

**B. Capitalization and Indebtedness**

This item is not applicable.

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

This item is not applicable.

**D. Risk Factors**

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

**Risks Relating to Argentina**

**Argentina’s growth may not be sustainable.**

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high inflation and currency devaluation. During 2001 and 2002, Argentina experienced a period of severe political, economic and social crisis, which caused a significant economic contraction and led to radical changes in government policies. Although the economy has recovered significantly since then. During 2014, the Argentine economy has shown signs of slowdown due to the increase in the applicable exchange rates and the decrease in the commodity prices the Argentine economy has slowdown. Argentine economy is suffering high inflation and an increasing need of capital investment, with many sectors, particularly the energy sector, operating near full capacity.

During 2013, the Argentine GDP increased by 2.9%, according to data published by the National Institute of Statistics (“*Instituto Nacional de Estadísticas y Censos*” or the “INDEC”). For the six months ended June 30, 2014, GDP increased 0.0% relative to the same period the prior year, according to data published by the INDEC. As of August 30, 2014, the Monthly Economic Activity Estimator (“*Estimador Mensual de Actividad Económica*” or the “EMAE”) decreased 1.2%, relative to the same period the prior year, according to data published by the INDEC.

The economic and financial slowdown in certain European countries, the United States, and certain other important commercial partners of Argentina, may imply a decline in the international demand for Argentine products, which could have a material adverse effect on our financial condition and the results of operations. Moreover, the country’s relative stability since 2002 has been affected by increased political tension and government intervention in the economy. Additionally, as of the date of this annual report the negotiations of the Argentine government with the holdouts of Argentina’s sovereign debt remain unresolved, which may adversely affect the growth of the country. For more information see “Risks Factors Relating to Argentina - Argentina’s ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth.”

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

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

In fiscal years 2010, 2011, 2012, 2013 and 2014, inflation according to the INDEC was 11.0%, 9.7%, 9.9%, 10.5% and 15.0% (Since January 2014, the Argentine government established a new consumer price index (“IPCNu”) which more broadly reflects consumer prices by considering price information from the 24 provinces of Argentina. Therefore, the consumer price index for the fiscal year ended June 30, 2014 only takes notice for a six month period after IPCNu was introduced) Until 2013 inflation has been controlled in part due to actions implemented by the Argentine government to control inflation, including limitations on exports and price arrangements agreed with private companies. During 2014 inflation has accelerated mainly due to the devaluation process carried out by the Argentine Central Bank. The uncertainty surrounding future inflation may impact the country’s growth.

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

Additionally, high inflation would also undermine Argentina’s foreign competitiveness and adversely affect economic activity, employment, real salaries, consumption and interest rates. In addition, the dilution of the positive effects of the Peso devaluation on the export-oriented sectors of the Argentine economy will decrease the level of economic activity in the country. In turn, a portion of the Argentine debt is adjusted by the *Coeficiente de Estabilización de Referencia*, (“CER Index”), a currency index that is strongly tied to inflation. Therefore, any significant increase in inflation would cause an increase in Argentina’s debt and, consequently, the country’s financial obligation.

The government has taken certain measures in order to control the inflation, such as implementing a fair price program, by virtue of which supermarkets have to offer certain products at a determined price, and sectoral agreements in order to implement salaries increases. Additionally, on September 19, 2014 the Argentine government has amended Law No. 20,680 (the “Supply Law”), which enables the federal government to intervene the markets when it considers that any party to such market is trying to impose prices, or supply restrictions over such market. The Supply Law provides among others pecuniary sanctions, suspension, seizure of operations, and confiscation of goods.

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

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

In January 2007, the INDEC modified its methodology used to calculate the consumer price index, which is calculated as the monthly average of a weighted basket of consumer goods and services that reflects the pattern of consumption of Argentine households. Several economists, as well as the international and Argentine press, have suggested that this change in methodology was related to the policy of the Argentine government intended to curb the increase of inflation and consequently reduce payments on the outstanding inflation-linked bonds issued by Argentina. At the time that the INDEC adopted this change in methodology the Argentine government also replaced several key officers at the INDEC, prompting complaints of governmental interference from the technical staff at the INDEC. In addition, the International Monetary Fund (“IMF”) requested to clarify its inflation rates several times.

On November 23, 2010, the Argentine government began consulting with the IMF for technical assistance in order to prepare a new national consumer price index with the aim of modernizing the current statistical system. During the first quarter of 2011, a team from the IMF started working in conjunction with the INDEC to create such an index. Notwithstanding the foregoing, reports published by the IMF state that its staff also uses alternative measures of inflation for macroeconomic surveillance, including data produced by private sources, and such measures have shown inflation rates that are considerably higher than those issued by the INDEC since 2007. Consequently, the IMF called on Argentina to adopt remedial measures to address the quality of its official data. In its meeting held on February 1, 2013, the Executive Board of the IMF found that Argentina's progress in implementing remedial measures since September 2012 had not been sufficient. As a result, the IMF issued a declaration of censure against Argentina in connection with the breach of its related obligations to the IMF under the Articles of Agreement and called on Argentina to adopt remedial measures to address the inaccuracy of inflation and GDP data without further delay.

In order to address the quality of official data, the IPCNu was put in place on February 13, 2014. The IPCNu represents the first national indicator to measure changes in prices of final consumption by households. While the previous price index only measured inflation in the urban sprawl of the City of Buenos Aires. The IPCNu is calculated by measuring prices on goods across the entire urban population of the 24 provinces of Argentina. Pursuant to these calculations, the new consumer price index rose by 10% during the first quarter of 2014. The IMF has declared that it will review later in 2014 Argentina's reports on progress in revising its inflation and gross domestic product statistics.

The ability of Argentina to access credit in the capital markets could be limited not only by the global economic conditions, the current negotiations of Argentina with the holdouts, but also by the uncertainty relating to the inaccuracy of the economic indexes and rates in question which could adversely affect our results of operations and financial conditions.

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

Between 2005 and 2010, Argentina restructured part of its sovereign debt that had been in default since the end of 2001. As a result of the restructuring the Argentine government announced that it had approximately US\$ 129.2 billion in total gross public debt, restructuring over 92.4% of the defaulted debt eligible for the 2005 and 2010 exchange offers. Certain bondholders that did not participate in that restructuring, mainly from the United States, Italy and Germany, filed legal actions against Argentina in order to collect on the defaulted bonds. Many of these proceedings are still pending as of the date of this annual report and holdout creditors may initiate new suits in the future, which may impose in precautionary measures on assets outside of Argentina.

On January 3, 2006, Argentina repaid in full its debt of approximately US\$ 9.8 billion with the IMF.

In September 2008, Argentina announced its intention to cancel its external public debt to Paris Club creditor nations using reserves of the Argentine Central Bank in an amount equal to approximately US\$ 6.5 billion. In 2010, the Argentine Government announced a new round of negotiations with the Paris Club to cancel such debt, which then totaled approximately US\$ 8.0 billion, without the intervention of the IMF. In May 2014, the Argentine Government agreed with the Paris Club concerning the consolidated amount of debt that on 30 April, 2014 rose to US\$ 9.7 billion, that it will be cancelled completely within the next 5 years, with an initial payment in principal of US\$ 659 million in June, 2014. The agreed sum for interest amounts to 3% for capital balances during the first 5 years, while the agreement also establishes a minimum payment that will face Argentina each year and determines a payment criteria if additional investments come from member countries of the Paris Club. The agreement also provides that if during the period of 5 years additional investments are insufficient, Argentina may delay the payments two years totaling seven years later, with the consequent increase in the financial cost of around an additional 1% for the total period.

