

CRESUD INC  
Form 20-F  
October 31, 2018

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, 2018

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: 001-29190

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)

Moreno 877, 23rd Floor,  
(C1091AAQ) City of Buenos Aires, Argentina  
(Address of principal executive offices)

Matías Iván Gaivironsky  
Chief Financial and Administrative Officer  
Tel +(5411) 4323-7449 – finanzas@cresud.com.ar

Edgar Filing: CRESUD INC - Form 20-F

Moreno 877, 24th 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 (ADSs), each representing ten shares of Common Stock	Nasdaq National Market of the Nasdaq Stock Market
Common Stock, par value Ps. 1.00 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

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

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

Carolina Zang

David Williams

Jaime Mercado

Zang Vergel & Viñes Abogados

Simpson Thacher & Bartlett LLP

Florida 537 piso 18°  
C1005AAK Buenos Aires, Argentina.

425 Lexington Avenue  
New York, NY 10019



## TABLE OF CONTENTS

	Page No.
Disclosure Regarding Forward-Looking Information	i
Certain Measures and Terms	i
Presentation of Financial and Certain Other Information	ii
Market Data	iv
Part I	1
Item 1. Identity of Directors, Senior Management and Advisers	1
Item 2. Offer Statistics and Expected Timetable	1
Item 3. Key Information	1
A. Selected Consolidated Financial Data	1
B. Capitalization and Indebtedness	9
C. Reasons for the Offer and Use of Proceeds	9
D. Risk Factors	10
Item 4. Information on the Company	76
A. History and Development of the Company	76
B. Business Overview	87
C. Organizational Structure	175
D. Property, Plants and Equipment	176
Item 4A. Unresolved Staff Comments	179
Item 5. Operating and Financial Review and Prospects	179
A. Consolidated Operating Results	179
B. Liquidity and Capital Resources	236
C. Research and Developments, Patents and Licenses	242
D. Trend Information	243
E. Off-Balance Sheet Arrangements	246
F. Tabular Disclosure of Contractual Obligations	246
G. Safe Harbor	246
Item 6. Directors, Senior Management and Employees	247
A. Directors and Senior Management	247
B. Compensation	250
C. Board Practices	252
D. Employees	253
E. Share Ownership	254
Item 7. Major shareholders and related party transactions	255
A. Major Shareholders	255
B. Related Party Transactions	256
C. Interests of Experts and Counsel	260
Item 8. Financial Information	260
A. Audited Consolidated Statements and Other Financial Information	260
B. Significant Changes	268
Item 9. The Offer and Listing	268
A. Offer and Listing Details	268
B. Plan of Distribution	269
C. Markets	270
D. Selling Shareholders	271
E. Dilution	271

F. Expenses of the Issue	272
Item 10. Additional Information	272
A. Share Capital	272
B. Memorandum and Articles of Association	272
C. Material Contracts	277
D. EXCHANGE CONTROLS	277
E. Taxation	282
F. Dividends and Paying Agents	288
G. Statement by Experts	288
H. Documents on Display	288
I. Subsidiary Information	288
Item 11. Quantitative and Qualitative Disclosures about Market Risk	288
Item 12. Description of Securities Other than Equity Securities	288
Part II	290
Item 13. Defaults, Dividend Arrearages and Delinquencies	290
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	290
Item 15. Controls and Procedures	290
A. Disclosure Controls and Procedures	290
B. Management’s Annual Report on Internal Control Over Financial Reporting	290
C. Attestation Report of the Registered Public Accounting Firm	290
D. Changes in Internal Control Over Financial Reporting	291
Item 16. Reserved	291
Item 16A. Audit Committee Financial Expert	291
Item 16B. Code of Ethics	291
Item 16C. Principal Accountant Fees and Services	291
Item 16D. Exemption from the Listing Standards for Audit Committees	292
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	292
Item 16F. Change in Registrant’s Certifying Accountant	293
Item 16G. Corporate Governance	293
Item 16H. Mine Safety Disclosures	294
Part III	295
Item 17. Financial Statements	295
Item 18. Financial Statements	295
Item 19. Exhibits	295





## DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

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 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, 2018, 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.

#### Available information

We file annual and current reports and other information with the United States Securities and Exchange Commission, or “SEC.” You may read and copy any document we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website at <http://www.sec.gov> that contains reports and other information regarding issuers that file electronically with the SEC. The information contained on this website does not form part of this annual report form 20-F.

You may obtain a copy of these filings at no cost by writing to us at: Moreno 877, 24th Floor, City of Buenos Aires (C1091AAQ), Argentina or telephoning us at +54 (11) 4814-7800.

#### PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

As used throughout this annual report, the terms “Cresud,” “Group,” “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.

The terms “Argentine government” and “government” refer to the federal government of Argentina, the term “Central Bank” refers to the Banco Central de la República Argentina (the Argentine Central Bank), the terms “CNV” and “CNV Rules” refers to the Comisión Nacional de Valores (the Argentine National Securities Commission) and the rules issued by the CNV, respectively. In this annual report, when we refer to “Peso,” “Pesos” or “Ps.” we mean Argentine Pesos, the legal currency of Argentina; when we refer to “U.S. dollar,” “U.S. dollars” or “US\$” we mean United States dollars, the legal currency of the United States; when we refer to “NIS” we mean Israeli New Shekel.

#### Financial Statements

This annual report contains our Audited Consolidated Financial Statements as of June 30, 2018 and 2017 for our fiscal years ended June 30, 2018, 2017 and 2016 (our “Audited Consolidated Financial Statements”). We prepare our Audited Consolidated Financial Statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). 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.

IDB Development Corporation Ltd. (“IDBD”) and Discount Investment Corporation (“DIC”) report their quarterly and annual results following the Israeli regulations, whose legal deadlines are after the deadlines in Argentina and since

IDBD and DIC fiscal years end differently from IRSA, the results of operations from IDBD and DIC are consolidated with a lag of three months and adjusted for the effects of significant transactions taking place in such period. For these reasons, it is possible to obtain the quarterly results of IDBD and DIC in time so that they can be consolidated by IRSA and reported to the CNV in its Consolidated Financial Statements within the legal deadlines set in Argentina. This way, the consolidated comprehensive income for the year ended June 30, 2018 includes the results of IDBD and DIC for the 12-month period from April 1, 2017 to March 31, 2018, adjusted for the significant transactions that occurred between April 1, 2018 and June 30, 2018. In addition, IDBD's results of operations for the period beginning October 11, 2015 (the acquisition of control) through March 31, 2016 are included in the company's consolidated comprehensive income for fiscal year ended June 30, 2016, adjusted by significant transactions occurred between April 1, 2016 and June 30, 2016.

As required under Rule 3-09 of Regulation S-X, this annual report contains the audited consolidated financial statements of December 31, 2017 and for the fiscal year ended December 31, 2016 and 2017 of Banco Hipotecario S.A. ("Banco Hipotecario"), in which IRSA holds a 29.91% equity interest. Such financial statements have been prepared in conformity with the regulations set forth by the Central Bank ("Argentine Banking GAAP"), which differ in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP") and IFRS. Note 27 to the audited consolidated financial statements of Banco Hipotecario provides a description of the principal differences between Argentine Banking GAAP and IFRS (as adopted by the Central Bank), as they relate to us, and a reconciliation to IFRS (as adopted by the Central Bank) of the consolidated balance sheet of Banco Hipotecario as of December 31, 2017 and of our consolidated income statement for the year ended December 31, 2017. In addition, Note 32 to the audited consolidated financial statements of Banco Hipotecario provides a description of the principal differences between Argentine Banking GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of our consolidated shareholders' equity as of December 31, 2017 and 2016 and our consolidated net income for the years ended December 31, 2017 and 2016.



Effective January 1, 2018, Banco Hipotecario began preparing its consolidated financial statements in accordance with IFRS, with certain criteria of measurement and exposure specifically established by the Central Bank (see note 27 to our audited consolidated financial statements). As established in IFRS 1 “First Time Adoption of International Financial Reporting Standards,” Banco Hipotecarios’s transition date to IFRS (as adopted by the Central Bank) is January 1, 2017.

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

- (i) Corresponds to Company’s associates, which are hence excluded from consolidation.
- (ii) The results are included in discontinued operations, due to the loss of control in June 2018.
- (iii) Disclosed as financial assets held for sale.
- (iv) Assets and liabilities are disclosed as held for sale and the results as discontinued operations.
- (v) For more information about the change within the Operations Center in Israel see Note 4 to the Audited Consolidated Financial Statements.

#### Inflation

We have determined that, as of July 1, 2018, the Argentine economy qualifies as a hyperinflationary economy according to the guidelines to International Accounting Standard 29, Financial Reporting in Hyperinflationary Economies (“IAS 29”) since the total cumulative inflation in Argentina in the 36 months prior to July 1, 2018, as measured by the wholesale price index published by the INDEC, exceeded 100%. IAS 29 will be applicable to our financial statements for periods ending after July 1, 2018. See Note 2.1(a) to our Audited Consolidated Financial Statements.

