

B. CAPITALIZATION AND INDEBTEDNESS

This section is not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

This section is not applicable.

D. RISK FACTORS

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

Risks relating to Argentina

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

We depend on macroeconomic and political conditions in Argentina.

Our operations are affected by the prevailing macroeconomic, regulatory, social and political conditions in Argentina. As of the date of this annual report, most of our operations, property and customers of the Operations Center in Argentina are located in Argentina. Our results of operations may be affected by fluctuations in the rate of inflation and in the exchange rate of the peso against other currencies, especially the U.S. dollar, in interest rate variations that impact our cost of capital, changes in government policies, capital controls and other political or economic developments both internationally or in Argentina that affect the country.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative gross domestic growth (“GDP”) growth, high and variable levels of inflation and currency devaluation. The economy has experienced high rates of inflation and GDP growth has been sluggish in the last few years. In July 2019, the monthly economic activity estimator (“EMAE”) informed by the Argentine Statistics and Census Agency (“INDEC”), registered a variation of 0.6% compared to the same month of 2018. Regarding May, it experienced a lower 8.8% level. The survey of market expectations prepared by the Central Bank, called “*Relevamiento de Expectativas de Mercado*”, estimates an inflation of 54.9% for 2019. Regarding GDP, it is estimated at (2.5%) for 2019 and with expectations that the economic activity will contract 1.1% during 2020. The Argentine economy continues to confront high rates of inflation and has an increasing need for capital investment, with many sectors, particularly the energy sector.

In March 2014, the Argentine Government announced a new method for calculating GDP recommended by the international monetary fund (“IMF”), changing the base year to 2004 from 1993, among other measures. As a result, GDP informed by the INDEC was 2.7% in 2015, (2.1)% in 2016, 2.7% in 2017 and (2.5)% in 2018. Preliminary estimate GDP for the fiscal year of 2019, shows a decrease of (3.7)% compared to the same period of the previous year and the second quarter is 12.8% higher than in the first quarter of 2019. According to the *World Economic Outlook* report published by the IMF in July 2019, the Argentina’s economy recover in 2020 is now projected to be more modest than the forecasted. According to the IMF, the primary deficit of 2019 is expected to be 0.3% of GDP.

In 2017, the Minister of the Treasury announced fiscal targets for the period 2017-2019 setting a primary deficit target of 4.2% of GDP for 2017, 3.2% for 2018 and 2.2% for 2019. In 2018, Minister of the Treasury lowered the primary deficit target for 2018 to 2.7% of GDP in an effort to achieve a balanced budget by 2019. In June 2018, the Argentine Government entered into a 36-month Stand-By Agreement for US\$50,000 million, which was approved by the IMF Executive Board on June 20, 2018. On September 3, 2018, the Ministry of the Treasury adjusted the primary fiscal deficit target to 2.6% of GDP in 2018, a balanced budget in 2019 and a primary fiscal surplus of 1.0% of GDP in 2020. In January 2019, the Minister of the Treasury announced the over-achievement of the goal of the primary fiscal deficit to 2.4% of GDP in 2018.

In September 2018, the Central Bank announced a new monetary policy outline aimed at reducing inflation by adopting the following measures: (i) no increase of the monetary base level; (ii) maintenance of the monetary policy rate at 60% until inflation decelerates; and (iii) implementation of an exchange rate free-floating system with intervention targets for the U.S. dollar to maintain the maximum or minimum levels of the non-intervention zone. Nevertheless, in the last months and after a new depreciation of the peso and rising of inflation, the government started to intervene in the exchange market in order to maintain the exchange rates for the U.S. dollar and increased the monetary policy, regardless of the agreement established in June with the IMF to maintain the monetary base at 0% until December. As a consequence, since September 2018 economic activity was adversely affected by the increase in interest rate in order to counteract the depreciation of the peso. In addition, the financial markets and the economy suffered an additional downturn after the elections in held in Argentina, due to the political uncertainty caused by such elections (for more information, see “--The result of the national elections could generate uncertainty in the Argentine economy and as a result, our business and results of operations could be adversely affected”).As of October 30, 2019, the monetary policy rate was 68.002%. However, from October 2018 through October 2019, the peso depreciated 51% against the U.S. dollar.

In terms of the social environment, the percentage of people below the poverty line was 35.4% for the first semester of 2019 and the unemployment rate was 10.6% for the second quarter of 2019.

A decline in Argentine economic growth or an increase in economic instability could adversely affect our business, financial condition or results of operations. Higher rates of inflation, any decline in GDP growth rates and/or other future economic, social and political developments in Argentina, fluctuations in the rate of exchange of the peso against other currencies, and a decline in consumer confidence or foreign direct investment, among other factors, may materially and adversely affect the development of the Argentine economy which could adversely affect our business, financial condition and results of operations.

We cannot predict the effect that the measures and changes in economic policies, laws and regulations adopted during the last years by Argentine Government may have on the Argentine economy

During the last administration, several significant changes in economic policies, laws and regulations to the Argentine economy have been adopted and many measures and interventions have been implemented, which are highlighted below:

- *INDEC reforms.* The INDEC implemented certain methodological reforms and adjusted certain macroeconomic statistics on the basis of these reforms. As a result, in November 2016, the IMF lifted the existing censure on Argentina regarding these data. Since June 2017, the INDEC has been publishing revised CPI figures based on statistical information from 39 cities in Argentina.
- *Agreement with holdout bondholders.* The Argentine Government settled claims with substantially all of the holdout bondholders who had not previously participated in Argentina’s sovereign debt restructurings (in terms of claims) and regained access to the international capital markets, issuing several new series of sovereign bonds.
- *Foreign trade reforms.* The Argentine Government eliminated export duties on wheat, corn, beef and regional products, and announced a gradual reduction of the duty on soybeans, beans, flour and soybean oil. In addition, export duty on most industrial exports and export duties on mining was eliminated. With respect to payments for imports of goods and services, the Argentine Government established a duty of 12% on the export of goods and services included in MERCOSUR’s Common Nomenclature, setting a limit of the taxable amount.
- *National electricity state of emergency and reforms.* Following years of minimal investment in the energy sector, exacerbated by the Argentine Government’s failure to implement tariff increases on electricity and natural gas since the 2001 2002 economic crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, the Argentine Government announced the elimination of a portion of energy subsidies then in effect and implemented a substantial increase in electricity tariffs. As a result, average electricity prices increased substantially and could increase further in the future.

Tax Amnesty Law. In July 2016, the *Régimen de Sinceramiento Fiscal*, or “Tax Amnesty Law,” was introduced to promote the voluntary disclosure of undeclared assets by Argentine residents. The Tax Amnesty Law allowed Argentine tax residents holding undeclared funds or assets located in Argentina or abroad to (i) declare such property prior to March 31, 2017 without facing prosecution for tax evasion or being required to pay past due tax liabilities on those assets, if they could provide evidence that the assets were held as of certain specified cut off dates, and (ii) keep the declared property outside Argentina and not repatriate such property to Argentina. On April 4, 2017, the Minister of Finance announced that as a result of the Tax Amnesty Law, assets totaling US\$116,800 million were declared.

- *Retiree Program.* On June 29, 2016, the Argentine Congress enacted the Historical Reparation Program for Retirees and Pensioners (*Programa de Reparación Histórica para Jubilados y Pensionados*). The main aspects of this Program, designed to reform social security policies to comply with Supreme Court decisions, include (i) payments to more than two million retirees and retroactive compensation of more than 300,000 retirees and (ii) creation of a universal pension for senior citizens, which guarantees a pension for all people over 65 years of age who would not otherwise be eligible to retire with a pension. The Historical Reparation Program for Retirees and Pensioners will provide retroactive compensation to retirees for a total amount of more than Ps.47,000 million and expenses of up to Ps.75,000 million to cover all potential beneficiaries.
- *Increase in transportation fares.* In January 2019, the Argentine Government announced an increase in public transport fares in the Greater Buenos Aires area effective as of January 12, 2019.
- *Correction of monetary imbalances.* The Argentine Government announced the adoption of an inflation targeting regime in parallel with the floating exchange rate regime and set inflation targets for the past four years. The Central Bank has increased the use of stabilization policies to reduce excess monetary imbalances and increased peso interest rates to offset inflationary pressure. However, according to the INDEC, cumulative inflation from January to August of 2019 the inflation accumulated was 30% and compared to August 2018, the increased was of 54.5%.
- *Pension system reform.* In December 2017, the Argentine Congress enacted the Pension Reform Law which, among other amendments, adjusted the values of pensions and social benefits in accordance with inflation and economic growth. Social security payments are subject to quarterly adjustments each year. 70% of the quarterly adjustment will be based on the CPI published by the INDEC and 30% on the variation in the *Remuneración Imponible Promedio de los Trabajadores Estables* (an index published by the Ministry of Labor that measures the salary increases of state employees). On March 1, 2019, the Argentine Government announced a 46% increase for universal child allowance and on May 31, 2019 announced an additional increase of 10.74% applicable as of June 2019. The Pension Reform Law also amended the Labor Law to extend the age at which private sector employers may request the retirement of employees to 70 years of age (compared to 65 years under the prior regime). Notwithstanding the foregoing, public sector employees may still request pension benefits from the ages of 65 and 60 for male and female employees, respectively.
- *Tax reform.* In December 2017, the Argentine Congress approved the tax reform law. The reform was intended to eliminate certain inefficiencies in the Argentine tax regime, diminish tax evasion, expand the tax base and encourage investment, with the long-term goal of restoring fiscal balance. The main aspects of the tax reform included the following: (i) capital gains on real estate sales by Argentine tax residents (subject to certain exceptions, including a primary residence exemption) acquired after enactment of the tax reform will be subject to a tax of 15%; (ii) gains on currently exempt bank deposits and sales of securities (including sovereign bonds) by Argentine tax residents are subject to a tax of (a) 5% in the case of those denominated in pesos, subject to fixed interest rate and not indexed, and (b) 15% for those denominated in a foreign currency or indexed; (iii) gains on sales of shares listed on a stock exchange remain exempt; (iv) corporate income tax will decline to 30% for fiscal years commencing after January 1, 2018 through December 31, 2019, inclusive, and to 25% for fiscal years commencing after January 1, 2020, inclusive; (v) social security contributions will be gradually increased to 19.5% starting in 2022, in lieu of the differential scales currently in effect; and (vi) the percentage of tax on debits and credits that can be credited to income tax will be gradually increased over a five-year period. The tax reform was to be implemented over a period of one to five years (depending on each modification).

- *Corporate Criminal Liability Law.* In November 2017, the Argentine Congress approved Law No. 27,401, which establishes a system of criminal liability of corporate entities for criminal offenses against public administration and national and cross-border bribery committed by, among others, its shareholders, attorneys-in-fact, directors, managers, employees, or representatives. Convicted legal persons are subject to various sanctions including a fine of between 1% and 20% of its annual gross revenue and the partial or total suspension of its activities for up to ten years. In addition, the law expands the national criminal jurisdiction to all cases of bribery including those committed outside the Argentine territory by citizens or companies with domicile or headquartered in Argentina. Likewise, through Resolution No. 27/2018, the Ministry of Justice and Human Rights established new integrity guidelines through a “technical guide” for better compliance by companies to the provisions of articles 22 and 23 of Law No. 27,401.
- *Public-Private Participation Law.* In November 2016, the Public-Private Participation Law was passed by the Argentine Congress, and has been regulated by Decree No. 118/2017. This new regime seeks to replace existing regulatory frameworks (Decrees No. 1,299/00 and 967/95) and supports the use of public-private partnerships for a wide variety of purposes including the design, construction, extension, improvement, provision, exploitation and/or operation and financing of infrastructure development, provision of public services, provision of productive services, investments, applied research, technological innovation and other associated services. The Public-Private Participation Law also includes protection mechanisms in favor of the private sector (contractors and lenders) in order to promote the development of these partnerships. Nevertheless, in December 2018, the Argentine Government announced that, as a result of the high financing costs of the Public-Private Participation projects, no calls for bids will be made under this Program for the following months. This does not imply the suspension of public works, but rather that financing must be obtained through private entities.
- *Productive Financing Law.* In May 2018, the Argentine Congress approved Law No. 27,440 called “*Ley de Financiamiento Productivo*,” which creates a new financing regime for MiPyMEs and modifies Capital Markets Law, Investment Funds Law No. 24,083 and Negotiable Notes Law, among others, and implements certain tax provisions and regulations for derivative financial instruments.
- *Labor reform bill.* In November 2017, the Executive Branch submitted a draft labor and social security reform bill to the Argentine Chamber of Senators, intended to formalize employment, decrease labor litigation, generate employment, increase productivity, protect vulnerable populations and improve worker training. As of the date of this annual report, the draft bill has not been considered by the Argentine Congress.
- *Commercial Loyalty Law.* In April 2019, by Decree No. 274/2019 the Argentine Government repealed law No. 22,802 and enacted the new Commercial Loyalty Law. Its main objective will be to avoid abuses of dominant positions or possible monopolistic behavior of large companies. The Argentine Government will have increased powers to sanction unfair or anti-competitive behavior, and to protect Argentine companies, mainly, MiPyMEs.
- *Fiscal consensus and fiscal liability.* In December 2017, the Argentine Congress enacted the “Fiscal Pact”, also known as the “Fiscal Consensus.” The Fiscal Consensus includes a commitment to lower distortive taxes by 1.5% of GDP over the next five years, a withdrawal of lawsuits by provincial governments against the Argentine Government and a Ps.21,000 million payment to the Province of Buenos Aires for the year 2018 (which amount shall be increased over the next five years) as a partial and progressive solution to a long-standing conflict related to the Buenos Aires Metropolitan Area Fund (*Fondo del Conurbano Bonaerense*). The Fiscal Consensus also set the basis for other policy reforms that were implemented in December 2017, such as the tax reform, the pension system reform and the Fiscal Responsibility Law (*Ley de Responsabilidad Fiscal*).

IMF Stand-By Agreement: In June 2018, the Argentine Government and the IMF announced the agreement that set up the IMF stand-by loan to Argentina for an initial loan of up to US\$ 50,000 million dollars for a maximum 3 year-term (“Stand-By Agreement”). This agreement was approved by the IMF Executive Board on June 20, 2018, together with the fiscal and economic plan proposed by Argentina. On June 21, 2018 the IMF made a first disbursement of US\$ 15,000 million, with the purpose of making Argentina’s financial, exchange and fiscal stronger. On October 26, 2018, the IMF Executive Board completed the first review of Argentina’s economic performance under the 36 month Stand-By Agreement and granted a second disbursement for US\$ 5,631 million. The Executive Board also approved an increase of the Stand-By Agreement which increases disbursements for up to approximately US\$ 56,300 million. During December 2018, IMF made a third disbursement of US\$ 7,600 million, and on April 2019 made the fourth disbursement of US\$ 10,835 million. On June 2019, the Executive Board approved a fifth disbursement of US\$ 5,400 million, bringing total disbursements since June to date to approximately US\$ 44,100 million. Following these disbursements, Argentina’s foreign currency reserves reached US\$ 68,732.2 million. Recent developments have prompted the IMF to withhold the disbursement of funds initially scheduled for September 2019.

- **Measures around the IMF Stand-By Agreement:** At the beginning of September 2018, the Argentine Government announced a series of measures in connection with the Stand-By Agreement, with a focus on changes of fiscal policy, aimed at a reduction of public spending and an increase in public revenues, with a goal to achieve zero deficit on 2019. The government also implemented changes in monetary policy, reducing the amount of pesos to be issued, thus easing pressure on the foreign currency market and on inflation. In terms of fiscal policy, the government also reinstated wheat and corn export duties, and a duty for all other exports. The Argentine Government also announced the suspension of the gradual decline of the of the income tax rate and the increase of controls over the informal economy with the objective of expanding the tax base, with a goal to achieve zero deficit in 2019. The government also extended the price control scheme known as “Precios Cuidados” and increased social spending allocated to universal credit programs such as universal child allowance (*asignación universal por hijo*) by 0.2% of GDP. A reshuffling of ministries also took place, resulting in more than ten ministries being downgraded to state secretariats, the removal of two deputy chiefs of staff, and a freeze on hiring.
- **Budget bill for the fiscal year 2020:** In September 2019, the Minister of the Treasury sent to Argentine Congress their estimated projections about next year’s economy as part of the the Public Budget law for the fiscal year 2020. Its main tenets are: (i) 1% surplus of the GDP, an increase in revenue of 47% and an increase in expenditures of 36%; (ii) 34% inflation by December (43% average); (iii) exchange rate of Ps.75 per US\$1 in December (Ps.67 average) and; (iv) the trade balance will have a surplus of US\$16,100 million this year and is expected to raise to US\$17,500 million for 2020.

The result of the primary elections held in August 2019 set off a critical negative shockwave in Argentine financial markets and generated economic instability which resulted in the adoption of several measures:

- **Alliviate measures:** On August 14, 2019, in order to palliate the effects of theworsening economic situation, the Argentine Government took the following measures: (i) minimum wage increase of 20% and special deductions for retirees and formal employees, together with an increase in the minimum income amount for federal income taxes, now at Ps.55,376 for single filing status and Ps.70,274 for married filing with children; (ii) a deduction of 50% in taxable fees for self-employed workers; (iii) exemption from employee contributions for salaried employees (with a net salary below Ps.60,000) (personal contributions 11% of the net salary) during September and October with a maximum of Ps.2,000 monthly; (iv) exemption from tax contributions for simplified filers (*Monotributistas*) during September; (v) increase of Ps.1,000 per child during September and October for beneficiaries of the universal child allowance (*asignación universal por hijo*); (vi) establishment by AFIP of 10-year moratorium for small- and medium-sized companies (as well as for self-employed workers and simplified filers); (vii) 90-day freeze on gas prices. The fiscal cost of this measures reaches Ps.40,000 million.

- *Rate of 0% on the value-added tax of “basic food basket”*: By Decree No. 567/2019 published on the Official Gazette on August 16, 2019, the Argentine Government enacted that the sale of items included in the “basic food basket” (canasta básica de alimentos) would be exempt from value added tax to final consumers. The products that are part of this basic food basket are: sunflower oil, corn and mix, rice, sugar, preserved fruits, vegetables and beans, corn flour, wheat flour, eggs, whole milk, skim milk, bread, breadcrumbs, dry pasta, *yerba mate*, *mate cocido*, tea, whole yoghurt and non-fat yoghurt. The exemption will be in place until December 31, 2019.
- *New Minister of the Treasury*: By Decree No. 581/2019 the Argentine Government accepted Nicolas Dujovne’s resignation as Minister of the Treasury and on August 20, 2019 appointed Jorge Roberto Hernán Lacunza as new minister.
- *Public debt reprofiling*. On August 29, 2019 the Executive Branch publish Decree No. 598/2019, pursuant to which certain exceptional measures were adopted to relieve tension in the financial and foreign exchange markets. The measures consist in (i) extend payment terms for short term local bonds held by institutional investors and by natural persons acquiring the bonds after July 31, 2019 (who will receive the full payments in a term of 3 and 6 months: 15% on the original maturity date, 25% and 60% on the 3rd and 6th month of the original maturity date, respectively); (ii) proposal to the Argentine Congress of a bill to extend maturity dates of other local bonds, with no reduction on capital or interest; (iii) proposal of an extension of the maturity dates of foreign bonds; (iv) start talks with the IMF after fiscal targets are met, in order to reprofile the payment deadlines and dispel any default risks for 2020 and 2023. The government also announced that natural persons invested in mutual funds which held public short-term bonds affected by the measure would have the same rights as natural persons that held these bonds directly.
- *Exchange control restrictions*. The Executive Branch reinstated restrictions on the foreign exchange market through the Emergency Decree No. 609/2019, published in the Official Gazette on September 1, 2019, stating that until December 31, 2019, the foreign currency proceeds from the export of goods and services must be transferred and sold in the Argentine foreign exchange market and the purchase of foreign currency in the Argentine foreign exchange market and its transfer abroad will require prior approval, distinguishing between individuals and legal entities, empowering the Central Bank to enact the relevant regulations in connection thereto. See “*Risks relating to Argentina—Restrictions on transfers of foreign currency and the repatriation of capital from Argentina may impair our ability to pay dividends and distributions.*”

We have no control over the implementation of the reforms to the regulatory framework that governs its operations and cannot guarantee that these reforms will be implemented or that they will be implemented in a manner that will benefit our business. The failure of these measures to achieve their intended goals could adversely affect the Argentine economy and our business, financial condition and results of operations. We cannot predict the impact on the economy of these measures taken by the outgoing administration over the short or long term, and we cannot predict or anticipate the effect the maintenance of these measures or the implementation of any new measures on the Argentine economy, or the effects that these may have on the Argentine economy as a whole and in the activities developed by the Company. Either economic liberalization or protectionist policies may be disruptive to the economy and may have an adverse effect on our business, financial condition and results of operations.

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

- a persistent high rate of public spending and substantial fiscal deficit as a percentage of GDP;
- investments as a percentage of GDP remain low;
- public debt as a percentage of GDP remains high;
- inability to pay public debt and reperfilation of debt maturities;
- the inflation rate remains at high levels;
- limited access to the international capital markets to obtain financing;
- agricultural exports, which fueled the economic recovery, have been affected by drought and lower prices than in prior years;

- fluctuations in international oil prices;
- the availability of long-term credit to the private sector remains scarce;
- the current trade deficit is high and could increase;
- the effects of a restrictive U.S. monetary policy, which could generate an increase in financial costs for Argentina;
- fluctuations in the Central Bank's foreign currency reserves;
- uncertainty with respect to the imposition of exchange and capital controls;
- exchange controls; and
- other political, social and economic events abroad that adversely affect the current growth of the Argentine economy.

A further decline in Argentine economic growth or an increase in economic instability could adversely affect our business, financial condition or results of operations. As of the date of this annual report, the impact of the policies and measures adopted by the Argentine Government on the Argentine economy as a whole and on the developer issue sector in particular cannot be predicted. Higher rates of inflation, any decline in GDP growth rates and/or other future economic, social and political developments in Argentina, fluctuations in the rate of exchange of the peso against other currencies, exchange control restrictions, the abrupt fall in the value of sovereign bonds and a decline in consumer confidence or foreign direct investment, among other factors, may materially and adversely affect the development of the Argentine economy which could adversely affect our business, financial condition and results of operations.

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

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

According to the INDEC, the CPI increased 24.8% in 2017 and 47.6% in 2018. Regarding to the first nine months of the year 2019, there is a significant decrease with respect to inflation levels of 2018, registering rates of 2.9%, 3.8%, 4.7%, 3.4%, 3.1%, 2.7%, 2.2%, 4% and 5.9% in January, February, March, April, May, June, July, August and September 2019, respectively. Inter-annual inflation at September 2019, compared to the same month of 2018, was 53.5%.

High rates of inflation would also adversely affect economic activity, employment, real salaries, consumption and interest rates. In addition, the dilution of the positive effects of any depreciation of the peso on the export-oriented sectors of the Argentine economy would decrease the level of economic activity in the country. In turn, a portion of the Argentine Government's outstanding debt is adjusted by the Coeficiente de Estabilización de Referencia ("CER"), a currency index tied to inflation. Therefore, any significant increase in inflation would generate an increase in Argentina's debt measured in pesos and, consequently, its financial obligations. In addition, if the Central Bank drops out the target of zero growth of the monetary base and validate the rise in prices, it could determine a possible start of a hyperinflationary process.