In addition, foreign shareholders of several Argentine companies have filed claims before the International Center for the Settlement of Investment Disputes ("ICSID") alleging that certain government measures adopted during the country's 2001 crisis were inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties to which Argentina is a party. Since May 2005, the ICSID tribunals have issued several awards against Argentina. Only the cases "CMS v. Argentina", "Azurix v. Argentina" and "Vivendi v. Argentina" are currently final. As the date of this annual report, there are still 45 complaints filed by the ICSID against Argentina which are yet to be resolved and whose outcome is still unknown.

Moreover, under the arbitration rules of the Commission of the United Nations Commission on International Trade Law ("UNCITRAL"), certain arbitral courts condemned Argentina to pay to British Gas (shareholder gas company Metrogas Argentina), and National Grid plc. (Transener's shareholder, the transport company for argentine electricity). Argentina filed with the Federal District Court of the United States of America for the District of Columbia ordering cancellation of both rulings. The annulment of the ruling in relation to National Grid plc. was rejected by the District Court. Furthermore, on March 5, 2014 the Supreme Court of the United States delivered its judgment regarding the appeal filed by British Gas to the judgment of the Court of Appeals in Washington, rejecting the request made by British Gas based on the fact that it must have incurred the courts of Argentina prior to the commencement of the arbitral body established in 2002. The judgment of the Supreme Court of the United States, by a vote of 7-2, reversed the decision of the Court of Appeal of Washington and ordered Argentina to pay the sum of US\$ 185 million in compensation for paying the debt back in a foreign currency to the British company, then controlling Metrogas, during the crisis of 2002 and as a consequence the freezing of fees charged by the Government to Metrogas. At the date of issue of this annual report, the Argentine Government made no public statements relating to the way the country should give effect to the judgment against it.

During the month of October 2013, the Argentine Government reached an agreement with five companies - four of which litigate in the ICSID (CMS Gas, Azurix, Vivendi and Continental Casualty) and the fifth, National Grid, litigating under the arbitration rules of the UNCITRAL, whereby Argentina made the payment to which it was permitted a cut of 25%, engaging companies to invest in public securities issued by the Argentine government, among others.

At the end of December 2012, Argentina filed a request with the applicable district court in New York in order to reopen the restructuring of its defaulted debt to some of the holdouts who were left out of previous exchanges. This exchange offer was part of a filing made by Argentina in the New York Court of Appeal requesting the review of the judgment made by the judge which ordered Argentina to pay US\$1.3 billion with interest in favor of the holdouts. Argentina also said in its presentation (which was in the same terms and conditions of the 2010 restructuring), that referred judgment violated the pari passu clause.

On September 23, 2013, Law No. 26,886 (the "2013 Restructuring Law") was enacted. The 2013 Restructuring Law provides that holders of government securities that were eligible for the 2005-2010 restructuring, if willing could participate in a new restructuring, waiving all their rights under these securities they hold, including those recognized by judicial or administrative judgments, or arbitrary rulings, releasing Argentina from any judicial, administrative, arbitral proceedings or otherwise, initiated or to be initiated in the future with respect to such securities or obligations arising in a new restructuring therefrom, including any action destined to receive service of capital or interest of such securities. Also 2013 Restructuring Law states that the financial terms and conditions offered may not be better than those offered to creditors in 2003-2010 restructuring.

The holdouts have obtained favorable judgments ordering the payment of owed original capital with interest, and compliance with the pari passu clause concerning future payments. Such decisions were appealed by Argentina. The Court of Appeal of New York confirmed the same on several occasions, and ordered Argentina to pay US\$ 1.3 billion with interest accrued from the date of judgment in favor of the holdouts, suspending the execution of the judgment at first instance until the Supreme Court of Justice of the United States pronounce it. The chamber's judgment (equal to the judgment of first instance) has a "stay", this being an injunction suspending the payment. The chamber's judgment was appealed to the Supreme Court of the United States, who on January 10, 2014 agreed to take the case. On June 16, 2014 the Supreme Court of the United States refused to address the Argentine case against holdouts by debt default and removed the "stay".

The decision of the Supreme Court of Justice of the United States to dismiss the appeals filed by the Argentine government confirmed the decisions of the Court of Appeals for the Second Circuit in Manhattan, which in principle requires the Argentine government to pay US\$ 1.3 billion enabling other holdouts to request their payment on the same terms (estimated at a total of approximately US\$ 15 billion). While the Argentine government has indicated on several occasions its intention to pay the full amount to the creditors who accepted the terms of 2003-2010 restructuring, the decisions of the Court of Appeals for the Second Circuit in Manhattan, confirmed by the Supreme Court of the United States of America, implies that any potential payment of restructured debt, which is not accompanied by a payment to the funds obtained in the aforementioned rulings could be repossessed. On June 30, 2014 the payment of the coupon of the Discount bonds expired. The government wired the respective sums of money to the trustee of such bonds in order to perform the payment but the court blocked such payment. On July 30, 2014 the grace period under the terms of such bonds expired, notwithstanding the foregoing payment has not yet been performed as of the date of this annual report as a consequence of not reinstating the stay and preventing banks from transferring funds deposited by Argentina, which are requesting the payment of funds together with the payment to restructured bondholders.

On September 11, 2014 the Argentine government enacted Law No. 26,984 by which changed the paying agent of the 2003-2010 restructuring, and establishing Buenos Aires as the domicile of payment for the bonds issued under each restructuring. With this law the government seeks to create a new voluntary exchange of restructured debt. Additionally, during August, 2014 the Argentine Central Bank revoked the authorization of Bank of New York Mellon to act in Argentina, the current payment agent of Argentina's sovereign debt. In September 29, 2014, Thomas Griesa proclaimed to Argentina in contempt, considering that ignored the payment ordered to the holdouts.

During August and September 2014, the District Court of the Southern District of New York, authorized Citibank N.A. to pay creditors who held debt issued under Argentine Law but payable on New York. As of the date of this annual report, it is still under analysis of the District Court of the Southern District of New York the possibility for a third exception to be made on December 2014 in order to allow payment. However, motions filed by debt holders under U.S., European or Japanese law to allow payment by Citibank N.A. where rejected.

The lawsuits filed by the holdouts against the Argentina government could result in the freezing or precautionary measures taken on assets of, or that are considered of, Argentina, that could be able to have a materially adverse effect on the economy of the country and affect our ability to access international financing or repay our debts. As a result of Argentina's failure to restructure completely its remaining sovereign debt and fully negotiate with the holdout creditors, the Argentine government may not have the financial resources necessary to implement reforms and foster economic growth, which, in turn, could have a material adverse effect on the country's economy and, consequently, our businesses and results of operations. Furthermore, Argentina's inability to obtain credit in international markets could have a direct impact on our own ability to access international credit markets to finance our operations and growth, which could adversely affect our results of operations and financial condition.

During both debt restructuration proceedings carried out by Argentine government on 2005 and 2010, a termination of the rights upon future offers clause (the "RUFO Clause") was incorporated. The RUFO Clause states that if any debt holder receives any improvement, every other debt holder is entitled to receive the same conditions. The payment to the holdouts could potentially be interpreted as a condition for the application of such clause and allow the rest of the debt holders to claim the amount originally owed to them. After December 31, 2014, once the RUFO clause expires, the Argentine government could be in condition to make any potential offer to the holdouts, without receiving any potential reclaim from the rest of the bond holders.