IAS 29 requires that the financial information recorded in a hyperinflationary currency be adjusted by applying a general price index and expressed in the measuring unit (the hyperinflationary currency) current at the end of the reporting period. Therefore, our audited consolidated financial statements included in this annual report will be adjusted by applying a general price index and expressed in the measuring unit (the hyperinflationary currency) current at the end of the most recent reporting period. We have not estimated yet the impact of the application of IAS 29 provisions in our audited consolidated financial statements. Our Audited Consolidated Financial Statements included in this annual report were not restated into constant currency.

For more information, see “Risk Factors—Risks Relating to Argentina—The peso qualifies as a currency of a hyperinflationary economy under IAS 29. We cannot assure you whether regulatory agencies of the Argentine national government will require us to not apply IAS 29 to financial statements furnished to such regulators” and “—Continuing inflation may have an adverse effect on the economy and our business, financial condition and results of operations.”





### Currency translations and 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.28.8500 per US\$1.00 for information provided as of June 30, 2018. The average seller exchange rate for the fiscal year 2018, quoted by Banco de la Nación Argentina was Ps.19.4888. 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. The seller exchange rate quoted by Banco de la Nación Argentina was Ps.36.7900 per US\$1.00 as of October 25, 2018. See “Item 3. Key Information—Local Exchange Market and Exchange Rates.” and “Item 3. Risk Factors— Continuing inflation may have an adverse effect on the economy and our business, financial condition and the results of our operations”.

We have also translated certain NIS amounts into U.S. dollars at the offer exchange rate for June 30, 2018 which was NIS 3.6553=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 2018, 2017, 2016, 2015 and 2014 are to our fiscal years starting on July 1 and ending on June 30 of each such year.

### Certain measurements

In Argentina the standard measure of area in the real estate market is the square meter (m<sup>2</sup>), while in the United States and certain other jurisdictions the standard measure of area is the square foot (sq. ft.). All units of area shown in this annual report (e.g., gross leasable area of buildings (“GLA” or “gross leasable area”), and size of undeveloped land) are expressed in terms of square meters. One square meter is equal to approximately 10.764 square feet. One hectare is equal to approximately 10,000 square meters and to approximately 2.47 acres.

As used herein, GLA 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).

Market share data

Information regarding market share in a specified region or area is based on data compiled by us from internal sources and from publications such as Bloomberg, the International Council of Shopping Centers, or “ICSC,” the Argentine Chamber of Shopping Centers (Cámara Argentina de Shopping Centers), and Colliers International. While we believe that these sources are reliable, we have not independently verified the information prepared by these sources.



## 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 other comprehensive income data for the years ended June 30, 2018, 2017 and 2016 and the selected consolidated statements of financial position data and cash flow as of June 30, 2018 and 2017 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. Buenos Aires, Argentina, member of PriceWaterhouseCoopers International Limited, an independent registered public accounting firm.

The summarized consolidated statement of comprehensive income and cash flow data for the fiscal year 2015 and 2014 and the summarized consolidated statement of financial position data as of June 30, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements for the fiscal years ended June 30, 2016, 2015 and 2014 which have been retroactively recast to give effect to the change of measurement basis for our investment properties. These financial statements are not included in this annual report.

We have determined that, as of July 1, 2018, the Argentine economy qualifies as hyperinflationary economy according to IAS 29. IAS 29 requires that the financial statements recorded in the currency of a hyperinflationary economy be adjusted in terms of a measuring unit current at the end of reporting period. We did not apply the restatement criteria to the financial information for the periods reported in this annual report since IAS 29 will be applicable to our financial statements for periods ending after July 1, 2018. For more information on inflation, see “Operating and Financial Review and Prospects — Factors Affecting our Results of Operations—Effects of Inflation.”

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 ending after the acquisition date may not be comparable to previous periods. For more information see, Item 5. “Operating and Financial Review and Prospects-Factors Affecting Comparability of our Results.”

Changes in presentation of financial statements previously issued due to change in accounting policies

Expenses relating to the agricultural activity include items such as planting, harvesting, irrigation, agrochemicals, fertilizers, veterinary services and others. The Group chose not to continue to charge these costs of production directly in the Statements of Income and Other Comprehensive Income as they are incurred; instead, it capitalized them as part of the cost of biological assets. Both options are acceptable under IAS. The Group believes this change will help to better understand the performance of the agribusiness activity and therefore provides more information that is relevant to Management, users of the Financial Statements and others.

The Company has therefore retroactively modified the comparative amounts of the Consolidated Financial Statements as required by IAS 8, reflecting the aforementioned change, reducing "Cost" line and increasing "Initial recognition and changes in the fair value of biological assets and agricultural products at the point of harvest" line in the Statements of Income and Other Comprehensive Income in Ps. 1,995 million, Ps. 1,236, million, Ps. 1,236 million and Ps. 468 million as of June 30, 2017, 2016, 2015 and 2014 respectively. There is no impact in any of the total and subtotal amounts of the Financial Statements.



For the fiscal year ended June 30,

2018 (1)      2018      2017      2016      2015      2014

(in millions of US\$)      (in millions of Ps.; except per share data)

## Consolidated Statements of Income and Other Comprehensive Income

Revenues	1,351	38,986	30,746	15,622	5,652	4,604
Costs	(859)	(24,780)	(19,330)	(9,380)	(3,379)	(2,746)
Initial recognition and changes in the fair value of biological assets and agricultural produce at the point of harvest	36	1,042	204	401	111	220
Changes in the net realizable value of agricultural produce after harvest	11	303	(74)	208	(34)	(17)
Gross profit	539	15,551	11,546	6,851	2,350	2,061
	-	-	-	-	-	-
Net gain from fair value adjustment of investment properties	784	22,629	4,888	17,516	4,055	4,235
Gain / (loss) from disposal of farmlands	31	906	280	(2)	550	90
General and administrative expenses	(153)	(4,414)	(3,628)	(1,950)	(607)	(534)
Selling expenses	(184)	(5,306)	(4,503)	(2,173)	(474)	(352)
Other operating results, net	40	1,152	(128)	(110)	17	(88)
Management fees	(19)	(554)	(200)	(534)	(145)	(70)
Profit from operations	1,038	29,964	8,255	19,598	5,746	5,342
	-	-	-	-	-	-
Share of (loss) / profit of associates and joint ventures	(21)	(603)	96	534	(817)	(322)
Profit from operations before financing and taxation	1,017	29,361	8,351	20,132	4,929	5,020
	-	-	-	-	-	-
Finance income	69	1,998	1,055	1,450	246	290
Finance cost	(908)	(26,209)	(8,936)	(7,351)	(1,685)	(2,852)
Other financial results	13	384	3,178	(145)	149	(12)
Financial results, net	(826)	(23,827)	(4,703)	(6,046)	(1,290)	(2,574)
Profit before income tax	191	5,534	3,648	14,086	3,639	2,446
Income tax	(8)	(233)	(2,713)	(5,785)	(1,396)	(1,090)
Profit for the year from continuing operations	183	5,301	935	8,301	2,243	1,356
Profit from discontinued operations after income tax	433	12,479	4,093	817	-	-
Profit for the year	616	17,780	5,028	9,118	2,243	1,356
	-	-	-	-	-	-



Profit / (loss) from continuing operations attributable

to:

Equity holders of the parent	(28)	(772)	461	4,951	954	641
Non-controlling interest	211	6,073	474	3,350	1,289	715
	-	-	-	-	-	-

Profit for the year attributable to:

Equity holders of the parent	187	5,392	1,511	5,167	954	641
Non-controlling interest	429	12,388	3,517	3,951	1,289	715



## IFRS

For the fiscal year ended June 30,

2018 (1)2018      2017      2016      2015      2014

## Consolidated Statements of Comprehensive Income

Profit for the year	616	17,780	5,028	9,118	2,243	1,356
Other comprehensive income / (loss):						
Items that may be reclassified subsequently to profit or loss:						
Currency translation adjustment	447	12,910	3,718	(1,715)	(445)	1,268
Share of other comprehensive income of associates and joint ventures	119	3,426	354	5,100	-	-
Revaluation surplus	7	192				
Change in the fair value of hedging instruments net of income taxes	(1)	(19)	124	3	-	-
Items that may not be reclassified subsequently to profit or loss:						
Actuarial loss from defined benefit plans	-	(12)	(10)	(10)	-	-
Other comprehensive income for the year from continuing operations	572	16,497	4,186	3,378	(445)	1,268
Other comprehensive income for the year from discontinued operations	15	435	1,170	1,641	-	-
Total other comprehensive income for the year	587	16,932	5,356	5,019	(445)	1,268
Total comprehensive income for the year	1,203	34,712	10,384	14,137	1,798	2,624
	-	-	-	-	-	-
Total comprehensive income from continuing operations	756	21,798	5,121	11,679	1,798	2,624
Total comprehensive income from discontinued operations	447	12,914	5,263	2,458	-	-
Total comprehensive income for the year	1,203	34,712	10,384	14,137	1,798	2,624
Total comprehensive income / (loss) from continuing operations attributable to:						
Equity holders of the parent	(32)	(926)	(753)	3,257	760	997
Non-controlling interest	788	22,724	5,874	8,422	1,038	1,627
Total comprehensive income for the year attributable to:						
Attributable to:						
Equity holders of the parent	253	7,308	2,603	5,715	760	997
Non-controlling interest	950	27,404	7,781	8,422	1,038	1,627