We cannot assure you that inflation rates will not continue to escalate in the future or that the measures adopted or that may be adopted by the Argentine Government to control inflation will be effective or successful. Inflation remains a significant challenge for Argentina. Significant inflation could have an adverse effect on Argentina's economy and in turn could increase our costs of operation, in particular labor costs, and may negatively affect our business, financial condition and results of operations. See *"Risks relating to Argentina—We depend on macroeconomic and political conditions in Argentina."*

We cannot assure that certain alliviate measures adopted by the Argentina Government will be effective to control inflation.

In recent years, the Argentine Government has taken certain measures to contain inflation, such as implementing a fair price program that requires supermarkets to offer certain products at a government-determined price, and agreements with workers' unions to implement salary increases. Additionally, the Argentine Government enacted Law No. 26,991 (the "Supply Law"), which empowers it to intervene in certain markets when it considers that any market participant is trying to impose prices or supply restrictions. The Supply Law provides among others pecuniary sanctions, suspension, seizure of operations, and confiscation of goods. On September 3, 2018, the Argentine Government strengthened even more the "*precios cuidados*" program and included more basic products and more distribution places throughout the country. In addition, the Undersecretariat of Domestic Trade extended, until April 30, 2019, the effectiveness of the Program to Promote Consumption and the Production of Goods and Services, entitled "AHORA 12," created by Resolution No. 671/2014 of the Ministry of Economy, the purpose of which is to encourage the demand of goods and services, by granting term credit facilities to users and consumers, for the purchase of goods and services of several sectors of the economy at national level. On April 17, 2019, the Argentine Government announced a package of economic measures to mitigate the effects of inflation that includes: (i) an agreement with several companies in order to maintain the prices of 60 products of the basic basket for six months, (ii) discounts of between 10% and 25% in supermarkets, clothing, lighting, travel and tourism, appliances, white goods and construction materials for people who receive benefits from ANSES, (iii) discounts up to 70% on medicines for universal child allowance beneficiaries, and (iv) a new payment plan to regularize overdue tax debts, with a lower rate and a longer term to cancel them.

After the end of the "*precios cuidados*" program on September 7, 2019, the Argentine Government announced on September 10, 2019 the renewal of the program until January 7, 2020. This renewal include 553 products (10 more than the last one) and an average increase of 4.66%.

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As of July 1, 2018, the Argentine Peso qualifies as a currency of a hyperinflationary economy and we are required to restate our historical financial statements in terms of the measuring unit current at the end of the reporting year, which could adversely affect our results of operation and financial condition

As of July 1, 2018, the Argentine Peso qualifies as a currency of a hyperinflationary economy and we are required to restate our historical financial statements by applying inflationary adjustments to our financial statements, which could adversely affect our results of operation and financial condition.

Pursuant to IAS 29 "Financial Reporting in Hyperinflationary Economies", the financial statements of entities whose functional currency is that of a hyperinflationary economy must be restated for the effects of changes in a suitable general price index. IAS 29 does not prescribe when hyperinflation arises, but includes several characteristics of hyperinflation. The IASB does not identify specific hyperinflationary jurisdictions. However, in June 2018, the International Practices Task Force of the Centre for Quality, which monitors "highly inflationary countries", categorized Argentina as a country with projected three-year cumulative inflation rate greater than 100%. Additionally, some of the other qualitative factors of IAS 29 were present, providing prima facie evidence that the Argentine economy is hyperinflationary for the purposes of IAS 29. Therefore, Argentine companies that prepare financial statements pursuant to IFRS and use the Peso as their functional currency are required to apply IAS 29 to their financial statements for periods ending on and after July 1, 2018.

Adjustments to reflect inflation, including tax indexation, such as those required by IAS 29, were prohibited by Law No. 23,928. Additionally, Decree No. 664/03, issued by the Argentine Government (“Decree 664”), instructed regulatory authorities, such as the Public Registries of Commerce, the Superintendence of Corporations of the City of Buenos Aires and the Argentine Securities Commission (Comisión Nacional de Valores or “CNV”), to accept only financial statements that comply with the prohibitions set forth by Law No. 23,928. However, on December 4, 2018, Law No. 27,468 (“Law 27,468”) has derogated the Decree 664 and the amended Law No. 23,928 indicating that the prohibition of indexation no longer applies to the financial statements. Some regulatory authorities, such as the CNV and the IGJ, have required that financial statements for periods ended on and after December 31, 2018 that are submitted to them should be restated for inflation in accordance IAS 29. However, for purposes of determination of the indexation for tax purposes, Law No. 27,468 substituted the WPI for the CPI, and modified the standards for triggering the tax indexation procedure.

During the first three years as from January 1, 2018, the tax indexation will be applicable if the variation of the CPI exceeds 55% in 2018, 30% in 2019 and 15% in 2020. The tax indexation determined during any such year will be allocated as follows: 1/3 in that same year, and the remaining 2/3 in equal parts in the following two years. From January 1, 2021, the tax indexation procedure will be triggered under similar standards as those set forth by IAS 29.

We cannot predict the future impact that the eventual application of tax indexation and related inflation adjustments described above will have on our financial statements or their effects on our business, results of operations and financial condition.

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

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

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

In order to address the quality of official data, a new consumer price index (the “IPCNu”), was enacted on February 13, 2014. Inflation as measured by the IPCNu was 23.9% in 2014, 31.6% in 2015 and 31.4% in 2016. The IPCNu represents the first national indicator in Argentina to measure changes in prices of household goods for final consumption. While the previous price index only measured inflation in the Greater Buenos Aires area, the IPCNu is calculated by measuring prices of goods in the main urban centers of the 23 provinces of Argentina and the Autonomous City of Buenos Aires. On December 15, 2014, the IMF recognized the evolution of Argentine authorities to remedy the provision of data, but delayed the definitive evaluation of the new price index.

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

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

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

During recent years, the Argentine Government has substantially increased public spending. In 2015, government spending increased by 34.4% as compared to 2014, resulting in a primary fiscal deficit of 3.8% of GDP. In 2016, government spending increased by 42.8% as compared to 2015, resulting in a primary fiscal deficit of 4.2% of 2016 GDP. In 2017, government spending increased by 25.9% as compared to 2016, resulting in a primary fiscal deficit of 3.8% of 2017 GDP. In 2018, government spending increased by 13.1% as compared to 2017 resulting in a primary fiscal deficit of 2,4% of 2018 GDP, but meanwhile the primary fiscal deficit decrease compared to 2017, the financial deficit (interest rates of the international debt with IMF) increased to 2,8% resulting in a total deficit of 5,2% for the year 2018. If government spending continues to outpace fiscal revenues, the fiscal deficit is likely to increase and past sources of funding to address such deficit may be required to be utilized.

The Argentine Government’s ability to access the long-term financial markets to finance such deficit is limited given the high levels of public sector indebtedness. The inability to access the capital markets to fund its deficit or the use of other sources of financing may have a negative impact on the economy and, in addition , could limit the access to such capital markets for Argentine companies, which could adversely affect our business, financial condition and results of operations.

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

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

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

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

During February 2016, U.S. federal court special master Daniel Pollack ratified an agreement between the Argentine Government and the holdout creditors led by Elliot Management, Aurelius Capital, Davidson Kemper and Bracebridge Capital, providing for a US\$4.65 billion payment in respect of defaulted sovereign bonds, representing a 25% discount to the total amount of principal and interest due on the defaulted bonds, as well as attorney fees and expenses incurred. This agreement stipulated that the terms of the settlement be approved by the Argentine Congress, and that Law No. 26,017 (the “Padlock Law”) and Law No. 26.984 (the “Sovereign Payment Law”) be repealed.

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

At the beginning of April 2016, special master Daniel Pollack announced that the Argentine Government had reached agreements with additional holdout bondholders. As a result, the Argentine Government has reached agreements with nearly 90% of the debt holders that did not participate in the 2005 and 2010 bond exchange transactions. On April 13, 2016, the Court of Appeals lifted the restrictions on Argentina to fulfill its debt obligations. In April 2016, the Argentine Government issued US\$16.4 billion principal amount of bonds. On April 22, 2016, the Argentine Government paid amounts due under the agreement and the U.S. courts removed all previously issued sanctions and injunctions. From December 31, 2015 to September 30, 2018, Argentina’s sovereign debt increased by US\$66,991 million, according to the Ministry of Treasury.

In February 2019, the Argentine Government announced that it had agreed with creditors of Japanese bonds for US\$26 million, whose securities had been issued between 1996 and 2000 and that went into default in 2001.

After the primary elections results of August 2019, the international markets casted doubt on Argentina’s debt sustainability. In view of this, the country risk indicator raised to 2,200 points topping a depreciation of bonds prices. Also, on August 29, 2019 by Decree No. 596/2019 the Argentine Government announced a debt reprofiling which consisted in (i) an extension on the payment term for short term local bonds, only for institutional investors that will receive the full payments in a term of 3 and 6 months (15% on original maturity date, 25% and 60% at 3rd and 6th month of the original maturity date, respectively) and not for natural persons who acquired the bonds before July 31, 2019, that will receive full payments on the maturity date; (ii) proposal to Argentine Congress of a bill to extend maturity dates of others local bonds, without reduction on the capital or interest; (iii) propose an extension of the maturity dates of foreign bonds; (iv) after achieving fiscal goals, to start talks with the IMF in order to reprofile the deadlines to dispel the default risk on 2020 and 2023. Because of all mentioned above, Argentina’s may be able to access the international capital markets over the next years.

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

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

In response to the emergency measures implemented by the Argentine Government during the 2001 2002 economic crisis, a number of claims were filed before the International Centre for Settlement of Investment Disputes (“ICSID”), against Argentina. Claimants allege that the emergency measures were inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties by which Argentina was bound at the time.

Claimants have also filed claims before arbitral tribunals under the rules of the United Nations Commission on International Trade Law (“UNCITRAL”), and under the rules of the International Chamber of Commerce (“ICC”). As of the date of this annual report, it is not certain that Argentina will prevail in having any or all of these cases dismissed, or that if awards in favor of the plaintiffs are granted, that it will succeed in having those awards annulled. Ongoing claims before the ICSID tribunal and other arbitral tribunals could lead to new awards against Argentina, which could have an adverse effect on our capacity to access to financing or the international capital markets.

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

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

A key component of the Central Bank Charter amendment relates to the use of international reserves. Pursuant to this amendment, Central Bank reserves may be made available to the Argentine Government for the repayment of debt or to finance public expenditures. During 2013, U.S. dollar reserves held at the Central Bank decreased to US\$30.6 billion from US\$43.3 billion in 2012, while during 2014 reserves increased slightly to US\$31.4 billion. The Central Bank’s foreign currency reserves were US\$25.6 billion as of December 31, 2015, US\$39.3 billion as of December 30, 2016, US\$55.1 billion as of December 29, 2017, US\$65.8 billion as of December 28, 2018 and US\$67.8 billion as of July, 2019.

During the last months, Central Bank reserves registered an abrupt fall mainly due to U.S. Dollars sales by the Central Bank and the National Treasury to the private sector; cancellation of public debt; and outflow of dollar deposits from the private sector. As a consequence, there is a reduction of loans denominated in U.S. Dollars and there is low liquidity of U.S. Dollars in the market. If this trend continues, the financial banking system could result affected.

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

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

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

In 2015, the U.S. dollar to peso exchange rate increased 53% as compared to 2014. In 2016, the U.S. dollar to peso exchange rate increased 22% as compared to 2015. In 2017, the U.S. dollar to peso exchange rate increased 18% as compared to 2016. In 2018, the U.S. dollar to peso exchange rate increased 104% as compared to 2017. In 2019, the U.S. dollar to peso exchange rate increased 52% in the first nine months of 2019.

As a result of the significant depreciation of the peso vis-à-vis the U.S. dollar, on August, 2019, the Central Bank increased the peso monetary policy rate to 74.9% in order to attract investments in this currency. As of October 30, 2019, the monetary policy rate was 68.002%. This high interest rate resulted in a reduction in new loan origination and increased the reimbursement rate of existing loans, which would adversely affect our business, financial condition and results of operations.

Furthermore, high interest rates in pesos may not be sustainable in the medium to long term, which would affect the economic activity due to a reduction in consumption.

As a consequence of the new exchange control regulation established by the Central Bank through Communication “A” 6770 and Decree No. 609/2019 by the Executive Branch, and due the measures that limited the access to exchange market by companies and individuals, other types of dollars emerged in the exchange market, such as “*dólar contado con liquidación*” and “*dólar mercado electrónico de pago o dólar bolsa*”. In that sense, as of 30 of October 2019, according to Communication “A” 3500 of the Central Bank, the exchange rate was Ps.59.5833 for each U.S. dollar. In the case of the “*dólar contado con liquidación*” it was Ps.78.0000 for each U.S. dollar, and for “*dólar mercado electrónico de pago o dólar bolsa*” it was Ps.74.9000 for each U.S. dollar.

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

An appreciation of the peso against the U.S. dollar would negatively impact the financial condition of entities whose foreign currency-denominated assets exceed their foreign currency-denominated liabilities. In addition, in the short-term, a significant real appreciation of the peso would adversely affect exports and could result in a slowdown in economic growth. This could have a negative effect on GDP growth and employment as well as reduce the Argentine public sector’s revenues by reducing tax collection in real terms, given its current heavy reliance on taxes on exports. As a result, the appreciation of the peso against the U.S. dollar could also have an adverse effect on the Argentine economy and, in turn, our business, financial condition and results of operations.

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

Prior to December 2015, the Argentine Government accelerated its direct intervention in the economy through the implementation or amendment of laws and regulations, including with respect to nationalizations and/or expropriations; restrictions on production, imports and exports; foreign exchange and/or transfer restrictions; direct and indirect price controls; tax increases, changes in the interpretation or application of tax laws and other retroactive tax claims or challenges; cancellation of contract rights; and delays or denials of governmental approvals, among others.

In November 2008, the Argentine Government enacted Law No. 26,425 which provided for the nationalization of the Administradoras de Fondos de Jubilaciones y Pensiones (the “AFJPs”). In April 2012, the Argentine Government nationalized YPF S.A. and imposed major changes to the system under which oil companies operate, principally through the enactment of Law No. 26,714 and Decree No. 1,277/2012. In February 2014, the Argentine Government and Repsol S.A. (the former principal shareholder of YPF S.A.) announced that they had reached an agreement on the compensation payable to Repsol S.A. for the expropriation of its shares in YPF S.A. of US\$5 billion payable in Argentine sovereign bonds with various maturities. On April 23, 2014, the agreement with Repsol S.A. was approved by the Argentine Congress and on May 8, 2014, Repsol S.A. received the relevant payment in Argentine Government bonds. On July 10, 2018, the United States Court of Appeals for the Second Circuit affirmed a U.S. federal trial court decision, finding that Burford Capital Ltd.’s claim for more than US\$3 billion in damages against the Argentine Government in connection with the nationalization of YPF S.A. is subject to the jurisdiction of the U.S. federal courts. Burford Capital Ltd.’s claim has been referred to the trial court for substantive proceedings.

On May 21, 2019, the United States government expressed to the Supreme Court of that country its non-binding opinion against Argentina's request to bring the lawsuit for the nationalization of YPF S.A. to the Argentine courts. On June 3, 2019, the Argentine Government together with YPF S.A. submitted to the United States Supreme Court a supplementary brief in response to the non-binding opinion of the United States government, and it is expected that during the month of June 2019 the United States Supreme Court will confirm whether it will have jurisdiction over the case. In such a case, the trial would begin formally in the lower court of the Southern District of Manhattan under Judge Loretta Preska.

In that regard, Judge Loretta Preska summoned for July 11, 2019 the representatives of Argentina and the plaintiffs of Burford Capital Ltd and Eaton Park to a hearing to present their arguments to defend their positions in the case by the way in which that the country nationalized YPF S.A. in 2012 without making the mandatory takeover of the Company Statute.

Recently, Judge Loretta Preska froze all actions, remedies and requests within the case until deciding whether or not to make the request by the defendant that the conflict be resolved in Argentina.

Consequently, a four-point agenda was set in the American courts: (i) the defendants must present their arguments to found the forum non convenient on August 30; (ii) the plaintiffs must answer on October 30, 2019; (iii) the defendants will submit their responses to the oppositions on November 29, 2019; and (iv) all other deadlines and procedures in the actions will remain on hold until resolution.

On the other hand, on May 30, 2019, the denial by the arbitration tribunal of the World Bank ("ICSID"), of the request for annulment of the arbitration award requested in 2017 by the Argentine State, through which the National State was bound to compensate the Burford Capital Ltd. fund for the expropriation in 2008 of Aerolíneas Argentinas to the Marsans group for the sum of US\$ 320.7 million. From the Office of the Nation they warn that an additional instance exists to present a last resource of revision.

The litigation originated due to the expropriation of Aerolíneas Argentinas through Decree No. 2347, without agreement on the valuation of the company. The Court of Appraisal of the Nation considered that it was broken and therefore was valued at - 832 million U.S. dollars, while the Spanish consortium claimed 600 million U.S. dollars.

Furthermore, on May 18, 2015, we were notified that the State-owned Property Administration Office (*Agencia de Administración de Bienes del Estado, "AABE"*), revoked the concession agreement granted to IRSA CP's subsidiary, Arcos del Gourmet S.A, through Resolution N° 170/2014. On June 2, 2015, we filed before the AABE a petition to declare the notification void, as certain formal proceedings required under Argentine law have not been complied with by the AABE. Furthermore, we filed an administrative appeal in order to request the dismissal of the revocation of the concession agreement and an action to declare the nullity of Resolution No. 170/2014. We also file an action to pay the property's monthly fee in court. As of the date of this annual report, the "Distrito Arcos" shopping mall continues to operate normally.

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

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

The result of the national elections could generate uncertainty in the Argentine economy and as a result, our business and results of operations could be adversely affected.

Argentine presidential, congressional and certain municipal and provincial government elections were held in October 2019 and Alberto Fernandez resulted elected President. Mr. Fernandez is set to take office on December 10, 2019. Moreover, as a result, as of December 10, 2019, the Argentine Congress will be composed as follows: the *Frente para Todos* will command a majority in the Senate with 38 seats and the first minority will be *Juntos por el Cambio* with 28 seats; *Juntos por el Cambio* will command the first minority in the Chamber of Deputies with 38 seats and the second minority will be *Frente para Todos* with 28 seats. It is uncertain how the transition will unfold between the current administration and the new Argentine Government and what changes in policy or regulation the new administration will make and whether these may adversely affect the Argentine economy. The President of Argentina and the Argentine Congress each have considerable power to determine governmental policies and actions that relate to the Argentine economy and, consequently, any new policies introduced by the new president may affect our results of operations or financial condition. We can offer no assurances that the policies that may be implemented by the Argentine Government after taking office will not adversely affect our business, financial condition or results of operations.

The Argentine Government may mandate salary increases for private sector employees, which would increase our operating costs.

In the past, the Argentine Government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors experienced significant pressure. On August 30, 2019, the Ministry of Production and Labor issued Resolution No. 6/2019 through which the minimum monthly salary for all workers included in the Labor Contract Regime of the Public Administration was updated National and of all the entities and organizations of the Argentine Government. It is set at Ps.14,125 monthly as of August 1, 2019, Ps.15.625 as of September 1, 2019, and Ps.16.875 as of October 1, 2019 for all workers monthly payments that meet the full legal working day. Also, the amounts corresponding to the minimum and maximum unemployment benefit are increased, set for those dates, at: Ps.3,285.51 and Ps.5,256.83 (August); Ps.3,634.41 and Ps.5,815.08 (September); and Ps.3,925.17 and Ps.6,280.28 (October), respectively. Likewise, the Argentine Government through Decree No. 610/2019 ratified the entry into force of the amounts set for the minimum monthly salary and the unemployment benefit by Resolution No. 6/2019.

On September 26, 2019, the Argentine Government issued Decree No. 665/2019, which sets forth a onetime extraordinary payment by employers of Ps.5,000 for all workers in the private sector, payable in October.

It is possible that the Argentine Government could adopt measures mandating further salary increases and/or the provision of additional employee benefits in the future. Any such measures could have a material and adverse effect on our business, results of operations and financial condition.

Property values in U.S. dollars in Argentina could decline significantly.

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

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

According to Argentine practices, the Argentine government may impose restrictions on the exchange of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from investments in Argentina in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. Beginning in December 2001, the Argentine government implemented a number of monetary and foreign exchange control measures that included restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad without prior approval by the Central Bank, among them, restrictions relating to the repatriation of certain funds collected in Argentina by non-residents. Notwithstanding the above, for many years, and as a consequence of a decrease in availability of U.S. dollars in Argentina, the previous Argentine government imposed informal restrictions on certain local companies and individuals for purchasing foreign currency. These restrictions on foreign currency purchases started in October 2011 and tightened thereafter. As a result of these informal restrictions, local residents and companies were prevented from purchasing foreign currency through the MLC for the purpose of making payments abroad, such as dividends, capital reductions, and payment for imports of goods and services.

Such restrictions and other foreign exchange control measures were lifted by the administration of President Macri, moving towards opening Argentina's foreign exchange market. In this sense, on December 17, 2015, Communication "A" 5850 of the Central Bank reestablished the possibility for non residents to repatriate their investment capital and Communication "A" 6037 of the Central Bank defined the new regulations that apply to the acquisition of foreign currency and the elimination of all other restrictions that impair residents and non residents to have access to the foreign exchange market.

However, in response to the financial crisis that Argentina is currently undergoing, which has been influenced by the results in the primary elections results, the Executive Branch and the Central Bank have issued a series of measures regarding foreign exchange markets with the purpose of stabilizing the market.

As part of such measures, the Executive Branch reinstated restrictions on the foreign exchange market through the Emergency Decree No. 609/2019, published in the Official Gazette on September 1, 2019, stating that until December 31, 2019, the foreign currency proceeds from the export of goods and services must be transferred and sold in the Argentine foreign exchange market and the purchase of foreign currency in the Argentine foreign exchange market and its transfer abroad will require prior approval, distinguishing between individuals and legal entities, empowering the Central Bank to enact the relevant regulations in connection thereto.

Therefore, pursuant to the provisions of the Emergency Decree No. 609/2019, the Central Bank issued Communication "A" 6770, as amended and complemented by Communications A 6776, 6780, 6782 and 6788, among others. Those regulations amended foreign exchange regulations by imposing certain restrictions (which will be in force between September 1, 2019 and December 31, 2019) such as, prior approval of the Central Bank (i) to the payment of dividends and (ii) to the access to foreign exchange markets for non-residents, whenever the amount involved exceeds the equivalent of US\$ 100 on a monthly basis in the aggregate of institutions authorized to operate in foreign exchange and regarding any kind of transaction, including but not limited to repatriation of their investments in Argentina or remittance abroad of the proceeds or dividends derived from their investments in Argentina; (iii) to constitute external assets, remit family aid and the formation of guarantees and operational payments related to derivative transactions, for resident natural persons, in case the total amount of the above-mentioned transactions exceeds the equivalent of US\$ 200 per month in all entities licensed to operate in foreign exchange market of which only up to US\$ 100 may be acquired in cash, otherwise, the transaction shall be carried out by debit to local accounts.

Notwithstanding the fact that the new foreign exchange control restrictions have an express period of application (between September 1, 2019 and December 31, 2019), no assurance can be given that the application of such restrictions will continue to be enforced thereafter or that in the future, the Argentine government or the Central Bank may impose additional restrictions to the payment of dividends abroad, on capital transfers and establish additional requirements. Such measures may negatively affect Argentina's international competitiveness, discouraging foreign investments and lending by foreign investors or increasing foreign capital outflow which could have an adverse effect on economic activity in Argentina, and which in turn could adversely affect our business and results of operations. Furthermore, any restrictions on transferring funds abroad imposed by the government could undermine our ability to pay dividends on our GDSS in U.S. dollars

We cannot assure you that future restrictions or regulations adopted by the Argentine government, such as the Rural Land Law and its application, will not have a material adverse effect on our operations, if our access to the acquisition or holding of our actual or future properties is limited.

