

CRESUD INC  
Form 20-F  
October 31, 2017

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the fiscal year ended: June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

Date of event requiring this shell company report \_\_\_\_

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number: 001-2919

Cresud SOCIEDAD ANONIMA COMERCIAL INMOBILIARIA FINANCIERA Y AGROPECUARIA

(Exact name of Registrant as specified in its charter)

Cresud INC.

(Translation of Registrant's name into English)

Republic of Argentina

(Jurisdiction of incorporation or organization)

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Moreno 877, 23 Floor,

(C1091AAQ) City of Buenos Aires, Argentina

(Address of principal executive offices)

Matías Gaivironsky

Chief Financial and Administrative Officer

Tel +(5411) 4323-7449 – finanzas@cresud.com.ar

Moreno 877, 24 Floor,

(C1091AAQ) City of Buenos Aires, Argentina

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing ten shares of Common Stock	Nasdaq National Market of the Nasdaq Stock Market
Common Stock, par value one Peso per share	Nasdaq National Market of the Nasdaq Stock Market*

\* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the period covered by the annual report: 501,642,804.

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

†The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 23 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes No

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Please send copies of notices and communications from the Securities and Exchange Commission to:

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## DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

The U.S. Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements.

This annual report includes forward-looking statements, principally under the captions “Summary,” “Item 3.D. Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.” We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this annual report, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

Factors that could cause actual results to differ materially and adversely include but are not limited to:

changes in general economic, financial, business, political, legal, social or other conditions in Argentina, Brazil, or elsewhere in Latin America or in Israel or changes in developed or emerging markets;

changes in capital markets in general that may affect policies or attitudes toward lending to or investing in Argentina or Argentine companies, including volatility in domestic and international financial markets;

inflation and deflation;

fluctuations in prevailing interest rates;

increases in financing costs or our inability to obtain additional financing on attractive terms, which may limit our ability to fund existing operations and to finance new activities;

current and future government regulation and changes in law or in the interpretation by Argentine courts of the recently adopted Civil and Commercial Code, among others;

adverse legal or regulatory disputes or proceedings;

fluctuations and declines in the aggregate principal amount of Argentine public debt outstanding;

government intervention in the private sector and in the economy, including through nationalization, expropriation, labor regulation or other actions;

restrictions on transfer of foreign currencies and other exchange controls;

increased competition in the shopping mall sector, office or other commercial properties and related industries;

potential loss of significant tenants at our shopping malls, offices or other commercial properties;

our ability to take advantage of opportunities in the real estate market of Argentina or Israel on a timely basis;

restrictions on energy supply or fluctuations in prices of utilities in the Argentine market;

our ability to meet our debt obligations;

shifts in consumer purchasing habits and trends;

technological changes and our potential inability to implement new technologies;

deterioration in regional, national or global businesses and economic conditions;

incidents of government corruption that adversely impact the development of our real estate projects.

fluctuations and declines in the exchange rate of the Peso and the NIS against other currencies;

risks related to our investment in Israel; and

the risk factors discussed under “Item 3.D. Risk Factors.”

You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “plans,” “estimates,” “anticipates,” “could,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “continue” or similar expressions. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance.

As of June 30, 2017, the Company has established two operations centers to manage its global business, which we refer to in this annual report as the “Operation Center in Argentina” and the “Operation Center in Israel.”

You should not place undue reliance on such statements which speak only as of the date that they were made. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we might issue in the future.

## CERTAIN MEASURES AND TERMS

As used throughout this annual report, the terms “Cresud,” “Company,” “we,” “us,” and “our” refer to Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria, together with our consolidated subsidiaries, except where we make clear that such terms refer only to the parent company.

References to “Tons,” “tons” or “Tns.” are to metric tons, to “kgs” are to kilograms, to “ltrs” are to liters, “Hct” are to hectares, and “square meters” are to square meters, while in the United States and certain other jurisdictions, the standard measure of area is the square foot (sq.ft). A metric ton is equal to 1,000 kilograms. A kilogram is equal to approximately 2.2 pounds. A metric ton of wheat is equal to approximately 36.74 bushels. A metric ton of corn is equal to approximately 39.37 bushels. A metric ton of soybean is equal to approximately 36.74 bushels. A square meter is equal to 10.77 sq. ft. One gallon is equal to 3.7854 liters. One hectare is equal to approximately 2.47 acres and 10,000 square meters. One square meter is equal to approximately 10.764 square feet. One kilogram of live weight cattle is equal to approximately 0.5 to 0.6 kilogram of carcass (meat and bones).



As used herein: “GLA or gross leasable area,” in the case of shopping malls, refers to the total leasable area of the property, regardless of our ownership interest in such property (excluding common areas and parking and space occupied by supermarkets, hypermarkets, gas stations and co-owners, except where specifically stated).

## PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

### FINANCIAL STATEMENTS

This annual report contains our Audited Consolidated Financial Statements as of June 30, 2017 and 2016 for our fiscal years ended June 30, 2017, 2016 and 2015 (our “Audited Consolidated Financial Statements”). Our Audited Consolidated Financial Statements included elsewhere herein have been audited by Price Waterhouse & Co S.R.L. City of Buenos Aires, Argentina, member of PriceWaterhouseCoopers International Limited, an independent registered public accounting firm whose report is included herein.

Pursuant to Resolution No. 562/09 issued by the Argentine Comisión Nacional de Valores (“CNV”), as subsequently amended by Resolution No. 576/10, and further amended and restated by Resolution No. 622/13 (the “CNV Rules”), all listed companies in Argentina with certain exceptions (i.e. financial institutions and insurance entities) were required to present their consolidated financial statements for accounting periods beginning on or after January 1, 2012 in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Therefore, in 2013 we prepared for the first time our Consolidated Financial Statements under IFRS for our financial year ended June 30, 2013, which included comparative financial information for the year ended June 30, 2012. All IFRS issued by the IASB effective at the time of preparing the Audited Consolidated Financial Statements have been applied. The opening IFRS statement of financial position was prepared as of our transition date of July 1, 2011.

IDB Development Ltd.’s (“IDBD”) fiscal year ends on December 31 each year and Cresud’s fiscal year ends on June 30. Furthermore, IDBD’s quarterly and annual reporting follow the guidelines of Israeli standards, which means that the information is only available after the applicable statutory terms in Argentina. Therefore, is not possible to include IDBD’s quarterly results in its Consolidated Financial Statements to be filed with the CNV within the applicable statutory terms in Argentina. The IDBD’s results of operations are consolidated with a three-month lag, adjusted by the effects of material transactions that may take place during the reported period. Hence, IDBD’s results of operations for the 12-month period beginning April 1, 2016 through March 31, 2017 are included in the Company’s Consolidated Statement of Comprehensive Income for the fiscal year ended June 30, 2017, adjusted by such material transactions occurred between April 1, 2017 and June 30, 2017. In addition, IDBD’s results of operations for the period beginning October 11, 2015 (the date the Company obtained control of IDBD) through March 31, 2016 are included in the Company’s Consolidated Statement of Comprehensive Income for the fiscal year ended June 30, 2016, adjusted by such material transactions occurred between April 1, 2016 and June 30, 2016.

The Company has established two Operations Centers to manage its global business, mainly through the following companies:

- (i) remains in current and non-current assets, as financial assets held for sale.
- (ii) Corresponds to Company’s associates, which are hence excluded from consolidation.

(iii)

Disclosed in groups of assets and liabilities held for sale.

iii





## MARKET DATA

Market data used throughout this annual report was derived from reports prepared by unaffiliated third-party sources. Such reports generally state that the information contained therein has been obtained from sources believed by such sources to be reliable. Certain market data which appears herein (including percentage amounts) may not sum due to rounding.

In this annual report where we refer to “Peso,” “Pesos,” or “Ps.” we mean Argentine Pesos, the lawful currency in Argentina; when we refer to “U.S. Dollars,” or “US\$” we mean United States Dollars, the lawful currency of the United States of America; when we refer to “Real,” “Reals,” “Rs.” or “R\$” we mean Brazilian Real, the lawful currency in the Federative Republic of Brazil; when we refer to “NIS,” we mean New Israeli Shekels, the lawful currency of Israel; and when we refer to “Central Bank” we mean the Banco Central de la República Argentina (Argentine Central Bank).

Our functional and presentation currency is the Peso, and accordingly our financial statements included in this annual report are presented in Pesos. We have translated some of the Peso amounts contained in this annual report into U.S. dollars for convenience purposes only. Unless otherwise specified or the context otherwise requires, the rate used to convert Peso amounts to U.S. dollars is the seller exchange rate quoted by Banco de la Nación Argentina of Ps.16.6300 per US\$1.00 for information provided as of June 30, 2017. The average seller exchange rate for the fiscal year 2017, quoted by Banco de la Nación Argentina was Ps.15.4517. The U.S. dollar-equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the Peso amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate. We have also translated certain NIS amounts into U.S. dollars at the offer exchange rate for June 30, 2017 which was NIS 3.4854 per U.S.\$1.00. We make no representation that the Peso, NIS or U.S. dollar amounts actually represent or could have been or could be converted into U.S. dollars at the rates indicated, at any particular rate or at all. See “Item 3 – Key information - Local Exchange Market and Exchange Rates.”

Certain numbers and percentages included in this annual report have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in various tables or other sections of this annual report may vary slightly, and figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them.

### Fiscal years

References to fiscal years 2017, 2016, 2015, 2014 and 2013 are to our fiscal years starting on July 1 and ending on June 30 of each such year.



## PART I

### Item 1. Identity of Directors, Senior Management and Advisers

This item is not applicable.

### Item 2. Offer Statistics and Expected Timetable

This item is not applicable.

### Item 3. Key Information

#### A. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data has been derived from our Audited Consolidated Financial Statements as of the dates and for each of the periods indicated below. This information should also be read in conjunction with our Audited Consolidated Financial Statements included under “Item 8. Financial Information,” and the discussion in “Item 5. Operating and Financial Review and Prospects.”

The selected consolidated statements of income and comprehensive income data for the years ended June 30, 2017, 2016 and 2015 and the selected consolidated statements of financial position data as of June 30, 2017, 2016 and 2015 have been derived from our Audited Consolidated Financial Statements included in this annual report which have been audited by Price Waterhouse & Co S.R.L. City of Buenos Aires, Argentina, member of PriceWaterhouseCoopers International Limited, an independent registered public accounting firm.

On October 11, 2015, we acquired, through our subsidiary IRSA, control of IDBD. In conformity with IFRS 3, IDBD’s information is included in our financial statements since the acquisition date, without affecting the information from previous years. Therefore, the consolidated financial information for periods after the acquisition date is not comparable to previous periods. For more information see “Item 5. Operating and Financial Review and Prospects—Factors Affecting Comparability of our Results.”