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

Despite the positive effects of the real depreciation of the Peso in 2002 on the competitiveness of certain sectors of the Argentine economy, it has also had a far-reaching negative impact on the Argentine economy and on businesses and individuals' financial condition. The devaluation of the Peso has had a negative impact on the ability of Argentine businesses to honor their foreign currency-denominated debt, initially led to very high inflation, significantly reduced real wages, had a negative impact on businesses whose success is dependent on domestic market demand, such as utilities and the financial industry, and adversely affected the government's ability to honor its foreign debt obligations. During January and October 2014, the Argentine government has devaluated significantly the Peso. If the Peso continues to devalue significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences on our business. Moreover, it would likely result in material adverse effect in our business as a result of the exposure to financial commitments in US Dollar.

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

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

During recent years, the Argentine government has increased its direct intervention in the economy, including through the implementation of expropriation and nationalization measures, price controls and exchange controls.

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"). More recently, beginning in April 2012, the Argentine government provided for the nationalization of YPF S.A. and imposed major changes to the system under which oil companies operate, principally through the enactment of Law No. 26,741 and Decree No. 1277/2012. In February 2014, the Argentine government and Repsol (which was the principal shareholder of YPF S.A.) announced that they had reached agreement on the terms of the compensation payable to Repsol for the expropriation of the YPF S.A. shares. Such compensation totals US\$ 5 billion, payable by delivery of Argentine sovereign bonds with various maturities. Additionally, on December 19, 2012, the Argentine government issued Decree No. 2552/2012 which, in its article 2, ordered the expropriation of the "Predio Rural de Palermo". However, on January 4, 2013, the Federal Civil and Commercial Chamber granted an injunction that has temporarily blocked the application of Decree No. 2,552/2012. This Decree may indirectly affect APSA's investment in Entertainment Holding S.A. ("EHSA") (For more information see Item 4 - A. History and Development of the Company - Significant acquisitions, disposition and development of businesses "La Rural"). We cannot assure you that these or other measures that may be adopted by the Argentine government, such as expropriation, nationalization, forced renegotiation or modification of existing contracts, new taxation policies, changes in laws, regulations and policies affecting foreign trade, investment, etc., will not have a material adverse effect on the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations and the market value of our shares and ADSs.

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

In the past, the Argentine government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees and may do so again in the future. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors have experienced significant pressure from their employees and labor organizations to increase wages and to provide additional employee benefits. Due to the high levels of inflation, the employees and labor organizations have begun again demanding significant wage increases. It is possible that the Argentine government could adopt measures mandating 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.

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

In 2001 and 2002, Argentina imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. On June 2005, the government issued decree No. 616/2005, which established additional controls on capital inflow, including the requirement that, subject to limited exemptions, 30% of all funds remitted to Argentina remain deposited in a domestic financial institution for one year without earning any interest. On October 2011, new exchange controls measures that restrict foreign exchange inflows and outflows of capital have been implemented, among them it was established as a requirement for the repatriation of the direct investment of the non-resident (purchase of shares of local companies and real estate), the demonstration of the income of the currency and its settlement in the single free exchange market “Mercado Único y Libre de Cambios”. This measure increases the cost of obtaining foreign funds and limits access to such financing.

Additionally, on July 12, 2012, the Argentine Central Bank issued Communication “A” 5318, which among others, suspended the access to MULC for residents for external assets without a specific purpose. Through resolution 3210/2011 of the AFIP and the Communications “A” 5239, 5240, 5242 and 5245 and its amendments of the Argentine Central Bank, the “Consultation of Exchange Operations Programme,” was established, a system by which an assessment will be made at the time of each transaction, in order to have the possibility to acquired US Dollars for tourism purpose. The system analyze the consistency with tax information of each currency buyer, and validate or invalidate the transaction.

In January 2014, the Argentine Central Bank established by Communication “A” 5526 that the resident individuals in the country will be able to access the local exchange market for purchases made by the concept “buy for the possession of foreign currency in the country” according to their income declared to the AFIP and other quantitative parameters established in the framework of exchange rate policy. In this sense, the AFIP established through its General Resolution No. 3583/2014 a parameter of 20% of the monthly income of the taxpayer validating the exchange transaction, with a minimum amount of monthly income of \$ 7,200 (two minimum, living and mobile wages) and a monthly cap of US\$ 2.000. The purchase amount that individuals can access this concept can be found through the “Exchange Operations Consultation Program”, available on the corporate website of the AFIP.

Additionally, on July 10, 2014, by means of Communication “A” 5604 the Argentine Central Bank amended Communication “A” 5526 (which regulates access to MULC by residents for the purchase of foreign currency for their application to specific destinations in local assets) establishing the possibility that local governments and/or residents of the nonfinancial private sector issue new bonds and other debt securities with a public offering, can access the MULC simultaneously to the liquidation of the funds they receive for these emissions, to purchase foreign currency notes, for up to 90 % of the amount liquidated in the MULC. To do this, they must meet the other requirements in the Communication “A” 5604 and allocate foreign currency acquired for determined purposes. On October 9, 2014, such possibility was extended to the funds received from external financial loans and direct investments in accordance with Communication “A”-5643.

The Argentine government may, in the future, impose additional controls on the foreign exchange market and on capital flows from and into Argentina, in response to capital flight or depreciation of the Peso. These restrictions may have a negative effect on the economy and on our business if imposed in an economic environment where access to local capital is constrained. For more information, please see Item 10 (d) “Exchange Controls”.

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

Beginning in February 2002, the payment of dividends, irrespective of amount, outside Argentina required prior authorization from the Argentine Central Bank. On January 7, 2003, the Argentine Central Bank issued communication “A” 3859, which is still in force and pursuant to which there are no limitations on companies’ ability to purchase foreign currency and transfer it outside Argentina to pay dividends, provided that those dividends arise from net earnings corresponding to approved and audited financial statements. In spite of the lack of restriction to access the MULC in order to transfer those profits, there might be delays to exchange them for US Dollars or any other currency and the consequent transfer of the earnings to the shareholders.

In the future, government or the Argentine Central Bank could impose new restrictions to the payment of dividends abroad or impose additional requirements. Any restrictions on transferring funds abroad imposed to us by the government could undermine the ability to receive dividend payments to our holders of our GDSs.

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

Property values are influenced by multiple factors that are beyond our control. We cannot assure you that property values will increase or that they will not be reduced. Many of the properties we own are located in Argentina. As a result, a reduction in the value of properties in Argentina could materially affect our business.

***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 market conditions in other global markets. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into other countries, including. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including those in Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian devaluation in January 1999.

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

Moreover, several European Union members have been obliged to reduce their public expenditures due to their high indebtedness rates, which had a negative impact on the economy of the Euro zone.

The situation of global economics on Argentina could imply in a reduction in the exports and foreign direct investment, and a decline in the national tax revenues and the inability to access to the international capital markets, which could adversely affect our business and results of our operations.

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

Argentina's economy has historically relied on the export of commodities, the prices of which have been volatile in the past and largely outside its control. Argentina's recovery from the financial crisis in 2001 and 2002 has depended to a significant extent on the rise in commodity prices, particularly prices of its main commodity exports, such as soybeans. High commodity prices have contributed significantly to government revenues from taxes on exports. Fluctuations in prices for commodities exported by Argentina and a significant increase in the value of the Peso (in real terms) may reduce Argentina's competitiveness and significantly affect the country's exports. During 2014, global commodity prices have presented a significant drop. A decrease in exports could affect Argentina's economy, have a material adverse effect on public finances due to a loss of tax revenues, cause an imbalance in the country's exchange market which, in turn, could lead to increased volatility with respect to the exchange rate. In addition, and more importantly in the short term, a significant appreciation of the Peso could materially reduce the Argentine government's revenues in real terms and affect its ability to make payments on its debt obligations, as these revenues are heavily derived from export taxes (withholdings). This could worsen the financial condition of the Argentine public sector, which could adversely affect the Argentine economy, as well as our financial condition and operating results.