On December 22, 2011, the Argentine Congress passed the Rural Land Law in order to protect the ownership and sovereignty of certain rural areas of Argentina (the “Rural Land Law”). The Rural Land Law sets limits on the ownership of rural land by foreign individuals or legal entities acting in Argentina (“Foreign Persons”), setting a maximum allowable percentage ownership for foreigners of 15%. Additionally, only 30% of the aforementioned 15% may be held by Foreign Persons of the same nationality, and from the date of enactment of the Rural Land Act, a Foreign Person may not own more than 1,000 hectares of rural land in total throughout Argentine territory. The Rural Land Law states that it will not affect any rights previously acquired by Foreign Persons.

For the purposes of the Rural Land Law, the definition of Foreign Person includes Argentine companies in which a percentage higher than 51% of the outstanding capital stock is owned by foreign individuals or legal entities, or lower rates if the entity meets the proportions necessary to form the social will. The following also falls within the definition of Foreign Person (among others): (a) entities controlled by a percentage greater than 25% by a foreign company, or regardless of participation when such company holds enough votes to form the social will of that company; (b) companies that issued convertible notes, where a Foreign Person may exert over 25% of the voting power necessary to form the social will; (c) transfers for trusts whose beneficiaries are Foreign Persons in a percentage higher than 25%, (d) joint ventures, holding companies and any other legal persons present or in the future, and (e) foreign legal persons under public law.

On February 29, 2012, Executive Branch Decree No. 274/12 was published regulating the Rural Land Law. The aforementioned decree established a deadline of 60 days to the provinces to report the total area of their departments, municipalities or political divisions equivalent discriminating rural and urban land and rural properties subject to the Rural Land Law and consequently owned by Foreign Persons. Additionally, provinces should report the complete list of foreign companies registered in their respective jurisdictions. The decree also provides that foreign holders must report their holdings within 180 days from the date of enactment of regulations in the national register of rural land.

In addition, on June 30, 2016, Executive Branch Decree No. 820/16 was published modifying the Executive Branch Decree No. 274/12. For the purpose of determining the ownership of the rural land, the Decree No. 820/16 defines how to compute the acquisition of rural land, when they occur as a result of transfers of share packages and how soon transfer; and solves how to estimate equivalence with respect to the core area, depending on the limits for each type of exploitation, municipality, department and province.

We cannot assure you that these or other measures that may be adopted by the Argentine government in the future, such as further restrictions or regulations, will not have a material adverse effect on our operations, if our access to the acquisition or holding of our actual or future properties is limited.

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

The new exchange controls measures that restrict foreign exchange inflows and outflows of capital recently approved, establish as a requirement for the repayment of foreign indebtedness, the inflow of the foreign currency disbursed thereunder and its settlement in the MLC. This measure increases the cost of obtaining foreign funds and limits access to such financing.

The Argentine government may prorogated the current foreign exchange restrictions or may, in the future, impose additional controls on the foreign exchange market and on capital flows from and into Argentina. 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 constrained. For more information, please see “Item 10. Additional Information–D. Exchange Controls.”

Restrictions to collect capital and interest payments regarding corporate bonds issued by Argentine issuers.

Pursuant to the recent measures approved by the Argentine governmental relevant authorities that reinstated restrictions on the foreign exchange market regarding the ability to make payments abroad, payments of capital and interests under corporate bonds, issued by Argentine private issuers under Argentine law or other foreign law, may be subject to delay in collection by non-resident investors or other type of restrictions in connection thereto. In this regard, we suggest to consult with the corresponding custodian banks about the exchange regulations applicable. No assurance can be given that payments to non-resident investors will not suffer delays or be subject to any additional restrictions, under the current foreign exchange market regulations or future regulations that may be enacted.

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

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

During periods of uncertainty in international markets, investors generally choose to invest in high-quality assets over emerging market assets. This has caused an adverse impact on the Argentine economy and could continue to adversely affect the country's economy in the near future. On June 20, 2018, MSCI Inc., a leading provider of indexes and portfolio construction and risk management tools and services for global investors ("MSCI"), reclassified and promoted Argentina to emerging markets status after being dropped to frontier status in May 2009.

On February 19, 2019, MSCI ratified the reclassification and promotion of Argentina to emerging market status, but maintained it as a frontier market in a second index that mixes by categories. The MSCI decision is due to the fact that, although the GDP per capita of 2017 for Argentina, based on the latest data from the World Bank, is higher than the threshold for the high income categories, the latest market developments in Argentina, including a devaluation of the currency, which is particularly significant, makes it necessary to review the market's eligibility based on GDP per capita of 2018, which is not yet available. In May 2019, MSCI included Argentina in the emerging markets category.

After the announcement of exchange foreign and capital controls on September 1st, 2019 MSCI, started to consult of the replicability and the classification of the MSCI Argentina's rates. For this, the firm will ask for opinions of different market participants until December 13 of this year and based of this answers will decide if the current calcification is modified or not. The announce of results will be on December 31.

However, MSCI will continue to restrict the inclusion in the index to only foreign listings of Argentinian companies, such as American Depositary Receipts, as the feedback from international institutional investors stated that higher liquidity across the domestic market is needed before considering a shift from offshore to onshore listings. MSCI will reevaluate this decision as liquidity conditions on the ByMA continue to improve.

Most emerging economies have been affected by the change in the U.S. monetary policy, resulting in the sharp unwinding of speculative asset positions, depreciations and increased volatility in the value of their currencies and higher interest rates. The general appreciation of the U.S. dollar resulting from a more restrictive U.S. monetary policy contributed to the fall of the international price of raw materials, increasing the difficulties of emerging countries which are exporters of these products. There is global uncertainty about the degree of economic recovery in the United States, with no substantial positive signals from other developed countries and an increased risk of a general deceleration in developing countries, specifically China.

Moreover, the recent challenges faced by the European Union to stabilize certain of its member economies, such as Greece, have had international implications affecting the stability of global financial markets, which has hindered economies worldwide. The Eurozone finance ministers, at a meeting held in August 2015, agreed a third bailout deal for Greece, which required the approval of several countries such as Germany, one of its main creditors.

Although economic conditions vary from country to country, investors’ perception of the events occurring in one country may substantially affect capital flows into other countries. International investors’ reactions to events occurring in one market sometimes demonstrate a “contagion” effect in which an entire region or class of investment is disfavored by international investors. Argentina could be adversely affected by negative economic or financial developments in other countries, which in turn may have an adverse effect on our financial condition and results of operations. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including those in Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian depreciation in January 1999.

Furthermore, the outflow of resources to emerging markets also affected Argentina resulting in a deterioration of its risk country which reached 2206 basis points on October 29, 2019, according to J.P. Morgan EMBI+ Index, thus deteriorating to obtain new external financing.

On November 7, 2018, Fitch Ratings revised Argentina’s rating outlook from stable to “B” (negative). According to Fitch Ratings, Argentina’s B rating reflects high inflation and economic volatility that have persisted despite efforts to tighten policies in recent years, a weak external liquidity position, and a heavy and highly dollarized sovereign debt burden. On August 16, 2019 Fitch Ratings renews Argentina’s perspective, including the issuer default rating of exchange currency to “CCC” from “B”. The rating agency indicated in the inform that the decrease of the calcifications is because an increase of the politic uncertainty after the primary elections of August 11, 2019. A strong induration of the financial conditions and a expected of deterioration of the macroeconomic environment that increase the chances of an sovereign breach or a restructuring of some kind.

These weaknesses are balanced by high per-capita income, a large and diversified economy, and improved governance scores, although these structural strengths have provided a limited support to the sovereign’s credit profile as demonstrated by its weak debt repayment record.

Argentina is affected by economic conditions of its major trade partners, such as Brazil, which devalued its currency in early February 2015, causing the Brazilian real to suffer the steepest depreciation in over a decade. Brazil, which is Argentina’s main trading partner, has experienced GDP contraction in recent years (3.5% in 2015 and 3.5% in 2016). Although Brazil’s economic outlook seems to be improving in recent periods, a further deterioration of economic activity, a delay in Brazil’s expected economic recovery or a slower pace of economic improvement in Brazil may have a negative impact on Argentine exports and on the overall level of economic and industrial activity in Argentina, particularly with respect to the automotive industry. In February 2016, Standard & Poor’s downgraded Brazil’s credit rating to BB. In December 2015 and February 2016, Fitch Ratings and Moody’s, respectively, also downgraded Brazil’s credit ratings to BB+ and Ba2, respectively. In 2017, Brazil experienced a slight increase in its GDP, increasing by 1.0%. If the Brazilian economy’s current recovery stalls or once again deteriorates, the demand for Argentine exports may be adversely impacted. Likewise, the current institutional crisis in Brazil linked to cases of corruption involving political and economic figures of great relevance, led to one of the most serious falls in Brazilian economic history during 2014 and 2015, which has had an effect on all business partners; and, especially, about the Argentine Republic. Since the accusation and subsequent dismissal of former President Dilma Rouseff and the assumption of Vice President Michel Temer to the first magistracy, Brazilian economic indicators have shown a marked improvement. At the same time, on October 28, 2018, presidential elections were held in Brazil, and the liberal candidate Jair Bolsonaro won the *ballotage*, with 55.1% of the votes. He took office on January 1, 2019. We cannot predict the impact of Bolsonaro administration’s economic policies as they relate to Brazil’s trading partners, in particular as regards Argentina, which may adversely affect our business, financial condition and results of operations.

On October 18, 2019 protests have develop in Chile, sparked by a metro fare hike, widened to reflect anger over living costs and inequality. The military and police repressed protesters who went out to protest, and a curfew was imposed in major cities in Chile. At the date of this anual report, the curfew was suspended but the unrest and protests remain latent and we cannot know what the consequences and results of the claims will be.

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

Likewise, in the international economic context, the Federal Reserve of the United States ("FED") significantly increased its reference rate during 2018, reaching 2.5%. This substantially increased the cost of financing in international markets, while motivating the migration of investors from risk and emerging economies to central economies (fly to quality). Although the FED has announced that during 2019 it will not make further increases in the reference rate and in that sense the FED reduced the reference rate three time this year deciding to lower the benchmark rate to 1.5% to 1.75%, if the entity change its policy and finally resolved to continue with its policy of increasing them, this could have a profound impact on the sovereign and corporate financing of Argentina

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 a non-binding referendum on the United Kingdom's membership in the European Union on June 23, 2016, a majority of those who voted approved the United Kingdom's withdrawal from the European Union. Any withdrawal by the United Kingdom from the European Union (referred to as "Brexit") would occur after, or possible concurrently with, a process of negotiation regarding the future terms of the United Kingdom's relationship with the European Union, which could result in the United Kingdom losing access to certain aspects of the single EU market and the global trade deals negotiated by the European Union on behalf of its members. Negotiations for the exit of the United Kingdom began in early 2017 and the date for departure is currently uncertain.

As a result of Brexit, London could cease to be the financial center of Europe and some banks have already announced their intention to transfer many jobs to continental Europe or Ireland and have indicated that Germany could replace London as the financial center of Europe. The possible negative consequences of Brexit include an economic crisis in the United Kingdom, a short-term recession and a decrease of investments in public services and foreign investment. The greatest impact of Brexit would be on the United Kingdom, however the impact may also be significant to the other member states.

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

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

On the other hand, in July 2018, the United States began to apply heavy tariffs on a total of US\$ 34,000 million of import of Chinese products, in particular of cutting-edge technology. China reacted immediately with tariffs on US products, and filed a formal complaint with the World Trade Organization (*Organización Mundial de Comercio* the "OMC"). Notwithstanding that the conflict between both world powers was not yet resolved and the possible solution at the moment is uncertain, from the high-level meetings held on the occasion of the G20 in Buenos Aires both countries agreed to seek a negotiated exit to their business disputes. When apparently both countries reach a principle of agreement, Trump accused China of not respect these agreement and imposed a 10% taxes on China imports to United States and unleashed a new chapter in this trade commercial dispute. Currently,, the dispute keeps going on, and it is planned that both nations' presidents have meetings on October 2019 in order to held an agreement.

In addition, Russia announced additional tariffs of 25% to 40% on the importation of US products against the United States tariffs on the importation of steel and aluminum, which had also been the subject of a lawsuit before the OMC. Thus, Trump's decision initiated a conflict of unforeseeable consequences, due to the scale of the adversaries the systemic effects.

On the other hand, Argentina may also be affected by other countries that have an influence on global economic cycles, such as the Republic of China, which has significantly devalued the yuan since late 2015, which has adversely affected several companies with a substantial exposure to that country. The devaluation of the yuan has continued during 2018 and the growth of the Chinese economy has slowed.

On June 28, 2019, the Argentine Government agreed to the terms of the European Union-Mercosur Strategic Partnership Agreement under which the European Union will lower tariffs on the purchase of Mercosur products of both agricultural and industrial origin and vice versa. This agreement must still take several legal steps - including parliamentary approval - before it goes into effect. It establishes a periodic decrease in tariffs, so the zero tariff will not be immediate or for unlimited quantities for sales from Mercosur to the European Union. Despite of this, on October 18, 2019 the Austria's parliament imposed a veto to the already mentioned agreement. Also, France president Emanuel Macron stated that France will not sign the partnership document.

On September 14, 2019 two drones attacked the Saudi Arabia oil facilities. Since this country is the biggest exporter of oil in world, it knocked out 5% of the world production that causes a significant increase of oil prices around the world. Currently, the prices started to go down, but they are still the average.

Global economic conditions may also result in depreciation of regional currencies and exchange rates, including the peso, which would likely also cause volatility in Argentina.

The effect of global economic conditions on Argentina could reduce exports and foreign direct investment, resulting in a decline in tax revenues and a restriction on access to the international capital markets, which could adversely affect our business, financial condition and results of operations. A new global economic and/or financial crisis or the effects of deterioration in the current international context, could affect the Argentine economy and, consequently, our results of operations, financial condition and the market price of the notes.

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

High commodity prices have contributed significantly to the increase in Argentine exports since the third quarter of 2002 as well as in government revenues from export taxes. However, this reliance on the export of commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. For example, soybeans average monthly prices have decreased from US\$684 per metric ton in August 2012 to US\$324 per metric ton in December 2018. If international commodity prices decline, the Argentine Government’s revenues would decrease significantly and adversely affect Argentina’s economic activity.

In addition, adverse weather conditions can affect agricultural production, which accounts for a significant portion of Argentina’s export revenues. In 2018, Argentina suffered a severe drought, contributing to GDP contraction of 3.8% in the second quarter of 2018, mainly as a result of the year-on-year decrease of 31.6% in the agricultural, livestock, hunting and forestry sectors. These circumstances would have a negative impact on the levels of government revenues, available foreign exchange and the Argentine Government’s ability to service its sovereign debt, and could either generate recessionary or inflationary pressures, depending on the Argentine Government’s reaction. Either of these results would adversely impact Argentina’s economy growth and, therefore, our business, financial condition and results of operations.

A significant real appreciation of the peso against foreign currencies, especially the U.S. dollar, could affect Argentina’s competitiveness, substantially affecting exports, which in turn could trigger new recessionary pressures on the country’s economy and a new imbalance in the foreign exchange market, which could lead to a high degree of volatility in the exchange rate. More importantly, in the short term, a significant appreciation of the peso could substantially reduce Argentine tax revenues in real terms, given the strong reliance on taxes on exports. The occurrence of the foregoing could lead to higher inflation and potentially materially and adversely affect the Argentine economy, as well as our business, financial condition and results of operations.

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

As a result of prolonged recession and the forced conversion of energy tariffs into pesos and subsequent freeze of natural gas and electricity tariffs in Argentina, there has been a lack of investment in natural gas and electricity supply and transport capacity in Argentina in recent years. At the same time, local demand for natural gas and electricity has increased substantially, driven by a recovery in economic conditions and price constraints, which prompted the Argentine Government to adopt a series of measures that have resulted in industry shortages and/or higher cost. In particular, Argentina has been importing natural gas to compensate for shortages in local production. In order to pay for natural gas imports the Argentine Government has frequently used Central Bank reserves given the absence of foreign direct investment. If the Argentine Government is unable to pay for imports of natural gas, economic activity, business and industries may be adversely affected.

The Argentine Government has taken a number of measures to alleviate the short-term impact of energy shortages on residential and industrial users. If these measures prove to be insufficient, or if the investment required to increase natural gas production and electric power transportation capacity and generation over the medium- and long-term is not available, economic activity in Argentina could be curtailed, and with it our operations.

As a first step of these measures, a series of tariff increases and subsidy reductions (primarily applicable to industries and high-income consumers) were implemented. On December 17, 2015, publication of Decree No. 134/2015, the Macri administration declared the National Electricity System Emergency until December 31, 2017 and ordered the Ministry of Energy and Mining to propose measures and guarantee the electrical supply. In this context, in January 2016 the Ministry of Energy and Mining issued Resolution No. 06/2016, which set seasonal reference prices for power and energy on the *Mercado Electrónico Mayorista* (MEM) for the period from February 1, 2016 to April 30, 2016 and set an objective to adjust the quality and security of electricity supply.

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

As for other services, including electricity, a public hearing was held on October 28, 2016 to consider a proposed 31% tariff increase sought by energy distributors. Subsequently, the Argentine Government announced increases in electricity rates of between 60% and 148%. On March 31, 2017, the Ministry of Energy and Mining published a new tariff schedule with increases of approximately 24% for supply of natural gas by networks that had been partially regulated since April 1, 2017. On November 17, 2017, a public hearing convened by the Minister of Energy and Mining was held to update the tariff schedule for natural gas and electricity. This tariff schedule foresees a gradual reduction of subsidies, resulting in an increase, between December 2017 and February 2018, between 34% and 57% (depending on the province) for natural gas and 34% for electricity. On May 31, 2018, the Argentine Congress approved a law seeking to limit the increase in energy tariffs implemented by the Macri administration, which was subsequently vetoed by President Macri. On August 1, 2018, pursuant to Resolution No. 208/2018 of the National Electricity Regulatory Board (ENRE), the Ministry of Energy published a new tariff schedule with increases in electricity tariffs. On December 27, 2018, the government announced an increase in the electricity tariff scheduled for 2019 of a cumulative average of 55%, to be implemented in four tranches as from February 2019. On April 17, 2019, the Argentine Government announced that electricity, gas and transport tariffs will not further be increased in 2019. In the case of the electricity tariffs, the increases already announced for 2019 will be absorbed by the Argentine Government. On June 21, 2019, the Ministry of Energy issued Resolution No. 336/2019 by virtue of which, exceptionally, it provided a deferral of payment of 22% in invoices issued as of July 1 of 2019 and until October 31, 2019, for residential users of natural gas and propane not diluted by networks. Likewise, the Argentine government decided to postpone the increase in tariffs on household gas in networks scheduled for October 2019, until January 2020, so that it will continue subsidizing residential users. Subsequently, the Argentine Government agreed with Edenor (EDN) and Edesur the freeze of the energy tariffs until January 2020, which should have been adjusted in August 2019. The transfer of jurisdiction agreement from Nation to City of Buenos Aires and Province of Buenos Aires is expected to be closed shortly. The postponement of the increase will be again prorated in 7 installments next year, when on February 2020, they should be reviewed again. Recently, Edesur had reported that the adjustment that would have corresponded in August was 25% with an impact of 8% on the average final consumer.

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

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

The lack of a solid institutional framework and the notorious incidents of corruption that have been identified as a significant problem for Argentina present meaningful challenges to a robust economic recovery.

The Argentine economy is sensitive to local political events. Such political events could generate uncertainty and be adverse for the development of a stable market for business in the country, which could affect the Argentine economy and, indirectly, the business, results of operations and financial situation of the Company.

Likewise, institutional deterioration and corruption may adversely affect Argentina's economy and financial situation, which in turn could adversely affect the business, equity and financial situation and results of the Company's operations.

The absence of a solid institutional framework and corruption have been pointed out as an important problem for Argentina and continue to be. In the World Bank's *“Doing Business 2019”* report, Argentina ranked 119th out of 190 countries. The report made by the World Bank is annual and evaluates regulations that favor or restrict business activity. Doing Business consists of quantitative indicators on business regulations and the protection of property rights that can be compared in 190 economies.

Recognizing that the failure to address these issues could increase the risk of political instability, distort decision-making processes and adversely affect Argentina’s international reputation and its ability to attract foreign investment, the Macri administration announced various measures aimed at strengthening Argentina’s institutions and reducing corruption. These measures include offering plea arrangements and reduced prison sentences in exchange for collaborating with the judicial branch in corruption investigation proceedings, greater access to public information, the seizure of assets of officials prosecuted for corruption, the increase of the powers of the Argentine Anti-corruption Office and the approval of a new public ethics law, among others. The Argentine Government’s ability to implement these initiatives remains uncertain since it would require the participation of the judiciary as well as the support of opposition legislators. We cannot guarantee that the implementation of these measures will be successful or if implemented that such measures will have the intended outcomes.

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

The Argentine Government has announced a large-scale corruption investigation in Argentina. The investigation relates to payments over the past decade to government officials from businessmen and companies who had been awarded large government contracts. As of the date of this annual report, several Argentine businessmen, mainly related to public works, and approximately fifteen former government officials of the Fernández de Kirchner administration are being investigated for bribery to the State. As a result, on September 17, 2018, the former president of Argentina, Cristina Fernández de Kirchner, and several businessmen were prosecuted for illegal association, and goods with an aggregate value of Ps.4 billion were seized. One year after the investigations, the trial already accumulates 174 defendants, of which 71 are awaiting the impending elevation to oral trial. The rest, 103, are still pending confirmation or not of their prosecutions in the Federal Court of Appeals.

Depending on the results of such investigations and the time necessary to conclude them, the companies involved could face, among other consequences, a decrease in their credit rating, be subject to claims by their investors, as well as restrictions on financing through the capital markets and a reduction in their revenues. In turn, the lack of future financing for these companies could affect the realization of the projects or works that are currently in execution.

As of the date of this annual report, the consequences that the investigation could have in the future, and the impact of the investigation on the economic situation of the companies investigated, on the contracts concluded by them, on their financial situation and, therefore, on the level of economic activity of the country and in the local market.

While the Macri government has announced and proposed several measures aimed at strengthening Argentine institutions and reducing corruption, such as reducing criminal sentences in exchange for cooperation with the judiciary in corruption investigations, greater access to public information, confiscation of assets of corrupt officials, increased powers of the Anti-Corruption Office and the approval of the new law on public ethics and criminal liability of legal persons, among others, the ability to put in the practice of these initiatives is uncertain, since it would require the participation of the Judiciary, which is independent, as well as legislative support from the opposition parties.

The lack of resolution of these issues could increase the risk of political instability, distort decision-making processes and adversely affect Argentina's international prestige and ability to attract foreign investment, all of which could adversely affect the results of Company operations.

In addition, the effects of these investigations could affect the investment levels in infrastructure in Argentina, as well as the continuation, development and completion of public works and Public-Private Participation (PPP) projects, which could ultimately lead to lower growth in the Argentine economy. On December 2018, the Argentine Government announced that there will be no tenders under the PPP projects during the following months, due to the high financing costs of the projects as a result of the increased country risk and the obstacles to access to external credit.