For the fiscal year ended June 30,

	2018(1)	2018	2017	2016	2015	2014
(in millions of US\$)						(in
		millions of Ps.) -				
<b>CASH FLOW DATA</b>						
Net cash generated from operating activities	477	13,775	9,252	4,219	512	884
Net cash generated from (used in) investing activities	(415)	(11,972)	(2,415)	8,640	855	(886)
Net cash used in financing activities	(80)	(2,299)	1,899	(4,647)	(1,777)	(447)



As of fiscal year ended June 30,

	2018 (1)	2018	2017	2016	2015	2014
--	----------	------	------	------	------	------

	(in millions of US\$)	(in millions of Ps.)				
--	--------------------------	----------------------	--	--	--	--

## Consolidated Statements of Financial Position

## ASSETS

## Non-Current Assets

Investment properties	5,668	163,510	100,189	82,505	19,306	16,081
Property, plant and equipment	716	20,646	31,150	26,801	2,213	2,510
Trading properties	209	6,020	4,534	4,733	143	134
Intangible assets	429	12,363	12,443	11,814	176	175
Biological assets	31	900	671	497	346	302
Other assets	7	189	-	-	-	-
Investment in associates and joint ventures	858	24,747	8,227	17,175	3,190	2,704
Deferred income tax assets	58	1,679	1,631	1,249	654	516
Income tax and MPIT credits	16	453	229	173	161	177
Restricted assets	75	2,178	528	129	4	51
Trade and other receivables	316	9,129	5,456	3,773	427	475
Investment in financial assets	59	1,704	1,772	2,226	623	275
Financial assets held for sale	270	7,788	6,225	3,346	-	-
Derivative financial instruments	1	30	31	8	208	-
Employee benefits	-	-	-	4	-	-
Total Non-Current Assets	8,713	251,336	173,086	154,433	27,451	23,400

## Current Assets

Trading properties	112	3,232	1,249	241	3	5
Biological assets	32	913	559	552	180	266
Inventories	81	2,324	5,036	3,900	511	440
Restricted assets	147	4,248	541	748	607	-
Income tax and MPIT credits	14	400	340	541	31	20
Financial assets and other assets held for sale	155	4,466	2,337	1,256	-	1,648
Groups of assets held for sale	180	5,192	2,681	-	-	-
Trade and other receivables	596	17,208	18,336	14,158	1,773	1,438
Investment in financial assets	889	25,646	11,853	9,673	504	495
Derivative financial instruments	5	155	65	53	30	33
Cash and cash equivalents	1,340	38,650	25,363	14,096	634	1,003

Edgar Filing: CRESUD INC - Form 20-F

Total Current Assets	3,551	102,434	68,360	45,218	4,273	5,348
	-	-	-	-	-	-
TOTAL ASSETS	12,264	353,770	241,446	199,651	31,724	28,748
	-	-	-	-	-	-
SHAREHOLDERS' EQUITY						
Capital and Reserves Attributable to Equity Holders of the Parent						
Share capital	17	482	499	495	495	491
Treasury shares	1	20	3	7	7	11
Share warrants	-	-	-	-	-	106
Inflation adjustment of share capital and treasury shares	2	65	65	65	65	65
Share premium	23	659	659	659	659	773
Additional paid-in capital from treasury shares	1	21	20	16	13	-
Legal reserve	4	113	83	83	-	82
Other reserves	116	3,334	2,496	1,299	812	1,184
Special reserve	53	1,516	1,516	1,516	1,516	2,350
Retained earnings	510	14,715	11,064	9,521	4,461	2,436
Equity Attributable to Equity Holders of the Parent	727	20,925	16,405	13,661	8,028	7,498
Non-controlling interest	1,885	54,396	32,768	23,539	6,528	5,729
TOTAL SHAREHOLDERS' EQUITY	2,612	75,321	49,173	37,200	14,556	13,227





	-	-	-	-	-	-
<b>LIABILITIES</b>						
Non-Current Liabilities						
Trade and other payables	123	3,577	3,988	2,464	666	485
Borrowings	6,498	187,462	112,025	93,808	5,833	5,315
Deferred income tax liabilities	921	26,563	23,125	19,204	5,889	4,623
Derivative financial instruments	1	40	86	120	270	321
Payroll and social security liabilities	3	76	140	20	5	5
Provisions	124	3,567	955	547	42	43
Employee benefits	4	110	763	689	-	-
Total Non-Current Liabilities	7,674	221,395	141,082	116,852	12,705	10,792
	-	-	-	-	-	-
Current Liabilities						
Trade and other payables	620	17,892	21,970	18,443	1,307	1,004
Income tax and MPIT liabilities	21	595	817	624	142	73
Payroll and social security liabilities	65	1,868	2,254	1,856	230	202
Borrowings	1,112	32,083	23,287	23,488	2,466	2,639
Derivative financial instruments	11	314	114	147	263	53
Provisions	37	1,059	894	1,041	55	21
Group of liabilities held for sale	112	3,243	1,855	-	-	937
Total Current Liabilities	1,978	57,054	51,191	45,599	4,463	4,929
	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>9,652</b>	<b>278,449</b>	<b>192,273</b>	<b>162,451</b>	<b>17,168</b>	<b>15,721</b>
<b>TOTAL SHAREHOLDERS EQUITY AND LIABILITIES</b>	<b>12,264</b>	<b>353,770</b>	<b>241,446</b>	<b>199,651</b>	<b>31,724</b>	<b>28,948</b>



As of fiscal year ended June 30,

	2018(1) (1)	2018	2017	2016	2015	2014
Other Financial Data	(in US\$, except for percentages, ratios and number of shares)	(in Ps, except for percentages, ratios, number of shares, per share and per ADS data)				
Basic net income per share (2)	(0.05)	(1.55)	0.93	10.00	2.68	(2.15)
Diluted net income per share (3)	(0.05)	(1.50)	0.92	9.87	2.38	(2.15)
Basic net income per ADS (2)(4)	(0.54)	(15.54)	9.26	100.02	26.80	(21.50)
Diluted net income per ADS (3)(4)	(0.52)	(14.96)	9.22	98.69	23.80	(21.50)
Capital stock	18	502	502	502	502	502
Number of common shares	501,642,804	501,642,804	501,642,804	501,642,804	501,642,804	501,562,730
Weighted – average number of common shares outstanding	496,687,276	496,687,276	497,806,965	494,991,778	492,020,463	496,132,488
Diluted weighted – average number of common shares (5)	516,403,816	516,403,816	500,161,805	554,375,631	554,375,631	558,487,656
Dividends paid (6)	14,00	395	0,00	0,00	0,00	0,00
Dividends per share	0,00	0,80	0,00	0,00	0,00	0,00
Dividends per ADS (4)	0,00	7,95	0,00	0,00	0,00	0,00
Depreciation and amortization	136	3,936	3,518	1,612	112	297
Capital expenditure	274	7,914	5,196	1,933	517	436
Working Capital	1.573	45.380	17.169	(381,00)	(190,00)	419
Gross margin (7)	0.39	0.39	0.37	0.43	0.41	0.43
Operating margin (8)	0.75	0.75	0.27	1.22	1.00	1.11
Net margin (9)	0.44	0.44	0.16	0.57	0.39	0.28
Ratio of current assets to current liabilities (10)	1.80	1.80	1.34	0.99	0.96	1.09
	0.27	0.27	0.26	0.23	0.85	0.84

Ratio of  
shareholders' equity  
to total liabilities

(11)

Ratio of non

current assets to	0.71	0.71	0.72	0.77	0.87	0.81
total assets(12)						

Ratio of "Return on Equity" – ROE (13)	0.29	0.29	0.12	0.35	0.16	0.11
---	------	------	------	------	------	------

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, 2018 which was Ps.28.25 = US\$1.00. We make no

- (1) 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. The seller exchange rate quoted by Banco de la Nación Argentina was Ps.36.7900 per US\$1.00 as of October 25, 2018
- (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. Due to the loss for the years 2016, 2015, 2014, 2013 and 2012, there is no diluted effect on this result.
- (4) Determined by multiplying per share amounts by ten (one ADS equals ten common shares).
- (5) Assuming exercise of all outstanding warrants to purchase our common shares.
- (6) The shareholders' meeting held in October 2017 approved the distribution of a cash dividend for an amount of Ps.395 million for the fiscal year ended June 30, 2017.
- (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 income for the year divided by average shareholders' equity.



## Local Exchange Market and Exchange Rates

## Operations Center in Argentina

## A.1. Local Exchange Market and Exchange Rates

In the period from 2001 to 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 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” 5,850 and later, as the local economy stabilized, Communication “A” 6,037, the Central Bank lifted the previous limitations and allowed unrestricted access to the foreign exchange market, subject to some requirements, as detailed below.

