

CRESUD INC  
Form 20-F  
November 01, 2016

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, 2016

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, 23 Floor,

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(C1091AAQ) City of Buenos Aires, Argentina  
(Address of principal executive offices)

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Chief Financial and Administrative Officer  
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Moreno 877, 24 Floor,  
(C1091AAQ) City of Buenos Aires, Argentina  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

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

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

The number of outstanding shares of the issuer's common stock as of June 30, 2016 was 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

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



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## DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

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

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

- .  
changes in general economic, business, political, legal, social or other conditions in Argentina or elsewhere in Latin America or in Israel or changes in developed or emerging markets
- .  
changes in capital markets in general that may affect policies or attitudes toward lending to Argentina or Argentine companies;
- .  
inflation and deflation;
- .  
fluctuations in prevailing interest rates;
- .  
current and future government regulation;
- .  
adverse legal or regulatory disputes or proceedings;
- .  
fluctuations and declines in the value of Argentine public debt;
- .  
political events, civil strife and armed conflicts;
- .  
government intervention in the private sector, including through nationalization, expropriation, labor regulation or other actions;
- .  
restrictions on transfer of foreign currencies;
- .

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

.

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

.

our ability to timely transact in the real estate market in Argentina or Israel;

.

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;

.

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”.

The words “believe”, “may”, “will”, “aim”, “estimate”, “continue”, “anticipate”, “intend”, “expect”, “forecast”, “foresee”, “un-”, and similar other words identify forward-looking statements. 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, 2016, the Company has established two operations centers to manage its global business, “Operations Center in Argentina” and “Operations 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 may issue in the future.

#### CERTAIN MEASURES AND TERMS

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

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

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

## PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

### FINANCIAL STATEMENTS

This annual report contains our Audited Consolidated Financial Statements as of June 30, 2016 and 2015 for our fiscal years ended June 30, 2016, 2015 and 2014 (our “Audited Consolidated Financial Statements”). Our Audited Consolidated Financial Statements included elsewhere herein have been audited by Price Waterhouse & Co S.R.L. City of Buenos Aires, Argentina, member of PriceWaterhouseCoopers International Limited, an independent registered public accounting firm whose report is included herein.



Pursuant to Resolution N° 562/09 issued by the Argentine Comisión Nacional de Valores (“CNV”), as subsequently amended by Resolution N° 576/10, and further amended and restated by Resolution N° 622/13 (the “CNV Rules”), all listed companies in Argentina with certain exceptions (i.e. financial institutions and insurance entities) were required to present their consolidated financial statements for accounting periods beginning on or after January 1, 2012 in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Therefore, in 2013 we prepared for the first time our Consolidated Financial Statements under IFRS for our financial year ended June 30, 2013, which included comparative financial information for the year ended June 30, 2012. All IFRS issued by the IASB effective at the time of preparing the Audited Consolidated Financial Statements have been applied. The opening IFRS statement of financial position was prepared as of our transition date of July 1, 2011.

On October 11, 2015, the Company, through its subsidiaries, obtained control of IDB Development Corporation (“IDBD”). IDBD’s fiscal year ends on December 31 each year and the Company’s fiscal year ends on June 30. IDBD’s quarterly and annual reporting follows the guidelines of Israeli accounting standards, which means that the information is only available to IRSA after the applicable statutory periods expire. Therefore, the Company has started to consolidate IDBD’s results of operations with a three-month lag, adjusted for the effects of material transactions that may have taken place during the reported period. Hence, IDBD’s results of operations for the period beginning on October 11, 2015 (the date the Company obtained control of IDBD) through March 31, 2016, are included in the Company’s consolidated statement of comprehensive income for the fiscal year ended June 30, 2016, adjusted by such material transactions that occurred between April 1 and June 30, 2016, mainly due to the decrease of the market price of Clal’s shares and the impact of such decrease in our registration of the investment in Clal.

Given the materiality of IDBD’s results on the Company’s consolidated results, the Company had to make changes on the presentation format of its financial information for ease of analysis. The most significant change is in line with the new organizational structure, which was split into two large operations centers in Argentina and Israel. In this regard, changes have been made to certain notes and tables and their respective order, classification and content, on a geographic basis and taking into consideration the significance of the Company’s global operations following IDBD’s consolidation.