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

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

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

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

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

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

Argentine financial institutions must comply with all the rules on money laundering established by the Central Bank, the UIF and, if applicable, the CNV. In this sense, Resolution No. 121/2011 issued by the UIF was applicable to financial entities subject to the regime of the Financial Entities Law, entities subject to the system of Law No. 18.924, with its amendments, and human persons and legal entities authorized by the Central Bank to operate in the sale of foreign currency in the form of money or checks issued in foreign currency or through the use of debit or credit cards or in the transfer of funds within and outside the national territory. Resolution No. 229/2011 issued by the UIF was applicable to brokers and brokerage firms, mutual fund management companies, secondary market agents, intermediaries in the purchase or rental of negotiable securities that operate under the stock market orbit of commerce with or without adhered markets and intermediary agents registered in the futures or options markets. Resolutions No. 121/2011 and 229/2011 regulated, among other things, the obligation to receive documentation from customers and the terms, obligations and restrictions for the fulfillment of the duty of information regarding operations suspected of money laundering and financing of terrorism. Resolution No. 21/2018 dated March 5, 2018 issued by the UIF was sanctioned to complement Resolution No. 30-E / 2017 and is addressed to the financial. Resolution No. 21/2018 establishes the guidelines for risk management of money laundering and terrorist financing, minimum compliance standards for the prevention of money laundering and new methodologies regarding the policy of prevention of money laundering to be implemented by the Obligated Subjects.

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

The company’s internal policies and procedures might not be sufficient to guarantee compliance with anti-corruption and anti-bribery laws and regulations.

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

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

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy, which, together with Brazilian political and economic conditions, may adversely affect us.

We may be adversely affected by the following factors, as well as the Brazilian federal government’s response to these factors:

- economic and social instability;
- increase in interest rates;
- exchange controls and restrictions on remittances abroad;
- restrictions and taxes on agricultural exports;
- exchange rate fluctuations;
- inflation;
- volatility and liquidity in domestic capital and credit markets;
- expansion or contraction of the Brazilian economy, as measured by GDP growth rates;
- allegations of corruption against political parties, elected officials or other public officials, including allegations made in relation to the Lava Jato investigation;
- government policies related to our sector; and
- fiscal or monetary policy and amendments to tax legislation; and other political, diplomatic, social or economic developments in or affecting Brazil.

Historically, the Brazilian government has frequently intervened in the Brazilian economy and has occasionally made significant changes in economic policies and regulations, including, among others, the imposition of new, changes in monetary, fiscal and tax policies, currency devaluations, capital controls and limits on imports.

The Brazilian economy has been experiencing a slowdown – GDP growth rates were 3.9%, 1.8%, 2.7% and 0.1%, in 2011, 2012, 2013 and 2014, respectively, and GDP decreased 3.8% in 2015 and 3.6% in 2016 and increased 1.0% in 2017 and 1.1% in 2018.

As a result of investigations carried out in connection with the Lava Jato (Car Wash) operation into corruption in Brazil, a number of senior politicians, including congressmen, and executive officers of some of the major state-owned companies in Brazil have resigned or been arrested, while others are being investigated for allegations of unethical and illegal conduct. The matters that have come, and may continue to come, to light as a result of, or in connection with, the *Lava Jato* operation and other similar operations have adversely affected, and we expect that they will continue to adversely affect, the Brazilian economy, markets and trading prices of securities issued by Brazilian issuers in the near future.

The ultimate outcome of these investigations is uncertain, but they have already had an adverse effect on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy, the political environment and the Brazilian capital markets. The development of these investigations has affected and may continue to adversely affect us. We cannot predict if these investigations will bring further political or economic instability to Brazil, or if new allegations will be raised against high-level members of the Brazilian federal government. In addition, we cannot predict the results of these investigations, nor their effects on the Brazilian economy.

Inflation, coupled with the Brazilian government’s measures to fight inflation, may hinder Brazilian economic growth and increase interest rates, which could have a material adverse effect on us.

Brazil has in the past experienced significantly high rates of inflation. As a result, the Brazilian government adopted monetary policies that resulted in Brazilian interest rates being among the highest in the world, now days this changed an interest rates are among the lowest in the world. The Central Bank’s Monetary Policy Committee (*Comitê de Política Monetária do Banco Central*, or COPOM), establishes an official interest rate target for the Brazilian financial system based on the level of economic growth, inflation rate and other economic indicators in Brazil. As of June 30, 2019, the SELIC rate was 6.50% per year. The inflation rates, as measured by the General Market Price Index (*Índice Geral de Preços-Mercado*, or IGP-M), and calculated by *Fundação Getúlio Vargas*, or FGV, were 10.54% in 2015, 7.18% in 2016, (0.52)% in 2017 and 7.54% in 2018. Cumulative inflation in the first six months of 2019, calculated by the same index, was 4.38%.

Inflation and the government measures to fight inflation have had and may continue to have significant effects on the Brazilian economy and our business. In addition, the Brazilian government’s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and slowing economic growth. On the other hand, an easing of monetary policies of the Brazilian government may trigger increases in inflation. In the event of an increase in inflation, we may not be able to adjust our daily rates to offset the effects of inflation on our cost structure, which may materially and adversely affect us.

An increase in interest rates may have a significant adverse effect on us. In addition, as of June 30, 2019, certain of our loans were subject to interest rate fluctuations, such as the Brazilian long-term interest rate (*Taxa de Juros de Longo Prazo*, or TJLP), and the interbank deposit rate (*Certificados de Depósitos Interbancários*, or CDI). In the event of an abrupt increase in interest rates, our ability to comply with our financial obligations may be materially and adversely affected.

A deterioration in general economic and market conditions or the perception of risk in other countries, principally in emerging countries or the United States, may have a negative impact on the Brazilian economy and us.

Economic and market conditions in other countries, including United States and Latin American and other emerging market countries, may affect the Brazilian economy and the market for securities issued by Brazilian companies. Although economic conditions in these countries may differ significantly from those in Brazil, investors’ reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging market countries could dampen investor enthusiasm for securities of Brazilian issuers, including ours, which could adversely affect the market price of our common shares. In the past, the adverse development of economic conditions in emerging markets resulted in a significant flow of funds out of the country and a decrease in the quantity of foreign capital invested in Brazil. Changes in the prices of securities of public companies, lack of available credit, reductions in spending, general slowdown of the global economy, exchange rate instability and inflationary pressure may adversely affect, directly or indirectly, the Brazilian economy and securities market. Global economic downturns and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil. Global economic downturns reduce the availability of liquidity and credit to fund the continuation and expansion of business operations worldwide.

In addition, the Brazilian economy is affected by international economic and market conditions generally, especially economic conditions in the United States. Share prices on B3 S.A. - Brasil, Bolsa, Balcão, or B3, for example, have historically been sensitive to fluctuations in U.S. interest rates and the behavior of the major U.S. stock indexes. An increase in interest rates in other countries, especially the United States, may reduce global liquidity and investors’ interest in the Brazilian capital markets, adversely affecting the price of our common shares.

The imposition of restrictions on acquisitions of agricultural properties by foreign nationals may materially restrict the development of our business.

In August 2010, the then-president of Brazil approved the opinion of the Federal Attorney General affirming the constitutionality of Brazilian Law No. 5,709/71, which imposes important limitations on the acquisition and lease of land in Brazil by foreigners and by Brazilian companies controlled by foreigners. Pursuant to this legislation, companies that are majority-owned by foreigners are not permitted to acquire agricultural properties in excess of 100 indefinite exploration modules, or MEI (which are measurement units adopted by the National Institute of Agrarian Development (*Instituto Nacional de Colonização e Reforma Agrária*, or INCRA), within different Brazilian regions, and which range from five to 100 hectares) absent the prior approval of the Brazilian Congress, while the acquisition of areas measuring less than 100 MEIs by such companies requires the prior approval of INCRA. In addition, agricultural areas that are owned by foreigners or companies controlled by foreigners shall not exceed 25% of the surface area of the relevant municipality, of which area up to 40% shall not belong to foreigners or companies controlled by foreigners of the same nationality, meaning that the sum of agricultural areas that belong to foreigners or companies controlled by foreigners of the same nationality shall not exceed 10% of the surface area of the relevant municipality. In addition, INCRA is also required to verify if the agricultural, cattle-raising, industrial or colonization projects to be developed in such areas were previously approved by the relevant authorities. After that analysis, INCRA will issue a certificate allowing the acquisition or rural lease of the property. The purchase and/or rural lease of agricultural properties that do not comply with the aforementioned requirements need to be authorized by the Brazilian Congress. In both cases, it is not possible to determine an estimated time frame for the approval procedure, since at the date of this annual report, there are no known cases on the grating of such certificates.

On September 30, 2019, approximately 60.7% of Brasilagro’s common shares were held by foreigners. Bearing that in mind, the implementation of Law No. 5,709/71 may impose on us additional procedures and approvals in connection with future acquisitions of land, which may result in material delays and/or our inability to obtain required approvals. There is also a case pending on the Supreme Court (*Supremo Tribunal Federal*, or STF) on the Opinion No. 461/2012-E, issued by São Paulo’s General Controller of Justice (*Corregedoria Geral de Justiça do Estado de São Paulo*), which has established that entities providing notary and registrar services located in the State of São Paulo are exempt from observing certain restrictions and requirements imposed by Law No. 5,709/71 and Decree No. 74,965/74. Moreover, on April 16, 2015, the Brazilian Rural Society filed a claim for the acknowledgment of non-compliance with basic principles (ADPF) under certain provisions of the Brazilian Constitution with the Supreme Court in order to (i) rule that paragraph 1, article 1, of Law No. 5,709/71 was repealed by the 1988 Federal Constitution and (ii) reverse the opinion issued by the Federal Attorney General (AGU) of 2010. As of the date hereof, we are not able to provide an estimate of the timeframe for a final judgment to be issued by the STF in both cases.

Depending on the final decisions of these pending lawsuits, we may need to modify our business strategy and intended practices in order to be able to acquire agricultural properties. This might have the effect of increasing the number of transactions we must complete, which would increase our transaction costs. It might also require the execution of joint ventures or shareholder agreements, which increases the complexity and risks associated with such transactions.

Any regulatory limitations and restrictions could materially limit our ability to acquire agricultural properties, increase the investments, transaction costs or complexity of such transactions, or complicate the regulatory procedures required, any of which could materially and adversely affect us and our ability to successfully implement our business strategy. For more information, see “Item 4—Information on the Company—Business Overview—Ownership of Agricultural Land in Brazil by Foreigners.”

We are subject to extensive environmental regulation that may significantly increase the company’s expenses.

Our business activities in Brazil are subject to extensive federal, state and municipal laws and regulations concerning environmental protection, which impose on us various environmental obligations, such as environmental licensing requirements, minimum standards for the release of effluents, use of agrochemicals, management of solid waste, protection of certain areas (legal reserve and permanent preservation areas), and the need for a special authorization to use water, among others. The failure to comply with such laws and regulations may subject the violator to administrative fines, mandatory interruption of activities and criminal sanctions, in addition to the obligation to rectify damages and pay environmental and third-party damage compensation, without any caps. In addition, Brazilian environmental law adopts a joint and several and strict liability system for environmental damages, which makes the polluter liable even in cases where it is not negligent and would render us jointly and severally liable for the obligations of our contractors or off-takers. If we become subject to environmental liabilities, any costs we may incur to rectify possible environmental damage would lead to a reduction in our financial resources, which would otherwise remain at our disposal for current or future strategic investment, thus causing an adverse impact on our business, financial condition and results of operations.

As environmental laws and their enforcement become increasingly stricter, our expenses for complying with environmental requirements are likely to increase in the future. Furthermore, the possible implementation of new regulations, changes in existing regulations or the adoption of other measures could cause the amount and frequency of our expenditures on environmental preservation to vary significantly compared to present estimates or historical costs. Any unplanned future expenses could force us to reduce or forego strategic investments and as a result could materially and adversely affect our business, financial condition and results of operations.

Risks Relating to other Countries Where We Operate

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

We have made investments in farmland in Argentina, Brazil, Paraguay and Bolivia and we may possibly make investments in other countries in and outside Latin America, as Israel and United States, among others. Owing that demand for livestock and agricultural products is usually 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 necessary financial resources to implement reforms and foster growth. Any of these adverse economic conditions could have a material adverse effect on 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 such as, Paraguay and Bolivia, and other countries such as Israel, among others. Economic and political developments in the countries in which we operate, including future economic changes or crisis (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.

In particular, fluctuations in the economies of Argentina and Brazil and actions adopted by the governments of those countries have had and may continue to have a significant impact on companies operating in those countries, including us. Specifically, we have been affected and may continue to be affected by inflation, increased interest rates, fluctuations in the value of the Argentine Peso and Brazilian Real against foreign currencies, price and foreign exchange controls, regulatory policies, business and tax regulations and in general by the political, social and economic scenarios in Argentina and Brazil and in other countries that may affect Argentina and Brazil.

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

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 monetary, credit, industry and other policies 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;
- labor laws;
- economic growth;
- currency fluctuations;
- monetary policy;
- liquidity and solvency of the financial system;

- limitations on ownership of rural land by foreigners;
- developments in trade negotiations through the World Trade Organization or other international organizations;
- environmental regulations;
- restrictions on repatriation of investments and on the transfer of funds abroad;
- expropriation or nationalization;
- import/export restrictions or other laws and policies affecting foreign trade and investment;
- price controls or price fixing regulations;
- restrictions on land acquisition or use or agricultural commodity production
- interest rates;
- tariff and inflation control policies;
- import duties on information technology equipment;
- liquidity of domestic capital and lending markets;
- electricity rationing;
- tax policies;
- armed conflict or war declaration; and
- other political, social and economic developments, including political, social or economic instability, in or affecting the country where each business is based.

Uncertainty on whether governments will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty and heightened volatility in the securities markets, which may have a material and adverse effect on our business, results of operations and financial condition. In addition, 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 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 Latin American countries 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 2015, the U.S. dollar to the peso exchange rate increased 53% as compared to 2014. In 2016, the U.S. dollar to peso exchange rate increased 22% as compared to 2015. In 2017, the U.S. dollar to peso exchange rate increased 18% as compared to 2016. In 2018, the U.S. dollar to peso exchange rate increased 100% as compared to 2017. Since September 2019, the U.S. dollar to peso exchange rate increased 58% as compared to 2018. We cannot predict future fluctuations in the exchange rate of the Argentine Peso or whether the Argentine government will change its currency policy.

Historically, the Brazilian currency has historically suffered frequent fluctuations. As a consequence of inflationary pressures, in the past, the Brazilian government has implemented several economic plans and adopted a series 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. Formally the value of the Real against foreign currencies is determined under a free-floating exchange rate regime, but in fact the Brazilian government is currently intervening in the market, through currency swaps and trading in the spot market, among other measures, every time the currency exchange rate is above or below the levels that the Brazilian government considers appropriate, taking into account, inflation, growth, the performance of the Real against the U.S dollar in comparison with other currencies and other economic factors. Periodically, there are significant fluctuations in the value of the Real against the U.S. dollar. During 2019, the Real depreciated 7.5% against the U.S. dollar.

The Israeli currency did not suffer important fluctuations during the last years. During 2019, NIS appreciated 5.3% against the U.S. dollar.

Future fluctuations in the value of the local currencies relative to the U.S. dollar in the countries in which we operate may occur, and if such fluctuations were to occur in one or a combination of the countries in which we operate, our results of operations or financial condition could be adversely affected.

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.

In the past, high levels of inflation have adversely affected the economies and financial markets of some of the countries in which we operate, particularly Argentina and Brazil, and the ability of their governments to create conditions that stimulate or maintain economic growth. Moreover, governmental measures to curb inflation and speculation about possible future governmental measures have contributed to the negative economic impact of inflation and have created general economic uncertainty. As part of these measures, governments have at times maintained a restrictive monetary policy and high interest rates that has limited the availability of credit and economic growth.

A portion of our operating costs in Argentina are denominated in Argentine Pesos, most of our operating costs in Brazil are denominated in Brazilian Reals and most of our operating costs in Israel are nominated in NIS. Inflation in Argentina, Brazil or Israel without a corresponding Peso, Real or NIS devaluation, could result in an increase in our operating costs without a commensurate increase in our revenues, which could adversely affect our financial condition and our ability to pay our foreign currency denominated obligations.

After several years of price stability in Argentina, the devaluation of the Peso in January 2002 imposed pressures on the domestic price system that generated high inflation throughout 2002. In 2003, inflation decreased significantly and stabilized. However, in recent years, encouraged by the pace of economic growth, according to the Instituto Nacional de Estadísticas y Censos, or “INDEC” (Argentine Statistics and Census Agency), the consumer price index increased by 9.5% in 2011, 10.8% in 2012, and 10.9% in 2013; while the wholesale price index increased 10.3% in 2009, 14.6% in 2010, 12.7% in 2011, 13.1% in 2012, 14.7% in 2013 and 28.3% in 2014. The accuracy of the measurements of the INDEC has been questioned in the past, and the actual consumer price index and wholesale price index could be substantially higher than those indicated by the INDEC.

In February 2014 the INDEC modified the methodology for the calculation of the consumer price index (“CPI”) and the gross domestic product. Under the new calculation methodology, the CPI increased by 23.9% in 2014 and 11.9% as of October 2015 (for the first nine months of 2015). However, opposition lawmakers reported an inflation rate of 38.5% and 27.5%, respectively. In December 2015, the Macri administration appointed a former director of a private consulting firm to manage the INDEC. The new director initially suspended the publication of any official data prepared by INDEC and implemented certain methodological reforms and adjusted certain indices based on those reforms. In January 25, 2016, INDEC published two alternative measures of the CPI for the year 2015, 29.6% and 31.6%, which were based on data from the City of Buenos Aires and the Province of San Luis. After implementing these methodological reforms in June 2016, the INDEC resumed its publication of the consumer price index.

According to INDEC, during the first nine months of 2019, there was a significant decrease in inflation levels with respect to 2018, registering rates of 2.9%, 3.8%, 4.7%, 3.4%, 3.1%, 2.7%, 2.2% , 4% and 5.9% in January, February, March, April, May, June, July, August and September 2019, respectively.

Brazil has historically experienced high rates of inflation. Inflation, as well as government efforts to curb inflation, has had significant negative effects on the Brazilian economy, particularly prior to 1995. Inflation rates were 7.8% in 2007 and 9.8% in 2008, compared to deflation of 1.7% in 2009, inflation of 11.3% in 2010, inflation of 5.1% in 2011, inflation of 7.8% in 2012, inflation of 5.5% in 2013, inflation of 3.7% in 2014, inflation of 10.5% in 2015, 7.2% in 2016, (0.53)% in 2017 and 5.39% for the first six months of 2018, as measured by the General Market Price Index (Índice Geral de Preços – Mercado), compiled by the Getúlio Vargas Foundation (Fundação Getúlio Vargas). A significant proportion of our cash costs and our operating expenses are denominated in Brazilian Reais and tend to increase with Brazilian inflation. The Brazilian government’s measures to control inflation have in the past included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. This policy has changed in the last two years, when the Brazilian government decreased the interest rate by 525 basis points. Subsequently, the high inflation, arising from the lower interest rate, and the intention to maintain this rate at low levels, led the Brazilian government to adopt other measures to control inflation, such as tax relief for several sectors of the economy and tax cuts for the products included in the basic food basket. These measures were not sufficient to control the inflation, which led the Brazilian government to reinstate a tighter monetary policy. As a result, interest rates have fluctuated significantly. The Special System for Settlement and Custody (Sistema Especial de Liquidação e Custódia, or “SELIC”) interest rate in Brazil at year-end was 10.0% in 2013, 11.75% in 2014, 14.25% in 2015, 13.75% in 2016, and 7% in 2017 as determined by the Comitê de Política Monetária, or COPOM. As of June 30, 2019, the SELIC was 6.50%.

Supply problems at our farms and processing facilities and impair our ability to deliver our products to our customers in a timely manner Argentina and/or Brazil may experience high levels of inflation in the future, which may impact domestic demand for our products. Inflationary pressures may also weaken investor confidence in Argentina and/or Brazil, curtail our ability to access foreign financial markets and lead to further government intervention in the economy, including interest rate increases, restrictions on tariff adjustments to offset inflation, intervention in foreign exchange markets and actions to adjust or fix currency values, which may trigger or exacerbate increases in inflation, and consequently have an adverse impact on us. In an inflationary environment, the value of uncollected accounts receivable, as well as of unpaid accounts payable, declines rapidly. If the countries in which we operate experience high levels of inflation in the future and price controls are imposed, we may not be able to adjust the rates we charge our customers to fully offset the impact of inflation on our cost structures, which could adversely affect our results of operations or financial condition.

Depreciation of the Peso or the Real relative to the U.S. Dollar or the Euro may also create additional inflationary pressures in Argentina or Brazil that may negatively affect us. Depreciation generally curtails access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciation also reduces the U.S. Dollar or Euro value of dividends and other distributions on our common shares and the U.S. Dollar or Euro equivalent of the market price of our common shares. Any of the foregoing might adversely affect our business, operating results, and cash flow, as well as the market price of our common shares.

Conversely, in the short term, a significant increase in the value of the Peso or the Real against the U.S. Dollar would adversely affect the respective Argentine and/or Brazilian government’s income from exports. This could have a negative effect on GDP growth and employment and could also reduce the public sector’s revenues in those countries by reducing tax collection in real terms, as a portion of public sector revenues are derived from the collection of export taxes.

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 and adversely affect our activities and the results of our operations.

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

Our land may be subject to expropriation by the 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 countries where we operate or intend to operate. Such movements advocate land reform and mandatory property redistribution by governments. 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 assure you that our properties will not be subject to invasion or occupation. A land invasion or occupation could materially affect the normal use of our properties or have a material adverse effect on us or the value of our common shares and our ADSs.

We may invest in countries other than Argentina and Brazil and cannot give you any 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 therefore we may invest in countries other than Argentina, Brazil and Israel including countries in other emerging markets outside Latin America (e.g., 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.

Disruption of transportation and logistics services or insufficient investment in public infrastructure could adversely affect our operating results.

One of the principal disadvantages of the agricultural sector in the countries in which we operate is that key growing regions lie far from major ports. As a result, efficient access to transportation infrastructure and ports is critical to the growth of agriculture as a whole in the countries in which we operate and of our operations in particular. Improvements in transportation infrastructure are likely to be required to make more agricultural production accessible to export terminals at competitive prices. A substantial portion of agricultural production in the countries in which we operate is currently transported by truck, a means of transportation significantly more expensive than the rail transportation available to U.S. and other international producers. Our dependence on truck transportation may affect our position as a low-cost producer so that our ability to compete in the world markets may be impaired.

Even though road and rail improvement projects have been considered for some areas of Brazil, and in some cases implemented, substantial investments are required for road and rail improvement projects, which may not be completed on a timely basis, if at all. Any delay or failure in developing infrastructure systems could reduce the demand for our products, impede our products' delivery or impose additional costs on us. We currently outsource the transportation and logistics services necessary to operate our business. Any disruption in these services could result in supply problems at our farms and processing facilities and impair our ability to deliver our products to our customers in a timely manner.

The result of our operations are dependent upon economic conditions in Paraguay, in which we operate, and any decline in economic conditions could harm our results of operations or financial condition.

As of June 30, 2019, 0.45% of our assets were located in Paraguay. Paraguay has a history of economic and political instability, exchange controls, frequent changes in regulatory policies, corruption, and weak judicial security. However, in 2013, Paraguay had the highest GDP growth rate in Latin America and the third highest in the world with 14%. Since then, GDP has grown by 4% in 2014, 3% in 2015, 3.8% in 2016, 4.3% in 2017 and 3.6% in 2018. The Paraguay’s GDP is closely related to the performance of the Paraguayan agricultural sector, which can be volatile and could adversely affect our business, financial condition and results of operations.