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, 2014	8.0830	5.4850	6.9333	8.0830
June 30, 2015	9.0380	8.1630	8.5748	9.0380
June 30, 2016	15.7500	9.1400	12.2769	14.9900
June 30, 2017	16.5800	14.5100	15.4017	16.5800
June 30, 2018	28.8000	16.7500	19.4388	28.8000
Month ended:				
April 30, 2018	20.5000	20.0850	20.1834	20.4900
May 31, 2018	24.9400	21.1500	23.6783	24.9100
June 30, 2018	28.8000	24.8500	26.5665	28.8000
July 31, 2018	28.2500	27.1600	27.5241	27.3600
August 31, 2018	37.5500	27.2400	30.1129	36.7500
September 30, 2018	41.1500	36.8900	38.4341	41.1500
October (through October 25, 2018)	39.5000	36.9000	37.0583	36.6900

Source: Banco de la Nación Argentina

(1) Average between the offer exchange rate and the bid exchange rate according to Banco de la Nación Argentina’s foreign currency exchange rate.

(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.





#### Exchange controls

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 “Item 3. Key information—d)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” 6,401, 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 Communication “A” 6,150 of the Argentine 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” 6,244 of the Argentine Central Bank, there are no restrictions on entry and exit in the MULC.

#### 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” 6,137 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. 3,252 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, access to the foreign exchange market for payments of services rendered as from December 17, 2015 may be carried out without restriction and without the Central Bank's prior authorization.

#### Direct investments

Communication A 6401 established a new reporting system of direct investments, which replaced the reporting system established by Communications A 3602 and A 4237, applicable since December 31, 2017. As of date, investors who are Argentine residents must comply with the information regime if the value of their investments abroad reaches or exceeds the equivalent of US\$1,000,000 (measured in terms of 1) the sum of the flows of external assets and liabilities during the previous calendar year, and 2) the balance of holdings of external assets and liabilities at the end of the previous calendar year). If the value of investments abroad does not exceed the equivalent of US\$50,000,000, the information regime must be complied on an annual basis (in case it is less than US\$10,000,000, the information regime will be annual but with a simplified form), instead of quarterly. If the value of the investments is less than the equivalent of US\$1,000,000, compliance with said 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 such derivative transactions.

Law No. 27,440 in its articles 188 to 194 introduces, among others, the following modifications related to derivatives:

The right of the non-bankrupted party and the contracting party of an insurance entity subject to a judicial liquidation process to be resolved in advance the derivatives and passes granted by the Bankruptcy Law No. 24,522 and Law No. 20,091 of the Insurance Entities shall not apply;

The restriction for the exercise of the contractual mechanisms of early termination, termination, settlement, compensation and execution of guarantees contained in the derivatives established by the Financial Entities Law No. 21,526 and the Central Bank regulations shall not apply to.

#### 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 (NIS).

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

Source: Bloomberg

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

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

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

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

#### B. CAPITALIZATION AND INDEBTEDNESS

This section is not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

This section is not applicable.



## D. RISK FACTORS

You should carefully consider the risks described below, in addition to the other information contained in this annual report, before making an investment decision. We also may face additional risks and uncertainties not currently known to us, or which as of the date of this annual report we might not consider significant, which may adversely affect our business. In general, you take more risk when you invest in securities of issuers in emerging markets such as Argentina than when you invest in securities of issuers in the United States, and certain other markets. You should understand that an investment in our common shares and 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, many of our operations, property and customers are located in Argentina. As a result, the quality of our assets, our financial condition and the results of our operations are dependent upon the macroeconomic, regulatory, social and political conditions prevailing in Argentina from time to time. These conditions include growth rates, inflation rates, exchange rates, taxes, foreign exchange controls, changes to interest rates, changes to government policies, social instability, and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

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

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative GDP growth, high and variable levels of inflation and currency depreciation and devaluation. The economy has experienced high inflation and GDP growth has been sluggish in the last few years.

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

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

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





Since coming into power in December 2015, the Macri administration has adopted the following key economic and policy reforms.

**INDEC reforms.** President Macri appointed Mr. Jorge Todesca, previously a director of a private consulting firm, as head of the INDEC, based on its determination that INDEC had failed to produce reliable statistical information, particularly with respect to the consumer price index, or “CPI”, GDP and poverty and foreign trade data. On January 8, 2016, the Argentine government declared a state of administrative emergency relating to the national statistical system and the INDEC, until December 31, 2016. During 2016, the INDEC implemented certain methodological reforms and adjusted certain macroeconomic statistics on the basis of these reforms. Following the declared emergency, the INDEC ceased publishing statistical data until a rearrangement of its technical and administrative structure is finalized. During the course of implementing these reforms, however, INDEC has used official Consumer Price Index, or “CPI,” figures and other statistical information published by the Province of San Luis and the City of Buenos Aires. On June 29, 2016, the INDEC published revised GDP data for the years 2004 through 2015. On August 31, 2016, the IMF Executive Board met to consider the progress made by Argentina in improving the quality of official GDP and CPI data and noted the important progress made in strengthening the accuracy of Argentina’s statistics. On November 10, 2016, the IMF lifted the existing censure on Argentina regarding these data. In June 2017, INDEC began to publish revised CPI figures based on statistical information from 39 cities in Argentina.

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

**Foreign exchange reforms.** The Macri administration eliminated a significant portion of foreign exchange restrictions, including certain currency controls, previously in effect. On August 9, 2016, the Central Bank issued Communication “A” 6037 which substantially changed the existing legal framework and eliminated certain restrictions limiting access to the foreign exchange market Mercado Único y Libre de Cambios, or “MULC.” On May 19, 2017, the Central Bank issued Communication “A” 6244, which unified the exchange control regulations and relaxed certain controls on the foreign exchange market. In addition, on December 26, 2017, the Central Bank implemented a new unified regime effective as of December 31, 2017 that requires the filing of an annual return, which is mandatory for any person whose total cash flow or balance of assets and liabilities amounts to US\$1 million or more during the previous calendar year. The principal measures adopted as of the date of this annual report include:

- i. the reestablishment of Argentine residents’ rights to purchase and remit foreign currency outside of Argentina without limit and without specific allocation (atesoramiento);
- ii. the elimination of the mandatory, non-transferable and non-interest bearing 30% deposit previously required in connection with certain transactions involving foreign currency inflows;
- iii. the elimination of the requirement to transfer and settle the proceeds from new foreign financial indebtedness incurred by the foreign financial sector, the non-financial private sector and local governments through the MULC;
- iv. the elimination of the minimum stay-period that required that proceeds from certain foreign financial indebtedness must be held for a minimum of 365 calendar days; and
- v. elimination of the requirement of minimum holding period (of 72 business hours) for purchases and subsequent sales of securities that trade in Argentina and in foreign stock markets (such as the GDSs).

Foreign trade reforms. The Macri administration eliminated export duties on wheat, corn, beef and regional products, and announced a gradual reduction of the duty on soybeans by 5% to 30%. Pursuant to Decree No. 1,343/16, published in the Official Gazette on January 2, 2017, the Argentine Government announced a gradual reduction of the duty on soybeans, beans, flour and soybean oil by 0.5 % per month from January 2018 to December 2019. In addition, the 5% export duty on most industrial exports and export duties on mining was eliminated. With respect to payments for imports of goods and services, the Macri administration announced the gradual elimination of restrictions on access to the MULC for any transactions originated before December 17, 2015. Regarding transactions executed after December 17, 2015, no quantitative limitations apply. However, on September 4, 2018, the Argentine Government issued Decree No. 793/2018 that reimplements an export duty of 12% until December 31, 2020 on export of goods and services, with a cap of Ps.4 for each U.S. dollar for primary goods and services and Ps.3 for the rest of the manufactured goods.



National electricity state of emergency and reforms. Following years of minimal investment in the energy sector, exacerbated by the Argentine Government's failure to implement tariff increases on electricity and natural gas since the 2001-2002 economic crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, on December 15, 2015, the Macri administration declared a state of emergency, which remained in effect until December 31, 2017. In addition, through Resolution No. 6/2016 of the Ministry of Energy and Mining and Resolution No. 1/2016 of the National Electricity Regulatory Agency (Ente Nacional Regulador de la Electricidad), the Macri administration announced the elimination of a portion of energy subsidies then in effect and implemented a substantial increase in electricity tariffs. As a result, average electricity prices increased substantially and could increase further in the future. Certain of Macri's Administration initiatives have been challenged in Argentine courts and resulted in judicial injunctions or determinations that limit such initiatives. On May 31, 2018, the Argentine Congress approved a law seeking to limit the increase in energy tariffs implemented by the Macri administration, which was subsequently vetoed by President Macri.

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

Retiree Program. On June 29, 2016, the Argentine Congress enacted the Historical Reparation Program for Retirees and Pensioners (Programa de Reparación Histórica para Jubilados y Pensionados). The main aspects of this Program, designed to reform social security policies to comply with Supreme Court decisions, include (i) payments to more than two million retirees and retroactive compensation of more than 300,000 retirees and (ii) creation of a universal pension for senior citizens, which guarantees a pension for all people over 65 years of age who would not otherwise be eligible to retire with a pension. The Historical Reparation Program for Retirees and Pensioners will provide retroactive compensation to retirees for a total amount of more than Ps.47,000 million and expenses of up to Ps.75,000 million to cover all potential beneficiaries.