The Company’s Board of Directors decided to change the accounting policy for investment property from cost model to fair value model, as permitted under IAS 40. The Company considers this change more reliably reflects the current value of its core assets. The Company has therefore retroactively recast the previously issued Consolidated Financial Statements as required by IAS 8. In addition, the company has recalculated the significant test determined by the rule 3-09 and there are no significant entities for the years ended on June 30, 2017, 2016 and 2015.



For the fiscal year ended June 30,

2017(1)	2017	2016 (recast)	2015 (recast)	2014 (recast)	2013 (recast)
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(in millions of US\$)	(in millions of Ps.)
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## Consolidated Statements of Income

Revenues	4,685	77,918	34,232	5,652	4,604	3,528
Costs	(3,416)	(56,815)	(24,681)	(4,615)	(3,714)	(2,925)
Initial recognition and changes in fair value of biological assets and agricultural produce at the point of harvest	131	2,176	1,639	1,347	1,188	860
Changes in net realizable value of agricultural produce after harvest	(4)	(74)	208	(34)	(17)	12
Gross Profit	1,395	23,205	11,398	2,350	2,061	1,475
Net gain from fair value adjustment of investment properties	301	5,001	17,539	4,055	4,235	3,654
Gain / (loss) from disposal of farmlands	17	280	(2)	550	90	150
General and administrative expenses	(256)	(4,257)	(2,150)	(607)	(534)	(343)
Selling expenses	(839)	(13,946)	(6,035)	(474)	(352)	(278)
Other operating results, net	(10)	(158)	(534)	(145)	(70)	(160)
Management fees	(12)	(200)	(119)	17	(88)	(36)
Profit from operation	597	9,925	20,097	5,746	5,342	4,462
Share of (loss)/profit of associates and joint venture	10	172	534	(817)	(322)	90
Profit from operations before financing and taxation	607	10,097	20,631	4,929	5,020	4,552
Finance income	72	1,199	1,482	246	290	202
Finance cost	(571)	(9,492)	(7,448)	(1,685)	(2,852)	(1,125)
Other Financial results	184	3,068	(158)	149	(12)	15
Financial results, net	(314)	(5,225)	(6,124)	(1,290)	(2,574)	(908)
Profit before income tax	293	4,872	14,507	3,639	2,446	3,644
Income tax expense	(172)	(2,862)	(5,833)	(1,396)	(1,090)	(1,219)
Profit for the year from continuing operations	121	2,010	8,674	2,243	1,356	2,425
Profit from discontinued operations after income tax	181	3,018	444	-	-	-
Profit for the year	302	5,028	9,118	2,243	1,356	2,425

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Profit from continuing operations attributable to						
Equity holders of the parent	43	718	5,167	954	641	1,435
Non-controlling interest	78	1,292	3,507	1,289	715	990
Profit for the year attributable to						
Equity holders of the parent	91	1,511	5,167	954	641	1,435
Non-controlling interest	211	3,517	3,951	1,289	715	990





For the fiscal year ended June 30,

	2017(1)	2017	2016 (recast)	2015 (recast)	2014 (recast)	2013 (recast)
	(in millions of US\$)	(in millions of Ps.)				
<b>Consolidated Statements of Comprehensive Income</b>						
Profit for the year	302	5,028	9,118	2,243	1,356	2,425
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Currency translation adjustmen	285	4,733	5,239	(445)	1,268	183
Change in the fair value of hedging instruments net of income tax	4	73	3	-	-	-
Items that may not be reclassified subsequently to profit or loss						
Actuarial loss from defined benefit plan	(1)	(10)	(29)	-	-	-
Other comprehensive income / (loss) for the year from continuing operation	288	4,796	5,213	(445)	1,268	183
Other comprehensive income / (loss) for the year from discontinued operation	34	560	(194)	-	-	-
Other comprehensive income / (loss) for the yea	322	5,356	5,019	(445)	1,268	183
Total comprehensive income for the yea	624	10,384	14,137	1,798	2,624	2,608
Total comprehensive income for the year from continuing operation	409	6,806	13,887	1,798	2,624	2,608
Total comprehensive income for the year from discontinued operation	215	3,578	250	-	-	-
Total comprehensive income forthe yea	624	10,384	14,137	1,798	2,624	2,608
Total comprehensive income for the year from continuing operations attributable to						
Equity holders of the parent	19	322	5,465	760	997	913
Non-controlling interest	390	6,484	8,422	1,038	1,627	1,695
Total comprehensive income for the year attributable to						
Equity holders of the parent	157	2,603	5,715	760	997	913
Non-controlling interest	468	7,781	8,422	1,038	1,627	1,695





For the fiscal year ended June 30,

	2017(1)	2017	2016 (recast)	2015 (recast)	2014 (recast)	2013 (recast)
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(in millions of US\$) (in millions of Ps.)

#### CASH FLOW DATA

Net cash generated from operating activities	556	9,241	4,080	512	884	687
Net cash (used in) / generated from investing activities	(145)	(2,415)	8,627	855	(886)	(131)
Net cash generated from /(used in) financing activities	115	1,910	(4,495)	(1,777)	(447)	(17)

As of fiscal year ended June 30,

	2017(1)	2017	2016 (recast)	2015 (recast)	2014 (recast)	2013 (recast)
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(in millions of US\$) (in millions of Ps.)

#### Consolidated Statements of Financial Position

##### ASSETS

##### Non-Current Assets

Investment properties	6,025	100,189	82,505	19,306	16,081	12,867
Property, plant and equipment	1,873	31,150	26,801	2,213	2,510	1,895
Trading properties	273	4,534	4,733	143	134	98
Intangible assets	748	12,443	11,814	176	175	218
Biological assets	40	671	497	346	302	192
Investments in joint ventures and associates	495	8,227	17,175	3,190	2,704	1,750
Deferred income tax assets	98	1,631	1,249	654	516	143

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Income tax credit	14	229	173	161	177	199
Restricted assets	32	528	129	4	51	55
Trade and other receivables	328	5,456	3,773	427	475	291
Financial assets and other assets held for sale	374	6,225	3,346	-	-	-
Investment in financial assets	107	1,772	2,226	623	275	253
Derivative financial instruments	2	31	8	208	-	25
Employee benefits	-	-	4	-	-	-
Total Non-Current Assets	10,408	173,086	154,433	27,451	23,400	17,986
Current Assets						
Trading properties	75	1,249	241	3	5	12
Biological assets	34	559	552	180	266	133
Inventories	303	5,036	3,900	511	440	252
Restricted assets	33	541	748	607	-	1
Income tax credit	20	340	541	31	20	6
Financial assets and other assets held for sale	141	2,337	1,256	-	1,648	-
Trade and other receivables	1,103	18,336	14,158	1,773	1,438	1,446
Investment in financial assets	713	11,853	9,673	504	495	385
Derivative financial instruments	4	65	53	30	33	42
Cash and cash equivalents	1,525	25,363	14,096	634	1,003	1,048
Groups of assets held for sale	161	2,681	-	-	-	-
Total Current Assets	4,111	68,360	45,218	4,273	5,348	3,325
TOTAL ASSETS	14,519	241,446	199,651	31,724	28,748	21,311



As of fiscal year ended June 30,

2017(1)	2017	2016 (recast)	2015 (recast)	2014 (recast)	2013 (recast)
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(in millions of US\$)	(in millions of Ps.)
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## SHAREHOLDERS' EQUITY

Capital and Reserves Attributable to Equity Holders  
of the Parent

Share capital	30	499	495	495	491	497
Treasury shares	-	3	7	7	10	5
Share warrants	-	-	-	-	106	106
Inflation adjustment of share capital and treasury shares	4	65	65	65	65	65
Share premium	40	659	659	659	773	773
Additional paid-in capital from treasury shares	1	20	16	13	-	-
Legal reserve	5	83	83	-	82	47
Other reserves	150	2,496	1,299	812	1,184	565
Special reserve	91	1,516	1,516	1,516	2,150	2,211
Retained earnings	665	11,064	9,521	4,461	2,437	1,768
Equity Attributable to equity holders of the parent	986	16,405	13,661	8,028	7,298	6,037
Non-controlling interest	1,970	32,768	23,539	6,528	5,729	4,404
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>2,957</b>	<b>49,173</b>	<b>37,200</b>	<b>14,556</b>	<b>13,027</b>	<b>10,441</b>

## LIABILITIES

## Non-current liabilities

Trade and other payables	240	3,988	2,464	666	485	426
Borrowings	6,736	112,025	93,808	5,833	5,315	4,190
Deferred income tax liabilities	1,391	23,125	19,204	5,889	4,623	3,549
Derivative financial instruments	5	86	120	270	321	2
Payroll and social security liabilities	8	140	20	5	5	4
Provisions	57	955	547	42	43	33
Employee benefits	46	763	689	-	-	-
<b>Total non-current liabilities</b>	<b>8,484</b>	<b>141,082</b>	<b>116,852</b>	<b>12,705</b>	<b>10,792</b>	<b>8,204</b>

## Current Liabilities

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Trade and other payables	1,321	21,970	18,443	1,307	1,004	900
Income tax liabilities	49	817	624	142	73	93
Payroll and social security liabilities	136	2,254	1,856	230	202	121
Borrowings	1,400	23,287	23,488	2,466	2,639	1,527
Derivative financial instruments	7	114	147	263	53	9
Provisions	54	894	1,041	55	21	16
Liabilities directly associated with assets classified as held for sale	112	1,855	-	-	937	-
Total current liabilities	3,078	51,191	45,599	4,463	4,929	2,666
<b>TOTAL LIABILITIES</b>	<b>11,562</b>	<b>192,273</b>	<b>162,451</b>	<b>17,168</b>	<b>15,721</b>	<b>10,870</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>14,519</b>	<b>241,446</b>	<b>199,651</b>	<b>31,724</b>	<b>28,748</b>	<b>21,311</b>





As of fiscal year ended June 30,

	2017(1)	2017	2016 (recast)	2015 (recast)	2014 (recast)	2013 (recast)
Other Financial Data	(in US\$, except for percentages, ratios and number of shares)	(in millions of Ps, except for percentages, ratios, number of shares, per share and per ADS data)				
Basic net income per share from continuing operations(2)	0.09	1.44	9.43	2.68	(2.15)	(0.05)
Diluted net income per share from continuing operations (3)	0.09	1.43	9.31	2.38	(2.15)	(0.05)
Basic net income per share from discontinued operations(2)	0.10	1.60	0.27	-	-	-
Diluted net income per share from discontinued operations (3)	0.10	1.59	0.26	-	-	-
Basic net income per ADS (2)(4)	0.88	14.40	94.30	26.80	(21.50)	(0.54)
Diluted net income per ADS (3)(4)	0.87	14.30	93.10	23.80	(21.50)	(0.54)
Capital stock	30	502	502	502	501	502
Number of common shares	501,642,804	501,642,804	501,642,804	501,642,804	501,562,730	501,562,730
Weighted – average number of common shares outstanding	497,806,965	497,806,965	494,991,778	492,020,463	496,132,488	496,561,931
Diluted weighted – average number of common shares (5)	500,161,805	500,161,805	554,375,631	554,375,631	558,487,656	558,917,099
Dividends paid (6)	0.00	0.00	0.00	0.00	0.00	120.00
Dividends per share	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00