The exchange rate of Paraguay is free and floating and the Central Bank of Paraguay participates actively in the exchange market in order to reduce volatility. In 2017, the Paraguayan currency appreciated against the dollar by 3.0%, while in 2018 the appreciation was 0.7%. Although the Paraguayan currency appreciated during 2017, the local currency follows the regional and world trends. A significant depreciation of the local currency could adversely affect our business, financial condition and results of operations. However, since most of our costs of raw materials and supplies are denominated in U.S. dollars, a significant depreciation of the local currency could adversely affect our business, financial condition and results of operations, as well as impact other expenses, such as as professional fees and maintenance costs.

In addition, a significant deterioration in the economic growth of Paraguay or any of its main trading partners, such as Brazil or Argentina, could have a material impact on the trade balance of Paraguay and could adversely affect their economic growth, which could adversely affect our business, financial condition and results of operations.

The result of our operations are dependent upon economic conditions in Bolivia, in which we operate, and any decline in economic conditions could harm our results of operations or financial condition.

As of June 30, 2019, 0.4% of our assets were located in Bolivia. Bolivia is exposed to frequent has a history of economic, social and political instability, exchange controls, frequent changes in regulatory frameworks policies, civic and labour strikes, high tax rates and corruption among state officials, the judiciary and also the private sector.

Bolivia is exposed to high risk of social unrest, causing marches and roadblocks deployed by protesters to pressure the government, increasing disruption risks. Furthermore, protests over environmental issues often overlap significantly with labour disputes, which can escalate into disruptive forms of protest, including site occupations.

In turn, the Bolivian economy is the 14th largest in Latin America and is heavily dependent on export commodities such as natural gas and minerals. Bolivia’s GDP growth over the last decade has been among the highest in Latin America, growing by 6.8% in 2013, 5.5% in 2014, 4.9% in 2015, 4.3% in 2016,4.2% in 2017 and 4.2% in 2018, also. Within this context, inflation has been relatively low and under control for the last 30 years. The inflation rate for 2018 was around 2.3% with a slightly higher figure expected for 2019. In addition, Bolivia it is in the process of becoming an active partner of MERCOSUR, a common market aiming to gradually integrate economic activity among Brazil, Argentina, Uruguay, Paraguay and Bolivia.

A significant deterioration in the global and internal macroeconomics, political stability or social unrest of Bolivia, could have a material impact on their economic growth, which could adversely affect our business, financial condition and results of operations.

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, have historically been cyclical and sensitive to domestic and international changes in supply and demand and can be expected to fluctuate significantly. In addition, the agricultural products and by-products we produce are traded on commodities and futures exchanges and thus are subject to speculative trading, which may adversely affect us. 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;
- changes to trade barriers of certain important consumer markets (including China, India, the U.S. and the E.U.) and the adoption of other governmental policies affecting industry market conditions and prices;
- changes in government policies for biofuels;
- world inventory levels, i.e., the supply of commodities carried over from year to year;
- climatic conditions and natural disasters in areas where agricultural products are cultivated;
- the production capacity of our competitors; and
- demand for and supply of competing commodities and substitutes.

Unpredictable weather conditions, pest infestations and diseases may have an adverse impact on our crop yields and 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 cattle and wool production, and may otherwise adversely affect the supply and price of the agricultural commodities that we sell and use in our business. The occurrence of severe adverse weather conditions may reduce yields on our farmlands or require us to increase our level of investment to maintain yields. Additionally, higher than average temperatures and rainfall can contribute to an increased presence of pest and insects that may adversely impact our agricultural production.

According to the United States Department of Agriculture (“USDA”) estimates, Argentina’s crops output (wheat, corn and soybean) for the 2017/2018 season is expected to decrease by 23%, reaching a production of 87.8 million tons, as compared to the previous cycle. The forecast shows mainly an increase in the planted area, with a focus on wheat and corn, which is additionally enhanced by a slightly better expected yield in comparison with the 2016/2017 campaign. The estimated production of soybean is supposed to reach 37.8 million tons, the wheat production 18 million tons and the corn production 32 million tons.

The occurrence and effects of disease and plagues can be unpredictable and devastating to agricultural products, potentially rendering all or a substantial portion of the affected harvests unsuitable for sale. Our agricultural products are also susceptible to fungus and bacteria that are associated with excessively moist conditions. Even when only a portion of the production is damaged, our results of operations could be adversely affected because all or a substantial portion of the production costs have been incurred. Although some diseases are treatable, the cost of treatment is high, and we cannot assure you that such events in the future will not adversely affect our operating results and financial condition. Furthermore, if we fail to control a given plague or disease and our production is threatened, we may be unable to supply our main customers, which could affect our results of operations and financial condition.

As a result, we cannot assure you that the current and future severe adverse weather conditions or pest infestations will not adversely affect our operating results and financial condition.

Our cattle are subject to diseases.

Diseases among our cattle herds, such as mastitis, tuberculosis, brucellosis and foot-and-mouth disease, can have an adverse effect on fattening production, rendering cows unable to produce 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 cattle sales which could adversely affect our operating results and financial condition.

In addition, outbreaks, or fears of outbreaks, of any of these or other animal diseases can lead to the cancellation of our customers' orders and, particularly if the disease can affect humans, or create adverse publicity that can have adverse material effect in the consumer demand of our products. In addition, animal disease outbreaks may result in foreign government actions to close the export markets of some or all of our products, which may result in the destruction of some or all of these animals.

We may be exposed to material losses due to volatile crop prices since a significant portion of our production is not hedged, and exposed to crop price risk.

Due to the fact that we do not have all 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 and results of operations.

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 No. 35/02, No. 160/2002, No. 307/2002 and No. 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 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 No. 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 30%, 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 lower chamber of the national congress 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.

In December 2015, the government of Mauricio Macri announced the reduction of 35 to 30% of export duties on soybean and the removing of all of the export duties for the rest of the products. To the date, the Argentine government is analyzing the possibility of reducing again the tax for soybean exports. In addition, Decree 1343/17 implemented a monthly reduction of 0.5% of the export duty in force on soybean, wheat and soybean oil from January 2018 to December 2019 inclusive.

On September 4, 2018, pursuant to Decree 793/2018, the Argentine Government reestablished, until December 31, 2020, a 12% export tax on goods and services included in the MERCOSUR Common Nomenclature with a cap of Ps.3 for each dollar of taxable value or the official FOB price, as appropriate, for the goods and services set forth in Annex I of the aforementioned decree and of Ps.4 for all other manufactured products.

On December 28, 2018, the Argentine government issued Decree No. 1201/2018, which establishes, until December 31, 2020, an export tax of 12% to the export of services rendered in the country, whose effective use or exploitation is carried out abroad and establishes that said export duty may not exceed Ps.4 for each U.S. dollar of the taxable value. If applicable, that limit will remain in pesos until the obligation is canceled. The measure took effect on January 1, 2019 and will take effect for operations that are lent and billed as of that date. We cannot assure that in case of assuming a new government, retention rates could be increased, mainly for exports of primary products and that such taxes could have an adverse impact on our financial condition and results of operations.

Export taxes may have a material adverse effect on our sales and results of operations. 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.

A global economic recession could decrease the demand for our products or lower prices.

The demand for the products we sell may be affected by international, national and local economic conditions that are beyond our control. Adverse changes in the real or perceived economic climate, such as rising fuel prices, higher interest rates, falls and / or volatility of real estate and real estate markets, more restrictive credit markets, taxes higher and changes in government policies could reduce the level of demand or prices of the products we produce. We cannot predict the time or duration, magnitude or strength of this slowdown or economic recovery. If a recession continues for a prolonged period of time or worsens, we may experience a prolonged period of declining demand and prices. In addition, economic recessions have and can negatively affect our suppliers, which can lead to interruptions in goods and services and financial losses.

An international 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 most recent international credit crisis that started in 2008 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 farmland 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 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 the 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 do not maintain insurance over all our crop storage facilities; therefore, if a fire or other disaster damages some or all of our harvest, we will not be completely covered.

Our production is, in general, subject to different risks and hazards, including adverse weather conditions, fires, diseases, pest infestations and other natural phenomena. 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 them 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 in which we operate, 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. The market for commodities is highly fragmented. Small producers can also be important competitors, some of which operate in the informal economy and are able to offer lower prices by meeting lower quality standards. Competition from other producers is a barrier to expanding our sales in the domestic/foreign market. 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.

Social movements may affect the use of our agricultural properties or cause damage to them.

Social movements, such as the Landless Rural Workers' Movement (*Movimento dos Trabalhadores Rurais Sem Terra*) and the Pastoral Land Commission (*Comissão Pastoral da Terra*) are active in Brazil and advocate land reform and property redistribution by the Brazilian government. Invasion and occupation of agricultural land by large numbers of people is a common practice among the members of such movements and, in certain regions, including those where we currently invest, remedies such as police protection or eviction procedures are inadequate or non-existent. As a result, we cannot assure you that our agricultural properties will not be subject to invasion or occupation by any social movement. Any invasion or occupation may materially impair the use of our lands and adversely affect our business, financial condition, and results of operations.

If we are unable to maintain our relationships with our customers, our business may be adversely affected.

Our cattle sales are diversified but we are and will continue to be significantly dependent on a number of third party relationships, mainly with our customers for crop sales. During the fiscal year 2019, we sold our products to approximately 300 customers. Sales of agricultural products to our ten largest customers represented approximately 60% of our net agricultural sales for the fiscal year ended June 30, 2019. Of these customers, our most important customers were Cargill S.A.C.I., Cofco, ADM AGR, Bunge Alimentos S. A., Glencore and Vicentin SACI.

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 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 due to its nature and cycle. 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.

A substantial portion of our assets is farmland that is highly illiquid.

We have been successful in partially rotating and monetizing a portion of our investments in farmland. Ownership of a significant portion of the land we operate is a key part of our business model. However, agricultural real estate is generally an illiquid asset. Moreover, the adoption of laws and regulations that impose limitations on ownership of rural land by foreigners in the jurisdictions in which we operate may also limit the liquidity of our farmland holdings. See *“Risks Related to Argentina– The Rural Land Law and its application.”* As a result, it is unlikely that we will be able to adjust our owned agricultural real estate portfolio promptly in response to changes in economic, business or regulatory conditions. Illiquidity in local market conditions may adversely affect our ability to complete dispositions, to receive proceeds generated from any such sales or to repatriate any such proceeds.

The restrictions imposed on our subsidiaries’ dividend payments may adversely affect us.

We have subsidiaries, and therefore, dividends in cash and other permitted payments of our subsidiaries constitute a major source of our income. The debt agreements of our subsidiaries contain covenants that may restrict their ability to pay dividends or proceed with other types of distributions. If our subsidiaries are prevented from making payments to us or if they are only allowed to pay limited amounts, we may be unable to pay dividends or to repay our indebtedness.

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

We consolidated our financial statements with our subsidiary Brasilagro. 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 June 30, 2019, we owned 43.3% of the outstanding common shares of Brasilagro.

Labor relations could negatively impact us.

As of June 30, 2019, 60% of our employees were represented by unions under collective agreements. While we currently enjoy good relations with our employees and unions, we cannot assure that such good labor relations will continue in the future positively or that their eventual deterioration does not affect us materially or negatively.

Our internal processes and controls might not be sufficient to comply with the extensive environmental regulation and current or future environmental regulations could prevent us from fully developing our land reserves.

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 effects 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. We cannot ensure that our internal processes and controls may be sufficient to comply with the extensive environmental regulation.

As of June 30, 2019, we owned land reserves extending over more than 336,617 hectares that were purchased at very attractive prices. In addition, we have a concession over 132,000 hectares reserved for future development. We believe that there are technological tools available to improve productivity in these farmlands 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.

New restrictions on agricultural and food products we produce that contain genetically modified organisms could be established which could have an adverse effect on our business.

Our agricultural products contain genetically modified organisms in varying proportions according to the year and the country of production. The use of genetically modified organisms in food has been achieved with varying degrees of acceptance in the markets in which we operate. Argentina and Brazil, for example, have approved the use of genetically modified organisms in food products, and genetically modified organisms and non-genetically modified organisms grains in those countries are produced and mixed frequently during the process of grain origination. Elsewhere, adverse publicity about genetically modified foods has led to government regulation that limits sales of genetically modified organisms products. It is possible that new restrictions may be imposed on genetically modified organisms products in the main markets for some of our products, which could have an adverse effect on our business, equity and the result of our operations.

If our products become contaminated, we may be subject to product liability claims, product withdrawals and export restrictions that could adversely affect our business.

While we are subject to strict production protocols, the sale of products implies the risk of injury to consumers. These injuries may result from manipulation by third parties, bioterrorism, product contamination or deterioration, including the presence of bacteria, pathogens, foreign objects, substances, chemicals, other agents or waste introduced during the growth phases, storage, handling or transport.

We cannot be sure that the consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or judgments related to such matters. Even if a product liability claim is unsuccessful or not fully realized, the negative publicity surrounding any claim that our products caused a disease or injury could negatively affect our reputation with current and potential customers and our image as a Company, and we could also incur significant incidents. In addition, claims or liabilities of this nature may not be covered by any compensation or contribution rights we may have against others, which could have a material adverse effect on our business, equity status and the result of our operations.

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.

Over the last few years, the Argentine government has taken certain measures in order to reduce the use of energy during peak months of the year by frequently cutting energy supply to industrial facilities and large consumers to ensure adequate supply for residential buildings. Also, the Macri administration Argentina declared a state of emergency with respect to the national energy system which remained in effect until December 31, 2017. In addition, through Resolution No. 6/2016 of the Ministry of Energy and Mining and Resolution No. 1/2016 of the National Electricity Regulatory Agency (Ente Nacional Regulador de la Electricidad), the Macri administration announced the elimination of a portion of energy subsidies then in effect and implemented a substantial increase in electricity tariffs. As a result, average electricity prices increased substantially and could increase further in the future. If energy supply is cut for an extended period of time or energy tariffs continue increasing and we are unable to find replacement sources at comparable prices, or at all, our business and results of operations could be adversely affected.

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

We had, and expect to have, substantial liquidity and capital resource requirements to finance our business. As of June 30, 2019, our consolidated financial debt amounted to Ps.334,305 million (including IDBD's debt outstanding as of that date plus accrued and unpaid interest on such indebtedness and deferred financing costs). We cannot assure you that we will have sufficient cash flows and adequate financial capacity in the future. While the commitments and other covenants applicable to IDBD's debt obligations do not apply to IRSA since there is no recourse to IRSA and it is not guaranteed by IRSA's assets, these covenants and restrictions may impair or restrict our ability to operate IDBD and implement our business strategy. Although we are generating sufficient funds from our operating cash flows to meet our debt service obligations and our ability to obtain new financing is adequate, considering the current availability of loan financing in Argentina, we cannot assure you that we will have sufficient cash flows and adequate financial structure in the future.

Our leveraged may affect our ability to refinance existing debt or borrow additional funds to finance working capital requirements, acquisitions and capital expenditures. In addition, the recent disruptions in the local capital and the macroeconomic conditions of Argentine markets, may adversely impact our ability to refinance existing debt and the availability and cost of credit in the future. In such conditions, access to equity and debt financing options may be restricted and it may be uncertain how long these economic circumstances may last. This would require us to allocate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. Our leverage could also affect our competitiveness and limit our ability to changes in market conditions, changes in the real estate industry and economic downturns.

The success of our businesses and the feasibility of our transactions depend on the continuity of investments in the real estate markets and our ability to access capital and debt financing. In the long term, lack of confidence in real estate investment and lack of access to credit for acquisitions could restrict growth. As part of our business strategy, we will strive to increase our real estate portfolio through strategic acquisitions of properties at favorable prices and properties with added value which we believe meet the requirements to increase the value of our properties.

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

Currency devaluations and exchange rate fluctuations against the currencies in the countries in which we operate could adversely affect our business, results of operations and financial condition.

We are exposed to exchange rate risk in relation to the U.S. Dollar. Although substantially all of our income is denominated in the local currencies of the countries in which we operate. The local currencies of the countries in which we operate have been subject to volatility in the past and could be subject to significant fluctuations in the future given the prevalence of a free-float exchange regime. Current or unforeseen events in the international markets, fluctuations in interest rates, or changes in capital flows, may cause exchange rate instability that could generate sharp movements in the value of the local currencies of the countries in which we operate. The main drivers of exchange rate volatility in past years have been significant fluctuations of commodity prices as well as general uncertainty and trade imbalances in the global markets. In the past, certain countries in which our business operate, have instituted restrictive exchange control policies. Severe devaluation or depreciation of the currencies of the countries in which we operate could again result in governmental intervention or disruption of foreign exchange markets.

Any increase in the value of the U.S. Dollar with respect to the various currencies of the countries in which we operate will increase our debt service costs measure in the currencies in which we operate, which could adversely affect our business, results of operations and financial condition.

We depend on our chairman and senior management.

Our success depends, to a significant extent, on the continued employment of Mr. Eduardo S. Elsztain, our chairman, and Alejandro G. Elsztain, our chief executive officer, and second vice-chairman. 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 ("Investment Company Act"), 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, are required to register with the SEC 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 SEC 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 SEC would issue such an order.

As of June 30, 2019, we owned approximately 62.35% 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 U.S. capital markets have historically been an important source of funding for us, and our ability to obtain financing in the future may be adversely affected by a lack of access to the U.S. 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 under the investment company act 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 securities, corporate debt securities, and equity securities. In particular, we hold a significant interest in IRSA, an Argentine company that has suffered material losses, particularly during the 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 IRSA's business in Argentina

IRSA could be adversely affected by decreases in the value of its investments.

IRSA's investments are exposed to the common risks generally inherent in the real estate industry, many of which are out of your control. Any of these risks could adversely and materially affect your businesses, financial condition and results of operations. Any returns on capital expenditures associated with real estate are dependent upon sales volumes and/or revenues from leases and the expenses incurred. In addition, there are other factors that may adversely affect the performance and value of a property, including local economic conditions prevailing in the area where the property is located, macroeconomic conditions in Argentina and globally, competition, your ability to find lessees and their ability to perform on their leases, changes in legislation and in governmental regulations (including relating to the use of properties, urban planning, real estate taxes) and exchange controls (given that the real estate market in Argentina relies on the U.S. dollar to determine valuations), variations in interest rates (including the risk of an increase in interest rates that reduces sales of lots for residential development) and the availability of third party financing. In addition, and given the relative illiquidity of the Argentine real estate market, IRSA could be unable to effectively respond to adverse market conditions and/or be compelled to undersell one or more properties. Some significant expenses, such as debt service, real estate taxes and operating and maintenance costs do not fall when there are circumstances that reduce the revenues from an investment, increasing your relative expenditures.

These factors and/or events could impair your 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 IRSA operations, which could have an adverse effect on your financial position and the results of your operations.

IRSA is subject to risks inherent to the operation of shopping malls that may affect IRSA's profitability.

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

- decline in IRSA's leases prices or increases in levels of default by its tenants due to economic conditions, increases in interest rates and other factors outside its control;
- the accessibility and attractiveness of the area where the shopping mall is located;
- the intrinsic attractiveness of the shopping mall;

- the flow of people and the level of sales of rental units in its shopping malls;
- the increasing competition from internet sales;
- the amount of rent collected from tenant at IRSA's shopping mall;
- changes in consumer demand and availability of consumer credit, both of which are highly sensitive to general macroeconomic conditions; and
- fluctuations in occupancy levels in IRSA's shopping malls.

An increase in IRSA's operating costs, caused by inflation or by other factors, could have a material adverse effect on us if IRSA's tenants were to become would be unable to pay higher rent as a result of increased expenses. Moreover, the shopping mall business is closely related to consumer spending and affected by prevailing economic conditions. All of IRSA's shopping malls and commercial properties, under Operations Center in Argentina, are located in Argentina, and, as a consequence, their business may be seriously affected by a potential recession in Argentina. For example, during the economic crisis in Argentina, consumer spending decreased significantly, and higher unemployment, political instability and high rates of inflation significantly reduced consumer spending and resulted in lower sales that led some tenants to shut down their stores in IRSA's shopping malls. Persistently poor economic conditions in Argentina in the future could result in a decline in discretionary consumer spending which could have a material adverse effect on shopping mall activity and thus on IRSA's business.

IRSA's assets are highly concentrated in certain geographic areas and an economic downturn in such areas could have a material adverse effect on its results of operations and financial condition.

As of June 30, 2019, most of IRSA's revenue from leases and services provided by the Shopping Malls segment derived from shopping malls in the Autonomous City of Buenos Aires and the Greater Buenos Aires metropolitan area. In addition, all of IRSA's office buildings are located in the Autonomous City of Buenos Aires and a substantial portion of IRSA's revenues in Argentina derived from such properties. Although IRSA owns properties and may acquire or develop additional properties outside the City of Buenos Aires and the Greater Buenos Aires area, IRSA expects to continue to depend to a large extent on economic conditions affecting those areas. Consequently, an economic downturn in those areas could have a material adverse effect on IRSA's financial condition and results of operations due to the reduction in its rental income and the resulting adverse effect in its ability to meet its debt obligations and fund its operations.

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

IRSA's operating performance and the value of its real estate assets, and as a result, the value of its securities, are subject to the risk that its properties may not be able to generate sufficient revenues to meet its operating expenses, including debt service and capital expenditures, this could adversely affect its cash flow and its ability to service its debt. Events or conditions beyond its control that may adversely affect its operations or the value of its properties include:

- downturns in national, regional and local economic climate;
- decrease in discretionary consumer spending and consumption;
- competition from other shopping malls and sales outlets;
- local real estate market conditions, such as oversupply or lower demand for retail space;
- changes in interest rates and availability of financing;
- the exercise by IRSA's tenants of their right to early termination of their leases;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;
- increased operating costs, including insurance expenses, salary increases, utilities, real estate taxes, federal and local taxes and higher 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, that generally do not decline when, due to the circumstances, there is a decline in revenues from any real property;
- declines in the financial condition of IRSA's tenants and its ability to collect rents when due;
- changes in IRSA's or its tenants' ability to provide for adequate maintenance and insurance that result in a reduction in the useful life of a property; and
- changes in law or governmental regulations (such as those governing usage, zoning and real property taxes) or changes in the exchange controls (due to the real estate market in Argentina is mostly U.S. dollar determinated) or government action (such as expropriation or confiscation).

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

An adverse economic environment for real estate companies and the credit crisis may adversely affect IRSA's results of operations.

The success of IRSA's business and profitability of its operations depend on continued investment in real estate and access to long-term financing. A prolonged crisis of confidence in real estate investments and lack of credit for acquisitions may constrain its growth and the maintenance of our current business and operations. As part of IRSA's strategy, IRSA intend to increase its properties portfolio through strategic acquisitions at favorable prices, where IRSA believe it can bring the necessary expertise to enhance property values.

In order to pursue acquisitions, IRSA may require capital or debt financing. Recent disruptions in the financial markets may adversely impact our ability to refinance existing debt and the availability and cost of credit in the future. Any consideration of sales of existing properties or portfolio interests may be offset by lower property values. IRSA's ability to make scheduled payments or to refinance its existing debt obligations depends on its operating and financial performance, which in turn is subject to prevailing economic conditions.

If disruptions in financial markets prevail or arise in the future, we cannot provide assurances that government responses to such disruptions will restore investor confidence, stabilize the markets or increase liquidity and the availability of credit.

IRSA's revenue and may be materially and adversely affected by continuing inflation and economic activity in Argentina.