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

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

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

As a first step of these measures, subsidies on energy tariffs were withdrawn to industries and high income consumers. Additionally, since 2011, a series of rate increases and the reduction of subsidies mainly amongst industries and high-income consumers occurred. As a result, energy costs raised significantly, which could affect substantially and adversely the Argentine economy, as well as business operations and results of our transactions.

**Risks Related to our Business**

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

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

- downturns in the national, regional and local economic climate;
- volatility and decline in discretionary spending;
- changes in trends in consumption;
- competition from other shopping centers and office, industrial and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for office, or other commercial or industrial space;
- decreases in consumption levels;
- changes in interest rates and availability of financing;
- the exercise by our tenants of their legal right to early termination of their leases;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;
- increased operating costs, including insurance expense, salary increases, utilities, real estate taxes, state and local taxes and heightened security costs;

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

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

***Our investment in property development, redevelopment and construction may be less profitable than we anticipate.***

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

- abandonment of development opportunities and renovation proposals;
- construction costs of a project may exceed our original estimates for reasons including raises in interest rates or increases in the costs of materials and labor, making a project unprofitable;
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on our investment;
- pre-construction buyers may default on their purchase contracts or units in new buildings may remain unsold upon completion of construction;
- the unavailability of favorable financing alternatives in the market;
- sale prices for residential units may be insufficient to cover development costs;
- construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs;
- impossibility to obtain, delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, or building moratoria and anti-growth legislation;
- significant time lags between the commencement and completion of projects subjects us to greater risks due to fluctuation in the general economy;
- construction may not be completed on schedule because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, or man-made or natural disasters (such as fires, hurricanes, earthquakes or floods), resulting in increased debt service expense and construction costs;
- general changes in our tenants' demand for rental properties outside of the City of Buenos Aires; and
- we may incur capital expenditures that could result in considerable time consuming efforts and which may never be completed due to government restrictions.

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

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

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

Our real estate and construction activities are highly concentrated in the metropolitan area of the City of Buenos Aires, where the real estate market is highly competitive due to the scarcity of properties in sought-after locations and the increasing number of local and international competitors.

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

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

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

We have acquired, and intend to acquire, properties, including large properties (such as the acquisition of Edificio República, Abasto de Buenos Aires, La Ribera Shopping Center, Soleil Premium Outlet or Alto Palermo Shopping, among others) that would increase our size and potentially alter our capital structure. The success of our past and future acquisitions is subject to a number of uncertainties, including the risk that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The success of our business and profitability of our operations depend on the continuous investment in the real estate markets and access to capital and debt financing. A long term crisis in real estate investments and lack of available credit for acquisitions would be likely to constrain our business growth. As part of our business goals, we intend to increase our properties portfolio with strategic acquisitions of core properties and projects at advantageous prices, in which we believe we can bring our expertise to enhance the property values. In order to pursue acquisitions, we may need access to equity capital and/or debt financing. Recent disruptions in the financial markets, including the bankruptcy and restructuring of financial institutions, may adversely impact our ability to refinance existing debt and the availability and cost of credit in the near future. Any consideration of sales of existing properties or portfolio interests may be tempered by decreasing property values. Our ability to make scheduled payments or to refinance our obligations with respect to indebtedness depends on our operating and financial performance, which in turn is subject to prevailing economic conditions. If a recurrence of the disruptions in financial markets presents in the future, there can be no assurances that government responses to the disruptions in the financial markets will restore investor confidence, stabilize the markets or increase liquidity and the availability of credit.

***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, 2014, our consolidated financial debt was Ps. 4,493 million (including short-term and long-term debt, accrued interest and deferred financing costs).

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

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

This would require 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 react to changes in market conditions, changes in the real estate industry and economic downturns.

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

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

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

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

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

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

***Adverse incidents that occur in our shopping centers may result in damage to our image and a decrease in our customers.***

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

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

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

- the accessibility and the attractiveness of the area where the shopping center is located;
- the intrinsic attractiveness of the shopping center;
- the flow of people and the level of sales of each shopping center rental unit;
- increasing competition from internet sales;
- the amount of rent collected from each shopping center rental unit;



- changes in consumer demand and availability of consumer credit, both of which are highly sensitive to general macroeconomic conditions; and
- the fluctuations in occupancy levels in the shopping centers.

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

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

If some of our most important tenants were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, or if we simply failed to retain their patronage, our business could be adversely affected. Our shopping centers and, to a lesser extent, our office buildings are typically anchored by significant tenants, such as well known department stores who generate shopping traffic at the mall. A decision by such significant tenants to cease operations at our shopping centers or office buildings could have a material adverse effect on the revenues and profitability of the affected segment and, by extension, on our financial condition and results of operations. The closing of one or more significant tenants may induce other major tenants at an affected property to terminate their leases, to seek rent relief and/or cease operating their stores or otherwise adversely affect occupancy at the property. In addition, key tenants at one or more properties might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies in the retail industry. The bankruptcy and/or closure of one or more significant tenants, if we are not able to successfully re-lease the affected space, could have a material adverse effect on both the operating revenues and underlying value of the properties involved.

***Our future acquisitions may be unprofitable.***

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

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

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

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

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

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

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 centers. Even though the Argentine government only issued public service recommendations to the population regarding the risks involved in visiting crowded places, such as shopping centers, and did not issue specific regulations limiting access to public places, a significant number of consumers nonetheless changed their habits vis-a-vis shopping centers and malls. In addition, as of the date of this annual report, a remote but possible outbreak of ebola may endanger our activities if such outbreak actually occurs and the government decides to take measures to limit interaction between large concentrations of people. We cannot assure you that a new outbreak or health hazard will not occur in the future, or that such an outbreak or health hazard would not significantly affect consumer and/or tourist activity, and that such scenario would not adversely affect our businesses.

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

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

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

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

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

In addition, the profitability of our hotels depends on:

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

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

Under the terms and conditions of the leases currently in force on our properties, tenants are required to indemnify and hold us harmless from liabilities resulting from injury to persons, or property, on or off the premises, due to activities conducted on the properties, except for claims arising from our negligence or intentional misconduct or that of our agents.

Tenants are generally required, at the tenant's expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies. In addition, we cannot assure the holders that the tenants will properly maintain their insurance policies or have the ability to pay the deductibles.

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

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

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

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

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

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

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

- lease agreements may not contain inflation adjustment clauses based on consumer price indexes or wholesale price indexes. Although many of our lease agreements contain readjustment clauses, these are not based on an official index nor do they reflect the inflation index. In the event of litigation these provisions may not be enforceable and therefore it may be impossible for us to adjust the amounts owed to us under our lease agreements;
- residential leases must comply with a mandatory minimum term of two years and retail leases must comply with a mandatory minimum term of three years except in the case of stands and/or spaces for special exhibitions;
- lease terms may not exceed ten years, except for leases regulated by Law No. 25,248 (which provides that leases containing a purchase option are not subject to term limitations); and
- tenants may rescind commercial and office lease agreements after the initial six-month period.

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

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

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

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

***We are subject to great competitive pressure.***

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

***Most of our real estate assets are concentrated in the metropolitan area of Buenos Aires.***

Our principal properties are located in the City of Buenos Aires and the Province of Buenos Aires and a substantial portion of our revenues are derived from such properties. For the fiscal years ended June 30, 2013 and 2014, approximately 83% and 84% of our consolidated revenues were derived from properties located in the Buenos Aires metropolitan area including the City of Buenos Aires. Although we own properties and may acquire or develop additional properties outside Buenos Aires, we expect continued dependence to a large extent on economic conditions affecting those areas, and therefore, an economic downturn in those areas could have a material adverse effect on our financial condition and results of operations.