Dividends per ADS (4)						
Depreciation and amortization	292	4,857	2,164	112	297	280
Capital expenditure	399	6,629	2,483	517	436	1,048
Working capital	1,032	17,169	(381)	(190)	419	659
Gross margin (7)	0.28	0.29	0.32	0.34	0.36	0.34
Operating margin (8)	0.12	0.12	0.56	0.82	0.92	1.02
Net margin (9)	0.06	0.06	0.25	0.32	0.23	0.55
Ratio of current assets to current liabilities (10)	1.34	1.34	0.99	0.96	1.09	1.25
Ratio of shareholders' equity to total liabilities (11)	0.26	0.26	0.23	0.85	0.83	0.96
Ratio of non current assets to total assets (12)	0.72	0.72	0.77	0.87	0.81	0.84
Ratio of "Return on Equity" – ROE (13)	0.12	0.12	0.35	0.16	0.12	0.31

- (1) Solely for the convenience of the reader, we have translated Peso amounts into U.S. Dollars at the exchange rate quoted by Banco de La Nación Argentina for June 30, 2017 which was Ps.16.63 per US\$1.00. The average seller exchange rate for the fiscal year 2017, quoted by Banco de la Nación Argentina was Ps.15.4517. We make no representation that the Peso or U.S. Dollar amounts actually represent, could have been or could be converted into U.S. Dollars at the rates indicated, at any particular rate or at all.
- (2) Basic net income per share is computed by dividing the net income available to common shareholders for the period by the weighted average common shares outstanding during the period.  
Diluted net income per share is computed by dividing the net income for the period by the weighted average
- (3) number of common shares assuming the total conversion of outstanding notes and exercise of outstanding options.
- (4) Determined by multiplying per share amounts by ten (one ADS equals ten common shares).
- (5) Including all of the treasury shares.
- (6) The shareholders' meeting held in October 2013 approved the distribution of a cash dividend for an amount of Ps.120 million for the fiscal year ended June 30, 2013.
- (7) Gross profit divided by the sum of revenues and initial recognition and changes in fair value of biological assets and agricultural produce at the point of harvest.
- (8) Operating income divided by the sum of revenues and initial recognition and changes in fair value of biological assets and agricultural produce at the point of harvest.
- (9) Net income divided by the sum of revenues and initial recognition and changes in fair value of biological assets and agricultural produce at the point of harvest.
- (10) Current assets over current liabilities
- (11) Shareholders' equity over total liabilities
- (12) Non-current assets over total assets
- (13) Profitability refers to profit for the year divided by average Shareholders' equity.



## Local Exchange Market and Exchange Rates

## Operation Center in Argentina

The following table shows the maximum, minimum, average and closing exchange rates for each applicable period to purchases of U.S. dollars.

	Maximum(1)(2)	Minimum(1)(3)	Average(1)(4)	At closing(1)
Fiscal year ended June 30, 2013	5.3680	4.5650	4.9339	5.3680
Fiscal year ended June 30, 2014	8.0830	5.4850	6.9333	8.0830
Fiscal year ended June 30, 2015	9.0380	8.1630	8.5748	9.0380
Fiscal year ended June 30, 2016	15.7500	9.1400	12.2769	14.9900
Fiscal year ended June 30, 2017	16.5800	14.5100	15.4017	16.5800
Month ended April 30, 2017	15.4400	15.1400	15.3058	15.3500
Month ended May 31, 2017	16.1350	15.2400	15.6679	16.0500
Month ended June 30, 2017	16.5800	15.8280	16.0728	16.5800
Month ended July 31, 2017	17.7400	16.7500	17.1430	17.5900
Month ended August 31, 2017	17.6730	17.0200	17.3728	17.2600
Month ended September 30, 2017	17.5300	16.9250	17.1888	17.2600
October 2017 (through October 25, 2017)	17.4500	17.2850	17.3652	17.4400

Source: Central Bank

(1) Average between the offer exchange rate and the bid exchange rate according to Banco de la Nación Argentina “foreign currency exchange rate,” against Pesos.

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

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

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

## Exchange controls

During 2001 and 2015, the Argentine government established a series of exchange control measures that restricted the free disposition of funds and the transfer of funds abroad. In 2011, these measures had significantly curtailed access to the Mercado Único y Libre de Cambios (“MULC”) by both individuals and private sector entities. This made it necessary, among other things, to obtain prior approval from the Central Bank to enter into certain foreign exchange transactions such as payments relating to royalties, services or fees payable to related parties of Argentine companies outside Argentina.

With the change of government and political environment, in December 2015, one of the first measures taken by the Argentine government was to lift the main restrictions that limited access to individuals to the MULC. Through Communication “A” 5850 and later, as the local economy stabilized Communication “A” 6037, the Central Bank lifted the previous limitations and allowed unrestricted access to the foreign exchange market, subject to some requirements, as detailed below.

Although most exchange control regulations were lifted on August 2016, some remain in place and we cannot give you any assurance that additional exchange control regulations will not be adopted in the future. Please see “Risk Factors—Risks Relating to Argentina—Exchange controls, restrictions on transfers abroad and capital inflow restrictions may limit the availability of international credit.”

Exchange controls regulations currently in effect in Argentina include the following:

#### Registration Requirements

All incoming and outgoing funds to and from the MULC and any foreign indebtedness (financial and commercial) are subject to registration requirements before the Central Bank for informative purposes, in accordance with Communication “A” 3602, as amended.



#### Corporate profits and dividends

Argentine companies may freely access the MULC for remittances abroad to pay earnings and dividends in so far as they arise from closed and fully audited balance sheets and have satisfied applicable certification requirements.

#### Restrictions on foreign indebtedness

Pursuant to Resolution E 1/2017 of the Ministerio de Hacienda and the Communication “A” 6150 of the Central Bank, it was deleted the obligation that required non-residents to perform portfolio investments in the country intended for the holding of private sector financial assets to maintain for a period of 120 days of permanence the funds in the country.

As of that resolution and the provisions of Communication “A” 6244 of the Central Bank, there are no restrictions on entry and exit in the MULC.

#### Restrictions on the purchase of foreign currency

#### Domestic individuals and companies

Communication “A” 5850 and AFIP Resolution No. 3821 modified and replaced the prior regimes related to, among others, the purchase of external assets by Argentine residents—domestic individuals and companies—for investment purposes and for travel, tourism and family assistance. The regime currently applicable is characterized by the following:

External assets may only be acquired by Argentine individuals, legal entities from the private sector incorporated in Argentina that are not authorized to trade on the foreign exchange market, assets (patrimonios), and other entities incorporated in Argentina and local government agencies.

Access to the local foreign exchange market without requiring prior Central Bank approval is allowed for an unlimited amount, for all of the following: real estate investments abroad, loans granted to non-Argentine residents, Argentine residents’ contributions of direct investments abroad, portfolio investment of Argentine individuals abroad, certain other investments abroad of Argentine residents, portfolio investments of Argentine legal entities abroad, purchase of foreign currency bills to be held in Argentina, donations complying certain conditions, as well as purchase of traveler checks.

In the case of foreign currency sales to Argentine residents for portfolio investments abroad, the transfer has to be made directly to the bank account of such Argentine resident, which must be located at foreign banks or financial institutions that regularly conduct investment banking activities, which are not incorporated in countries or territories considered not to be cooperative for purposes of fiscal transparency in terms of the provisions of Section 1 of the Decree No. 589/13 and its complementary provisions, or in countries or territories that do not apply the recommendations of the Financial Action Task Force, or “FATF.”

The proceeds of the sale of foreign currency by Argentine residents in the foreign exchange market for all the items can be credited in a checking or savings bank account in a local financial institution in the client’s name or withdrawn by cash.



Regarding the collection for services provided to non-Argentine residents and/or resulting from the sale of non-produced non-financial assets exempted from mandatory sale in the foreign exchange market.

Argentine residents that receive funds in foreign currency for the payment of services rendered to non-Argentine residents or for the sale of non-produced non-financial assets may receive those funds in a local foreign currency account without exchanging it for Argentine pesos in the foreign exchange market. Following Communications "A" 6011 and 6037 of the Central Bank foreign assets may be acquired for investment purposes by Argentine residents without limitations. In addition foreign currency may be purchased through a debit account or through an unlimited cash withdrawal without limits.



#### Non-residents

Communication “A” 6150 dated January 13, 2017 abolished all restrictions regarding prior approval from the Central Bank, minimum amounts, or minimum holding periods to repatriate portfolio investments or direct investments of non-residents.

#### Restrictions on exports, imports and services

Regarding exports, in 2016 the Central Bank relaxed certain rules related to the inflow and outflow of foreign currency collected abroad as a result of the collection of exports of goods, advance payments, and pre-export financings, establishing that the deadline to repatriate to Argentina the foreign currency is 10 years. The prior 10-business day period applicable for the transfer of funds collected abroad as a result of the collection of exports of goods, advance payments, and pre-export financings to a correspondent bank account of a local financial institution (cuenta de corresponsalía) was eliminated in December 2015. In relation to the export of services, Communication “A” 6137 the Central Bank eliminated the obligation to repatriate to Argentina the foreign currency obtained.

Regarding imports, access to the foreign exchange market for the payment of imports with customs clearance date as of December 17, 2015 can be paid through the local foreign exchange market without any limit. AFIP Regulation No. 3252 published on January 5, 2012 which required importers to file affidavits was eliminated in December 2015 and the import monitoring system (Sistema Integral de Monitoreo de Importaciones, or “SIMI” was created, which established an obligation for importers to submit certain information electronically. Importers do not have to repatriate the goods within a specified period (previously this period was 365 calendar days from the date of access to the foreign exchange market).

Regarding the payment of services, the access to the foreign exchange market for payments of services rendered as from December 17, 2015 may be carried out without any limits and without the Central Bank’s prior authorization.

#### Direct investments

On March 4, 2005, the Central Bank issued Communication “A” 4305 that regulates the reporting system of direct investments and real estate investments carried out by non-residents in Argentina and by Argentine residents abroad, which had been implemented through Communication “A” 4237 dated November 10, 2004.

#### Direct investments in Argentina of non-Argentine residents

Non-Argentine residents must comply with the reporting regime if the value of their investments in Argentina is equivalent to more than US\$500,000—measured in terms of the net worth of the company in which they participate or fiscal value of the real estate owned. If such value is less than US\$500,000, compliance with such regime is optional. According to Communication “A” 4237, companies in which non-Argentine residents participate and administrators of real estate of non-Argentine residents must comply with the reporting regime.