IRSA's business is mainly driven by consumer spending since a portion of its revenue from its shopping mall segment derives directly from the sales of its tenants. In addition, its tenants' revenue relies mainly on the sales to customers. As a result, its revenue and net income are impacted to a significant extent by economic conditions in Argentina, including the development in the textile industry and domestic consumption, which has experienced significant declines during 2019. Consumer spending is influenced by many factors beyond its control, including consumer perception of current and future economic conditions, inflation, political uncertainty, rates of employment, interest rates, taxation and currency exchange rates.

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

The loss of tenants could adversely affect the operating revenues and value of IRSA's properties.

Although no single tenant represents more than 3.1% of its revenue in any fiscal year, if a significant number of tenants at its retail or office properties were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, or if it failed to retain them, its business could be adversely affected. Further, its shopping malls typically have a significant "anchor" tenant, such as well-known department stores that generate consumer traffic at each mall. A decision by such tenants to cease operations at its shopping malls or its office buildings, as applicable, could have a material adverse effect on its financial condition and the results of its operations. In addition, the closing of one or more stores with high consumer traffic may motivate other tenants to terminate or to not renew their leases, to seek rent concession and/or close their stores. Moreover, tenants at one or more properties might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies. The bankruptcy and/or closure of multiple stores, if it is not able to successfully release the affected space, could have a material adverse effect on both the operating revenues and underlying value of the properties involved.

IRSA may face risks associated with acquisitions of properties.

IRSA has in the past acquired, and intend 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 the size of IRSA's company and potentially alter its capital structure. Although IRSA believes that the acquisitions that the IRSA has completed in the past and that are expected to undertake in the future have, and will, enhance IRSA's 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 IRSA's estimates;
- acquired properties may be located in new markets where IRSA's may have limited knowledge and understanding of the local economy, absence of business relationships in the area or are unfamiliar with local governmental and permitting procedures; and
- IRSA's 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 them to realize cost savings and synergies.

IRSA's future acquisitions may not be profitable.

IRSA seek to acquire additional shopping malls to the extent it manage to acquire them on favorable terms and conditions and they meet its investment criteria. Acquisitions of commercial properties entail general investment risks associated with any real estate investment, including:

- IRSA's estimates of the cost of improvements needed to bring the property up to established standards for the market may prove to be inaccurate;
- properties it acquire may fail to achieve, within the time frames it project, the occupancy or rental rates it expect to achieve at the time it make the decision to acquire, which may result in the properties' failure to achieve the returns it projected;
- IRSA's pre-acquisition evaluation and 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 it 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 its acquisition cost.

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

Properties IRSA acquires may be subject to unknown liabilities.

Properties that IRSA acquires may be subject to unknown liabilities, in respect to which it may not have recourse, or only limited recourse to the former owners. Thus, if a liability were asserted against IRSA based on ownership of an acquired property, IRSA may 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;
- changes in laws or in governmental regulations (such as those governing usage, zoning and real property taxes); and
- liabilities incurred in the ordinary course of business.

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

A substantial part of IRSA’s income is derived from rental income from real property. As a result, its performance depends on its ability to collect rent from tenants. IRSA’s income and funds for distribution will be negatively affected if a significant number of its tenants or any significant tenant (as detailed 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 leases and the loss of related rental income. In addition IRSA cannot assure you that any tenant whose lease expires will renew that lease or that IRSA will be able to re-lease space on economically advantageous terms. The loss of rental revenues from a number of its tenants and its inability to replace such tenants may adversely affect its profitability and its ability to meet financial obligations.

It may be difficult to buy and sell real estate quickly and transfer restrictions may apply to part of IRSA’s portfolio of properties.

Real estate investments are relatively illiquid and this tends to limit IRSA’s ability to vary its portfolio in response to economic changes or other conditions. In addition, significant expenditures associated with each investment, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a decrease in income from an investment. If income from a property declines while the related expenses do not decline, IRSA’s business would be adversely affected. Certain properties are mortgaged to secure payment of debt, and if it were unable to meet its payment obligations under such mortgages, it could suffer losses as a result of foreclosures on the mortgage properties. Further, if it becomes necessary or desirable for them to dispose of one or more of its mortgaged properties, it may not be able to obtain a release of the security interest on the 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 this kind of transactions, it may agree, subject to certain exceptions, not to sell the acquired properties for a considerable time.

Some of the land IRSA has purchased is not zoned for development purposes, and IRSA 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 intend to develop. In addition, IRSA does not yet applied for the required land-use, building, occupancy and other required governmental permits and authorizations for these properties. 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 IRSA is unable to obtain all of the governmental permits and authorizations it need to develop its present and future projects as planned, IRSA may be forced to make unwanted modifications to such projects or abandon them altogether.

IRSA’s ability to grow will be limited if IRSA cannot obtain additional financing.

Although IRSA is liquid as of the date of this annual report, it 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.

IRSA’s growth strategy is focused on the development and redevelopment of properties already owned and the acquisition and development of additional properties. As a result, IRSA is likely to depend on an important degree on the availability of debt or equity capital, which may or may not be available on favorable terms or at all. IRSA cannot assure you that additional financing, refinancing or other capital will be available in the amounts it require 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 these factors, IRSA could experience delays or difficulties in implementing its growth strategy on satisfactory terms or at all.

Disease outbreaks or other public health concerns could reduce traffic in IRSA’s shopping malls.

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

Adverse incidents that occur in IRSA’s shopping malls may result in damage to its reputation and a decrease in the number of customers.

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

Argentine laws governing leases impose restrictions that limit IRSA's flexibility.

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

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

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

On October 1, 2014, the Argentine Congress adopted the amended Civil and Commercial Code which is in force since August 1, 2015 (the "Argentine Civil and Commercial Code") which provides that leases must have a minimum term of two years and a maximum term of 20 years for residential properties and of 50 years for non-residential. The Argentine Civil and Commercial Code modifies the regime applicable to contractual provisions relating to foreign currency payment obligations by establishing that such obligations may be discharged in pesos. The prior legal framework required that debtors could only discharge their foreign currency payment obligations by paying in that currency. Although judicial decisions have held that this feature of the regulation can be set aside by the parties to an agreement, it is too early to determine if this is legally enforceable. Moreover, there are no judicial decisions on the scope of this amendment and, in particular, its impact on the ability of landlords and tenants to set aside the new provision and enforce such agreements before an Argentine court. In recent years certain rulings have been rendered affirming the obligation of a tenant to pay in foreign currency if the obligation was freely assumed.

IRSA may be liable for certain defects in its buildings.

According to the Argentine Civil and Commercial Code, real estate developers (i.e., any person who sells real estate built by either themselves or by a third party contractor), builders, technical project managers and architects are liable in case of hidden defects for a period of three years from the date of possession of the property, even when those defects did not cause significant property damage. In the event of defects affecting the structural soundness or that result in the property becoming unfit for use, the liability term is ten years as from acceptance of the work.

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

We could have losses if we have to resort to eviction proceedings in Argentina to collect unpaid rent because such proceedings are complex and time-consuming.

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

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

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

The global credit crisis that began in 2008 had a significant negative impact on businesses around the world. Similarly, Argentina is undergoing a credit crisis that could negatively impact our tenants' ability to comply with their lease obligations. The impact of a future credit crisis on IRSA's 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 their businesses, which could lead to a significant reduction in their future orders of their products and the inability or failure on their part to meet their payment obligations to IRSA, any of which could have a material adverse effect on its results of operations and liquidity.

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

Office buildings are exposed to various factors that may affect their development, administration and profitability, including the following factors:

- lower demand for office space;
- a deterioration in the financial condition of IRSA's tenants that causes 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 offerings at newer or re-developed properties;
- competition from developers, owners and operators of office properties and other commercial real estate, including sublease space available from IRSA's tenants;
- maintenance, repair and renovation costs incurred to maintain the competitiveness of IRSA's office buildings;
- exchange controls that may interfere with their ability to pay rents that generally are pegged to the U.S. dollar; and
- an increase in its operating costs, caused by inflation or by other factors could have a material adverse effect on IRSA if its tenants are unable to pay higher rent as a result of increased expenses.

IRSA's investment in property development and management activities may be less profitable than IRSA anticipate.

IRSA is engaged in the development and construction of properties to be used as office, residential or commercial properties, shopping malls and residential complexes, in general through third-party contractors. Risks associated with IRSA's development, reconversion and construction activities include the following, among others:

- abandonment of development opportunities and renovation proposals;
- construction costs may exceed its original estimates for reasons including higher 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 revenues and a corresponding lower return on IRSA's investment;
- pre-construction buyers may default on their purchase contracts or units in new buildings may remain unsold upon completion of construction;
- lack of affordable financing alternatives in the private and public debt markets;
- sale prices of residential units may be insufficient to cover development costs;
- construction and lease commencements may not be completed on schedule, resulting in increased debt service expense and construction costs;

- failure or delays in obtaining necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, or building moratoria and anti-growth legislation;
- significant time lags between the commencement and completion of projects subjects us to greater risks due to fluctuation in the general economy;
- construction may be delayed because of a number of factors, including weather, strikes or delays in receipt of zoning or other regulatory approvals, or man-made or natural disasters, resulting in increased debt service expense and construction costs;
- general changes in IRSA's tenants' demand for rental properties outside the Autonomous 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 claims for the enforcement of labor laws in Argentina. Many companies hire personnel from third-parties that provide outsourced services, and sign indemnity agreements if labor claims from employees of such third company arise. However, in recent years several courts have rejected the existence of independence in those labor relations and ruled that joint and several responsibility by both companies.

IRSA is subject to risks associated with property development, 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 that, may exceed original estimates, possibly making the associated investment unprofitable. Any delays or unanticipated expenses could adversely affect the investment returns from these development projects and harm our operating results.

Greater than expected increases in construction costs could adversely affect the profitability of IRSA's new developments.

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

The increasingly competitive real estate sector in Argentina may adversely affect the ability of IRSA to rent or sell office space and other real estate and may affect the sale and lease price of IRSA premises.

IRSA's real estate activities are highly concentrated in the Buenos Aires metropolitan area, where the real estate market is highly competitive due to a scarcity of properties in sought-after locations and the increasing number of local and international competitors. Furthermore, the Argentine real estate industry is generally highly competitive and fragmented and does not have high barriers to entry restricting new competitors from entering the market. The main competitive factors in the real estate development business include availability and location of land, price, funding, design, quality, reputation and partnerships with developers. A number of residential and commercial developers and real estate services companies compete with IRSA in seeking land for acquisition, financial resources for development and prospective purchasers and tenants. Other companies, including joint ventures of foreign and local companies, have become increasingly active in the real estate business and shopping mall business in Argentina, further increasing this competition. To the extent that one or more of its 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.

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

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

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

IRSA currently carry insurance policies that cover potential risks such as civil liability, fire, loss profit, floods, including extended coverage and losses from leases on all of IRSA’s 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 under the insurance policies offered in the national market. In the event of a loss that was not insured or a loss in excess of insured limits, 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, it 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 IRSA’s 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. IRSA does not hire life or disability insurance for its key employees. If any of its key employees were to die or become disabled, it could 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 IRSA’s 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.

An uninsured loss or a loss that exceeds policies on IRSA’s properties could subject us 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 us harmless from liabilities resulting from injury to persons, or property, at or outside the premises, due to activities conducted on the properties, except for claims arising from negligence or intentional misconduct of IRSA’s agents.

Tenants are generally required, at the tenant’s expense, to obtain and keep in full force during the term of the lease, liability insurance policies. In addition, IRSA cannot ensure that its 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 its operating results and financial condition.

Demand for IRSA's premium properties, aimed at high-income consumers, may not be sufficient.

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

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

IRSA had, and expect to have, substantial liquidity and capital resource requirements to finance its business. As of June 30, 2019, its consolidated financial debt amounted to Ps.312,528 million (including the Israel Operation Center's outstanding debt of Ps.275,422 million and current and non-current financial loans plus accrued and unpaid interest and deferred financing costs).

Although IRSA is generating sufficient funds from its operating cash flows to meet its debt service obligations and its ability to obtain new financing is adequate, considering the current availability of loan financing in Argentina, IRSA cannot assure you that it will have sufficient cash flows and adequate financial structure in the future.

The success of IRSA's businesses and the feasibility of its transactions depend on the continuity of investments in the real estate markets and its ability to access capital and debt financing. In the long term, lack of confidence in real estate investment and lack of access to credit for acquisitions could restrict growth. As part of IRSA's business strategy, it will strive to increase its real estate portfolio through strategic acquisitions of properties at favorable prices and properties with added value which it believes meet the requirements to increase the value of its properties.

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 it defaults on any financial or other covenants in its debt arrangements, the lenders and/or holders of its securities will be able to accelerate the maturity of such debt or default under 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 and regulatory changes in Argentina. If IRSA 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 as they become due.

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 its 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 its hotels depends on:

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

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

In recent years, internet retail sales have grown significantly in Argentina, even though the market share of such sales is still modest. The Internet enables manufacturers and retailers to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and shopping malls. 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. Retailers at its properties face increasing competition from online sales and this could cause the termination or non-renewal of their lease agreements or a reduction in their gross sales, affecting its percentage rent based revenue. If e-commerce and retail sales through the Internet continue to grow, retailers' and consumers' reliance on its shopping malls could be materially diminished, having a material adverse effect on its financial condition, results of operations and business prospects.

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

IRSA's activities are subject to Argentine federal, state and municipal laws, and to regulations, authorizations and licenses required with respect to construction, zoning, use of the soil, environmental protection and historical patrimony, consumer protection, antitrust and other requirements, all of which affect its ability to acquire land, buildings and shopping malls, develop and build projects and negotiate with customers. In addition, companies in this industry are subject to increasing tax rates, the creation of new taxes and changes in the taxation regime. IRSA is required to obtain licenses and authorizations with different governmental authorities in order to carry out its 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 IRSA's 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 its 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 its operations and profitability.

Labor relations may negatively impact us.

As of June 30, 2019, 62.3% of its workforce was represented by unions under collective bargaining agreements. Although IRSA currently enjoy good relations with its employees and their unions, IRSA cannot assure you that labor relations will continue to be positive or that deterioration in labor relations will not materially and adversely affect IRSA.

IRSA’s results of operations include unrealized revaluation adjustments on investment properties, which may fluctuate significantly over financial periods and may materially and adversely affect its business, results of operations and financial condition.

As of June 30, 2019, IRSA had fair value losses on investment properties of Ps.23,710 million. Although the upward or downward revaluation adjustments reflect unrealized capital gains or losses on its investment properties during the relevant periods, the adjustments were not actual cash flow or profit or losses generated from the sales or rental of its investment properties. Unless such investment properties are disposed of at similarly revalued amounts, IRSA will not realize the actual cash flow. The amount of revaluation adjustments has been, and will continue to be, significantly affected by the prevailing property markets and macroeconomical conditions prevailing in Argentina and will be subject to market fluctuations in those markets.

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

Due to the currency mismatches between IRSA’s assets and liabilities, IRSA has high currency exposure.

As of June 30, 2019, the majority of IRSA’s liabilities in its Operations Center in Argentina, such as its Series 1, 2 and 8 Notes, and the Series 2 and 4 Notes issued by its subsidiary IRSA Commercial Properties (“IRSA CP”), were denominated in U.S. dollars while its revenues are mainly denominated in Pesos. This currency gap exposes IRSA to a risk of volatility, which circumstances may adversely affect its financial results if the U.S. dollar appreciates against the Peso. Any depreciation of the Peso against the U.S. dollar increases the nominal amount of its debt in Pesos, which further adversely affects its results of operation and financial condition and may increase the collection risk of its leases and other receivables from its tenants and mortgagees, most of which generate Peso denominated revenues.

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

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

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

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

The discovery stage of the legal proceedings has concluded. The parties filed the arguments in due time and proper manner. After the case was set for judgment, the judge ordered the suspension of the judicial order and requested the case records to issue a decision based on the alleged existence of pre-judgmental status in relation to the criminal case against former officials of the Ministry of Defense and Tandanor. For that reason the case will not be assigned until a final judgment is issued in respect of the criminal case.

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

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

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

In July 2013, the answer to the civil action was filed, which contained a number of defenses. Tandanor requested the intervention of the Argentine State as third party co-litigant in this case, which petition was granted by the Court. In March 2015, both the Argentine State and the criminal complainant answered the asserted defenses. On July 12, 2016, Puerto Retiro was legally notified of the decision adopted by Federal Oral Court No. 5 related to the preliminary objections above mentioned. Two of them were rejected –lack of information and lack of legitimacy (passive). The parties produced all the evidence offered and the oral trial relating to the criminal action to which Puerto Retiro is not a party has also concluded. All the parties (civil and criminal) filed their respective closing arguments (May 2018).

On September 7, 2018, the Federal Court rendered its decision, according to which the preliminary motion based on statute of limitations filed by Puerto Retiro was successful. This means that the arguments raised by the Argentine government in the civil action were dismissed (return of property and payment of damages). Nevertheless, in the criminal proceedings –where Puerto Retiro is not a party – the Federal Court ordered the seizure (“decomiso”) of the land known as “Planta 1” as an ancillary measure to the judgment entered against the defendants. On November 27, 2018, a resolution was issued ordering the immediate delivery of possession of Planta 1 to the Argentine government. However, such resolution was challenged by filing a motion for cassation appeal, which was granted on December 7, 2018. The term for filing the applicable grounds for appeal expired on December 27, 2018, and on such date the Criminal Cassation Court of Appeals notified Puerto Retiro that it formally rejected the referred cassation appeal. In response to this rejection, Puerto Retiro filed an extraordinary appeal, which was also rejected. On April 8, 2019, Puerto Retiro filed a recourse directly before the Supreme Court, which is in process. Moreover, on December 27, 2018, Puerto Retiro filed a motion for nullity of the decision rendered on September 7, 2018. This petition was rejected, which is why, on March 8, 2019, an appeal for reconsideration was filed and it was requested that, in any event, the cassation appeal filed along with the nullity be granted. Both the appeal for reconsideration and the cassation appeal were also rejected, so on March 22, 2019, a complaint was filed for a cassation appeal denied before the Argentine Federal Chamber of Criminal Cassation, which is in process.

Therefore, if both appeals are rejected, there is still a risk of losing the land known as “Planta 1”, which is a significant investment in a unique waterfront land reserve in the Autonomous City of Buenos Aires. In such case, IRSA would be unable to develop such land reserve, which could have an adverse effect on its financial condition and results of operations. As of June 30, 2019, the “Planta 1” land reserve book value is fully reserved.

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

IRSA develops and acquire properties in joint ventures with other persons or entities or make minority investments in entities when IRSA believe circumstances warrant the use of such structures.

As of June 30, 2019, through its subsidiary IRSA CP, IRSA own 50% of Quality Invest S.A. In the Sales and Developments segment, IRSA own 50% of the equity of Puerto Retiro and 50% of the equity of Cyrsa S.A. In the Hotel segment, IRSA own 50% of the equity Hotel Llao Llao and the other 50% is owned by the Sutton Group.

IRSA’s hold approximately 29.91% of the equity of Banco Hipotecario, and the Argentine government is the controlling shareholder. IRSA’s also hold approximately 18.9% of the equity of Condor Hospitality Trust Inc. (“Condor”) which is under a sale process, whose settlement is expected to be completed between October 2019 and December 2019.

IRSA could engage in a dispute with one or more of its joint venture partners or controlling shareholder in an investment that might affect its ability to operate a jointly-owned property. Moreover, its joint venture partners or controlling shareholder in an investment may, at any time, have business, economic or other objectives that are inconsistent with its 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 its investors is required with respect to operating budgets and refinancing, encumbering, expanding or selling any of these properties. In some instances, its joint venture partners or controlling shareholder in an investment may have competing interests in their markets that could create conflicts of interest. If the objectives of its joint venture partners or controlling shareholder in an investment are inconsistent with its own objectives, IRSA will not be able to act exclusively in its interests.

If one or more of the investors in any of IRSA’s 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 or controlling shareholder in an investment declare bankruptcy, IRSA could be liable for its partner’s common share of joint venture liabilities or liabilities of the investment vehicle.

Dividend restrictions in IRSA’s subsidiaries may have an adverse effect it.

Dividends paid by IRSA’s subsidiaries are an important source of funds for IRSA’s as are other permitted payments from subsidiaries. The debt agreements of its subsidiaries contain or may in the future contain covenants restricting their ability to pay dividends or make other distributions to IRSA. If IRSA’s subsidiaries are unable to make such payments to IRSA, 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 Board of Directors and its personnel.

Our success, to a significant extent, depends on the continued employment of Eduardo S. Elsztain and certain other members of IRSA’s board of directors and senior management, who have significant expertise and knowledge of its business and industry. The loss or interruption of their services for any reason could have a material adverse effect on its business and results of operations. IRSA’s future success also depends in part upon its ability to attract and retain other highly qualified personnel. IRSA cannot assure you that it will be successful in hiring or retaining qualified personnel, or that any of its personnel will remain employed by IRSA, which 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, according to his indirect shareholding through Cresud S.A.C.I.F.y A. As of June 30, 2019, such beneficial ownership consisted of: 359,102,211 common shares held by Cresud S.A.C.I.F.y A. Conflicts of interest between its management and that of its related companies may arise in connection with the performance of their respective business activities. As of June 30, 2019, Mr. Eduardo S. Elsztain also beneficially owned (i) approximately 63.41% of its common shares and (ii) approximately 85.2% of the common shares of IRSA CP. IRSA cannot assure you that its principal shareholders and its affiliates will not limit or cause IRSA to forego business opportunities that its affiliates may pursue or that the pursuit of other opportunities will be in its interest.

Risks Related to our Investment in Banco Hipotecario

As of June 30, 2019, we owned, through IRSA, approximately 29.91% of the outstanding capital stock of Banco Hipotecario, which represented 0.7% of our consolidated assets from our operations center in Argentina as of such date. All of Banco Hipotecario’s operations, properties and customers are located in Argentina. Accordingly, the quality of Banco Hipotecario’s loan portfolio, financial condition and results of operations depend on economic, regulatory and political conditions prevailing in Argentina. These conditions include growth rates, inflation rates, exchange rates, changes to interest rates, changes to government policies, social instability and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

Risks Relating to the Argentine Financial System and Banco Hipotecario

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

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

The growth and profitability of Argentina’s financial system partially depend on the development of long-term funding.

During the last months, Central Bank reserves registered an abrupt fall mainly due to U.S. Dollars sales by the Central Bank and the National Treasury to the private sector; cancellation of public debt; and outflow of dollar deposits from the private sector. As a consequence, there is a reduction of loans denominated in U.S. Dollars and there is low liquidity of U.S. Dollars in the market. If this trend continues, the financial banking system could result affected.

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

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

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

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

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

If depositors once again withdraw their money from banks in the future, there may be a substantial negative impact on the manner in which financial institutions, including Banco Hipotecario, conduct their business, and on their ability to operate as financial intermediaries. Loss of confidence in the international financial markets may also adversely affect the confidence of Argentine depositors in local banks. Nevertheless during the last months, Central Bank reserves registered an abrupt fall mainly due to outflow of dollar deposits from the private sector.

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

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

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

Financial institutions carry significant portfolios of bonds issued by the Argentine government and by provincial governments as well as loans granted to these governments. The exposure of the financial system to the non-financial public sector’s indebtedness had been shrinking steadily, from 49.0% of total assets in 2002 to 10.3% in 2015, 8.9% in 2016, 8.4%, in 2017 and 9.4% as of June 30, 2019. To an extent, the value of the assets held by Argentine banks, as well as their capacity to generate income, is dependent on the creditworthiness of the non-financial public sector, which is in turn tied to the government’s ability to foster sustainable long-term growth, generate fiscal revenues and reduce public expenditure.