***We face risks associated with the expansion to other Latin American markets.***

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

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

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

In 2009, we acquired a property in Partido de la Costa, Department of Canelones, Uruguay, near Montevideo, where we plan to develop a real estate housing units and commercial premises.

***We face risks associated with our expansion in the United States.***

On July 2, 2008, we acquired 30% interest in Metropolitan 885 LLC ("Metropolitan"), a limited liability company organized under the laws of Delaware, United States of America. During fiscal year 2011, as a result of certain negotiations, an agreement was reached to restructure Metropolitan's debt; After the consummation of the aforementioned restructuring, we indirectly hold 49% of New Lipstick LLC ("New Lipstick"), a holding company which is the owner of Metropolitan. Metropolitan's main asset is the Lipstick Building, a 34-story building located on Third Avenue between 53 and 54 streets in Manhattan, New York. Metropolitan has incurred in a secured loan in connection with the Lipstick Building. For more information about Metropolitan, please see "Item 5. Operating and Financial Review and Prospects".

In March 2012, through our subsidiary Real Estate Strategies, L.P. ("RES"), we acquired 3,000,000 Series C convertible preferred shares issued by Supertel Hospitality Inc. ("Supertel") in an aggregate amount of US\$ 30,000,000, a REIT focused in middle-class and long-stay hotels in 20 states in the United States of America.

During 2008 - 2009, the U.S. markets experienced extreme dislocations and a severe contraction in available liquidity globally as important segments of the credit markets were frozen. Global financial markets have been disrupted by, among other things, volatility in securities prices, rating downgrades and declining valuations, and this disruption has been acute in real estate and related markets. This disruption lead to a decline in business and consumer confidence and increased unemployment and precipitated an economic recession around the globe. As a consequence, owners and operators of commercial real estate, including hotels and resorts, and commercial real estate properties such as offices, experienced dramatic declines in property values and may continue to experience declines in business and real estate values in the U.S. or elsewhere. We are unable to predict if disruptions in the global financial markets will occur in the future and the effects they may have on our business, financial condition and results of operations.

***We face risks associated with our recent investment in Israel***

On May 7, 2014, we, acting indirectly through Dolphin Netherlands B.V. ("Dolphin Netherlands"), subsidiary of Dolphin Fund Limited ("DFL"), an investment fund incorporated under the laws of the Island of Bermuda, acquired, jointly with C.A.A. Extra Holdings Limited, a non-related company incorporated under the laws of the State of Israel controlled by Mordechay Ben Moshé ("ETH"), 106.6 million common shares in IDB Development Corporation Ltd. ("IDBD") representing in the aggregate 53.33% of IDBD's issued and outstanding capital stock, pursuant to an arrangement (approved by the competent court) of IDBD's holding company, IDB Holdings Corporation Ltd. with its creditors (the "IDBD Investment"). Under the terms of the shareholders' agreement between DFL and E.T.H. M.B.M. Extra Holdings Ltd., a controlled company of Mordechay Ben Moshé, to which Dolphin Netherlands and ETH acceded, Dolphin Netherlands and certain other third party investors acquired a 50% interest in half of the shares representing 53.33% of IDBD and ETH acquired the half of such shares. The aggregate amount initially invested by Dolphin Netherland and ETH was NIS 950 million, equivalent to approximately US\$272 million at the exchange rate prevailing on that date. As of June 30, 2014, our aggregate indirect interest in IDBD represented 23% of its issued and outstanding capital stock.

The terms of the arrangement (approved by the competent court) include further obligations to be performed by Dolphin Netherlands, including additional contributions in future rights offerings of IDBD and the launching of certain tenders offers to acquire additional shares of IDBD in the market prior to 2015 and 2016 at a fixed price as set forth in the arrangement (approved by the competent court). In connection therewith, we are subject to the fluctuation of the market value of the IDBD's shares traded in the Tel Aviv Stock Exchange prevailing on the date of the launching of each tender offer. In addition, as security for the performance of the obligation to launch the required tender offers, Dolphin Netherlands have pledged a significant portion of their shares of IDBD in favor of its creditors. If Dolphin Netherlands does not perform its obligations, their pledged shares may be foreclosed upon and therefore we may lose a significant portion of our investment in IDBD.

Following the closing of our initial investment in IDBD in May 2014, Dolphin Netherlands B.V. increased its interest in IDBD through the participation in the rights issuance published by IDBD in June 2014 and purchases of shares in market transactions. For more information of this transaction please see Item 4 - Information on the Company - A. History and Development of the Company - "Investment of IDB Development Corporation Ltd.".

IDBD is one of the largest business groups in Israel. Particularly, due to the limited size of the Israeli market and due to the high level of regulation, IDBD and its group of companies may be limited to expand its business in the future, to form joint ventures and strategic alliances. In addition, pursuant to the regulatory framework IDBD may be obliged to sell, transfer or dispose any of its assets. Furthermore, IDBD is a holding corporation. Changes in the prices of the securities of IDBD's subsidiaries and of companies held by them can affect, directly or indirectly, the business results, shareholders' equity, cash flows, the value of IDBD and/or the equity value; they can also have an impact on the possibilities and terms of realization of these assets, on the ability to distribute dividends, on the availability of credit and financing and the terms thereof. IDBD is indirectly exposed and mainly through its major investments and their investee companies, to changes in the prices of raw materials, the prices of securities, other prices and other economic indices, which may have a material impact on the assets and liabilities of the companies, including the liabilities of the companies to vendors, customer debts to the companies, the value of inventories held by the companies and of other assets and liabilities.

In addition, there are several risks associated with IDBD's (including its subsidiaries) operations in Israel.

***Conditions in Israel may limit the ability of IDBD to develop and sell products, which could result in a decrease of revenues.***

IDBD's corporate headquarters and a substantial business are located in Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries, as well as incidents of terror activities and other hostilities. Political, economic and security conditions in Israel could directly affect IDBD's operations. IDBD could be adversely affected by hostilities involving Israel, including acts of terrorism or any other hostilities involving or threatening Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant increase in inflation or a significant downturn in the economic or financial condition of Israel. Any on-going or future armed conflicts, terrorist activities, tension along the Israeli borders or political instability in the region could disrupt international trading activities in Israel and may materially and negatively affect IDBD's business and could harm the results of its operations.

Certain countries, as well as certain companies and organizations, continue to participate or may decide to participate in a boycott of Israeli companies, companies with large Israeli operations and others doing business with Israel and Israeli companies. The boycott, restrictive laws, policies or practices directed towards Israel, Israeli businesses or Israeli citizens could, individually or in the aggregate, have a material adverse effect on IDBD's business in the future.

***The rights and responsibilities of IDBD's shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.***

IDBD is incorporated under Israeli law. The rights and responsibilities of holders of the ordinary shares of IDBD are governed by IDBD's articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes at the general meeting with respect to, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and actions and transactions involving interests of officers, directors or other interested parties which require the shareholders' general meeting's approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that he or she possesses the power to determine the outcome of a vote at a meeting of our shareholders, or who has, by virtue of the company's articles of association, the power to appoint or prevent the appointment of an office holder in the company, or any other power with respect to the company, has a duty of fairness toward the company. The Israeli Companies Law does not establish criteria for determining whether or not a shareholder has acted in good faith.