Increase in transportation fares. In January 2018, the Macri administration announced an increase in public transport fares in the Greater Buenos Aires area effective as of February 1, 2018.

Correction of monetary imbalances: The Macri administration announced the adoption of an inflation targeting regime in parallel with the floating exchange rate regime and set inflation targets for the next four years. The interannual inflation targets (comparing the rates as of December of each year) announced in 2016 by the Central Bank, were from 12% to 17% for 2017, from 8% to 12% for 2018, and from 3.5% to 6.5% for 2019. The Central Bank has increased the use of stabilization policies to reduce excess monetary imbalances and increased peso interest rates to offset inflationary pressure. On December 27, 2017, the Argentine Government modified the inflation targets for 2018, 2019 and 2020, increasing them to 15%, 10% and 5%, respectively. In June 2018, the Central Bank further

adjusted inflation targets to 27% for 2018, 17% for 2019, 13% for 2020 and 9% for 2021 in light of the Stand-By Agreement with the IMF. In addition, on September 26, 2018, the Central Bank announced a new monetary policy scheme aiming to lowering the inflation rate mainly by adopting a floating exchange rate scheme, maintaining the reference rate at 60% until the deceleration of inflation rate is taking place and stopping the monetary base growth until June 2019, when it will be adjusted with the seasonality of December 2018 and June 2019. On October 8, 2018, the IMF published the "World Economic Outlook" report, estimating an inflation rate of 40.5% in 2018 and 20.2% in 2019.



Pension system reform. On December 19, 2017, the Argentine Congress enacted the Pension Reform Law which, among other amendments, adjusted the values of pensions and social benefits in accordance with inflation and economic growth. Social security payments are subject to quarterly adjustments each year. 70% of the quarterly adjustment will be based on the CPI published by the INDEC and 30% on the variation in the Remuneración Imponible Promedio de los Trabajadores Estables (an index published by the Ministry of Labor that measures the salary increases of state employees). On December 20, 2017, Decree No. 1,058/17 was published and, with the aim of avoiding divergence with the application of the previous formula, established a compensatory bonus for retirees, pensioners and beneficiaries of the universal child allowance (asignación universal por hijo). On September 3, 2018, the Argentine Government announced the strengthening of the universal child allowance through the one-time granting of an extraordinary subsidy of Ps.1,200 in September 2018. The Pension Reform Law also amended the Labor Law to extend the age at which private sector employers may request the retirement of employees to 70 years of age (compared to 65 years under the prior regime). Notwithstanding the foregoing, private sector employees may still request pension benefits from the ages of 65 and 60 for male and female employees, respectively.

Tax reform. On December 27, 2017, the Argentine Congress approved the tax reform law, enacted on December 28, 2017. The reform is intended to eliminate certain inefficiencies in the Argentine tax regime, diminish tax evasion, expand the tax base and encourage investment, with the long-term goal of restoring fiscal balance. The reform is part of a larger policy initiative of the Macri administration intended to increase employment, make the Argentine economy more competitive (by reducing the fiscal deficit, for example) and diminish poverty. The main aspects of the tax reform include the following: (i) capital gains on real estate sales by Argentine tax residents (subject to certain exceptions, including a primary residence exemption) acquired after enactment of the tax reform will be subject to tax of 15%; (ii) gains on currently exempt bank deposits and sales of securities (including sovereign bonds) by Argentine tax residents is subject to tax of (a) 5% in the case of those denominated in pesos, subject to fixed interest rate and not indexed, and (b) 15% for those denominated in a foreign currency or indexed; (iii) gains on sales of shares listed on a stock exchange remain exempt; (iv) corporate income tax will decline to 30% in 2018 and 2019 and to 25% in 2020; (v) social security contributions will be gradually increased to 19.5% starting in 2022, in lieu of the differential scales currently in effect; and (vi) the percentage of tax on debits and credits that can be credited to income tax will be gradually increased over a five-year period, from the current 17% for credits to 100% for credits and debits. The tax reform is to be implemented over a period of one to five years (depending on each modification). For further information, see “Taxation—”—Argentine Taxation”..

Corporate Criminal Liability Law. On November 8, 2017, the Argentine Congress approved Law No. 27,401, which establishes a system of criminal liability of corporate entities for criminal offenses against public administration and national and cross-border bribery committed by, among others, its shareholders, attorneys-in-fact, directors, managers, employees, or representatives. Convicted legal persons are subject to various sanctions including a fine of between 1% and 20% of its annual gross revenue and the partial or total suspension of its activities for up to ten years. In addition, the law expands the national criminal jurisdiction to all cases of bribery including those committed outside the Argentine territory by citizens or companies with domicile or headquartered in Argentina.

Public-Private Participation Law. On November 16, 2016, the Public-Private Participation Law was passed by the Argentine Congress, and has been regulated by Decree No. 118/2017. This new regime seeks to replace existing regulatory frameworks (Decrees No. 1,299/00 and 967/05) and supports the use of public-private partnerships for a wide variety of purposes including the design, construction, extension, improvement, provision, exploitation and/or operation and financing of infrastructure development, provision of public services, provision of productive services, investments, applied research, technological innovation and other associated services. The Public-Private Participation Law also includes protection mechanisms in favor of the private sector (contractors and lenders) in order to promote the development of these partnerships.



Productive Financing Law. On May 9, 2018, the Argentine Chamber of Deputies approved Law No. 27,440 called “Ley de Financiamiento Productivo”, which creates a new financing regime for micro-, small- and medium-sized companies (“MiPyMEs”) and modifies Capital Markets Law No. 26,831, Investment Funds Law No. 24,083 and Law No. 23,576, among others, and implements certain tax provisions and regulations for derivative financial instruments.

Labor reform bill. On November 18, 2017, the Executive Branch submitted a draft labor and social security reform bill to the Argentine Chamber of Senators, intended to formalize employment, decrease labor litigation, generate employment, increase productivity, protect vulnerable populations and improve worker training. As of the date of this annual report, the draft bill has not been considered by the Argentine Congress.



Fiscal consensus and fiscal liability. On December 22, 2017, the Argentine Congress enacted the “Fiscal Pact”, also known as the “Fiscal Consensus”. The Fiscal Consensus includes a commitment to lower distortive taxes by 1.5% of GDP over the next five years, a withdrawal of lawsuits by provincial governments against the Argentine Government and a Ps.21,000 million payment to the Province of Buenos Aires for the year 2018 (which amount shall be increased over the next five years) as a partial and progressive solution to a long-standing conflict related to the Buenos Aires Metropolitan Area Fund over the Fondo del Conurbano Bonaerense. The Fiscal Consensus also set the basis for other policy reforms that were implemented by the Macri administration in December 2017, such as the tax reform, the pension system reform and the Fiscal Responsibility Law (Ley de Responsabilidad Fiscal). The fiscal deficit estimated for 2018 is 2.6% of 2018 GDP. The budget law for fiscal year 2019 bill projects a balanced budget in 2019 and a primary fiscal surplus of 1.0% of GDP by 2020.

IMF stand-by arrangement: On June 7, 2018, the Argentine Government entered into a US\$50 billion, 36-month stand-by arrangement with the IMF, which was approved by the IMF’s Executive Board on June 20, 2018. As of July 31, 2018, the Argentine Government had drawn on a first tranche of approximately US\$15 billion, and the additional available funds will be treated as precautionary. This measure was intended to halt the significant depreciation of the peso during the first half of 2018.

On September 26, 2018, the Argentine Government agreed with the IMF to increase the total amount of the stand-by arrangement from US\$50 billion to US\$57.1 billion. As a result, the anticipated disbursements increased from US\$6 billion to US\$13.4 billion in 2018, and from US\$11.4 billion to US\$22.8 billion in 2019. On October 26, 2018, the Executive Board of the IMF completed the first review of Argentina’s economic performance under the 36-month stand-by arrangement, allowing to draw the equivalent of US\$5.7 billion, bringing total disbursements since June 2018 to about US\$20.4 billion. The Executive Board also approved an augmentation of the stand-by arrangement to increase access to about US\$56.3 billion.

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

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

- a persistent high rate of public spending and substantial fiscal deficit;

- investments as a percentage of GDP remain low;

- public debt as a percentage of GDP remains high;

- the inflation rate remains at high levels;

- agricultural exports, which fueled the economic recovery, have been affected by the drought and lower prices than in prior years;

- rising of international crude oil prices;

the availability of long-term credit to the private sector is scarce;

the current trade deficit is high and could increase;

the effects of a restrictive U.S. monetary policy, which could generate an increase in financial costs for Argentina;

fluctuations in the Central Bank's monetary reserves;

uncertainty with respect to the imposition of exchange and capital controls; and

other political, social and economic events abroad that adversely affect the current growth of the Argentine economy.