In addition, financial institutions currently carry securities issued by the Central Bank in their portfolios, which generally are short-term. As of June 30, 2019, such securities issued by the Central Bank represented approximately 18.5% of the total assets of the Argentine financial system. As of June 30, 2019, Banco Hipotecario’s total exposure to the public sector was Ps.2,456.6 million, which represented 3.14% of its assets as of that date, and the total exposure to securities issued by the Central Bank was Ps.15,463.9 million, which represented 19.75% of its total assets as of June 30, 2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future governmental measures may adversely affect the economy and the operations of financial institutions.

The Argentine government has historically exercised significant influence over the economy, and financial institutions, in particular, have operated in a highly regulated environment. We cannot assure you that the laws and regulations currently governing the economy or the banking sector will remain unaltered in the future or that any such changes will not adversely affect Banco Hipotecario's business, financial condition or results of operations and Banco Hipotecario's ability to honor its debt obligations in foreign currency.

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

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

In addition, the Civil and Commercial Code, among other things, modifies the applicable regime for contractual provisions relating to foreign currency payment obligations by establishing that foreign currency payment obligations may be discharged in Pesos. This amends the legal framework, pursuant to which debtors may only discharge their foreign currency payment obligations by making payment in the specific foreign currency agreed upon in their agreements; provided however that the option to discharge in Pesos a foreign currency obligation may be waived by the debtor is still under discussion. However, in recent years some court decisions have established the obligation to pay the in foreign currency when it was so freely agreed by the parties. IRSA is not able to ensure that any current or future laws and regulations (including, in particular, the amendment to the Financial Institutions Law and the amendment to the Central Bank's charter) will not result in significant costs to the Company, or will otherwise have an adverse effect on Banco Hipotecario's operations.

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

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

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

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

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

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

Risks relating to IRSA’s business in the United States

If IRSA is not able to occupy the vacant lease positions of its buldings they could suffer a negative impact in the cash flows of the property that could adversely affect IRSA’s business, financial condition and results

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

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

Operations Center in Israel

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

In December 2013, the Law to Promote Competition and Reduce Concentration, 5774-2013, was published in the Official Gazette (the “Concentration Law”). According to the provisions of the Concentration Law, a pyramid structure for the control of “reporting corporations” (in general, corporations whose securities were offered to and are held by the public) is restricted to 2 tiers of reporting corporations (where a first tier company may not include a reporting corporation which does not have a controlling shareholder).

In accordance with transitional provisions which were determined in the Concentration Law, a third tier company or higher tier company is no longer entitled to control reporting corporations, except for corporations as stated above which are under its control as of the publication date of the Law in the Official Gazette (herein, the “Publication Date”), regarding which it will be required to discontinue control by no later an December 2017 (the “2017 Requirement”). It is noted that so long as a reporting corporation is considered a second tier company in accordance with the law, it is not entitled to control reporting corporations, and insofar as, on the publication date, it holds control of reporting corporations, it must discontinue its control of such corporations by no later than December 2019 (the “2019 Requirement”).

On the date of the Concentration Law’s publication in the Official Gazette, IDBD was considered a second tier company, DIC was considered a third tier company, and the reporting corporations controlled by DIC were considered fourth and fifth tier companies. In May 2014, the control of IDBD changed as part of the completion of the creditors’ settlement in IDB Holding Corporation Ltd. (“IDBH”), and subsequently, IDBD and DIC ceased being considered a second and third tier companies, respectively, and as of that date IDBD and DIC were considered a first and second tier companies, respectively.

In November 2017, in accordance with the determination of an independent committee and the audit committee of DIC, respectively and after receipt of the required approvals (including regulatory approvals), sold its shares in DIC to Dolphin IL Ltd. ("Dolphin IL"), a private company incorporated in Israel, which is wholly owned by Dolphin Netherlands B.V. ("Dolphin Netherlands"), a corporation controlled by Mr. Eduardo Elsztein. As consideration, Dolphin IL issued debenture to IDBD in the amount of NIS 1.77 billion (the "Debenture"), and paid IDBD NIS 70 million in cash. Additionally, companies from the controlling shareholder group transferred 9,636,097 DIC shares which were held by it, to Dolphin IL. All of the said shares (116,416,950 shares) are pledged in favor of IDBD and / or in favor of its debenture holders, with liens of varying degrees, and serve as collateral in connection with IDBD's debentures.

After the consummation of such transaction, DIC started to be considered to be a first tier company, as defined in the Concentration Law, while Cellcom, Property and Building Corp. Ltd. ("PBC"), Elron and other companies (controlled by DIC) were considered to be second tier companies within the meaning of the Concentration Law. Therefore, as long as PBC is considered a second tier company, it needs to cease from controlling reporting corporations under its control (Ispro and Mehadrin) to comply with the 2019 Requirements.

As of the date of this annual report, IDBD is considered a first tier company, with respect to the Concentration Law, and it no longer holds control of any "other tier companies." Clalbit Financing Ltd. ("Clalbit Financing"), a company controlled by Clal Insurance Enterprises Holdings Ltd. ("Clal Insurance Holdings"), is considered as "other tier" (third) company as the term is defined in the Concentration Law. Therefore, should Clalbit Financing continue to be considered as "other tier" company after December 11, 2019, Clal Insurance Holdings may be required to appoint a trustee or to perform actions pursuant to which Clalbit Finance will not be considered as other tier company. For more information, see "Regulation and Government Supervision—General regulations applicable to our business in Israel—Concentration Law."

In October 2018, a class action was filed with the District Court in Tel Aviv-Yafo (the "Motion") by an applicant alleging to hold shares in DIC (the "Applicant"), against IDBD, against Dolphin IL, against Mr. Eduardo Elsztein (the controlling shareholder of IDBD and DIC), and in it, requesting (a) to hold that the sale of shares of DIC to Dolphin was not in compliance with the provisions of the Concentration Law, (b) a trustee over DIC's shares owned by the respondents and (c) the payment of monetary damages to the public shareholders in the DIC for the alleged preservation of the pyramidal structure in IDBD's group. The Applicant alleges that IDBD continues to be the controlling person of DIC and that the controlling shareholder of IDBD (in his capacity as chairman of the board of directors and controlling shareholder of DIC as well) had a personal interest separate from the personal interest of the minority shareholders of DIC, in the manner of implementation of the Concentration Law's provisions, and that he and IDBD breached the duty of good faith and the duty of decency toward DIC, and additionally the controlling shareholder of IDBD breached his duty of trust and duty of care toward DIC, this being, allegedly, due to the fact that the decision regarding the preferred alternative for complying with the Concentration Law's Provisions was not brought before DIC's general meeting. The Applicant further alleges deprivation of the minority shareholders of DIC.

As part of such reorganization, in July 2019 PBC sold 11.7% of Gav-Yam's issued share capital, which resulted in PBC's stake in Gav-Yam decreasing from 51.7% to 40.0%. In September 2019, PBC sold an additional 5.14% of Gav-Yam's issued share capital, resulting in PBC's stake in Gav-Yam further decreasing from 40.0% to 34.9%. As a result of the sale of Gav Yam shares, PBC is in compliance with the 2019 requirements set forth in the Concentration Law, as PBC is no longer the controlling shareholder of Gav-Yam.

In August 2019, Ispro's audit committee and board of directors approved the performance of a full prepayment of Ispro's debentures (Series B), which are listed on the TASE at a total cost of NIS 131 million, subject to court approval, in accordance with sections 25(f) and 25(h) of the Concentration Law. The prepayment of Ispro's debentures (Series B) will result in the delisting of all of its debentures from the TASE. As a result, Ispro will cease to be a reporting corporation and will no longer be considered a "tier company", as this term is defined in the Concentration Law. In September 2019 Ispro received court approval for the full redemption of Ispro debentures Series B in prepayment which will take place on October 10, 2019.

Once the transactions described above are completed, DIC will still have to assess what are its alternatives for PBC's stake in Mehadrin, given that the Shareholders Agreement between Phenix and PBC was terminated and the concentration law does not allow DIC to have control over public companies at three tiers within its group structure.

These alternatives may include structural changes in some of the companies in the DIC group. If DIC fails to comply with the requirements of the concentration law, DIC may be subject to penalties or be the subject of other actions available under the law, including the loss of control

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

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

Changes in legislation and regulation may have an impact on IDBD's and DIC's operations.

In recent years, there has been a tendency of increasing legislation standardization and regulation in a broad manner in various operating segments in the Israeli economy. This trend has a material effect on the operations of IDBD and DIC and of certain of its material subsidiaries, their financial results and the rates of their securities, as well as on their operations.

Legislative changes in various areas in Israel and abroad, such as centralization, promotion of competition and antitrust laws, tax laws, mandatory tenders law, regulation of the communication market, supervision of the insurance business operations, capital investments initiatives, companies and securities laws, laws pertaining to the supervision of prices of products and services, increased competition in the food market, consumer protection laws, environmental laws, planning and construction laws, may affect the business operations and financial results of IDBD's, DIC's and of their respective subsidiaries. The aforementioned legislative changes may also lead to a change in the policies adopted by various authorities and thus affect the business and results of IDBD and DIC and their subsidiaries.

In addition, changes in customs duties on goods and policies for the protection of local products can affect the results of some of DIC's subsidiaries.

Some of IDBD's and DIC's subsidiaries operate outside of Israel or have securities which are traded on foreign stock exchanges. Changes in legislation and in the regulatory policies of those foreign countries, as well as the characteristics of the business environment in the country of operation, may affect the financial results and the business position of these companies.

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

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

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

IDBD and DIC hold assets and manage its business affairs in Israel. Therefore, almost all of IDBD's and DIC's assets, liabilities, income and expenses are in NIS (except for a liquid deposit in USD). IDBD's and DIC's financing income and expenses are also subject to volatility due to changes in interest rates on loans and deposits. IDBD's and DIC's policy regarding the management of market risks is related to the linkage basis of its financial assets and liabilities (hedging transactions). However, an increase of the rate at which the company finance our operations or the lack of financing at acceptable terms may have an adverse effect on IDBD's and DIC's results of operations.

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

IDBD, DIC and their subsidiaries operate, inter alia, in the real estate segment outside Israel, and primarily in the United States. Material adverse changes in the state of the economy in the United States could affect the ability to operate and realize the investments and to obtain financing under reasonable conditions.

The characteristics of the business environment outside Israel, including the local regulation, the purchasing power of consumers, the financing possibilities (under reasonable conditions, if at all), and the selection of entities (including local entities in Israel) which are engaged in the field of financing with whom the collaboration is done with, and these entities business status, could affect the possibilities for financing, their terms, and the success of the foreign operation, and accordingly, may have an adverse effect on their business operations and the results of operations of IDBD, DIC and their subsidiaries.

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

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

Additionally, investments of foreign entities, and particularly in the technology and communication sectors, receive certain benefits derived from the initiative for foreign investments by regulatory entities in Israel, including certain tax benefits. If the aforementioned benefits are terminated and/or restricted it may harm foreign investments in the companies held by DIC or the tradability of their securities, as well as adversely affect their business results, and all of the above may harm the business results of DIC.

Regional conflict may affect IDBD, DIC and their subsidiary's activities, especially Cellcom Israel Ltd. ("Cellcom") activities.

The activities of IDBD, DIC and their subsidiaries are located in Israel, like some of its suppliers. The operations of Cellcom and its network are located in Israel, as well as their customers and some of its suppliers. Any damage caused to the communication network and/or to the information systems may adversely affect Cellcom's ability to continue providing services, in whole or in part, and/or may negatively affect Cellcom's operations, which may adversely affect its business results. Additionally, negative effects of this kind may materialize due to an increase in criticism of Israel by international community, including inclusion in the lists of companies to be published by the UN Human Rights Organization. In general, any armed conflict, terror attack or political instability in the region may result in a decrease in Cellcom's income, including from roaming services of incoming tourism, and may thereby adversely affect its business results.

Deterioration in the political security and economic situation in Israel may affect IDBD, DIC or their subsidiaries’ activities.

A significant deterioration in the political-security situation in Israel, inter alia, due to renewed escalation in Judea and Samaria and the Gaza Strip, as well as the continued tension in Israel’s northern border, may result in decreased demand for rental areas and residential units, an exacerbation of the manpower deficit in the construction and agriculture segment, and the increased costs of works. These factors may adversely affect the results of IDBD’s and DIC’s operations, especially PBC’s operations. Additionally, all of Shufersal Ltd.’s (“Shufersal”) income is produced in Israel, and a significant part of the products sold by it are grown, produced or processed in Israel. Therefore, the business results of Shufersal are directly affected by the political, economic and security conditions in Israel. A significant deterioration in the security situation or political situation in Israel may adversely affect Shufersal’s business operations, financial position and results of operations, which in turn would have a negatively effect on IDBD’s results of operations.

Shufersal’s management routinely evaluates the possible impact and implication of the general economic situation in Israel, in particular on the retail food market. Developments and shocks in the Israeli economy, as well as an economic downturn or recession due to an economic crisis, may have negative effects on the food retail market in Israel, and as a result, also on Shufersal’s revenues and profitability, due to the intensification of competition and due to changes in the consumption habits of its customers. Likewise, the public opinion regarding the cost of living in Israel may affect Shufersal’s business results, due to the considerable pressure from consumers which is being applied on Shufersal to reduce the prices of the products which it sells, and the increasing competition from the discount chains, which are expanding their operations. Deceleration in the Israeli economy may negatively impact Clal Insurance Holdings’ business, particularly in the long-term savings segment. Additionally, as a result of the aforementioned deceleration, the risk associated with the exposure of Clal Insurance Holdings to entities in Israel through its investments may increase due to the deterioration of Israel’s political and economic situation. IDB Tourism (2009) Ltd. (through Israil Aviation and Tourism Ltd. (“Israil”) operates in Israel and abroad, where the security situation in Israel and worldwide may have a material adverse effect on incoming and outgoing tourism, as well as domestic tourism in Israel. Therefore, Israil’s business results are directly affected by the political, economic and security conditions in Israel and around the world. A significant deterioration in the security situation in the destinations in which it operates or in the security situation in Israel may have a negative effect on its financial results and operations.

IDBD, DIC and their subsidiaries are exposed to capital market and finance regulations that may affect our ability to finance our operations.

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

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

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

IDBD, DIC and some of their subsidiaries operate under certain approvals, permits or licenses which were granted to them by various authorities, such as the Commissioner, the Ministry of Communication, the Ministry of Environmental Protection, and the Commissioner of Oil Affairs in the Ministry of National Infrastructures, Energy and Water, the Minister of Transportation (with respect to the granting of licenses for operational and commercial operation of flights). A breach of the terms of these approvals, permits or licenses may lead to the imposition of penalties and other liabilities (including criminal) against IDBD, DIC or the relevant subsidiaries, including fines and/or revocation of such approvals, licenses or permits. Revocation of such approvals permits or licenses may significantly harm subsidiaries whose operations depend on them (such as companies in the communication and/or the insurance sector). Some licenses are subject to an expiration date, and are subject to renewal from time to time, in accordance with their terms and the provisions of the law. There is no certainty that the said licenses will be renewed in the future and/or under which conditions. Non-renewal of a permit or license, as stated above, and/or the directives of regulators in sectors in which subsidiaries of IDBD and DIC operates, may have an adverse effect on the business position, capital, cash flows and profitability of our consolidated that operate under such permit or license, and accordingly, our results of operations. For more information please see *"The implementation of the Law to Promote Competition and Reduce Concentration may have implications on IDBD, DIC and their respective subsidiaries."*

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

IDBD and DIC and its respective subsidiaries, may be subject, from time to time, to litigation, including class actions, related to consumer and environmental issues, in material amounts, which are sometimes higher than their equity capital, and they must defend themselves against them, at considerable cost, even if these claims are unfounded from the outset. For more information see "Item 8 - Financial Information - Legal Proceedings."

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

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

IDBD and DIC are exposed to potential steps if such will be taken by its debenture holders including a potential action requesting IDBD's insolvency.

The taking of legal action against IDBD or DIC by their debenture holders may harm the ability of IDBD or DIC to continue repaying its debts according to their amortization schedules and may lead to a demand to make future liabilities (mainly to the borrowing corporations) for immediate repayment, for more information see "Item 8 - Financial Information - Legal Proceedings". A deterioration in DIC's financial ratios, a decline in the value of its principal holdings and an increase in the yields on which DIC's debentures are traded may make it difficult for DIC to recycle its debts and to impose restrictions on DIC's activity on the part of the credit providers, mainly the holders of DIC's debentures and/or the trustees of DIC's debenture holders that DIC is unable to estimate and/or assess their full effect on it and/or its ability to cope with its liquidity challenges. To date the terms of DIC's debentures do not include an undertaking to comply with financial covenants, except for financial covenants relating to debentures (Series 18) of DIC, which constitute grounds for adjusting the interest rate only.

As of the date of this annual report, IDBD's cash flow and its ability to meet its financial debt commitments, faced the following challenges: As of June 30, 2019, IDBD had negative equity at that date, negative operating cash flow and a low credit rating of its debentures that caused that certain bondholders hire a representative and legal advisors to evaluate a potential procedure for declaring the insolvency of IDBD. Despite these potential claims, the Board of Directors of IDBD had a cash flow forecast for a period of 24 months that assumes that IDBD will receive, among other things, cash from the realization of private investments which are directly owned by IDBD, in such way that IDBD expects to fulfill all its obligations for the next 24 months. Additionally, IRSA's Board of Directors has approved a commitment to make capital contributions in Dolphin for up to NIS 210, in accordance with a schedule of commitments acquired by Dolphin with IDBD as described below between September 2019 and September 2021. IRSA is the guarantor of these commitments. For more information see "Item 4. Information about the Company - Operation in Israel".

Dolphin's the commitment to make contributions to IDBD subject to the following: (i) the NIS 70 that was contributed on September 2, 2019; (ii) the NIS 70 to be provided by September 2, 2020 and (iii) the NIS 70 to be provided until September 2, 2021. In accordance with Dolphin's and IDBD's commitment, these contributions may be considered capital contributions which will result in the issuance of new IDBD shares in favor of the controlling company, or may be granted in the form of a subordinated loan. IDBD will have the right to request an advance of up to NIS 40 as an advance of the second installment payment if it does not have the resources to finance the third buyer of Clal ("Item 4. Information about the Company - Operation in Israel"), subject to the approval of the Audit Committee and Board of Directors.

The commitments and other restrictions resulting from the indebtedness of IDBD and DIC have no effect on IRSA since such indebtedness is without recourse to IRSA, nor has IRSA guaranteed it with its assets, notwithstanding IRSA's commitment to provide capital to Dolphin as described above. Based on the foregoing, IRSA's financial risk with respect to the Operations Center in Israel is limited to the aforementioned commitments and the equity risk, limited to the net assets of the Operations Center in Israel, as of June 30, 2019.

DIC and some of its subsidiaries are exposed to risks of losses with regard to cash deposits and financial assets held by financial institutions and brokers.

Cash deposits and material financial assets of DIC or its subsidiaries are held through financial institutions and brokers, and DIC and its subsidiaries are exposed to risks of losses in connection with these assets, in certain cases of deterioration in the financial strength of these financial institutions and brokers.

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

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

DIC and its subsidiaries may be affected by restricted investments.

DIC and its subsidiaries are subject to legal restrictions in the execution of new investments or in increasing existing investments in subsidiaries in certain cases. DIC and its subsidiaries are also subject to restrictions according to law or according to the directives of various regulatory entities in their business operations in Israel and abroad. Such restrictions by virtue of the law, by virtue of the provisions of various regulatory entities and various contractual restrictions may limit DIC's ability to take advantage of business opportunities for new investments or to increase or realize existing investments. For more information, see "Regulation and Government Supervision-General regulations applicable to our business in Israel-Concentration Law."

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

In recent years, an increasing trend has taken place in the filing of class actions and derivative claims in the field of corporate and securities laws. In consideration of the above, and of the financial position of IDBD and DIC and the group's holding structure, claims in material amounts may be filed against IDBD and DIC, including in connection with its financial position and cash flows, issuances which it performs, and transactions which were performed or which were not completed, including in connection with assertions and claims against IDBD's or DIC's controlling shareholders. For more information, see "Business–Legal Proceedings–Operation Center in Israel."

The damage to the business situation of DIC may be damaged and impact its ability to distribute dividends.

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

Furthermore, an adverse impact on DIC's business may affect DIC's ability to distribute dividends to its shareholders, including Dolphin IL, which is a holding company with no activity, apart from holding DIC shares, and therefore Dolphin IL's repayment ability is affected, inter alia, from the scope of dividends that DIC distributes, if any.

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

IDBD does not find a buyer for its controlling shares in Clal, the outline for the sale of the shares of Clal set by Commissioner may result in a lower consideration than the consideration IDBD would have received if it sold its shares of Clal itself.

As long as IDBD does not find a buyer for its controlling shares in Clal, the Commissioner is expected to proceed with the realization of the outline set by him, for the sale of the holdings of IDBD in Clal. See "Item 4. Business – Operations Center in Israel – Insurance (IDBD) – Clal." The sale of IDBD's holdings in the shares of Clal in accordance with the provisions of the outline may result in a lower consideration than the consideration IDBD would have received if it sold its shares of Clal itself (i.e. without the involvement of the Commissioner) including the sale of the controlling interest (as opposed to the sale according to the outline that is performed by way shares of 5% of the share capital of Clal). Moreover, if we are forced to sell Clal's shares in the open market, the value of the realizations could be significantly lower than their fair value, affecting the financial condition of IDBD.

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

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

Changes in the domestic and international capital markets, DIC's financial ratios, a decrease in the value of its principal holdings and the yields on which DIC's debentures are traded may adversely affect the rating of DIC's debentures and/or to make it difficult for DIC to raise capital and/or refinance its debts.

In the past, one of the main sources of IDBD’s cash flow was dividends distributed by its subsidiaries. In recent years, the distribution of dividends by IDBD’s subsidiaries (directly or indirectly) has decreased significantly as a result of changes in the business situation, regulation, profitability (including a decrease in the balance of profits available for distribution or the existence of negative profit balances) and the cash flows of the subsidiaries, which adversely affected the cash flow of IDBD and its business operations. Changes that occurred in connection with Clal, including capital requirements from insurers held by it and the appointment of the trustee for most of the holdings of IDBD therein, have and may continue to adversely affect dividend flows from Clal.

Cellcom is exposed to cyber attacks that may have an adverse effect on Cellcom activities

Cyber-attacks may result in equipment failure, loss, disclosure, access, use, corruption, destruction or appropriation of information, including sensitive personal information of customers or employees, or valuable technical information, as well as interference with customer activity. In recent years cyber-attacks against companies have increased in frequency, scope and potential harm. The inability to operate the networks and systems of Cellcom or other suppliers and service providers as a result of cyber-attacks, even for a limited time, is liable to cause such damages, harm Cellcom's reputation and have a material adverse effect on the results of operations or financial results of Cellcom.

Cellcom is exposed to aggressive competition that may have an adverse impact on Cellcom’s profitability.