#### Direct investments made abroad by Argentine residents

Investors who are Argentine residents must comply with the reporting regime if the value of their investments abroad is equivalent to more than US\$1,000,000—measured in terms of net worth of the company in which they participate or the fiscal value of the real estate they own. If such value is less than the equivalent of US\$5,000,000, the reporting obligation is annual rather than semi-annual. If such value is less than the equivalent of US\$1,000,000, compliance with such regime is optional.

Future and forward operations

The Central Bank has significantly amended the foreign exchange regulations in derivatives by eliminating the restriction on the execution of cross-border derivative transactions. In August 2016, the Central Bank introduced new foreign exchange regulations on derivative transactions which allowed local residents from entering into derivative transactions with foreign residents. Moreover, the regulations now provide that Argentine residents may access the foreign exchange market to pay premiums, post collateral and make payments related to forwards, futures, options and other derivatives entered into in foreign exchanges or with non-resident counterparties.



The foreign exchange regulations now allow Argentine residents to enter into derivative transaction with foreign counterparties without the need for authorization of the Central Bank. They also allow them to purchase foreign currency to make payments under derivative transactions.

For further details regarding the exchange regulations applicable in Argentina, investors should consult their professional advisers and read the full text of the above cited rules on the website of the Ministry of Treasury and of the Central Bank.

#### Operation Center in Israel

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

	Maximum(1)(2)	Minimum(1)(3)	Average(1)(4)	At closing(1)
Fiscal year ended June 30, 2014	3.6213	3.4320	3.5075	3.4320
Fiscal year ended June 30, 2015	3.9831	3.4260	3.8064	3.7747
Fiscal year ended June 30, 2016	3.9604	3.7364	3.8599	3.8596
Fiscal year ended June 30, 2017	3.8875	3.4882	3.6698	3.4882
Month ended April 30, 2017	3.6718	3.6218	3.6519	3.6218
Month ended May 31, 2017	3.6170	3.5402	3.5916	3.5402
Month ended June 30, 2017	3.5562	3.4882	3.5291	3.4882
Month ended July 31, 2017	3.5789	3.5071	3.5507	3.5616
Month ended August 31, 2017	3.6269	3.5627	3.5992	3.5835
Month ended September 30, 2017	3.5736	3.4943	3.5318	3.5340
October 2017 (through October 25, 2017)	3.5373	3.4868	3.5065	3.5088

Source: Bloomberg

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

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

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

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

#### B. CAPITALIZATION AND INDEBTEDNESS

This section is not applicable.

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

This section is not applicable.







## D. RISK FACTORS

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

### Operations Center in Argentina

#### Risks Relating to Argentina

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

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

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

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

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

obtaining financing through the capital markets.

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

INDEC reforms. President Macri appointed Mr. Jorge Todesca, previously a director of a private consulting firm, as head of the INDEC. On January 8, 2016, the Argentine government declared a state of administrative emergency relating to the national statistical system and the INDEC, until December 31, 2016. During 2016, the INDEC implemented certain methodological reforms and adjusted certain macroeconomic statistics on the basis of these reforms. Following the declared emergency, the INDEC ceased publishing statistical data until a rearrangement of its technical and administrative structure is finalized. During the course of implementing these reforms, however, INDEC has used official Consumer Price Index, or “CPI,” figures and other statistical information published by the Province of San Luis and the City of Buenos Aires. On June 29, 2016, the INDEC published revised GDP data for the years 2004 through 2015. On August 31, 2016, the IMF Executive Board met to consider the progress made by Argentina in improving the quality of official GDP and CPI data and noted the important progress made in strengthening the accuracy of Argentina’s statistics. On November 10, 2016, the IMF lifted the existing censure on Argentina regarding these data.

Agreement with holdout creditors. The Argentine government has reached agreements with substantially all of the holdout bondholders who had not previously participated in Argentina’s sovereign debt restructurings (in terms of claims) and regained access to the international capital markets, issuing several new series of sovereign bonds since President Macri took office.



Foreign exchange reforms. In addition, the Macri administration eliminated a significant portion of foreign exchange restrictions, including certain currency controls, that were imposed under the Kirchner administration. On August 9, 2016, the Central Bank issued Communication “A” 6037 which substantially changed the existing legal framework and eliminated certain restrictions limiting access to the foreign exchange market MULC. The principal measures adopted as of the date of this annual report include:

- i. the reestablishment of Argentine residents’ rights to purchase and remit foreign currency outside of Argentina without limit and without specific allocation (atesoramiento);
- ii. the elimination of the mandatory, non-transferable and non-interest bearing deposit previously required in connection with certain transactions involving foreign currency inflows by reducing the amount of the deposits from 30% to 0%;
- iii. the elimination of the requirement to transfer and settle the proceeds from new foreign financial indebtedness incurred by the foreign financial sector, the non-financial private sector and local governments through the MULC; and
- iv. the elimination of the requirement that proceeds from debt issuances abroad must be maintained undistributed for a minimum of 365 calendar days.

Foreign trade reforms. The Kirchner and Fernández de Kirchner administrations imposed export duties and other restrictions on several sectors, particularly the agricultural sector. The Macri administration eliminated export duties on wheat, corn, beef and regional products, and reduced the duty on soybeans by 5% to 30%. Further, the 5% export duty on most industrial exports was eliminated. With respect to payments for imports of goods and services, the Macri administration announced the gradual elimination of restrictions on access to the MULC for any transactions originated before December 17, 2015. Regarding transactions executed after December 17, 2015, no quantitative limitations apply.

National electricity state of emergency and reforms. Following years of very limited investment in the energy sector, as well as the continued freeze on electricity and natural gas tariffs since the 2001-2002 economic crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, the Macri administration declared a state of emergency with respect to the national electricity system, which will remain in effect until December 31, 2017. The state of emergency enables the Government to take actions designed to ensure the supply of electricity to the country, such as instructing the Ministry of Energy and Mining to design and implement, with the cooperation of all federal public entities, a coordinated program to guarantee the quality and security of the electrical grid. In addition, through Resolution No. 6/2016 of the Ministry of Energy and Mining and Resolution No. 1/2016 of the National Electricity Regulatory Agency (Ente Nacional Regulador de la Electricidad), the Macri administration announced the elimination of a portion of energy subsidies currently in effect and a substantial increase in electricity rates. As a result, average electricity prices have already increased and could increase further. By correcting tariffs, modifying the regulatory framework and reducing the Government’s involvement in the sector, the Macri administration aims to correct distortions in the energy sector and stimulate investment. However, certain of the Government’s initiatives have been challenged in the Argentine courts and resulted in judicial injunctions or rulings limiting the Government’s initiatives.

Tariff increases. With the aim of encouraging companies to invest and improve the services they offer and enabling the Government to assist those in need, the Macri administration has begun updating the tariffs for electricity, transportation, gas and water services. Each of the announced tariff increases contemplates a tarifa social (social tariff), which is designed to provide support to vulnerable groups, including beneficiaries of social programs, retirees and pensioners who receive up to two minimum pensions, workers who receive up to two minimum salaries, individuals with disabilities, individuals registered in the Monotributo Social program, domestic workers and individuals receiving unemployment insurance.

On August 18, 2016, the Supreme Court of Argentina in “Centro de Estudios para la Promoción de la Igualdad y la Solidaridad versus Ministry of Energy and Mining,” upheld lower court injunctions suspending the proposed increases in gas tariffs and instructed the Ministry of Energy and Mining to conduct a non-binding public hearing prior to sanctioning any such increases. The public hearings were held on September 16, 2016. Pursuant to the holding by the Supreme Court, the Gas Regulatory Entity, or “Enargas,” issued Resolution No. 3960 and 3961 ordering the reestablishment of the prior tariff scheme as of March 31, 2016, and implemented an installment regime for the payment of overdue bills.



Tax Amnesty Law. In July 2016, the Régimen de Sinceramiento Fiscal, or “Tax Amnesty Law,” was introduced to promote the voluntary declaration of assets by Argentine residents. The Tax Amnesty Law allows Argentine tax residents holding undeclared funds or assets located in Argentina or abroad to (i) declare such property until March 31, 2017 without facing prosecution for tax evasion or being required to pay past-due tax liabilities on the assets, if they could provide evidence that the assets were held by certain specified cut-off dates, and (ii) keep the declared property outside Argentina and not repatriate such property to Argentina. With respect to cash that was not deposited in bank accounts by the specified cut-off dates, such amounts had to be disclosed and deposited by October 31, 2016 in special accounts opened at Argentine financial entities. Depending on the amount declared, how soon it is declared, the election to subscribe for certain investment securities and the payment method used, those who took advantage of the Tax Amnesty Law would pay a special tax of between 0 and 15% on the total amount declared. Alternatively, they could invest an equivalent amount in Argentine government bonds or a fund that would finance, among other things, public infrastructure projects and small to medium-sized businesses in general. Taxpayers may elect to subscribe for certain investment securities and reduce the tax rates payable upon disclosure of previously undisclosed assets. On April 4, 2017, the Finance Minister of Argentina announced that, as a result, US\$116,800 million undeclared assets were declared.

Retiree Programs. On June 29, 2016, Congress passed a bill approving the Ley de Reparación Histórica a los Jubilados (Historical Reparations Program for Retirees and Pensioners), which took effect upon its publication in the official gazette. The main aspects of this program, which is designed to conform government social security policies to Supreme Court rulings, include (i) payments to more than two million retirees and the retroactive compensation of more than 300,000 retirees and (ii) the creation of a pensión universal (universal pension) for the elderly, which guarantees an income for all individuals over 65 years of age who are otherwise ineligible for retirement. The Historical Reparations Program for Retirees and Pensioners will give retroactive compensation to retirees in an aggregate amount of more than Ps.47.0 billion and involve expenses of up to Ps.75.0 billion to cover all potential beneficiaries.

Fiscal policy: The Macri administration reduced the primary fiscal deficit by approximately 1.8% of GDP in December 2015 through a series of tax and other measures, and pursued a primary fiscal deficit target of 4.8% of GDP in 2016 through the elimination of subsidies and the reorganization of certain expenditures. However, the primary fiscal deficit for October 2016 increased 183% compared to the comparable period in 2015, while the aggregated primary fiscal deficit as of January 2016 represented a 69% increase compared to the same period of 2015, reaching 4.6% of GDP. The Macri administration’s ultimate aim is to achieve a balanced primary budget by 2019.

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

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

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





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

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

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

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

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

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

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

comparable quarter of 2015, in the seasonally adjusted measurement.