As of June 30, 2016, IRSA has established two Operations Centers to manage its global business, mainly through the following companies:

## MARKET DATA

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

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

Solely for the convenience of the reader, we have translated certain Peso amounts into U.S. Dollars at the offer exchange rate quoted by Banco de la Nación Argentina for June 30, 2016, which was Ps. 15.04 = US\$ 1.00. We have also translated certain NIS amounts into U.S. dollars at the offer exchange rate for June 30, 2016 which was NIS 3.8575= US\$ 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.





## 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 (operations)/income and comprehensive (loss)/income data for the years ended June 30, 2016, 2015 and 2014 and the selected consolidated statements of financial position data as of June 30, 2016 and 2015 have been derived from our Audited Consolidated Financial Statements included in this annual report which have been audited by Price Waterhouse & Co S.R.L. City of Buenos Aires, Argentina, member of PriceWaterhouseCoopers International Limited, an independent registered public accounting firm.

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

	IFRS					
	For the fiscal year ended June 30,					
	2016(1)	2016	2015	2014	2013	2012
	(in millions of US\$)	(in millions of Ps.)				
Consolidated Statements of (Operations)/Income						
Revenues	2,353	35,384	5,652	4,604	3,529	2,860
Costs	(1,735)	(26,090)	(4,770)	(3,913)	(3,121)	(2,464)
Initial recognition and changes in fair value of biological assets and agricultural produce at the point of harvest	110	1,660	1,324	1,152	887	701
Changes in net realizable value of agricultural produce after harvest	14	208	(34)	(18)	12	3

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Gross Profit	742	11,162	2,172	1,825	1,307	1,100
Gain from disposal of investment properties	73	1,101	1,150	231	178	117
Gain from disposal of farmlands	-	(2)	550	91	150	45
General and administrative expenses	(149)	(2,244)	(618)	(533)	(346)	(321)
Selling expenses	(417)	(6,279)	(474)	(354)	(280)	(201)
Other operating results, net	(3)	(44)	12	(75)	98	(93)
Profit from operations	246	3,694	2,792	1,185	1,107	647
Share of (loss)/profit of associates and joint ventures	31	473	(1,025)	(409)	(10)	3
Profit from operations before financing and taxation	277	4,167	1,767	776	1,097	650
Finance income	131	1,974	241	288	201	139
Finance cost	(513)	(7,719)	(1,685)	(2,852)	(1,125)	(757)
Other Financial results	(34)	(510)	155	(10)	15	49
Financial results, net	(416)	(6,255)	(1,289)	(2,574)	(909)	(569)
(Loss)/Profit before income tax	(139)	(2,088)	478	(1,798)	188	81
Income tax (expense)/benefit	13	197	(303)	389	(34)	(22)
(Loss)/Profit for the year	(126)	(1,891)	175	(1,409)	154	59
Attributable to:						
Equity holders of the parent	(69)	(1,038)	(250)	(1,068)	(27)	(21)
Non-controlling interest	(57)	(853)	425	(341)	181	80



	2016(1) (in millions of US\$)	IFRS For the fiscal year ended June 30,				
		2016	2015	2014	2013	2012
<b>Consolidated Statements of Comprehensive (Operations)/Income</b>						
(Loss)/Profit for the year	(126)	(1,891)	175	(1,409)	154	58
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss:						
Currency translation adjustment	3	37	(521)	1,285	181	(231)
Share of currency translation adjustment of joint ventures and associates accounted for using the equity method	320	4,818	82	(17)	2	(3)
Share of change in the fair value of hedging instruments of associates and joint ventures accounted for using the equity method	(6)	(93)	-	-	-	-
Items that may not be reclassified subsequently to profit or loss, net of income tax:						
Actuarial loss from defined benefit plans net of income taxes	(3)	(42)	-	-	-	-
Other comprehensive income/(loss) for the year	314	4,720	(439)	1,268	183	(234)
Total comprehensive income/(loss) for the year	188	2,829	(264)	(141)	337	(176)
Attributable to:						
Equity holders of the parent	(43)	(646)	(440)	(437)	66	(103)
Non-controlling interest	231	3,475	176	296	271	(73)

	2016(1) (in millions of US\$)	IFRS For the fiscal year ended June 30,				
		2016	2015	2014	2013	2012
<b>CASH FLOW DATA</b>						
Net cash generated from operating activities	270	4,055	494	883	648	668
Net cash generated from/(used in) investing activities	575	8,652	872	(886)	(93)	(354)
Net cash used in financing activities	(299)	(4,495)	(1,776)	(446)	(17)	(479)