The communication market is characterized by significant competition in many of its segments. The current increase, of competition in most of the markets in which Cellcom operates and aggressive price plans by Cellcom’s competitors are expected to continue. Any of the following, may have an adverse impact on Cellcom’s profitability:

- (a)The remaining rates at the current level or their further decline, including as part of a package of services;
- (b)An ineffective wholesale market for landline communication, the effective exclusion of telephone services from the wholesale market, the offering of services not in accordance with the criteria of the wholesale market, without implementation of enforcement measures by the Ministry of Communication, or the pricing thereof in a manner which could negatively affect Cellcom’s ability to offer competitive services packages, and to compete against Bezeq and Hot (due to their dominant status in the landline communication market), or a change to the current regulation that will be less favorable towards Cellcom, considering Cellcom’s dependence on the wholesale landline for supplying landline infrastructure services, the increased competition by Bezeq and Hot, considering their dominance in the landline market, particularly if the structural separation which applies to the Bezeq and Hot groups is canceled before the creation of an effective landline wholesale market;
- (c)Cancellation or easement of the structural separation which applies to the Bezeq and Hot groups;
- (d)The entry of new competitors, including large international or Israeli companies, such as Netflix and Amazon, and other players into the television market, to markets in which Cellcom operates or to make competitive complementary services to Cellcom’s services or the entry of existing competitors into segments in which they were not previously active, or were partially active;
- (e)Non-extensive deployment of a landline infrastructure or if IBC will not become an extensive Internet infrastructure supplier from which Cellcom will be able to purchase such service as expected or entering into a cooperation agreement for the use of such infrastructure with an operator who owns an infrastructure, by Cellcom, taking into consideration the growth of Cellcom’s television and internet services, especially if one of the competitors, who currently does not own such an infrastructure, will deploy infrastructure or will enter into such cooperation, and this may limit the bandwidth included in Cellcom’s proposals vis-à-vis the competitors, since today it depends on the stationary wholesale market;

- (f)Regulatory changes which facilitate the transition of customers between operators;
- (g)Inability or failure to purchase additional frequencies or to purchase frequencies in an amount equal to Cellcom competitors, or to make the necessary investments in Cellcom networks or business in general, in order to maintain Cellcom competitive standing, given its financial situation or otherwise;
- (h)The ability of some of Cellcom's competitors to obtain better access and contractual terms with international suppliers or foreign operators than Cellcom due to their affiliation with international groups;
- (i)Should the transition to other frequencies, adversely affect Cellcom's services or Cellcom will be required to bear the costs of changing frequencies, which will not affect competitors;
- (j)Continued increased competition in the end user equipment market.

Changes in legislation or significant regulatory intervention may have an adverse effect on Cellcom activities.

Cellcom operates in a highly regulated market and relies on licenses issued by the Ministry of Communications of Israel to operate most of its business. Such Licenses have to be renewed periodically and may be amended without Cellcom's consent. See "Item 4. Business-Regulation-Telecommunications." Other changes in legislation and the extent of such regulatory changes may have adverse effects on Cellcom, including:

- (k)cancellation or easement of the structural separation obligation which applies to Bezeq and Hot, particularly if such cancellation or easement is given before the creation of an effective wholesale market in the landline communication market, if another regulation is passed in the wholesale market that does not benefit Cellcom, including high tariffs for wholesale services, and even more in view of the rapidly growing demand for data capacity for Internet and television services, or non-enforcement of market regulation or a mechanism that does not prevent Bezeq and Hot from reducing tariffs, thereby reducing the gap between wholesale and retail tariffs ("margin squeeze") or fail to enforce regulation with respect to the landline wholesale market resulting in our continued inability to use additional wholesale services;
- (l)the provision of easements and benefits to competitors, over Cellcom;
- (m)granting permissions for other operators to provide services to Cellcom subscribers which were previously provided only by Cellcom;
- (n)non-renewal of Cellcom's licenses (or renewal of conditions against Cellcom) and/or the allocation of the frequencies at Cellcom's possession or demand for the return of allocated frequencies or the restriction of their use, as required, or such allotment under conditions not favorable to Cellcom or a demand to replace frequencies in unreasonable time schedules or while carrying such replacement costs;
- (o)The publication of new frequency tenders before Cellcom needs additional frequencies or before it will have the means to participate in such tenders or to set conditions for the deployment of Cellcom's network when using these new frequencies, taking into consideration the material investments involved, without any regard to Cellcom's economic situation;
- (p)authorizing additional competitors to enter the cellular market as operators of the 5G network, which may increase competition in the market;
- (q)the establishment of additional requirements for the provision of easements to competitors with respect to safety or health, including with respect to the construction and operation of base sites;

- (r) Limiting or preventing Cellcom's cooperation with other operators to deploy a fixedline infrastructure. Furthermore, such restriction or prevention may limit the bandwidth offered by Cellcom compared to its competitors, since Cellcom's current service is dependent on the wholesale market service;
- (s) the establishment of additional restrictions or requirements regarding the provision of services and products and/or intervention in their terms of marketing, advertising and provision, including regarding existing agreements;
- (t) the establishment of a higher standard of service;
- (u) setting a timetable for the implementation of new requirements in a license that cannot be met;
- (v) the establishment of a more stringent policy with respect to protection privacy;
- (w) the imposition of regulations on Cellcom's television over internet service, the establishment of unfavorable conditions for the use of digital terrestrial television (DTT) broadcasts, or the imposition of such unfavorable conditions on Cellcom and not on other operators of the television over internet service.
- (x) limitation or prohibition on renewal of licenses and the allocation of additional frequencies since Cellcom is included in the list of Centralization factors (being a subsidiary of DIC), which is published in accordance with the Concentration Law; and
- (y) regulatory developments also affect the risk factors of tariff supervision, licensing of cell sites and the indemnification obligation, non-ionizing radiation and dependence on licenses.

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

Cellcom (and its competitors) encounters difficulties in obtaining some of the required approvals for the construction and operation of cell sites, and particularly in obtaining the building permits from the various planning authorities. Cellcom's ability to maintain and preserve the quality of its cellular services is based in part on Cellcom's ability to establish cell sites. In addition, in October 2018 new regulations were enacted stipulating procedures for setting up, making changes and replacing existing wireless access facilities, which are exempt from receiving building permits.

The difficulties encountered by Cellcom in obtaining the required permits and approvals may adversely affect the currently existing infrastructure, and the continued development of its mobile network. Additionally, the inability to obtain these approvals on time may also prevent Cellcom from achieving the service quality targets set by in Cellcom's mobile license, which may result in loss of customers, which would adversely affect its business results.

Material changes in the regulatory environment may lead to a significant decrease in Cellcom's profitability.

As a result of significant and continuing changes in Cellcom's regulatory and business environment, its results of operations, profitability and cash flows have declined significantly in recent years, recording a loss in 2018. The continuation of the trend may have an adverse effect on Cellcom's financial position. The main factor that has led to a continued decline in the results of Cellcom's activity in recent years is fierce competition, which stems mainly from regulatory developments intended to increase competition in the Israeli communications market. These developments have resulted in significant erosion in prices charged for cellular services and a decrease in equipment sales. As the business environment continues to be characterized by aggressive competition in the various markets in which Cellcom operates, these factors may continue to adversely affect its operations, which may adversely affect its operating results and financial position – which is more volatile than the competitors' due to the significantly higher debt volume than the competitors. Additional influences may include the need to reduce investments (relative to existing investments and competitors), which may harm its competitive position and potential future growth, adversely affect its ability to raise additional debt and refinance existing debt or adversely affect the terms and price of such debt raising, which as a result may have a material adverse effect on Cellcom's financial position and cause it to be required to raise capital through the issue of shares, inasmuch as such a step will be possible.

Cellcom depends significantly on its licenses, therefore a loss of one of its licenses could materially impact the business

Cellcom provides communication services under licenses granted by the Ministry of Communication, which are subject to changes, including changes that are contrary to Cellcom's position. A material breach of the terms of the licenses may result in the revocation of the licenses (and as a result to Cellcom's inability to continue operating in any of the communications fields in which it operates by virtue of the said licenses). Violation of the licenses' provisions could lead to the imposition of substantial financial sanctions on Cellcom.

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

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

The increase in the volume of data communications, both in the fixed line and in the cellular network, is expected to continue in the future, in order to meet the increasing demand for data communication, Cellcom is required to upgrade its transmission network, and also to invest in its 4G network. To meet the growing demand for data traffic on the fixed-line network and in order to find more cost-effective alternatives for acquiring capacity from large-scale infrastructure providers, Cellcom has begun deploying its infrastructure to residential areas and also entered into an investment transaction at IBC. The deployment of such infrastructure is expensive and requires managerial attention that can be directed at other activities. In addition, the Ministry of Communications informed Cellcom that it had been instructed by the International Telecommunication Union to adapt the frequencies used by Israeli cellular operators to European standards. As a result, Cellcom and another cellular operator that uses certain frequencies according to the American standards will be required to switch to 900 MHz frequencies corresponding to the international standards for the region, no later than March 22, 2021, instead of the current allocation of 850 MHz frequencies to Cellcom, which expires on February 1, 2022. The Ministry of Communications has not yet determined what the method and timetables according to which the aforesaid replacement will be performed, including temporary frequency assignments as required. The Ministry of Communications noted that Cellcom will be able to use temporary relief for the Planning and Building Law, 5725-1965, which allows, under certain conditions, the replacement of cellular sites without obtaining a building permit. Such exchange of frequencies involves a complex and sensitive engineering project that requires substantial investments and the replacement of radio equipment at all of Cellcom's cellular sites, which may, during the course of the project, adversely affect Cellcom's products and services or their quality, and to impose a material difficulty on Cellcom both financially and operationally. Cellcom approached the Ministry of Communications and clarified that such an exchange requires a longer timetable in order to prepare accordingly. The execution of the said replacement in accordance with the short timetable set by the Ministry of Communications will increase the negative impact on Cellcom. Some of these alternative frequencies are not specifically specified in NOP 36 and therefore this will add difficulty to such replacement.

In July 2019, the Ministry of Communications released a frequency tender that includes Generation 5 services, expected to run in the fourth quarter of 2019. The tender includes 30 MHz in the 700 MHz frequency band, 60 MHz in the 2600 MHz frequency band and 300 MHz in the 3500-3800 MHz frequency band. The tender is open to mobile network operators only, except 100 MHz in the range of 3,500-3,600 MHz, which will be open to every contestant. New entrants will only be able to offer unique Generation 5 services. Cellular operators with a shared network will make a joint bid (subject to the prior approval of the Tender Committee). The tender sets a frequency limit for a new network / challenger, coverage requirements, times and quality for winning in certain frequency areas. The tender also includes easements and incentives based on performance.

Further, considering the available quantity and the maximum number of frequencies per network, it seems that not every MNO bidder will be able to win 700 MHz (which will be used as the main increase frequency coverage for 5G services) or may receive fewer frequencies than its competitors. This could lead to a "bidding war" and harm Cellcom's ability to provide 5G services and may adversely affect its competitive position and consequently its operating results. A frequency tender will require Cellcom to make additional investments in the purchase of frequencies and additional investments in the networks, while its intention is to reduce expenses and investments. Participation in the frequencies tender and the said additional investments (if such a "bidding war" takes place) may have a material adverse effect on the results of Cellcom's operations.

Given Cellcom’s low profitability at this time, it may be forced to reduce its investment in its business, including in networks, or in relation to the frequency tender, which could adversely affect Cellcom’s services, competitiveness and results.

If Cellcom fails to compensate for an increase in expenses or investments (especially compared to competitors, not each of which will be required to make similar investments or pay increased expenses), the results of Cellcom’s operations may be materially affected.

Cellcom’s operations depend on a number of complex information systems and technologies, including billing systems. Problems in complex systems that change and expand on a regular basis are unavoidable. Any malfunction in any of Cellcom’s systems that adversely affects its ability to provide services or products to its customers or to charge for them may result in a loss of revenues to Cellcom and adversely affect Cellcom’s brand perception and expose Cellcom to claims. In addition, Cellcom is in the process of implementing a unified customer service system for the mobile and fixed-line sectors, which may lead to higher than expected costs, require significant administrative attention that could have been directed to ongoing management, and may even cause unexpected operational difficulties and failures. All of which could adversely affect the results of Cellcom’s operations.

Cellcom depends on certain suppliers.

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

Cellcom may be affected by its debt.

Cellcom has raised a significant amount of debt. This situation increases Cellcom’s exposure to market changes and makes it difficult to respond quickly to changes in the industry and in the competitive market conditions, including by raising additional debt. As of June 30, 2019, Cellcom’s debenture balance value in books amounts to approximately NIS 3,523 million (not including accrued interest of NIS 48 million). A change for the worse in Cellcom’s results of operations, and any additional reduction of Cellcom’s rating and its bonds may adversely affect also the price and terms of Cellcom’s current debt, and the raising of additional debt. In addition, as of today, interest rates are very low and an increase in interest rates may increase debt raising costs in the future.

The financial condition of the contractors may affect PBC’s operations and results.

The financial condition of the contractors in Israel is likely to have an impact on the financial results and operations of PBC and its results, due to the reduction in the supply of active contractors, the increase in construction prices and the continuation of project construction schedules.

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

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

The state of the high-tech industry may affect PBC’s results.

A deceleration in the high-tech industry in Israel and abroad may cause a decline in demand for income-producing properties for this sector, as well as a decline in the rental prices of these properties, which may have a negative effect on the financial results and operations of PBC.

Shufersal may be affected by competition that may have an adverse effect on its profitability.

Competitive pressures, including the responses of competitors and of the market to Shufersal’s strategy and the manner of its implementation, may result in adverse effects to Shufersal’s ability to deal with the foregoing, and may lead to the reduction of prices, lower margins, and the loss of market share in a manner which may have an adverse effect on Shufersal’s business affairs, financial position and results of operations.

Shufersal may have risks related to the collective labor agreement.

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

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

Shufersal has a wide variety of branded food and beverage products which enjoy many years of reputation, as well as products under the private brand. Negative publicity to this reputation by means of various publications, or by other means, may affect Shufersal’s sales and adversely affect Shufersal’s profitability, regardless of the correctness of those publications. Additionally, a defect in a certain product may also affect the brand under which Shufersal sells that product, as well as the entire family of products which is marketed under the same brand. Shufersal is committed to protecting its brands and reputation by ensuring the quality of the raw materials used in manufacturing the products, production processes, finished products and advertising messages. In addition, Shufersal has a reputation for its various activities, including in the food retail segment in all its components. Some of Shufersal’s activities are carried out through sub-contractors. The actions and omissions of the sub-contractors of Shufersal may damage the reputation and the brand “Shufersal” or any of the sub-brands of Shufersal and harm Shufersal’s business activity and its financial results.

A failure in information processing and IT systems and Cyber risks may adversely affect Shufersal’s operating activities.

Shufersal makes use of various information and IT systems. Shufersal’s central information systems (and their backup systems) are located in and around the logistical center which is used to manage its distribution network. Shufersal takes various steps in order to ensure the functionality and reliability of the various information and IT systems, including by securing and backing up the information. However, a collapse of the information and IT systems may have an adverse effect on Shufersal’s operating activities. However, the collapse of the computer and information systems could have an adverse effect on Shufersal’s current operations. Shufersal uses computer systems and software, some of which are based on licenses. Many of these licenses are not limited in time, but Shufersal contracts with the license holders in agreements to receive service and support for the said software and systems for periods of one year. Shufersal is meticulous in its commitment to suppliers with good reputation and financial strength. However, if these suppliers are unable to continue supplying Shufersal with their services, Shufersal will be forced to enter into agreements with other suppliers, which may adversely affect the support for managing retail processes in the short term. In addition, Shufersal, like any other company, is exposed to the risk of infiltration and theft by foreign entities of its information and computer systems. Shufersal operates in accordance with internal procedures to reduce its exposure to such hacking activity, and it also has an insurance policy covering cyber risks. Notwithstanding the above, the aforesaid does not guarantee that Shufersal’s databases will be completely immune from penetration and theft of information relating to Shufersal and its customers.

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

Shufersal achieved a significant part of its past growth by acquiring various retail operations. Future acquisitions of various operations in the food retail segment by Shufersal may require approval of the Antitrust/competition Authority, which may not be granted, and if granted, under what conditions. Taking into account the structure of the retail market, together with restrictions imposed on Shufersal by law, and with reference to the provisions of the Food Law, the growth of Shufersal through the acquisition of a material entity in the retail segment is, in Shufersal’s opinion, with small chances of materialization.

The implementation of Shufersal’s strategies may affect its business results.

Shufersal’s business strategy, as approved by its board of directors, requires considerable resources from Shufersal, including large financial investments, in connection with the establishment of automated delivery centers, investments related to “Be” network and more. Shufersal’s non-compliance with its business objectives and strategy may materially affect the business results of Shufersal, its liquidity, the value of its assets, the state of its business, its credit rating, its ability to distribute dividends, and its ability to raise financing for its operations.

Shufersal is subject to risks arising from a mismanagement of its commercial areas.

In accordance with Shufersal’s business strategy, Shufersal intends to expand its online operations. As a result, with the increase in this segment of Shufersal’s activity (if Shufersal succeeds in realizing its business strategy and online activity will indeed increase), Shufersal’s need for physical trading areas will be reduced. Mismanagement of the aforesaid commercial areas by Shufersal, as well as Shufersal’s inability to free itself from existing rental contracts, could cause a surplus in Shufersal’s commercial space, which does not have any income or business value that could become burdensome assets, and thus could cause damage to Shufersal’s business results.

Variations in interest rates may affect the value of Clal.

From an economic point of view, the primary exposure of Clal is to interest rate decreases, since the average lifetime of its liabilities is significantly longer than the average lifetime of the assets. A decrease in the interest rate may lead to impairment in the solvency ratio. In the current interest rate environment, Clal is also exposed from an accounting standpoint to losses in certain scenarios involving an interest rate decrease due to the impact of such changes on the discount rates that are used in the calculation of the reserves for pension, and in the liability adequacy test (“LAT”) and in a scope which may exceed the capital gains which will be created in that scenario with respect to interest-sensitive assets. However, Clal may also be exposed to certain scenarios of an increase in interest rates. It should be noted that from a long-term perspective, Clal is also exposed to a continuing low level of interest rates, with an emphasis on the linked interest rate.

Clal may have to face risks related to inflation.

Clal is exposed to an increase in the inflation rate, due to the fact that the majority of insurance liabilities of Clal are adjusted on a quarterly basis in accordance with the inflation rate, while the assets held against them are not necessarily CPI-linked.

Clal may face other assets price risk.

Clal has exposure to alternative investments, which include investments in real estate and in real estate funds, investment funds, non-marketable stocks and additional investment instruments which are exposed to changes in their value.

Clal may face credit risks.

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

Clal may face insurance risks that may have an adverse effect on the business results of the company.

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

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

The rates of cancellation, freezing and transfers constitute a significant assumption in the life and health insurance businesses, due to the fact that the profitability in this segment is based on a margin in premiums, and on the collection of management fees throughout the lifetime of the policy. The portfolio level preservation also constitutes a significant risk in the management of pension funds and provident funds. The cancellation of policies also leads to the write-off of deferred acquisition costs with respect to those policies.

Clal may affront claims due to catastrophes.

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

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

The activity of the Clal Group is subject to many legal provisions and to the supervision of various regulatory entities. The operations of Clal's institutional entities and agencies are conditional upon holding the licenses and permits required for activity in the areas of operations of Clal, including withstanding the regulatory capital requirement. In addition, material activities in Clal group are subject to detailed and complex regulations, in particular, the insurance and long-term savings activities are subject to regulatory directives which change from time to time, with respect to products which were sold over many years, and which have long insurance coverage periods and/or savings periods.

Clal may face liquidity risks.

Clal may face liquidity challenges due to the uncertainty associated with the date in which Clal will be required to pay financial liabilities, claims and other benefits to policyholders and to other beneficiaries, relative to the total amount of reserves which are available for this purpose at that time. Liquidity risk may increase upon the materialization of a significant catastrophic event.

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

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

Clal is exposed to operational risks.

Clal is exposed to risk of loss due to inadequacy or failure of internal processes, people and systems, or due to external events. In light of the scope of activities of Clal, which manages, as of December 31, 2018, assets totaling approximately NIS 197 billion (of which, a total of approximately NIS 165 billion involve assets managed for others), and despite the actions taken by it to identify the risks and to establish appropriate controls, the scope of its exposure to the operational risks of the type specified above is significant.

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

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

Clal is exposed to cyber risks.

Clal is exposed to cyber risks mainly due to the large volume of sensitive information it possesses and the large volume of funds it manages. These risks include, but are not limited to, the risk of financial damage, interference with the proper and continuous operation of the work processes, the availability, completeness and confidentiality of the information in its possession, and damage to reputation as a result of unauthorized use of its information assets and/or failures in its information security and/or acts of hostile elements.

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

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

Risks Related to the ADSs and the Common Shares.

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

The market prices of our common shares and ADS could decline as a result of sales by our existing shareholders of common shares or ADSs, or the perception that these sales could occur. These sales also might make it difficult for us to raise capital by selling equity securities at a time and at the conditions that we may deemed appropriate. Eduardo Elsztain, which as of June 30, 2019, was the beneficial owner of approximately 36.4% of our common shares (or approximately 182,491,974 common shares which may be exchanged for an aggregate of 18,249,197 ADSs), may sell or otherwise dispose of any or all of its common shares or ADSs at any time. Sales of a large number of our common shares and/or ADSs may have an adverse effect on the market price of our common shares and the ADSs

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

We may issue additional shares of our common stock for financing future acquisitions or new projects or for other general corporate purposes. Any such issuance could result in a dilution of your ownership stake and/or the perception of any such issuances could have an adverse impact on the market price of the 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 Argentine stock exchanges than information publicly available about domestic issuers of listed securities in the United States and certain other countries.

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

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

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

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

Based on the past and projected composition of our income and assets and the valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company “PFIC” for United States federal income tax purposes for the taxable year ending June 30, 2019, and do not currently expect to become a PFIC, although there can be no assurance in this regard. The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may be a PFIC in the current or any future taxable year due to changes in our asset or income composition or if our projections are not accurate. The volatility and instability of Argentina’s economic and financial system may substantially affect the composition of our income and assets and the accuracy of our projections. In addition, this determination is based on the interpretation of certain U.S. Treasury regulations relating to rental income, which regulations are potentially subject to differing interpretation. If we become a PFIC, U.S. Holders (as defined in “Item 10. Additional Information–Taxation–United States Taxation”) of our common shares or 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 reporting requirements. See “Item 10. F–Taxation–United States Taxation–Passive Foreign Investment Company” for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

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

On September 12, 2013, Law No. 26,893, which amended Law No. 20,628 (the “Income Tax Law”), was enacted and published in the Official Gazette on September 23, 2013. According to the amendments, the distribution of dividends by an Argentine corporation was subject to income tax at a rate of 10.0%, unless such dividends were distributed to Argentine corporate entities (the “Dividend Tax”)

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

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

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

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

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

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

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

Holders of our ADSs may be unable to exercise voting rights with respect to the common shares underlying the ADSs at our shareholders' meetings.

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

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

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

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

The Argentine government imposed restrictions on the conversion of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Argentina. Argentine law currently permits the government to impose these kind of restrictions temporarily in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. We cannot assure you that ADS Depositary for the ADSs may hold the Pesos it cannot convert for the account of the ADS holders who have not been paid. No assurance can be given that payments to non-resident investors will not suffered delays or be subject to any additional restrictions, under the current foreign exchange market regulations or future regulations that may be enacted. In this regard, we suggest consulting with the corresponding custodian banks about the exchange regulations applicable. See "Item 10. Additional Information–D. Exchange Controls."

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

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

We may not pay any dividends.

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

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

In accordance with Argentine corporate law, we may pay dividends in Pesos out of retained earnings, if any, to the extent set forth in our Audited Financial Statements prepared in accordance with IFRS. Our shareholders' ability to receive cash dividends may be limited by the ability of the ADS Depositary to convert cash dividends paid in Pesos into U.S. dollars. Under the terms of our deposit agreement with the depositary for the ADSs, to the extent that the depositary can in its judgment convert Pesos (or any other foreign currency) into U.S. dollars on a reasonable basis and transfer the resulting U.S. dollars to the United States, the depositary will promptly