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



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

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

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

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

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



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

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

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

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

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

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

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

Furthermore, on May 18, 2015, we were notified that the Agencia de Administración de Bienes del Estado, or "AABE," revoked the concession agreement granted to our subsidiary Arcos del Gourmet S.A., through Resolution



No. 170/2014. On June 2, 2015, we filed before the AABE a request to declare the notification void, as certain formal proceedings required under Argentine law were not complied with by the AABE. Furthermore, we filed an administrative appeal requesting the dismissal of the revocation of the concession agreement and a lawsuit seeking to declare Resolution No. 170/2014 void. We also filed a lawsuit in order to judicially pay the monthly rental fees of the property. As of the date of this annual report, the “Distrito Arcos” shopping mall continues to operate normally.



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

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

The Argentine government may order 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 experienced significant pressure from their employees and labor organizations to increase wages and to provide additional employee benefits. Since July 2017, the minimum monthly salary of employees is Ps.8,860. Due to persistent high rates of inflation, employers in both the public and private sectors continue to experience significant pressure from unions and their employees to increase minimum salaries.

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

Property values in Argentina could decline significantly.

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

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

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

President Macri, many of the former restrictions were lifted.

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



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

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

The Rural Land Law and its application.

On December 22, 2011, the Argentine Congress passed the Rural Land Law in order to protect the ownership and sovereignty of certain rural areas of Argentina (the "Rural Land Law"). The Rural Land Law sets limits on the ownership of rural land by foreign individuals or legal entities acting in Argentina ("Foreign Persons"), setting a maximum allowable percentage ownership for foreigners of 20%. Additionally, only 30% of the aforementioned 20% may be held by Foreign Persons of the same nationality, and from the date of enactment of the Rural Land Act, a Foreign Person may not own more than 1,000 hectares of rural land in total throughout Argentine territory. The Rural Land Law states that it will not affect any rights previously acquired by Foreign Persons.

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

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

In addition, on June 30, 2016, Executive Branch Decree No. 820/16 was published modifying the Executive Branch Decree No. 274/12. For the purpose of determining the ownership of the rural land, the Decree No. 820/16 defines

how to compute the acquisition of rural land, when they occur as a result of transfers of share packages and how soon transfer; and solves how to estimate equivalence with respect to the core area, depending on the limits for each type of exploitation, municipality, department and province.

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





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

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

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

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

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

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

by other countries that have influence over world economic cycles.



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

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

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

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

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

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

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

In December 2015, the Argentine administration announced a plan to gradually reduce the exports tax payable on certain agricultural products. Export taxes on soy products and wheat, maize, sorghum and sunflower have since been eliminated in an attempt to increase agricultural production. However, this reliance on the export of certain commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. If

international commodity prices decline, the Argentine government's revenues would decrease significantly affecting Argentina's economic activity. Accordingly, a decline in international commodity prices could adversely affect Argentina's economy, which in turn would produce a negative impact on our financial condition and results of operations.

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



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

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

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

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

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

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

electricity could change our cost structure, increasing the operating and utilities costs inherent to fixed assets.

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

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





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

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

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

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

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

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

The Argentine government may lack of political support on the Senator and Deputies Chambers and that may have a negative impact on argentinian economy and, subsequently affect our financial condition and results of operations.

The legislative elections held on October 22, 2017 for the partial renovation of both chambers of the Congress had a favorable outcome for the Macri government. Macri administration outnumbered its opponents in some of the most

important districts of Argentina, making it the most voted force nationwide, but do not have enough seats to reach the quorum in either of the chambers which could prevent or limit the Macri government to continue its policies and effectively implement economic reforms or react appropriately in future circumstances.

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



## Risks Relating to Brazil

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

Our business is dependent to a large extent on the economic conditions in Brazil. From June 30, 2011 we consolidate our financial statements with our subsidiary Brasilagro-Companhia Brasileira de Propiedades Agricolas (“Brasilagro”).

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

economic and social instability;

increase in interest rates;

exchange controls and restrictions on remittances abroad;

restrictions and taxes on agricultural exports;

exchange rate fluctuations;

inflation;

volatility and liquidity in domestic capital and credit markets;

expansion or contraction of the Brazilian economy, as measured by GDP growth rates;

allegations of corruption against political parties, elected officials or other public officials, including allegations made in relation to the Lava Jato investigation;

government policies related to our sector;

fiscal or monetary policy and amendments to tax legislation; and

other political, diplomatic, social or economic developments in or affecting Brazil.

Historically, the Brazilian government has frequently intervened in the Brazilian economy and has occasionally made

significant changes in economic policies and regulations, including, among others, the imposition of a tax on foreign capital entering Brazil (IOF tax), changes in monetary, fiscal and tax policies, currency devaluations, capital controls and limits on imports.

The Brazilian economy has been experiencing a slowdown – GDP growth rates were 3.9%, 1.8%, 2.7% and 0.1%, in 2011, 2012, 2013 and 2014, respectively, and GDP decreased 3.8% in 2015, 3.6% in 2016 and remained stable in the first six months of 2017. In addition, unemployment and interest rates have increased more recently.

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



Furthermore, the Brazilian economy continues to be subject to the effects of the outcome of the impeachment proceedings against former President Dilma Rousseff. On August 31, 2016, following a trial by the Senate, the former President was formally impeached. Vice-President Michel Temer was sworn in as the new President of Brazil until the next presidential election, due to take place in 2018. The president of Brazil has powers to determine policies and governmental acts relating to the Brazilian economy and, as a result, the operations and financial performance of companies may be affected, including ours. Political uncertainty remains as to whether Mr. Temer will gain the support of Congress for future policies announced by his cabinet. In addition, Mr. Temer has been the target of general protests throughout Brazil and is also currently under investigation for alleged unethical and illegal behavior under the Lava Jato investigation and alleged illegal campaign financing during Mr. Temer's 2014 campaign for endorsing the bribing of the former head of the Congress who has been convicted, which could result in his removal from office. In addition, a number of requests for impeachment have been filed against Mr. Temer, as well as criminal by the Brazilian Federal Prosecutor's Office, which could also result in his removal from office, after allegations surfaced that Mr. Temer had allegedly been leading a political corruption related criminal organization.

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

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

Brazil has in the past experienced significantly high rates of inflation. As a result, the Brazilian government adopted monetary policies that resulted in Brazilian interest rates being among the highest in the world. The Brazilian Central Bank's Monetary Policy Committee (Comitê de Política Monetária do Banco Central), or COPOM, establishes an official interest rate target for the Brazilian financial system based on the level of economic growth, inflation rate and other economic indicators in Brazil. Between 2004 and 2010, the official Brazilian interest rate varied from 19.75% to 8.75% per year. In response to an increase in inflation in 2010, the Brazilian government increased the official Brazilian interest rate, the SELIC rate, which was 10.75% per year on December 31, 2010. The Special System for Settlement and Custody (Sistema Especial de Liquidação e Custódia, or "SELIC") rate has increased since then and, as of June 30, 2017, it was 10.81% per year. The inflation rates, as measured by the General Market Price Index (Índice Geral de Preços-Mercado), or IGP-M, and calculated by Fundação Getúlio Vargas, or FGV, were 3.67% in 2014, 10.54% in 2015, and 7.18% in 2016. Cumulative inflation in the first six months of 2017, calculated by the same index, was 1.96%.

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

An increase in interest rates may have a significant adverse effect on us. In addition, as of June 30, 2017, certain of our loans were subject to interest rate fluctuations such as the Brazilian long-term interest rate (Taxa de Juros de Longo Prazo), or TJLP, and the interbank deposit rate (Certificados de Depósitos Interbancários), or CDI. In the event



of an abrupt increase in interest rates, our ability to comply with our financial obligations may be materially and adversely affected.



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

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

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

#### Risks Relating to Countries Where We Operate

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

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

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

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

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

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



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

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

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

Uncertainty over whether governments will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty and heightened volatility in the securities markets, which may have a material and adverse effect on our business, results of operations and financial condition. In addition, an eventual reduction of foreign investment in any of the countries where we operate may have a negative impact on such country's economy, affecting interest rates and the ability of companies to access financial markets.



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

The currencies of many Latin American countries have experienced substantial volatility in recent years. Currency movements, as well as higher interest rates, have materially and adversely affected the economies of many Latin American countries, including countries in which account for or are expected to account for a significant portion of our revenues. The depreciation of local currencies creates inflationary pressures that may have an adverse effect on us generally, and may restrict access to international capital markets. On the other hand, the appreciation of local currencies against the U.S. Dollar may lead to deterioration in the balance of payments of the countries where we operate, as well as to a lower economic growth.

The Argentine Peso depreciated 32.5% against the U.S. dollar in 2013, 31.2% in 2014, 52.1% in 2015 and 21.9% in 2016, based on the official exchange rates published by the Central Bank. In the past years, the Argentine government imposed restrictions on the purchase of foreign currency which measures gave rise to an unofficial market where the U.S. dollar traded at a different market value than reflected in the official Argentine Peso – U.S. Dollar exchange rate. Following national elections in Argentina in 2015, the newly elected Macri administration (the “Macri Administration”) changed the currency policy and lifted all of the restrictions on the purchase of foreign currency while at the same time officially depreciating the Argentine Peso, practically eliminating the gap between the official and unofficial exchange rates that coexisted during the previous years. We cannot predict future fluctuations in the exchange rate of the Argentine Peso or whether the Argentine government will change its currency policy.

The Brazilian currency has historically suffered frequent fluctuations. As a consequence of inflationary pressures, in the past, the Brazilian government has implemented various economic plans and adopted a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Formally the value of the Real against foreign currencies is determined under a free-floating exchange rate regime, but in fact the Brazilian government is currently intervening in the market, through currency swaps and trading in the spot market, among other measures, every time the currency exchange rate is above or below the levels that the Brazilian government considers appropriate, taking into account, inflation, growth, the performance of the Real against the U.S. dollar in comparison with other currencies and other economic factors. Periodically, there are significant fluctuations in the value of the Real against the U.S. dollar. The Real depreciated 15.3% against the U.S. dollar in 2013, 12.52% in 2014, 49.04% in 2015, and in 2016 the Real appreciated 16.54% against U.S. dollar.

The Israeli currency did not suffer important fluctuations during the last years. During fiscal year 2017, NIS appreciated against the U.S. dollar by approximately 9.6%, while during fiscal year 2016 that currency depreciated by 2.2%. Likewise, during fiscal year 2015, NIS depreciated by 10.0%, while during fiscal year 2014, the same currency suffered an appreciation of 1.2%.

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

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

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

In the past, high levels of inflation have adversely affected the economies and financial markets of some of the countries in which we operate, particularly Argentina and Brazil, and the ability of their governments to create



conditions that stimulate or maintain economic growth. Moreover, governmental measures to curb inflation and speculation about possible future governmental measures have contributed to the negative economic impact of inflation and have created general economic uncertainty. As part of these measures, governments have at times maintained a restrictive monetary policy and high interest rates that has limited the availability of credit and economic growth.