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

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

In 1991, Indarsa purchased 90% of Tandonor, a formerly government-owned company, which owned a large piece of land near Puerto Madero of approximately 8 hectares, divided into two spaces: Planta 1 and 2. After the purchase of Tandonor by Indarsa, in June 1993 Tandonor sold "Planta 1" to Puerto Retiro, for a sum of US\$18 million pursuant to a valuation performed by J.L. Ramos, a well-known real estate brokerage firm in Argentina. Indarsa failed to pay to the Argentine government the outstanding price for its purchase of the stock of Tandonor. As a result, the Ministry of Defense requested the bankruptcy of Indarsa. Since the only asset of Indarsa was its holding in Tandonor, the Argentine government is seeking to extend Indarsa's bankruptcy to the companies or individuals, which, according to its view, acted as a single economic group. In particular, the Argentine government has requested the extension of the bankruptcy to Puerto Retiro, which acquired Planta 1 from Tandonor.

The time for producing evidence in relation to these legal proceeding has expired. The parties have submitted their closing arguments and are awaiting a final judgment. However, the judge has delayed his decision until a final judgment in the criminal proceedings against the former Defense Minister and former directors of Indarsa has been delivered. It should be noticed, regarding the above mentioned criminal procedure that on February 23, 2011 it was resolved to declare its expiration, and to dismiss certain defendants. However, this resolution is not final because it was appealed. We cannot give you any assurance that we will prevail in this proceeding.

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

We develop and acquire properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. For example, in our Shopping Center segment, as of June 30, 2014, we owned approximately 95.7% of Alto Palermo. Through our subsidiary Alto Palermo S.A. ("Alto Palermo" or "APSA"), we own 80% of Panamerican Mall S.A. ("Pamsa"), while another 20% is owned by Centro Comercial Panamericano S.A. and 50% of Quality Invest S.A. ("Quality Invest"). In our Development and Sale of Properties segment, we have ownership of 50% in Puerto Retiro and 50% in Cyrsa S.A. ("Cyrsa"). In our Hotel segment, we own 50% of the Llao Llao Hotel, while the other 50% is owned by the Sutton Group. We own 80% of the Hotel Libertador, Hoteles Sheraton de Argentina S.A. owns 20%. We own 76.34% of Hotel Intercontinental. In the Financial Operations and others segment, we own approximately 29.77% of Banco Hipotecario S.A. ("Banco Hipotecario"), while the Argentine government has a controlling interest. We also hold voting rights with respect to a 34% interest in Supertel and an indirect interest in IDBD of 23%.

We could engage in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, our joint venture partners may, at any time, have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the timing and terms of any sale or refinancing of a property. For example, the approval of certain of the other investors is required with respect to operating budgets and refinancing, encumbering, expanding or selling any of these properties. In some instances, our joint venture partners may have competing interests in our markets that could create conflicts of interest. If the objectives of our joint venture partners are inconsistent with our own objectives, we will not be able to act exclusively in our interests.

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

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

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

***We are dependent on our board of directors and certain other senior managers.***

Our success depends on the continued employment of Mr. Eduardo S. Elsztain, our Chief Executive Officer and Chairman of the Board of Directors, and certain members of our board of directors and senior management, who have significant expertise and knowledge of our business and industry. The loss of or interruption in his services for any reason could have a material adverse effect on our business. Our future success also depends in part upon our ability to attract and retain other highly qualified personnel. We cannot assure you that we will be successful in hiring or retaining qualified personnel. A failure to hire or retain qualified personnel may have a material adverse effect on our financial condition and results of operations.

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

Our largest beneficial owner is Mr. Eduardo S. Elsztain, through his indirect shareholding through Cresud S.A.C.I.F.y A. ("Cresud"). As of June 30, 2014, such beneficial ownership consisted of: (i) 378,742,216 common shares held by Cresud, (ii) 2,780,930 common shares held by Inversiones Financieras del Sur S.A., and (iii) 900 common shares held directly by Mr. Elsztain.

Conflicts of interest between our management, Cresud and our affiliates may arise in the performance of our business activities. As of June 30, 2014, Mr. Elsztain also beneficially owned (i) approximately 39.33% (on a fully diluted basis) of Cresud's common shares and (ii) approximately 95.7% of the common shares of our subsidiary Alto Palermo. We cannot assure you that our principal shareholders and their affiliates will not limit or cause us to forego business opportunities that our affiliates may pursue or that the pursuit of other opportunities will be in our interest.

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

As of June 30, 2014, the majority of our liabilities, such as our 8.5% and 11.5% notes due 2017 and 2020 respectively, and Alto Palermo's Series I Notes are denominated in U.S. Dollars, while a significant portion of our revenues and assets as of June 30, 2014, are denominated in Pesos. This currency gap exposes us to a risk of exchange rate volatility, which would negatively affect our financial results if the Dollar were to appreciate against the Peso. Any further depreciation of the Peso against the U.S. Dollar will correspondingly increase the amount of our debt in Pesos, with further adverse effects on our results of operation and financial condition and may increase the collection risk of our leases and other receivables from our tenants and mortgage debtors, most of whom have Peso-denominated revenues.

***The shift of consumers to purchasing goods over internet may negatively affect sales in our shopping centers.***

During the last years, internet retail sales have grown significantly in Argentina, even though the market share of internet sales related to retail sales is still not significant. Internet enables manufacturers and retailers to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and shopping centers. We believe that our target consumers are increasingly using the Internet, from home, work or elsewhere, to shop electronically for retail goods. We believe that this trend is likely to continue. If e-commerce and retail sales through the Internet continue to grow, consumers' reliance on traditional distribution channels such as our shopping centers could be materially diminished, having a material adverse effect on our financial condition, results of operations and business prospects.

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

As of June 30, 2014, we owned approximately 29.77% of the outstanding capital stock of Banco Hipotecario, which represented 12.35% of our consolidated assets as of such date. Substantially all of Banco Hipotecario's operations, properties and customers are located in Argentina. Accordingly, the quality of Banco Hipotecario's loan portfolio, financial condition and results of operations depend 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**

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

After the 2001 crisis, the volume of financial activity regarding deposits and loans was severely reduced. Between 2003 and 2007, a gradual and increasing recovery of deposits levels took place. But because of the global financial crisis, these levels were reduced during 2008 and further improved during the last semester of 2009, until the present date.

The Argentine financial system growth strongly depends on the deposits levels, due to the small size of its capital markets and the absence of foreign financings during the last years. In the medium term, the growth of credit could depend on the growth of the deposits levels. During the last three years (2011-2013) credit was able to grow at a higher rate than deposits, by consuming the liquidity excesses of financial institutions. This scenario seems no longer possible; therefore from now on, credits growth will depend on deposits levels. This adjustment is currently taking place with an interest rate increase.

The liquidity of the Argentine financial system at the present date is reasonable, due to the high level of mandatory deposits reserves of Argentine financial entities. Notwithstanding that, because most deposits are short term deposits, a substantial part of the credits must have the same maturity, and there is a small proportion of long term credit lines, such as mortgages. Moreover, the restrictions on the purchase of foreign currency naturally reduce the volatility of the local currency deposits.

Although at the present date liquidity levels are reasonable, no assurance can be given that this 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 significant portions of the deposit base of the financial system, and limit the long-term expansion of financial intermediation.

***The instability of the regulatory framework, in particular the regulatory framework affecting financial entities, could have a material adverse effect in financial entities activities, such as Banco Hipotecario.***

Since the beginning of Cristina Kirchner's second term as President, a series of new regulations have been issued, mainly regulating the foreign exchange market and new capital requirements for financial institutions. In this regard, Communications "A" 5272 and 5273 of the Argentine Central Bank, dated February 1, 2012, increased the capital requirements for financial institutions carrying out activities in Argentina. These Communications require certain minimum capital levels in order to support operational risks and the distribution of dividends, and an additional capital buffer equivalent to 75% of the total capital requirements. The Argentine Central Bank has stated that these new requirements are based on the credit risk measure required by Basel II.