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

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

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

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

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

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





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

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

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

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

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

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

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

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

INDEC methodology used to calculate inflation rates.

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



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

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

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

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

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

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

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

Argentina has had limited access to foreign financing in recent years, primarily as a result of a default in December 2001 by Argentina on its debt to foreign bondholders, multilateral financial institutions and other financial institutions. Argentina’s 2001 default and its failure to fully restructure its sovereign debt and negotiate with the holdout creditors has limited and may continue to limit Argentina’s ability to access international capital markets. In 2005, Argentina completed the restructuring of a substantial portion of its defaulted sovereign indebtedness and settled all of its debt with the IMF. Additionally, in June 2010, Argentina completed the renegotiation of approximately 67% of the principal amount of the defaulted bonds outstanding that were not swapped in the 2005

restructuring. As a result of the 2005 and 2010 debt swaps, Argentina has restructured approximately 92.1% of its defaulted debt that was eligible for restructuring (the “Debt Exchanges”). Holdout creditors that had declined to participate in the exchanges commenced numerous lawsuits against Argentina in several countries, including the United States, Italy, Germany, and Japan.

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



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

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

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

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

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

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

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

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

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

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

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





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

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

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

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

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

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

A significant further depreciation of the peso against the U.S. dollar could have an adverse effect on the ability of Argentine companies to make timely payments on their debts denominated, indexed or otherwise connected to a foreign currency, could generate very high inflation rates, reduce real salaries significantly, and have an adverse effect on companies focused on the domestic market, such as public utilities and the financial industry. Such a potential depreciation could also adversely affect the Argentine Government's capacity to honor its foreign debt, which could affect our capacity to meet obligations denominated in a foreign currency which, in turn, could have an adverse effect on our business, financial condition and the results of our operations. While certain of our office leases are set in U.S. dollars, we are only partially protected against depreciation of the Peso and there can be no assurance we will be able to maintain our U.S. dollar-denominated leases.

In addition, on June 7, 2018, the Argentine Government entered into a US\$50 billion 36-month stand-by Arrangement with the IMF, which was approved by the IMF's Executive Board on June 20, 2018. The Argentine Government has drawn on a first tranche of approximately US\$15 billion, and the additional available funds will be treated as precautionary. This step was intended to halt the significant depreciation of the peso. This measure was intended to halt the significant depreciation of the peso during the first half of 2018. On September 26, 2018, the Argentine Government agreed with the IMF an increase the total amount of the stand-by agreement from US\$50 billion to US\$57.1 billion. Consequently, disbursements are expected to increase from US\$6 billion to US\$13.4 billion in 2018,

and from US\$11.4 billion to US\$22.8 billion in 2019. On October 26, 2018, the Executive Board of the IMF completed the first review of Argentina's economic performance under the 36-month stand-by arrangement, allowing to draw the equivalent of US\$5.7 billion, bringing total disbursements since June 2018 to about US\$20.4 billion. The Executive Board also approved an augmentation of the stand-by arrangement to increase access to about US\$56.3 billion.

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

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



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

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

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

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

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

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

In the past, the Argentine Government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors experienced significant pressure from their employees and labor unions to increase wages and provide additional employee benefits. In August 2012, the Argentine Government established a 25% increase in the minimum monthly salary to Ps.2,875, effective as of February 2013. The Argentine Government increased the minimum monthly salary to Ps.3,300 in August 2013, to Ps.3,600 in January 2014, to Ps.4,400 in September 2014, to Ps.4,716 in January 2015, to Ps.5,588 in August 2015 and to Ps.6,060 as of January 2016. In May 2016, the Argentine Government announced a 33% increase in the

minimum monthly salary to be implemented in three installments as follows: Ps.8,060 as of July 1, 2017, Ps.9,500 as of January 1, 2018 and Ps.10,000 in July 2018, an increase of 24% compared to the prior minimum. On August 8, 2018, the National Council for Employment, Productivity and Minimum Wage (Consejo Nacional del Empleo, la Productividad y el Salario Mínimo, Vital y Móvil), summoned by the National Labor Ministry, issued Resolution No. 3/2018 increasing the minimum monthly salary in four installments as follows: Ps.10,700 as of September 1, 2018, Ps.11,300 as of December 1, 2018, Ps.11,900 as of March 1, 2019 and Ps.12,500 as of June 2019, an increase of 25% compared to the prior minimum.

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



Property values in Argentina could decline significantly.

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

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

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

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

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

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







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

Until December 2015, there were many foreign exchange restrictions and controls that limited access to the MULC. However, in December 2015, the Macri administration announced certain reforms to the foreign exchange market with the intention of providing greater flexibility and ease of access to the foreign exchange market for individuals and private sector entities. On December 16, 2015, the Central Bank issued Communication “A” 5850, lifting most of the restrictions then in place. Among these measures, free access to the MULC was granted for the purchase of foreign currency intended for general purposes, without the need for obtaining the Central Bank’s or the Administración Federal de Ingresos Públicos (the “AFIP”) previous consent, and the requirement to deposit 30% of certain capital inflows into Argentina was eliminated. Towards the end of 2016, the remaining exchange control restrictions were

also lifted when the Central Bank issued Communications “A” 6037 and “A” 6150, thereby granting free access to the MULC. Pursuant to Resolution E 1/2017 of the Ministry of Treasury and Communication “A” 6,150 modified by Communication “A” 6,244 of the Central Bank, the obligation requiring non-residents who make portfolio investments in the country aimed at holding private sector financial assets to maintain for a period of 120 days the funds in the country was abolished. Pursuant to this resolution and the Central Bank Communication “A” 6,244, and its amendments, there are no restrictions on entry and exit in the MULC. Accordingly, due to lifting most of the restrictions to access to the MULC, the Central Bank eliminated the obligation to enter and settle funds in foreign currency originated from the export of services to non-residents through the MULC, to the extent that they are not part of the Free On Board (“FOB”) value and/or Cost, Insurance and Freight (“CIF”) of assets exported, eliminated the requirement of a minimum holding period of 72 business hours in relation to the purchase and sale of public securities authorized to trade on the different local and international stock markets, and eliminated the requirement of compulsory entry and liquidation of flows resulting from external debt, including principal and interests. However, the results of capital inflows in the exchange market must be accredited on an account opened by a local financial institution.



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

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

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

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

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

Although economic conditions vary from country to country, investors’ perception of the events occurring in one country may substantially affect capital flows into other countries. International investors’ reactions to events occurring in one market sometimes demonstrate a “contagion” effect in which an entire region or class of investment is disfavored by international investors. Argentina could be adversely affected by negative economic or financial developments in

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

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

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





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

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

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



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

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

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

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

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

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

A significant increase in the real appreciation of the peso could affect Argentina's competitiveness, substantially affecting exports, and this in turn could prompt new recessionary pressures on the country's economy and a new imbalance in the foreign exchange market, which could lead to a high degree of volatility in the exchange rate. More importantly, in the short term, a significant appreciation of the real exchange rate could substantially reduce Argentine public sector's tax revenues in real terms, given the strong reliance on taxes on exports (withholdings). The occurrence of the foregoing could lead to higher inflation and potentially materially and adversely affect the Argentine economy, as well as our business, financial condition and results of operations.



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

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

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

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

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

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





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

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

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

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

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

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

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

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

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

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



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

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

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

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



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

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

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

#### Risks Relating to Brazil

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

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 an increased 1% in 2017 and remained stable in the first six months of 2018.

As a result of investigations carried out in connection with the Lava Jato 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.

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.





In addition, on December 2, 2015, the Brazilian Congress opened impeachment proceedings against Brazilian President Dilma Rousseff for allegedly breaking federal budget laws during her term. On August 31, 2016, following a trial by the Senate, President Dilma Rousseff was impeached and Vice-President Michel Temer was sworn in as president. The president of Brazil has the power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses including us. The impeachment proceedings have adversely affected and we expect that they will continue to adversely affect the Brazilian markets and prices of securities issued by Brazilian issuers or subsidiaries of Brazilian companies. We cannot predict the effects of the recent impeachment proceedings on the Brazilian economy. More recently, in May 2017, the development of the investigations conducted by the Federal Police Department and the General Federal Prosecutor's Office has increased uncertainty with respect to the future prospects of the Brazilian markets. Furthermore, although the Brazilian Superior Electoral Court (Tribunal Superior Eleitoral) in a 4 to 3 vote has recently acquitted Dilma Rousseff and Michel Temer of charges of illegal campaign financing that could annul the presidential election that took place in 2014 and ultimately could require President Michel Temer to vacate the presidential office, this decision may still be appealed to the Brazilian Supreme Court (Supremo Tribunal Federal). In addition, a number of requests for impeachment have been filed against Mr. Temer, as well as criminal charges 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. Furthermore, recently a Brazilian federal appeals court unanimously upheld the conviction of former president Luís Inácio Lula da Silva on corruption charges uncovered by the Lava Jato operation; however, this decision can still be appealed to the Brazilian Supreme Court. On April 7, 2018, Luís Inácio Lula da Silva began his prison sentence. We cannot predict whether these investigations and lawsuits as well as the imprisonment of Luís Inácio Lula da Silva will bring about further economic and political instability or if new allegations against high officers of the Brazilian Federal Government will arise in the future. In addition, we cannot predict the results of any such investigations, including their effects over the Brazilian economy. The development of such cases may negatively affect us.