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

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

In February 2014 the INDEC modified the methodology for the calculation of the consumer price index (“CPI”) and the gross domestic product. Under the new calculation methodology, the CPI increased by 23.9% in 2014 and 11.9% as of October 2015 (for the first nine months of 2015). However, opposition lawmakers reported an inflation rate of 38.5% and 27.5%, respectively. In December 2015, the Macri administration appointed a former director of a private consulting firm to manage the INDEC. The new director initially suspended the publication of any official data prepared by INDEC and implemented certain methodological reforms and adjusted certain indices based on those reforms. In January 25, 2016, INDEC published two alternative measures of the CPI for the year 2015, 29.6% and 31.6%, which were based on data from the City of Buenos Aires and the Province of San Luis. After implementing these methodological reforms in June 2016, the INDEC resumed its publication of the consumer price index. According to INDEC, Argentina’s rate of inflation for January, February, March, April, May, June, and July and August 2017 were 1.3%, 2.5%, 2.4% 2.6%, 1.3%, 1.2%, 1.7% and 1.4%, respectively.

Brazil has historically experienced high rates of inflation. Inflation, as well as government efforts to curb inflation, has had significant negative effects on the Brazilian economy, particularly prior to 1995. Inflation rates were 7.8% in 2007 and 9.8% in 2008, compared to deflation of 1.7% in 2009, inflation of 11.3% in 2010, inflation of 5.1% in 2011, inflation of 7.8% in 2012, inflation of 5.5% in 2013, inflation of 3.7% in 2014, inflation of 10.5% in 2015, and 7.2% accumulated in the year ended on December 31, 2016, as measured by the General Market Price Index (Índice Geral de Preços — Mercado), compiled by the Getúlio Vargas Foundation (Fundação Getúlio Vargas). A significant proportion of our cash costs and our operating expenses are denominated in Brazilian Reais and tend to increase with Brazilian inflation. The Brazilian government’s measures to control inflation have in the past included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. This policy has changed in the last two years, when the Brazilian government decreased the interest rate by 525 basis points. Subsequently, the high inflation, arising from the lower interest rate, and the intention to maintain this rate at low levels, led the Brazilian government to adopt other measures to control inflation, such as tax relief for several sectors of the economy and tax cuts for the products included in the basic food basket. These measures were not sufficient to control the inflation, which led the Brazilian government to reinstate a tighter monetary policy. As a result, interest rates have fluctuated significantly. The SELIC interest rate in Brazil at year-end was 10.0% in 2013, 11.75% in 2014, 14.25% in 2015 as determined by the Comitê de Política Monetária, or COPOM. In the quarter ended on December 31, 2016, the SELIC was 13.75%.

Argentina and/or Brazil may experience high levels of inflation in the future, which may impact domestic demand for our products. Inflationary pressures may also weaken investor confidence in Argentina and/or Brazil, curtail our

ability to access foreign financial markets and lead to further government intervention in the economy, including interest rate increases, restrictions on tariff adjustments to offset inflation, intervention in foreign exchange markets and actions to adjust or fix currency values, which may trigger or exacerbate increases in inflation, and consequently have an adverse impact on us. In an inflationary environment, the value of uncollected accounts receivable, as well as of unpaid accounts payable, declines rapidly. If the countries in which we operate experience high levels of inflation in the future and price controls are imposed, we may not be able to adjust the rates we charge our customers to fully offset the impact of inflation on our cost structures, which could adversely affect our results of operations or financial condition.



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

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

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

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

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

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

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

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

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

One of the principal disadvantages of the agricultural sector in the countries in which we operate is that key growing regions lie far from major ports. As a result, efficient access to transportation infrastructure and ports is critical to the growth of agriculture as a whole in the countries in which we operate and of our operations in particular.

Improvements in transportation infrastructure are likely to be required to make more agricultural production accessible to export terminals at competitive prices. A substantial portion of agricultural production in the countries in which we operate is currently transported by truck, a means of transportation significantly more expensive than the rail transportation available to U.S. and other international producers. Our dependence on truck transportation may affect our position as a low-cost producer so that our ability to compete in the world markets may be impaired.





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

#### Risks Relating to Our Business

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

Prices for cereals, oilseeds and by-products, like those of other commodities, have historically been cyclical and sensitive to domestic and international changes in supply and demand and can be expected to fluctuate significantly. In addition, the agricultural products and by-products we produce are traded on commodities and futures exchanges and thus are subject to speculative trading, which may adversely affect us. The prices that we are able to obtain for our agriculture products depend on many factors beyond our control, including:

- prevailing world prices, which historically have been subject to significant fluctuations over relatively short periods of time, depending on worldwide demand and supply;

- changes in the agricultural subsidy levels in certain important countries (mainly the United States and countries in the European Union) and the adoption of other government policies affecting industry market conditions and prices;

- changes to trade barriers of certain important consumer markets (including China, India, the U.S. and the E.U.) and the adoption of other governmental policies affecting industry market conditions and prices;

- changes in government policies for biofuels;

- world inventory levels, i.e., the supply of commodities carried over from year to year;

- climatic conditions and natural disasters in areas where agricultural products are cultivated;

- the production capacity of our competitors; and

- demand for and supply of competing commodities and substitutes.

Our financial condition and results of operations could be materially and adversely affected if the prices of our agricultural products decline.

Unpredictable weather conditions, pest infestations and diseases may have an adverse impact on our crop yields and cattle production.

The occurrence of severe adverse weather conditions, especially droughts, hail, or floods, is unpredictable and may have a potentially devastating impact upon our crop production and, to a lesser extent, our cattle and wool production, and may otherwise adversely affect the supply and price of the agricultural commodities that we sell and use in our

business. The occurrence of severe adverse weather conditions may reduce yields on our farmlands or require us to increase our level of investment to maintain yields. Additionally, higher than average temperatures and rainfall can contribute to an increased presence of pest and insects that may adversely impact our agricultural production.

According to the United States Department of Agriculture (“USDA”) estimates, Argentina’s crops output (wheat, corn and soybean) for the 2016/2017 season is expected to increase by 12.3%, reaching a production of 108 million tons, as compared to the previous cycle. The forecast shows mainly an increase in the planted area, with a focus on wheat and corn, which is additionally enhanced by a slightly better expected yield in comparison with the 2015/2016 campaign. The estimated production of soybean is supposed to reach 57 million tons, the wheat production 14.4 million tons and the corn production 36.5 million tons.



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

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

Our cattle are subject to diseases.

Diseases among our cattle herds, such as mastitis, tuberculosis, brucellosis and foot-and-mouth disease, can have an adverse effect on milk production and fattening, rendering cows unable to produce milk or meat for human consumption. Outbreaks of cattle diseases may also result in the closure of certain important markets, such as the United States, to our cattle products. Although we abide by national veterinary health guidelines, which include laboratory analyses and vaccination, to control diseases among the herds, especially foot-and-mouth disease, we cannot assure that future outbreaks of cattle diseases will not occur. A future outbreak of diseases among our cattle herds may adversely affect our cattle and milk sales which could adversely affect our operating results and financial condition.

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

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

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

The creation of new export taxes may have an adverse impact on our sales and results of operations.

In order to prevent inflation and variations in the exchange rate from adversely affecting prices of primary and manufactured products (including agricultural products), and to increase tax collections and reduce Argentina's fiscal deficit, the Argentine government has imposed new taxes on exports. Pursuant to Resolution No. 11/02 of the Ministry of Economy and Production, as amended by Resolution No. 35/02, No. 160/2002, No. 307/2002 and No. 530/2002, effective as of March 5, 2002, the Argentine government imposed a 20%, 10% and 5% export tax on primary and manufactured products. On November 12, 2005, pursuant to Resolution No. 653/2005, the Ministry of Economy and Production increased the tax on cattle exports from 5% to 10%, and on January 2007 increased the tax on soybean exports from 23.5% to 27.5%. Pursuant to Resolutions No. 368/07 and No. 369/07 both dated November 12, 2007, the Ministry of Economy and Production further increased the tax on soybean exports from 27.5% to 35.0% and also the tax on wheat and corn exports from 20.0% to 28.0% and from 20.0% to 25.0%, respectively. In early March 2008, the Argentine government introduced a regime of sliding –scale export tariffs for oilseed, grains and by-products, where the withholding rate (in percentage) would increase to the same extent as the crops' price.

Therefore, it imposed an average tax for soybean exports of 46%, compared to the previous fixed rate of 35%. In addition, the tax on exports of wheat was increased, from a fixed rate of 28% to an average variable rate of 38%, and the tax on exports of corn changed from a fixed rate of 25% to an average variable rate of 36%.



This tariff regime, which according to farmers effectively sets a maximum price for their crops, sparked widespread strikes and protests by farmers whose exports have been one of the principal driving forces behind Argentina's recent growth. In April 2008, as a result of the export tariff regime, farmers staged a 21-day strike in which, among other things, roadblocks were set up throughout the country, triggering Argentina's most significant political crisis in five years. These protests disrupted transport and economic activity, which led to food shortages, a surge in inflation and a drop in export registrations. Finally, the federal executive branch decided to send the new regime of sliding-scale export tariffs to the federal congress for its approval. The project was approved in the lower chamber of the national congress but rejected by the Senate. Subsequently, the federal government abrogated the regime of sliding-scale export tariffs and reinstated the previous scheme of fixed withholdings.

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

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

An international credit crisis could have a negative impact on our major customers which in turn could materially adversely affect our results of operations and liquidity.

The most recent international credit crisis that started in 2008 had a significant negative impact on businesses around the world. Although we believe that available borrowing capacity under the current conditions and proceeds resulting from potential farmland sales will provide us with sufficient liquidity through the current economic environment, the impact of the crisis on our major customers cannot be predicted and may be quite severe. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity.

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

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

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

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





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

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

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

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

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

Our cattle sales are diversified but we are and will continue to be significantly dependent on a number of third party relationships, mainly with our customers for crop and milk sales. During the fiscal year 2017, we sold our products to approximately 500 customers. Sales of agricultural products to our ten largest customers represented approximately 45% to 50 % of our net agricultural sales for the fiscal year ended June 30, 2017. Of these customers, our most important customers were Cargill S.A.C.I., Granos Olavarria, Bunge Alimentos S. A. and Amaggi & LD Commodities S.A.

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

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

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

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



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

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

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

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

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

We consolidated our financial statements with our subsidiary Brasilagro. Brasilagro was formed on September 23, 2005 to exploit opportunities in the Brazilian agricultural sector. Brasilagro seeks to acquire and develop future properties to produce a diversified range of agricultural products (which may include sugarcane, grains, cotton, forestry products and livestock). Brasilagro is a startup company that has been operating since 2006. As a result, it has a developing business strategy and limited track record. Brasilagro’s business strategy may not be successful, and if not successful, Brasilagro may be unable to successfully modify its strategy. Brasilagro’s ability to implement its proposed business strategy may be materially and adversely affected by many known and unknown factors. If we were to write-off our investments in Brasilagro, this would likely materially and adversely affect our business. As of June 30, 2017, we owned 42.44% of the outstanding common shares of Brasilagro.