	2016(1) (in millions of US\$)	IFRS As of fiscal year ended June 30,				
		2016	2015	2014	2013	2012
<b>Consolidated Statements of Financial Position</b>						
<b>ASSETS</b>						
<b>Non-Current Assets</b>						
Investment properties	3,309	49,766	3,475	3,455	4,171	3,455
Property, plant and equipment	1,749	26,300	1,977	2,382	1,841	1,873
Trading properties	297	4,472	130	132	98	87

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Intangible assets	786	11,814	176	175	219	168
Biological assets	45	677	459	445	303	278
Investments in associates and joint ventures	1,099	16,534	2,389	2,375	1,487	1,501
Deferred income tax assets	110	1,658	653	853	179	81
Income tax credit	12	173	160	178	199	157
Restricted assets	9	129	4	51	55	-
Trade and other receivables	251	3,773	427	475	291	297
Assets held for sale	222	3,346	-	-	-	-
Investment in financial assets	148	2,226	623	275	254	626
Derivative financial instruments	1	8	208	-	25	18
Employee benefits	-	4	-	-	-	-
Total Non-Current Assets	8,038	120,880	10,681	10,796	9,122	8,541
Current Assets						
Trading properties	16	241	3	4	12	11
Biological assets	30	455	120	196	98	85
Inventories	259	3,900	511	440	252	253
Restricted assets	50	748	607	-	1	-
Income tax credit	36	541	31	20	5	29
Assets held for sale	84	1,256	-	1,358	-	-
Trade and other receivables	941	14,158	1,772	1,438	1,480	859
Investment in financial assets	643	9,673	504	496	386	72
Derivative financial instruments	4	53	30	33	7	3
Cash and cash equivalents	937	14,096	634	1,003	1,048	472
Total Current Assets	3,000	45,121	4,212	4,988	3,289	1,784
TOTAL ASSETS	11,038	166,001	14,893	15,784	12,411	10,325



As of fiscal year ended June 30,  
 2016(1)      2016    2015    2014    2013    2012  
 (in millions of  
 US\$)                    (in millions of Ps.)

## SHAREHOLDERS' EQUITY

### Capital and Reserves Attributable to Equity Holders of the Parent

Share capital	33	495	495	491	497	497
Treasury shares	-	7	7	11	5	5
Inflation adjustment of share capital	4	65	64	64	65	165
Inflation adjustment of treasury shares	-	-	-	1	1	1
Share premium	44	659	659	773	773	773
Additional paid-in capital from treasury shares	1	16	13	-	-	-
Cost of treasury shares	-	-	(32)	(55)	-	-
Share warrants	-	-	-	106	106	106
Cumulative translation adjustment	-	-	-	-	-	-
Equity-settled compensation	-	-	-	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-
Other reserve	72	1,086	548	688	(12)	(87)
Legal reserve	6	83	-	82	47	43
Reserve for new developments	-	-	-	17	337	389
Special reserve	-	-	-	634	696	-
Reserve for the repurchase of securities	-	-	32	200	-	-
(Accumulated deficit) / Retained Earnings	(90)	(1,390)	(806)	(1,066)	(27)	667
Equity Attributable to equity holders of the parent	70	1,021	980	1,946	2,488	2,559
Non-controlling interest	945	14,211	2,539	2,489	2,231	2,133
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,015</b>	<b>15,232</b>	<b>3,519</b>	<b>4,435</b>	<b>4,719</b>	<b>4,692</b>

## LIABILITIES

### Non-current liabilities

Trade and other payables	102	1,528	264	217	228	169
Borrowings	6,237	93,808	5,833	5,315	4,190	2,770
Deferred income tax liabilities	509	7,662	151	470	530	630
Derivative financial instruments	8	121	270	321	3	23
Payroll and social security liabilities	1	21	5	5	4	1
Provisions	89	1,341	387	221	72	22
Employee benefits	46	689	-	-	-	-
<b>Total non-current liabilities</b>	<b>6,992</b>	<b>105,170</b>	<b>6,910</b>	<b>6,549</b>	<b>5,027</b>	<b>3,615</b>

### Current Liabilities

Trade and other payables	1,226	18,443	1,307	1,004	900	587
Income tax liabilities	41	624	142	73	92	118
Payroll and social security liabilities	123	1,856	230	203	121	104
Borrowings	1,562	23,488	2,467	2,639	1,527	1,187
Derivative financial instruments	10	147	263	53	9	18
Provisions	69	1,041	55	21	16	4
Liabilities directly associated with assets classified as held for sale	-	-	-	807	-	-
<b>Total current liabilities</b>	<b>3,031</b>	<b>45,599</b>	<b>4,464</b>	<b>4,800</b>	<b>2,665</b>	<b>2,018</b>