Moreover, a new law was approved by the Congress introducing amendments to the Argentine Central Bank's charter. The principal issues addressed by this bill are the use of Argentine Central Bank's reserves for the cancellation of public debt together with the implementation of policies by the Argentine Central Bank in order to interfere in the fixing of interest rates, and terms of loans to financial institutions.

The Argentine Central Bank issued two Communications, "A" 5319 and "A" 5380 dated July 5, 2012 and December 21, 2012 respectively, and Communication "A" 5516 dated December 27, 2013, whereby it is mandatory for banks to grant credit lines for productive purposes.

On October 1, 2013 Argentine Central Bank issued Communication "A" 5460, as amended, granting a broad protection to consumers of financial services including among other aspects, the regulations of fees and commissions charged by financial institutions for services provided. Therefore, fees and charges must represent a real, direct and demonstrable cost and should have technical and economic justification. Moreover, Communication "A" 5514 issued an exception for the enforcement of Communication "A" 5460, for certain credit agreements which have pledges as collateral and are issued before September 30, 2019.

On February 4, 2014 Argentine Central Bank issued Communication "A" 5536 limiting foreign currency positions of financial entities at a 30% of the adjusted stockholder's equity of each entity. On August 4, 2014 the Argentine Central Bank issued Communication "A" 5611 and decreased such limit to 15%.

During June 2014, the Argentine Central Bank issued new regulations regarding the interest rate of loans given by financial entities. Such rates, according to Communication "A" 5590 and its current amendments, shall not exceed the result that arises from the internal rate of return of Treasury Securities ("LEBAC") with a 90 days maturity multiply for factor set between 1,25 and 2 depending on the particular kind of loan involved and the type of financial institution. These yearly rates usually will be set between 33% and 54%, as a consequence. So, as there is a cap on the rate that banks can charge on their clients, their profit margin might be affected. In order to compensate that, others areas of the financial system might get their rates increased. As a result, the whole financial system might suffer consequences.

The absence of a stable regulatory framework could result in significant limits to the financial institutions' decisions, such as Banco Hipotecario, regarding asset allocation, which could cause uncertainty with respect to the future financial activities and result of operations.

***Financial institutions' asset quality is exposed to the non-financial public sector's indebtedness.***

Financial institutions carry significant portfolios of bonds issued by the Argentine Government and provincial governments as well as loans granted to these governments. To an extent, the value of the assets in the hands of 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 Argentine Government's ability to foster sustainable long-term growth, generate fiscal revenues and cut back on public expenditure.

***Summary actions for collection as a means of enforcing creditors' rights in Argentina may be limited.***

In order to protect the debtors affected by the 2001 economic crisis, starting in 2002 the Argentine government adopted measures that suspended proceedings to enforce creditors' rights (mortgage foreclosures and bankruptcy petitions) in the event of defaults by debtors.

Although as of the date of this Annual Report, those measures were no longer in force, the Banco Hipotecario may not assure you that they will not be reinstated in the future, or that the government will not take other measures that limit creditors' rights. Any such measures could have a material adverse effect on the enforceability of creditor's rights.

***Consumer protection laws may limit the enforceability of certain of Banco Hipotecario's rights.***

Argentine Consumer Protection Law No. 24,240, as supplemented or amended (the "Consumer Protection Law") establishes a number of rules and principles for the defense of consumers' interests. The Consumer Protection Law does not contain specific provisions for its enforcement in relation to financial activities, but it does contain general provisions that might be used as grounds to uphold such enforcement, as it has been previously interpreted in various legal precedents.

Banco Hipotecario may not assure you that the judgments passed by the courts and/or the resolutions handed down by administrative authorities in connection with the measures adopted by Argentina's Secretary of Home Trade and other competent authorities will not increase in the future the degree of protection afforded their debtors and other clients or that they will not favor the claims filed by groups or associations of consumers. This could affect the ability of financial institutions, including the Bank's, to freely collect charges, commissions or fees for their services and/or products as well as their amounts, and consequently affect their business and the results of their operations.

Since 2013, the Argentine Central Bank has issued certain regulations in order to protect users of services granted by financial institutions, such as Banco Hipotecario. For more information see "The instability of the regulatory framework, in particular the regulatory framework affecting financial entities, could have a material adverse effect in financial entities activities, such as Banco Hipotecario".

***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 Argentine 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 the 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 Argentine Central Bank and other regulatory authorities. The Argentine Central Bank may penalize Banco Hipotecario in the event that it breaches any applicable regulation. Similarly, the CNV, which authorizes securities offerings and regulates the public markets in Argentina, has the authority to impose sanctions on the Banco Hipotecario and its board of directors for breaches of corporate governance. The Financial Information Unit (“UIF”) 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.

The Banco Hipotecario may not assure you that none of such regulatory authorities will commence proceedings against the Bank, its shareholders or directors nor penalize Banco Hipotecario. This notwithstanding, in addition to “Know Your Client”, 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 its 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. Banco Hipotecario may not 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.

**Risks Relating to Banco Hipotecario’s Business**

***The quality of Banco Hipotecario’s loan portfolio could be impaired if the Argentine private sector continues to be affected in the event of a decrease in the level of activity .***

Banco Hipotecario’s loan portfolio is concentrated on recession-sensitive segments and it is to a large extent dependent upon local and international economic conditions. This in turn might affect the creditworthiness of Banco Hipotecario’s loan portfolio and its results of 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. Additionally, if the trend towards decreasing spreads is not offset by the 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 these markets continues to grow, competition may adversely affect Banco Hipotecario’s results of operations, shrinking spreads and commissions.

***Reduced spreads without corresponding increases in lending volumes could adversely affect Banco Hipotecario’s profitability.***

In recent years, the Argentine financial system has seen a reduction in the spreads between the interest rates accrued on assets and liabilities as a result of increased competition in the banking sector, the Argentine Government’s tightening of the monetary policy in response to inflation concerns and certain regulations limiting interest rates, which may continue in the near future. Although there has been a reversal in this trend, Banco Hipotecario may not assure you that the interest rate spreads will continue to rise. However, if spreads continue to decrease, Banco Hipotecario’s profitability may be adversely affected. We cannot assure that any changes in the regulations and the policies will not adversely affect financial institutions in Argentina, including Banco Hipotecario, its business, financial condition, and the results of its operations.

***Differences in the accounting standards between Argentina and certain countries with developed capital markets, such as the United States, may make it difficult to compare Banco Hipotecario’s financial statements and those prepared by companies from these other countries.***

Publicly available information about Banco Hipotecario in Argentina is presented differently from the information available for registered public companies in certain countries with highly developed capital markets, such as the United States. Except as otherwise described herein, Banco Hipotecario prepares its financial statements in accordance with Argentine Central Bank GAAP, which differ in certain significant respects from Argentine GAAP and from U.S. GAAP.

***The effects of the legislation that restricts Banco Hipotecario’s ability to pursue mortgage foreclosure proceedings could adversely affect the Bank.***

As is also the case with other mortgagees, the ability to pursue foreclosure proceedings through completion in order to recover on its defaulted mortgage loans has an impact on the Bank’s activities. On December 13, 2006 and pursuant to Law No. 26,177, the “Restructuring Unit Law” was created to allow all the mortgage loans to be restructured between debtors and former Banco Hipotecario Nacional in so far as they had been granted previous to the entry into force 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 lay down the procedure to be followed in restructuring the 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 new recalculation was established for certain mortgage loans originated by the former Banco Hipotecario Nacional before April 1, 1991.