We are subject to extensive environmental regulation.

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

As of June 30, 2017, we owned land reserves extending over more than 360,386 hectares that were purchased at very attractive prices. In addition, we have a concession over 108,095 hectares reserved for future development. We believe that there are technological tools available to improve productivity in these farmlands and, therefore, achieve appreciation in the long term. However, current or future environmental regulations could prevent us from fully developing our land reserves by requiring that we maintain part of this land as natural woodlands not to be used for production purposes.



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

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

Over the last few years, the Argentine government has taken certain measures in order to reduce the use of energy during peak months of the year by frequently cutting energy supply to industrial facilities and large consumers to ensure adequate supply for residential buildings. Also, the Macri administration in Argentina has declared a state of emergency with respect to the national energysystem until December 31, 2017. The state of emergency will allow the Macri administration to take any action to ensure the supply of energy. A revision to the current subsidy policies has also been announced by the Macri administration. If energy supply is cut for an extended period of time and we are unable to find replacement sources at comparable prices, or at all, our business and results of operations could be adversely affected.

We depend on our chairman and senior management.

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

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

The Investment Company Act may limit our future activities.

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

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

In recent years we made a significant investment in the capital stock of IRSA. As of June 30, 2017, we owned approximately 63.38% of IRSA’s outstanding shares. Although we believe we are not an “investment company” for



purposes of the Investment Company Act, our belief is subject to substantial uncertainty, and we cannot give you any assurance that we would not be determined to be an “investment company” under the Investment Company Act. As a result, the uncertainty regarding our status under the Investment Company Act may adversely affect our ability to offer and sell securities in the United States or to U.S. persons. The U.S. capital markets have historically been an important source of funding for us, and our ability to obtain financing in the future may be adversely affected by a lack of access to the U.S. markets. If an exemption under the Investment Company Act is unavailable to us in the future and we desire to access the U.S. capital markets, our only recourse would be to file an application to the SEC for an exemption from the provisions of the Investment Company Act which is a lengthy and highly uncertain process.



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

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

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

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

loss of principal.

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

Risks relating to our investment in IRSA Inversiones y Representaciones S.A. (“IRSA”).

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

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

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

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

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

decline in IRSA's lease prices or increases in levels of default by its tenants due to economic conditions, increases in interest rates and other factors out of its control;

the accessibility and the attractiveness of the area where the shopping mall is located;

the intrinsic attractiveness of the shopping mall;

the flow of people and the level of sales of each shopping mall rental unit;



the increasing competition from internet sales;

the amount of rent collected from each shopping mall rental unit;

changes in consumer demand and availability of consumer credit (considering the limits imposed by the Central Bank to interest rates charged by financial institutions), both of which are highly sensitive to general macroeconomic conditions; and

fluctuations in occupancy levels in the shopping malls.

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

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

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

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

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

Events or conditions beyond the Company's control that may adversely affect its operations or the value of its properties include:

downturns in the national, regional and local economic climate;

volatility and decline in discretionary spending;

competition from other shopping malls and office, and commercial buildings;

local real estate market conditions, such as oversupply or reduction in demand for retail, office, or other commercial space;

decreases in consumption levels;

changes in interest rates and availability of financing;

the exercise by our tenants of their legal right to early termination of their leases;

vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;

increased operating costs, including insurance expense, salary increases, utilities, real estate taxes, state and local taxes and heightened security costs;





civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs;

declines in the financial condition of our tenants and our ability to collect rents from our tenants;

changes in our ability or our tenants' ability to provide for adequate maintenance and insurance, possibly decreasing the useful life of and revenue from property;

changes in law or governmental regulations (such as those governing usage, zoning and real property taxes) or government action such as expropriation, confiscation or revocation of concessions; and

judicial interpretation of the New Civil and Commercial Code (in force since August 1, 2015) which may be adverse to our interests.

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

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

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

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

Although no single tenant represents more than 3% of IRSA's revenues, if a significant number of tenants at IRSA's retail or office properties were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, or if the Company failed to retain them, its business could be adversely affected. Further, IRSA's shopping malls typically have a significant "anchor" tenant, such as well-known department stores that generate

consumer traffic at each mall. A decision by such tenants to cease operations at any shopping mall or office building, as applicable, could have a material adverse effect on IRSA's financial condition and the results of its operations. In addition, the closing of one or more stores with high consumer traffic may motivate other tenants to terminate or to not renew their leases, to seek rent relief and/or close their stores or otherwise adversely affect the occupancy rate at the property. Moreover, tenants at one or more properties might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies. The bankruptcy and/or closure of multiple stores, if IRSA is not able to successfully re-lease the affected space, could have a material adverse effect on both the operating revenues and underlying value of the properties involved.

IRSA may face risks associated with property acquisitions.

IRSA has in the past acquired, and intends to acquire in the future, properties, including large properties that would increase the size of the Company and potentially alter its capital structure. Although IRSA believes that the acquisitions that have been completed in the past and that are expected to be undertaken in the future have, and will, enhance IRSA's future financial performance, the success of such transactions is subject to a number of uncertainties, including the risk that:



IRSA may not be able to obtain financing for acquisitions on favorable terms;

acquired properties may fail to perform as expected;

the actual costs of repositioning or redeveloping acquired properties may be higher than IRSA's estimates; and

acquired properties may be located in new markets where IRSA may have limited knowledge and understanding of the local economy, absence of business relationships in the area or unfamiliarity with local governmental and permitting procedures.

If IRSA acquires new properties, it may not be able to efficiently integrate acquired properties, particularly portfolios of properties, into its organization and to manage new properties in a way that allows the Company to realize cost savings and synergies, which could impair its results of operations.

IRSA's future acquisitions may not be profitable.

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

IRSA's estimates of the cost of improvements needed to bring the property up to established standards for the market may prove to be inaccurate;

Acquired properties may fail to achieve, within the time frames the Company projects, the occupancy or rental rates it expects to achieve at the time it makes the decision to acquire, which may result in the properties' failure to achieve the projected returns;

IRSA's pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs, which could significantly increase its total acquisition costs; and

IRSA's investigation of a property or building prior to its acquisition, and any representations the Company may receive from the seller of such building or property, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase IRSA's acquisition cost.

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

Properties IRSA acquires may subject the Company to unknown liabilities.

Properties that IRSA acquires may be subject to unknown liabilities and IRSA generally would have no recourse, or only limited recourse to the former owners of the properties in respect thereof. Thus, if a liability were asserted against

IRSA based on ownership of an acquired property, the Company may be required to pay significant sums to settle it, which could adversely affect its financial results and cash flow. Unknown liabilities relating to acquired properties could include:

liabilities for clean-up of undisclosed environmental contamination;

law reforms and governmental regulations (such as those governing usage, zoning and real property taxes); and

liabilities incurred in the ordinary course of business.



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

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

delay lease commencements;

decline to extend or renew leases upon expiration;

fail to make rental payments when due; or

close stores or declare bankruptcy.

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

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

Real estate investments are relatively illiquid and this tends to limit IRSA's ability to vary its portfolio in response to economic changes or other conditions. In addition, significant expenditures associated with each investment, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a decrease in income from an investment. If income from a property declines while the related expenses do not decline, IRSA's business would be adversely affected. Further, if it becomes necessary or desirable for IRSA to dispose of one or more of its mortgaged properties, the Company 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 IRSA's business.

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

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

IRSA's ability to grow will be limited if the Company cannot obtain additional financing.

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

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

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





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

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

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

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

Argentine Law governing leases imposes restrictions that limit IRSA's flexibility.

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

a prohibition on including automatic price adjustment clauses based on inflation increases in lease agreements; and

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

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

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

the scope of this amendment and, in particular, in connection with the ability of the parties to any contract to set aside the new provision and enforce such agreements before an Argentine court.



IRSA may be liable for some defects in its buildings.

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

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

Eviction proceedings in Argentina are difficult and time consuming.

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

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

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

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

a decrease in demand for office space;

a deterioration in the financial condition of our tenants may result in defaults under leases due to bankruptcy, lack of liquidity or for other reasons;

difficulties or delays renewing leases or re-leasing space;

decreases in rents as a result of oversupply, particularly of newer buildings;

competition from developers, owners and operators of office properties and other commercial real estate, including sublease space available from IRSA's tenants; and

maintenance, repair and renovation costs incurred to maintain the competitiveness of IRSA's office buildings.

If IRSA is unable to adequately address these factors, any one of them could adversely impact its business, which would have an adverse effect on IRSA's financial condition and results of operations.



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

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

abandonment of development opportunities and renovation proposals;

construction costs of a project may exceed the 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 IRSA's investment;

pre-construction buyers may default on their purchase contracts or units in new buildings may remain unsold upon completion of construction;

the unavailability of favorable financing alternatives in the private and public debt markets;

aggregate sale prices of residential units may be insufficient to cover development costs;

construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs;

failure or delays in obtaining necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, or building moratoria and anti-growth legislation;

significant time lags between the commencement and completion of projects subjects us to greater risks due to fluctuation in the general economy;

construction may not be completed on schedule because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, or man-made or natural disasters (such as fires, hurricanes, earthquakes or floods), resulting in increased debt service expense and construction costs;

general changes in IRSA's tenants' demand for rental properties; and



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

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

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

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

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



IRSA faces significant competitive pressure.

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

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

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

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

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

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



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

Under the terms and conditions of the leases currently in force on IRSA's properties, tenants are required to indemnify and hold the Company 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 IRSA's negligence or intentional misconduct or that of IRSA's agents. Tenants are generally required, at the tenant's expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies. In addition, IRSA cannot ensure you that its tenants will properly maintain their insurance policies or have the ability to pay the deductibles.

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

Demand for IRSA's premium properties may not be sufficient.

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

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

IRSA had, and expects to have, substantial liquidity and capital resource requirements to finance its business. As of June 30, 2017, its consolidated financial debt amounted to Ps.129,415 million (including IDBD's debt outstanding as of that date plus accrued and unpaid interest on such indebtedness and deferred financing costs). IRSA cannot assure you that the Company will have sufficient cash flows and adequate financial capacity in the future. While the commitments and other covenants applicable to IDBD's debt obligations do not apply IRSA since such debt has no recourse to IRSA and it is not guaranteed by IRSA's assets, these covenants and restrictions may impair or restrict IRSA's ability to operate IDBD and implement its business strategy.