Also, on October 28, 2018, the presidential elections were held in Brazil, with the conservative candidate Jair Bolsonaro as the winner in the final round with 55.1% of the votes, who will take office on January 1, 2019. We can not predict the impact on the global economy, and particularly in Argentina, of the policies of the Bolsonaro's administration and, consequently, the results of our business, financial condition and the results of our operations.

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 SELIC rate has increased since then and, as of June 30, 2018, it was 1.07% 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, 7.18% in 2016 and (-0.52%) in 2017. Cumulative inflation in the first six months of 2018, calculated by the same index, was 5.39%.

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, 2018, 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 other Countries Where We Operate

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

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

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

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

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

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



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

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

exchange rates and exchange control policies;

inflation rates;

labor laws;

economic growth;

currency fluctuations;

monetary policy;

liquidity and solvency of the financial system;

limitations on ownership of rural land by foreigners;

developments in trade negotiations through the World Trade Organization or other international organizations;

environmental regulations;

restrictions on repatriation of investments and on the transfer of funds abroad;

expropriation or nationalization;

import/export restrictions or other laws and policies affecting foreign trade and investment;

price controls or price fixing regulations;

restrictions on land acquisition or use or agricultural commodity production

interest rates;

tariff and inflation control policies;

import duties on information technology equipment;

liquidity of domestic capital and lending markets;

electricity rationing;

tax policies;

armed conflict or war declaration; and

other political, social and economic developments, including political, social or economic instability, in or affecting the country where each business is based.

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

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

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





In 2015, the U.S. dollar to peso exchange rate increased 53% as compared to 2014. In 2016, the U.S. dollar to peso exchange rate increased 22% as compared to 2015. In 2017, the U.S. dollar to peso exchange rate increased 18% as compared to 2016. This trend continued in the first few months of 2018, with an increase of 7% from December 31, 2017 to March 31, 2018. Further, the U.S. dollar to peso exchange rate increased approximately 97.7%, from Ps.20.69 in April 27, 2018 to Ps.40.90 as of September 28, 2018. We cannot predict future fluctuations in the exchange rate of the Argentine Peso or whether the Argentine government will change its currency policy.

Historically, the Brazilian currency has historically suffered frequent fluctuations. As a consequence of inflationary pressures, in the past, the Brazilian government has implemented several economic plans and adopted a series of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Formally the value of the Real against foreign currencies is determined under a free-floating exchange rate regime, but in fact the Brazilian government is currently intervening in the market, through currency swaps and trading in the spot market, among other measures, every time the currency exchange rate is above or below the levels that the Brazilian government considers appropriate, taking into account, inflation, growth, the performance of the Real against the U.S dollar in comparison with other currencies and other economic factors. Periodically, there are significant fluctuations in the value of the Real against the U.S. dollar. During 2018, the Real depreciated 27% against the U.S. dollar.

The Israeli currency did not suffer important fluctuations during the last years. During 2018, NIS depreciated 2.7% against the U.S. dollar.

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

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

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

A portion of our operating costs in Argentina are denominated in Argentine Pesos, most of our operating costs in Brazil are denominated in Brazilian 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, the CPI increased 24.8% in 2017 and 1.8%, 2.4%, 2.3%, 2.7%, 2.1%, 3.7%, 3.1%, 3.9% and 6.5% for January, February, March, April, May, June, July, August and September 2018, respectively.

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

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

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

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

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

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



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

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

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

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

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

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

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

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

As of June 30, 2018, 0.4% of our assets were located in Paraguay. Paraguay has a history of economic and political instability, exchange controls, frequent changes in regulatory policies, corruption, and weak judicial security. However, in 2013, Paraguay had the highest GDP growth rate in Latin America and the third highest in the world with 14%. Since then, GDP has grown by 4% in 2014, 3% in 2015, 3.8% in 2016 and 4.3% in 2017. The Paraguay's GDP is

closely related to the performance of the Paraguayan agricultural sector, which can be volatile and could adversely affect our business, financial condition and results of operations.

The exchange rate of Paraguay is free and floating and the Central Bank of Paraguay participates actively in the exchange market in order to reduce volatility. In 2017, the Paraguayan currency appreciated against the dollar by 3.0%, while in 2016 the appreciation was 0.7%. Although the Paraguayan currency appreciated during 2017, the local currency follows the regional and world trends. A significant depreciation of the local currency could adversely affect our business, financial condition and results of operations. However, since most of our costs of raw materials and supplies are denominated in U.S. dollars, a significant depreciation of the local currency could adversely affect our business, financial condition and results of operations, as well as impact other expenses, such as as professional fees and maintenance costs.

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





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

As of June 30, 2018, 0.4% of our assets were located in Bolivia. Bolivia is exposed to frequent has a history of economic, social and political instability, exchange controls, frequent changes in regulatory frameworks policies, civic and labour strikes, high tax rates and corruption among state officials, the judiciary and also the private sector.

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

In turn, the Bolivian economy is the 14th largest in Latin America and is heavily dependent on export commodities such as natural gas and minerals. Bolivia's GDP growth over the last decade has been among the highest in Latin America, growing by 6.8% in 2013, 5.5% in 2014, 4.9% in 2015, 4.3% in 2016 and 4.2% in 2017, averaging 5% per year. Within this context, inflation has been relatively low and under control for the last 30 years. The inflation rate for 2017 was around 2.7% with a slightly higher figure expected for 2018. In addition, Bolivia it is in the process of becoming an active partner of MERCOSUR, a common market aiming to gradually integrate economic activity among Brazil, Argentina, Uruguay, Paraguay and Bolivia.

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

#### Risks Relating to Our 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 2017/2018 season is expected to decrease by 23%, reaching a production of 87.8 million tons, as compared to the previous cycle. The forecast shows mainly an increase in the planted area, with a focus on wheat and corn, which is additionally enhanced by a slightly better expected yield in comparison with the 2016/2017 campaign. The estimated production of soybean is supposed to reach 37.8 million tons, the wheat production 18 million tons and the corn production 32 million tons.

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

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

Our cattle are subject to diseases.

Diseases among our cattle herds, such as mastitis, tuberculosis, brucellosis and foot-and-mouth disease, can have an adverse effect on 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.

On September 4, 2018, pursuant to Decree 793/2018, the Argentine Government reestablished, until December 31, 2020, a 12% export tax on commodities with a cap of Ps.4 for each dollar for primary commodities and Ps.3 for the rest of the manufactured products.

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, our business may be adversely affected.

Our cattle sales are diversified but we are and will continue to be significantly dependent on a number of third party relationships, mainly with our customers for crop sales. During the fiscal year 2018, we sold our products to approximately 500 customers. Sales of agricultural products to our ten largest customers represented approximately 60% of our net agricultural sales for the fiscal year ended June 30, 2018. Of these customers, our most important customers were Cargill S.A.C.I., Cofco, ADM AGR, Bunge Alimentos S. A. and Vicentin SACI.

We sell our crop production mainly to exporters and manufacturers that process the raw materials to produce meal and oil, products that are sent to the export markets. The Argentine crop market is characterized by a few purchasers and a

great number of sellers. Although most of the purchasers are international companies with strong financial conditions, we cannot assure you that this situation will remain the same in the future or this market will not get more concentrated in the future.

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

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

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



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

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

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

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

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

We consolidated our financial statements with our subsidiary Brasilagro. Brasilagro was formed on September 23, 2005 to exploit opportunities in the Brazilian agricultural sector. Brasilagro seeks to acquire and develop future properties to produce a diversified range of agricultural products (which may include sugarcane, grains, cotton, forestry products and livestock). Brasilagro is a startup company that has been operating since 2006. As a result, it has a developing business strategy and limited track record. Brasilagro’s business strategy may not be successful, and if not successful, Brasilagro may be unable to successfully modify its strategy. Brasilagro’s ability to implement its proposed business strategy may be materially and adversely affected by many known and unknown factors. If we were to write-off our investments in Brasilagro, this would likely materially and adversely affect our business. As of June 30, 2018, we owned 43.29% 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, 2018, we owned land reserves extending over more than 355,395 hectares that were purchased at very attractive prices. In addition, we have a concession over 106,400 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 declared a state of emergency with respect to the national energy system which remained in effect until December 31, 2017. In addition, through Resolution No. 6/2016 of the Ministry of Energy and Mining and Resolution No. 1/2016 of the National Electricity Regulatory Agency (Ente Nacional Regulador de la Electricidad), the Macri administration announced the elimination of a portion of energy subsidies then in effect and implemented a substantial increase in electricity tariffs. As a result, average electricity prices increased substantially and could increase further in the future. If energy supply is cut for an extended period of time or energy tariffs continue increasing and we are unable to find replacement sources at comparable prices, or at all, our business and results of operations could be adversely affected.

