest coverage ratio for their most recent four consecutive fiscal quarters is at least 3.0 to 1; or
- 100% of cumulative consolidated net income if IRSA's consolidated interest coverage ratio for their most recent four consecutive fiscal quarters is at least 4.0 to 1; or
- 100% of the aggregate net cash proceeds (with certain exceptions) and the fair market value of property other than cash received by IRSA or by their restricted subsidiaries from (a) any contribution to IRSA's equity capital or to the capital stock of their restricted subsidiaries or issuance and sale of IRSA's qualified capital stock or the qualified capital stock of their restricted