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

IRSA may not be able to generate sufficient cash flows from operations to satisfy its debt service requirements or to obtain future financing. If IRSA cannot satisfy its debt service requirements or if IRSA defaults on any financial or other covenants in its debt arrangements, the lenders and/or holders of IRSA's debt will be able to accelerate the maturity of such debt or cause defaults under the other debt arrangements. IRSA's ability to service debt obligations or to refinance them will depend upon its future financial and operating performance, which will, in part, be subject to

factors beyond its control such as macroeconomic conditions and regulatory changes in Argentina. If IRSA cannot obtain future financing, the Company may have to delay or abandon some or all of its planned capital expenditures, which could adversely affect its ability to generate cash flows and repay its obligations as they become due.





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

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

IRSA is subject to risks affecting the hotel industry.

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

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

IRSA's ability to form successful relationships with international and local operators to run its hotels;

changes in tourism and travel trends, including seasonal changes and changes due to pandemic outbreaks, such as the A H1N1 and zika viruses, a potential ebola outbreak, among others, or weather phenomena's or other natural events, such as the eruption of the Puyehué and the Calbuco volcano in June 2011 and April 2015, respectively;

affluence of tourists, which can be affected by a slowdown in global economy; and

taxes and governmental regulations affecting wages, prices, interest rates, construction procedures and costs.

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

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

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

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



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

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

Labor relations may negatively impact IRSA.

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

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

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

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

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

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



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

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

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

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

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

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

In some cases, IRSA develops and acquires properties through joint ventures with other persons or entities when the Company believes circumstances warrant the use of such structures. For example, IRSA currently owns 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"). IRSA could engage in a dispute with one or more of its joint venture partners that might affect its ability to operate a jointly-owned property. Moreover, IRSA's joint venture partners may, at any time, have business, economic or other objectives that are inconsistent with IRSA's objectives, including objectives that relate to the timing and terms of any sale or refinancing of a property. For example, the approval of certain of the other investors is required with respect to operating budgets and refinancing, encumbering, expanding or selling any of these properties. In some instances, IRSA's joint venture partners may have competing interests in IRSA's markets that could create conflicts of interest. If the objectives of IRSA's joint venture partners are inconsistent with IRSA's own objectives, IRSA will not be able to act exclusively in its interest.

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

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

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





IRSA is dependent on its Board of Directors and its personnel.

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

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

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

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

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

Risks Related to our Investment in Banco Hipotecario

Risks Relating to the Argentine Financial System and Banco Hipotecario

Capital stock in Banco Hipotecario

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





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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

In addition to regulations specific to the banking industry, Banco Hipotecario is subject to a wide range of federal, provincial and municipal regulations and supervision generally applicable to businesses operating in Argentina,



including laws and regulations pertaining to labor, social security, public health, consumer protection, the environment, competition and price controls. IRSA cannot assure that existing or future legislation and regulation will not require material expenditures by Banco Hipotecario or otherwise have a material adverse effect on Banco Hipotecario's consolidated operations.



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

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

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

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

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

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

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

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

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

Banco Hipotecario currently acts as trustee of the PROCREAR Trust, which aims to facilitate access to housing solutions by providing mortgage loans for construction and developing housing complexes across Argentina. Under the terms and conditions of the PROCREAR Trust, all the duties and obligations under the trust have to be settled with the trust estate. Notwithstanding, if the aforementioned is not met, Banco Hipotecario could have its reputation

affected. In addition, if the Argentine government decides to terminate the PROCREAR Trust and/or terminate Banco Hipotecario's role as trustee of the PROCREAR Trust, this may adversely affect Banco Hipotecario's results of operations.



## Operations Center in Israel

### Risks related to Israel

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

In December 2013, the official “Reshumot” published in Israel the Promotion of Competition and Reduction of Centralization Law, No. 5774-2013 (the “Reduced Centralization Act”) pursuant to which the use of being a pyramidal structures (or multiholding companies) for the control of “reporting entities” (principally entities whose securities are held by public shareholders) is limited to two layers of reporting entities, being the holding company the first layer not including a reporting entity that has no controlling shareholder.

On August 2017, Dolphin Netherlands B.V. (“Dolphin”) made a non-binding offer to purchase all the shares held by IDBD in Discount Investment Corporation Ltd. (“DIC”). On September 2017, IDBD announced that following the negotiations of DIC’s independent board committee such non-binder offer was accepted pursuant to which Dolphin bought all IDBD’s interest in DIC at a price of NIS 16.6 per share (and in total of NIS 1.77 billion in respect of all the shares which will be sold) by means of a debenture that will be issued by the purchaser to IDBD, for the entire amount of the consideration for the shares.

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

On September 20, 2017, complying with the Reduced Centralization Act in respect to the pyramid participation structure, Dolphin, a subsidiary of the Company, has executed a binding term sheet for the acquisition of the entire shares held by IDBD in DIC through a company that it is controlled by the Company, currently existing or to be incorporated in Israel. The term sheet has been approved by the independent directors committee created for the purposes of such transaction which has been participated in the negotiations, analyzed and assessed the term sheet. This term sheet shall continue in negotiations between the parties so as to define the terms and conditions of the definitive documents to be executed. The Audit Committee of the Company has issued an opinion without objections to make with respect to the referred transaction.

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

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

IDBD and its subsidiaries by December 2017, the applicable authority in Israel may impose penalties on IDBD pursuant to the terms of the Reduced Centralization Act.

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

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

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

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

Negative effects on the state of their business affairs (including the demand for products of the subsidiaries of IDBD);

Negative effects on the value of the marketable securities and on the value of non-marketable assets which are held by them;

Negative effects on their ability to generate profits or an increase in capital attributed to shareholders of the companies, and realization of their holdings;

Negative effects on their liquidity and equity;

Negative effects on their ability to perform issuances on stock exchanges, in Israel and abroad;

Negative effects on the financial ratios of those companies, in a manner which could impose difficulties on capital raisings and/or affect their terms, or harm the fulfillment of financial covenants, insofar as any have been determined, in connection with the provision of loans by financing entities, or require them to provide additional securities to

financing entities, and even to repay the foregoing credit, or constitute grounds for demanding the realization of securities which were given to secure the foregoing credit;





Negative effects on their debt ratings, as given by rating entities and their debt repayment ability;

Negative effects on their ability to distribute dividends;

Negative effects on the need for recording of impairment and on the data reported in their financial statements, due to the accounting standards which apply to them; and

Difficulties imposed on the identification of financing sources and on the raising or refinancing of debt funds, if these are required by them in order to finance their operating activities and long term activities, as well as on the terms of financing from financial entities and from banks.

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

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

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

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

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

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

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

IDBD and its subsidiaries are exposed to financial risks.

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



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

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

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

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

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

Regional conflict may affect IDBD or its subsidiary's activities, especially Cellcom ("Cellcom") activities.

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

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

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



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

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

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

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

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

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

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

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



at which IDBD's finance its operations or the lack of financing at acceptable terms, may have an adverse effect on IDBD's results of operations.

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

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



Risks relating to IRSA's business in Israel

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

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

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

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

The provision of the Antitrust Law may affect IDBD operations.

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

IDBD and its subsidiaries may face environmental risks.

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

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

The trustee for the debenture holders (Series I) of IDBD (the "Trustee") raised, in early 2016 (including within the framework of legal proceedings in amendment of the debt settlement in IDB Holding Corporations Ltd. ("IDBH")) assertions regarding IDBD being insolvency, and the debenture holders (Series I) also decided to appoint a representation for that series. In June 2016, the trustee filed with the District Court of Tel Aviv-Yafo (the "Court") a motion to order the liquidation of IDBD, and a motion to order the appointment of a provisional liquidator (the

“Motion To Appoint A Provisional Liquidator”). On July 18, 2016, the Court issued a ruling, in which the Court accepted the consensus motion which was filed by the trustee to strike the motion to liquidate. The initiation of legal actions against IDBD by its debenture holders may harm the ability of IDBD to continue repaying its debts in accordance with their current amortization schedules, and may also lead to a demand for the immediate repayment of future liabilities (primarily to lending corporations).



IDBD is exposed to changes in cash flows from subsidiaries.

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

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

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

IDBD and some of its subsidiaries are subject to legal and contractual restrictions, including those which are included in permits and licenses, which may restrict the possibility of selling and transferring IDBD's equity interest in its subsidiaries, or the possibility of pledging such interests (including due to restrictions on the realization of such pledges) by IDBD or by its subsidiaries.

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

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

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

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



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

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

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

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

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

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

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

Cellcom is exposed to an aggressive competition.

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

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

(b) Tariffs remaining at their current rates, or an additional decrease in rates, including as part of a package of services;

(c) An ineffective wholesale market for landline communication, including due to the effective exclusion of Hot infrastructure, the effective exclusion of telephone services from the wholesale market, the offering of services not in accordance with the criteria of the wholesale market, without implementation of enforcement measures by the



Ministry of Communication, or the pricing thereof in a manner which could negatively affect Cellcom's ability to offer competitive services packages, and to compete against Bezeq and Hot (due to their dominant status in the landline communication market), particularly if the structural separation which applies to the Bezeq and Hot groups is canceled before the creation of an effective landline wholesale market;

(d) Cancellation or easement of the structural separation which applies to the Bezeq and Hot groups;

(e) The entry of new competitors into markets in which Cellcom is engaged, or the entry of existing competitors into segments in which they were not previously active, or were partially active;



(f) Distribution or acquisition of a landline infrastructure by one of Cellcom's competing companies, which does not own such infrastructure, or collaboration of a competitor company with an operator which has such infrastructure, if Cellcom does not distribute or acquire such infrastructure, or enter into a collaboration with an operator which holds such infrastructure;

(g) Regulatory changes which facilitate the transition of customers between operators; or

(h) Continued increased competition in the end user equipment market, and the entry of additional competitors into the end user equipment market and/or legislation or new judicial decisions which may restrict Cellcom's activities in the end user equipment sale market, and adversely affect its income or profitability.

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

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

(a) cancellation or easement of the structural separation obligation which applies to Bezeq and Hot, particularly if such cancellation or easement is given before the creation of an effective wholesale market in the landline communication market;

(b) competition-encouraging tariffs;

(c) the provision of easements and benefits to competitors, over Cellcom;

(d) granting permissions for other operators to provide services to Cellcom subscribers which were previously provided only by Cellcom;

(e) non-renewal of Cellcom's licenses and/or frequencies, or restriction of their use, and non-allocation of additional frequencies, if required;

(f) the establishment of additional requirements for the provision of easements to competitors with respect to safety or health, including with respect to the construction and operation of base sites;

(g) the establishment of additional restrictions or requirements regarding the provision of services and products and/or intervention in their terms of marketing, advertising and provision, including regarding existing agreements;

(h) the establishment of a higher standard of service;

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

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

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

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

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



Cellcom provides communication services in accordance with licenses which were given by the Ministry of Communication, which are subject to