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

We had, and expect to have, substantial liquidity and capital resource requirements to finance our business. As of June 30, 2018, our consolidated financial debt amounted to Ps.206,633 million (including IDBD's debt outstanding as of that date plus accrued and unpaid interest on such indebtedness and deferred financing costs). We cannot assure you that we will have sufficient cash flows and adequate financial capacity in the future. While the commitments and other covenants applicable to IDBD's debt obligations do not have apply IRSA since such it is not recourse to IRSA and it is not guaranteed by IRSA's assets, these covenants and restrictions may impair or restrict our ability to operate IDBD and implement our business strategy.

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

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

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, 2018, 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 IRSA's business in Argentina

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

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

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

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

- the intrinsic attractiveness of the shopping mall;

- the flow of people and the level of sales of rental units in its shopping malls;

- the increasing competition from internet sales;

- the amount of rent collected from tenant at IRSA's shopping mall;

- changes in consumer demand and availability of consumer credit (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 IRSA's shopping malls.

An increase in IRSA's operating costs, caused by inflation or by other factors, could have a material adverse effect on us if IRSA's tenants 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 IRSA's shopping malls and commercial properties, under Operations Center in Argentina, are located in Argentina, and, as a

consequence, their business is vulnerable to recession and economic downturns in Argentina. For example, during the economic crisis in Argentina that began in 2001, consumer spending decreased significantly, and higher unemployment, political instability and high rates of inflation significantly reduced consumer spending and resulted in lower sales that led some tenants to shut down. Persistently poor economic conditions in Argentina in the future could result in a decline in discretionary consumer spending which will likely have a material adverse effect on the revenues from shopping mall activity and thus on IRSA's business.

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

For the fiscal year ended June 30, 2018, 86% of IRSA's sales from leases and services provided by the Shopping Malls segment were derived from shopping malls in the City of Buenos Aires and the Greater Buenos Aires. In addition, all of 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 the City of Buenos Aires and the Greater Buenos Aires area, IRSA expects to continue to depend to a large extent on economic conditions affecting those areas. Consequently, an economic downturn in those areas could have a material adverse effect on IRSA's financial condition and results of operations 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 our properties and with the real estate industry.

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

Events or conditions beyond our control that may adversely affect our operations or the value of our properties include:

- downturns in the national, regional and local economic climate;
- volatility and decline in discretionary consumer spending;
- competition from other shopping malls and office, and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for retail, office, or other commercial space;
- decreases in consumption levels;
- changes in interest rates and availability of financing;
- the exercise by IRSA's tenants of their legal right to early termination of their leases;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;
- increased operating costs, including insurance expenses, employee expenses, utilities, real estate taxes and security costs;
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs;
- declines in the financial condition of IRSA's tenants and its ability to collect rents when due;
- changes in its or its tenants' ability to provide for adequate maintenance and insurance, possibly decreasing the useful life of and revenue from property;
- changes in law or governmental regulations (such as those governing usage, zoning and real property taxes) or government action such as expropriation, confiscation or revocation of concessions; and
- judicial interpretation of the Civil and Commercial Code (effect since August 1, 2015) which may be adverse to its interests.

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

An adverse economic environment for real estate companies such as a credit crisis may adversely impact 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 its 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 its ability to refinance existing debt and the availability and cost of credit in the near future. Any consideration of sales of existing properties or portfolio interests may be 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.





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

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

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

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

Although no single tenant represents more than 3% of its revenue, if a significant number of tenants at its retail or office properties were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, or if IRSA failed to retain them, its business could be adversely affected. Further, its shopping malls typically have a significant "anchor" tenant, such as well-known department stores that generate consumer traffic at each mall. A decision by such tenants to cease operations at its shopping malls or its office buildings, as applicable, could have a material adverse effect on 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's revenue and net income may be materially and adversely affected by continuing inflation and any economic slowdown in Argentina.

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

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

IRSA may face risks associated with property acquisitions.

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

uncertainties, including the risk that:

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

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 are unfamiliar with local governmental and permitting procedures.

If IRSA acquire 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 us to realize cost savings and synergies, which could impair its results of operations.



IRSA's future acquisitions may not be profitable.

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

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

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

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

- IRSA's investigation of a property or building prior to its acquisition, and any representations 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 its operations and divert management's attention away from day-to-day operations, which could impair its relationships with its current tenants and employees.

Properties IRSA acquires may subject us 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;
- liabilities related to changes in laws or in governmental regulations (such as those governing usage, zoning and real property taxes); and
- liabilities incurred in the ordinary course of business.

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 IRSA's inability to replace such tenants may adversely affect its 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 us 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 its 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 it will continue to be successful in its attempts to rezone land and to obtain all necessary permits and authorizations, or that rezoning efforts and permit requests will not be unreasonably delayed or rejected. Moreover, IRSA may be affected by building moratorium and anti-growth legislation. If IRSA is unable to obtain all of the governmental permits and authorizations 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 IRSA's 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 on an important degree on the availability of debt or equity capital, which may or may not be available on favorable terms or at all. IRSA cannot assure you that additional financing, refinancing or other capital will be available in the amounts 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 our 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 our credit ratings, as well as the possibility that lenders could develop a negative perception of the prospects of risk in Argentina, of its company or the industry generally. IRSA may not be able to successfully obtain any necessary additional financing on favorable terms, or at all.

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



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



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

Given that 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 our tenants could materially and adversely affect our business. IRSA cannot assure you that our tenants will not exercise such right, especially if rent values stabilize or decline in the future or if economic conditions deteriorate.

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

IRSA may be liable for certain defects in our buildings.

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

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

operations could be adversely affected.

Eviction proceedings in Argentina are difficult and time consuming.

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



Historically, 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.

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

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

- a decrease in demand for office space;

- a deterioration in the financial condition of IRSA's 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 our business, which would have an adverse effect on our financial condition and results of operations.

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

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 our original estimates for reasons including raises in interest rates or increases in the costs of materials and labor, making a project unprofitable;

- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on 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 capital expenditures that could result in considerable time consuming efforts and which may never be completed due to government restrictions.

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

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

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

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

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, our business could be materially and adversely affected. If the Company is not able to respond to such pressures as promptly as our competitors, or the level of competition increases, our financial condition and results of our operations could be adversely affected.

Substantially all of IRSA's shopping mall and commercial office properties are located in Argentina. There are other shopping malls and numerous smaller retail stores and residential properties within the market area of each of our properties. The number of competing properties in a particular area could have a material adverse effect both on our ability to lease retail space in our shopping malls or sell units in our residential complexes and on the amount of rent

or the sale price that IRSA is able to charge. The Company cannot assure you that other shopping mall operators, including international shopping mall operators, will not invest in Argentina in the near future. If additional companies become active in the Argentine shopping mall market in the future, such competition could have a material adverse effect on our results of operations.

Substantially all of 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 our properties are located. This is a highly fragmented market, and the abundance of comparable properties in our vicinity may adversely affect our ability to rent or sell office space and other real estate and may affect the sale and lease price of our premises. In the future, both national and foreign companies may participate in Argentina's real estate development market, competing with us for business opportunities.



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

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 IRSA's properties. Although IRSA believes the policy specifications and insured limits of these policies are generally customary, there are certain types of losses, such as lease and other contract claims, terrorism and acts of war that generally are not insured under the insurance policies offered in the national market. 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. The Company 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 it will be able to renew its insurance coverage in an adequate amount or at reasonable prices. Insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and mold, or, if offered, these types of insurance may be prohibitively expensive.

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

Under the terms and conditions of the leases currently in force on IRSA's properties, tenants are required to indemnify and hold us harmless from liabilities resulting from injury to persons, or property, on or off the premises, due to activities conducted on the properties, except for claims arising from its 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 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 has focused on development projects that cater to affluent individuals and have entered into property barter agreements pursuant to which IRSA contributes its undeveloped properties to ventures with developers who will deliver us units at premium locations. At the time the developers return these properties to us, demand for premium residential units could be significantly lower. In such case, IRSA would be unable to sell these residential units at the estimated prices or time frame, which could have an adverse effect on its financial condition and results of operations.

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

IRSA had, and expect to have, substantial liquidity and capital resource requirements to finance its business. As of June 30, 2018, its consolidated financial debt amounted to Ps.206,633 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 it will have sufficient cash flows and adequate financial capacity in the future. While the commitments and other covenants applicable to IDBD's debt obligations do not have apply IRSA since such it is not recourse to IRSA and it is not guaranteed by IRSA's assets, these covenants and restrictions may impair or restrict its 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 its ability to refinance existing debt and the availability and cost of credit in the future. In such conditions, access to equity and debt financing options may be restricted and it may be uncertain how long these economic circumstances may last. This would require us to allocate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. Its 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 default on any financial or other covenants in its debt arrangements, the lenders and/or holders of its debt will be able to accelerate the maturity of such debt or cause defaults under the other debt arrangements. IRSA's ability to service debt obligations or to refinance them will depend upon its future financial and operating performance, which will, in part, be subject to factors beyond its control such as macroeconomic conditions and regulatory changes in Argentina. If IRSA cannot obtain future financing, IRSA 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 its 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 its major tenants cannot be predicted and may be q