Executive Branch Decree No. 2107/08 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 force at December 31, 2008 and agreed upon previous to April 1, 1991, and in arrears at least since November 2007 and remaining in arrears at December 31, 2008. In turn, Executive Branch Decree No. 1366/10, 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 in so far as they met the other requirements imposed by Executive Branch Decree No. 2107/08. 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 Argentine Central Bank's supervision, Banco Hipotecario has implemented the recalculation of mortgage loans within the scope of the above-discussed rules by adjusting the value of the new installments to a maximum amount not in excess of 28% of the household income. In this respect, Banco Hipotecario estimates that it has sufficient loan loss provisions to face any adverse economic impact on the portfolio involved.

However, Banco Hipotecario may not assure you that the Argentine Government will not enact new additional laws restricting Banco Hipotecario's ability to enforce its rights as a creditor and/or imposing a condonation or a reduction of principal on the amounts unpaid in Banco Hipotecario's mortgage loan portfolio. Any such circumstance might have a significant adverse effect on Banco Hipotecario's financial condition and on the results of operations.

***The Argentine Government might prevail at Banco Hipotecario's General Shareholders' Meetings.***

By virtue of Law No. 23,696 (the "Privatization Law") there are no restrictions on the Argentine Government's ability to dispose of its Class A shares and all those shares minus one could be sold to third parties through public offering. Banco Hipotecario's By-laws set forth that if at any time Class A shares were to represent less than 42% of Banco Hipotecario's shares with right to vote, Class D shares automatically lose their triple vote right, which could result in the principal shareholders losing control of Banco Hipotecario. Should any such situation materialize and should the Argentine Government retain a sufficient number of Class A shares, the Argentine Government could prevail in Shareholders' Meetings (except for some decisions that call for qualified majorities) and could thus exert actual control on the decisions that must be submitted to consideration by the Shareholders' Meeting.

***Banco Hipotecario may consider in the future new business opportunities which could turn out to be unsuccessful.***

In recent years Banco Hipotecario has considered some business acquisitions or combinations and it plans to continue considering acquisitions that offer appealing opportunities and that are in line with Banco Hipotecario's commercial strategy. However, Banco Hipotecario may not assure you that such businesses could deliver sustainable outcomes or that Banco Hipotecario will be able to consummate the acquisition of financial institutions in favorable conditions. Additionally, Banco Hipotecario's ability to obtain the desired outcome as a result of said acquisitions will be partly dependent upon Banco Hipotecario's ability to follow through with the successful integration of the businesses. To integrate any acquired business entails major risks, including:

- Unforeseen difficulties in integrating operations and systems;
- Problems inherent in assimilating or retaining the target's employees;
- Challenges associated to keeping the target's customers;
- Unforeseen liabilities or contingencies associated to the targets; and
- The likelihood of management having to take time and attention out of the business's day-to-day to focus on the integration activities and the resolution of associated problems.

***Risks Related to the Global Depositary Shares and the Common Shares.***

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

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

The GDSs are freely transferable under U.S. securities laws, including common shares sold to our affiliates. Cresud, which as of June 30, 2014, owned approximately 65.45% of our common shares (or approximately 378,742,216 common shares which may be exchanged for an aggregate of 37,874,221 GDSs), is free to dispose of any or all of its common shares or GDSs at any time in its discretion. Sales of a large number of our common shares and/or GDSs would likely have an adverse effect on the market price of our common shares and GDSs.

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

There may be less publicly available information about the issuers of securities listed on the Buenos Aires Stock Exchange than publicly available information about domestic issuers of listed securities in the United States and certain other countries. In addition, all listed Argentine companies must prepare their financial statements in accordance with regulations of the CNV and IFRS, as issued by the IASB, except for financial institutions and insurance companies which must comply with the accounting standards issued by Argentine Central Bank and the National Insurance Superintendence, respectively, which differ in certain significant respects from U.S. GAAP. For example, we are exempted from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempted from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. For this and other reasons, the presentation of Argentine financial statements and reported earnings may differ from that of companies in other countries in this and other respects.

***We recently identified a material weakness in our internal controls over financial reporting related to the accounting for derivative financial instruments derived from non-routine, complex contractual provisions in one of our subsidiaries.***

Our management recently concluded that our disclosure controls and procedures as of the end of the period covered by this annual report were not effective, because management identified a material weakness in our internal control over financial reporting related to the accounting for derivative financial instruments derived from non-routine, complex contractual provisions in one of our subsidiaries. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. See Item 15. Controls and Procedures -- A. Disclosure Controls and Procedures.

Any failure to implement and maintain improvements in the controls over our financial reporting, or difficulties encountered in the implementation of such improvements, could result in a material misstatement in our annual or interim financial statements that would not be prevented or detected, and/or cause us to fail to meet our reporting obligations under applicable securities laws and could also cause investors to lose confidence in our reported financial information, which could have an adverse impact on the trading price of our shares or the ADSs.

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



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

Based on the current and projected composition of our income and valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company ("PFIC"), for United States federal income tax purposes for the taxable year ending June 30, 2014, and we 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 "Taxation-United States Taxation") of our common shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for U.S. Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our common shares or GDSs at a gain, as well as reporting requirements. Please see "Taxation-United States Taxation" for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

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

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

***The protections afforded to minority shareholders in Argentina are different 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 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.

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

In accordance with Argentine corporate law we may pay dividends to shareholders out of net and realized profits, if any, as set forth in our audited financial statements prepared in accordance with 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 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, by our by-laws and by certain restrictive covenants in our debt instruments.***

In accordance with Argentine corporate law, we may pay dividends in Pesos out of retained earnings, if any, to the extent set forth in our audited financial statements. Our ability to generate retained earnings is subject to the results of our operations. During 2014 inflation has accelerated mainly due to the devaluation process carried out by the Argentine Central Bank. The uncertainty surrounding future inflation may affect our results and as a result our ability to pay dividends. If the Peso continues to devalue significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences on our business and as a result on the results of our operations and our ability to pay dividends.

On February 2, 2007, we issued our fixed-rate notes due 2017 in an aggregate principal amount of US\$150.0 million, which accrue interest at an annual interest rate of 8.5% payable semiannually and maturing on February 2, 2017.

On July 20, 2010, we issued fixed-rate notes due in 2020 in an aggregate principal amount of US\$ 150.0 million, which accrue interest at an annual interest rate of 11.5% payable semiannually and mature on July 20, 2020.

These notes contain a covenant limiting our ability to pay dividends which may not exceed the sum of:

- 50% of our cumulative consolidated net income; or
- 75% of our cumulative consolidated net income if our consolidated interest coverage ratio for our most recent four consecutive fiscal quarters is at least 3.0 to 1; or
- 100% of cumulative consolidated net income if our consolidated interest coverage ratio for our most recent four consecutive fiscal quarters is at least 4.0 to 1; or
- 100% of the aggregate net cash proceeds (with certain exceptions) and the fair market value of property other than cash received by us or by our restricted subsidiaries from (a) any contribution to our capital stock or the capital stock of our restricted subsidiaries or issuance and sale of our qualified capital stock or the qualified capital stock of our restricted subsidiaries subsequent to the issue of our notes due, (b) issuance and sale subsequent to the issuance of our notes due 2017 or our indebtedness or the indebtedness of our restricted subsidiaries that has been converted into or exchanged for our qualified capital stock, or (c) any reduction in our indebtedness or any restricted subsidiary, (d) any reduction in debt investment (other than permitted investments) and return on assets, or (e) any distribution received from non-restricted subsidiaries.

As a result, we cannot give you any assurance that in the future we will pay any dividends in respect of our common shares.