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TOTAL LIABILITIES	10,023	150,769	11,374	11,349	7,692	5,633
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	11,038	166,001	14,893	15,784	12,411	10,325

	2016(1) (in US\$, except for Other Financial Data	IFRS As of fiscal year ended June 30,				
		2016 (in US\$, except for percentages, ratios and number of shares)	2015 (in Ps, except for percentages, ratios, number of shares, per share and per ADS data)	2014	2013	2012
Basic net income per share (2)	(0.00)	(2.83)	0.23	(2.15)	(0.05)	(0.04)
Diluted net income per share (3)	(0.00)	(2.83)	0.21	(2.15)	(0.05)	(0.04)
Basic net income per ADS (2)(4)	(0.00)	(28.30)	2.30	(21.50)	(0.54)	(0.43)
Diluted net income per ADS (3)(4)	(0.00)	(28.30)	2.10	(21.50)	(0.54)	(0.43)
Capital stock	33	502	502	502	502	502
Number of common shares		501,642,804	501,642,804	501,642,804	501,562,730	501,562,730
Weighted – average number of common shares outstanding		494,991,778	494,991,778	492,020,463	496,132,488	496,561,931
Diluted weighted – average number of common shares (5)		554,375,631	554,375,631	554,375,631	558,487,656	558,917,099
Dividends paid (6) -	-	-	-	-	120	120



Dividends per share	-	-	-	-	-	-
Dividends per ADS (4)	-	-	-	-	-	-
Depreciation and amortization	184	2,769	259	297	280	233
Capital expenditure	163	2,458	488	436	1,048	243
Working capital	(32)	(478)	(252)	188	624	(234)
Gross margin (7)	0.30	0.30	0.31	0.32	0.30	0.31
Operating margin (8)	0.10	0.10	0.40	0.21	0.25	0.18
Net margin (9)	(0.05)	(0.05)	0.03	(0.24)	0.03	0.02
Ratio of current assets to current liabilities (10)	0.99	0.99	0.94	1.04	1.23	0.88
Ratio of shareholders' equity to total liabilities (11)	0.10	0.10	0.31	0.39	0.61	0.83
Ratio of non current assets to total assets (12)	0.73	0.73	0.73	0.68	0.73	0.83
Ratio of "Return on Equity" – ROE (13)	(0.19)	(0.19)	0.17	(0.31)	0.03	0.01

(1) Solely for the convenience of the reader, we have translated Peso amounts into U.S. Dollars at the exchange rate quoted by

Banco de La Nación  
Argentina for  
June 30, 2016  
which was  
Ps.15.04 =  
US\$1.00. We  
make no  
representation  
that the Peso  
or U.S. Dollar  
amounts  
actually  
represent,  
could have  
been or could  
be converted  
into U.S.

Dollars at the  
rates  
indicated, at  
any particular  
rate or at all.

Basic net  
income per  
share is  
computed by  
dividing the  
net income  
available to  
common

(2) shareholders  
for the period  
by the  
weighted  
average  
common  
shares  
outstanding  
during the  
period.

(3) Diluted net  
income per  
share is  
computed by  
dividing the  
net income for  
the period by  
the weighted  
average  
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. Determined by multiplying per share amounts by ten (one ADS equals ten common shares).
- (4) Assuming exercise of all outstanding warrants to purchase our common shares. The shareholders' meeting held in October 2013 approved the
- (5) distribution of a cash dividend for an amount of Ps.120 million for the fiscal year ended June 30, 2013.
- (6) Gross profit divided by the sum of revenues and
- (7)

- initial  
recognition  
and changes in  
fair value of  
biological  
assets and  
agricultural  
produce at the  
point of  
harvest.  
Operating  
income  
divided by the  
sum of  
revenues and  
initial  
recognition
- (8) and changes in  
fair value of  
biological  
assets and  
agricultural  
produce at the  
point of  
harvest.  
Net income  
divided by the  
sum of  
revenues and  
initial  
recognition
- (9) and changes in  
fair value of  
biological  
assets and  
agricultural  
produce at the  
point of  
harvest.  
Current assets
- (10) over current  
liabilities.  
Shareholders'
- (11) 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

During 2001 and 2015, Argentine government had established a series of exchange control measures that restricted the free disposition of funds and the transfer of funds abroad. In 2011, the Argentine government had significantly curtailed access to foreign exchange by individuals and private sector entities, making 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 color, in December 2015, one of the first measures taken by the Argentine government was to lift the principal restrictions that limited access to individuals to foreign exchange market. In this connection, Communication "A" 5850 of the Central Bank admitted again the possibility for individuals to have access to the local market, however, up to a certain amount of money. As local economy became stable in Argentina, and local markets reopened to foreign commerce, the Central Bank issued on August 2016 Communication "A" 6037 that lifted all remaining limitations. Nowadays, all individuals have unrestrictive access to the local exchange market, according to the conditions and procedures that are explained in this document.

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

	Maximum(1)(2)	Minimum(1)(3)	Average(1)(4)	At closing(1)
Fiscal year ended June 30, 2012	4.5070	4.1250	4.3016	4.5070
Fiscal year ended June 30, 2013	5.3680	4.5650	4.9339	5.3680
Fiscal year ended June 30, 2014	8.0830	5.4850	6.9333	8.0830
Fiscal year ended June 30, 2015	9.0380	8.1630	8.5748	9.0380
Fiscal year ended June 30, 2016	15.7500	9.1400	12.2769	14.9900
April 2016	14.7400	14.0000	14.3367	14.2000
May 2016	14.1900	13.8700	14.0720	13.9410
June 2016	15.2500	13.6950	14.1343	14.9900
July 2016	15.1000	14.510	14.8410	14.9600
August 2016	15.0500	14.6100	14.7899	14.8800
September 2016	15.3400	14.8500	15.0666	15.2600
October 2016 (through October 13, 2016)	15.1600	15.0200	15.1153	15.0820

Source: Central Bank

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

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

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

(4)

Average exchange rates at the end of the month.

4





Although exchange control regulations were lifted on August 2016, certain regulations regarding the registration, disbursement, payment of principal and interest and prepayments, among other exchange control measures related to foreign indebtedness, remain in place, and we cannot give you any assurance that additional exchange control regulations will not be adopted in the future. See “Risk Factors—Risks Relating to Argentina—Exchange controls and restrictions on transfers abroad and capital inflow restrictions have been limited in the past and may limit the availability of international credit.”

Exchange controls regulations currently in effect in Argentina include those described below.

#### Registration Requirements

A debtor must inform the Central Bank of any foreign indebtedness (financial and commercial) it incurs and must register and validate such indebtedness in accordance with Communication “A” 3602. Compliance with such information with the Central Bank is required in order to enable such debtor to purchase foreign currency in the Argentine foreign exchange market for the purpose of servicing such foreign indebtedness, among others.

In addition, all new foreign indebtedness of Argentine residents, as well as any refinancing of existing foreign debt, must provide that principal repayments thereunder are subject to a 120-day waiting period in which principal cannot be paid.

#### Disbursements

Pursuant to Communication “A” 5850, Argentine residents are no longer obliged to settle proceeds received from foreign indebtedness through the local exchange market.

According to Communication “A” 6037, Argentine residents will have access to the local exchange money also at the time of repayment of principal and interests.

#### Principal and Interest Payments

Foreign currency necessary to pay principal and interest on foreign indebtedness, according to Communication “A” 5850 and Communication “A” 6037 can be purchased in the local exchange market.

#### Corporate Profits and Dividends

Pursuant to foreign exchange regulations, 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

In June 2005, the Argentine government imposed certain additional restrictions on inflows and outflows of foreign currency to the Argentine foreign exchange market through Decree No. 616/2005 as amended and supplemented by Resolution 3/2015, such as:

#### Minimum Term of Indebtedness

Financial indebtedness incurred by Argentine residents with foreign creditors (including refinancing of existing indebtedness) must be agreed upon and cancelled within terms of no less than 120 calendar days (waiting period),

whatever the form of repayment thereof. Additionally, no prepayment of such indebtedness may be made prior to the expiration of such term, irrespective of the payment method and whether or not termination entails the execution of a foreign exchange trade in the local market.

#### Local Bank Account

The results of inflows in the local exchange market required to be credited in an account opened by a local financial entity, which can be denominated in either local or foreign currency.

#### No Restrictions on Residents on the Purchase of Foreign Currency

#### Other Exchange Control Measures

Subject to certain conditions, Central Bank regulations allow the purchase of foreign currency in the Argentine foreign exchange market for purposes of making payments on account of financial derivatives.

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
Fiscal year ended June 30, 2015	3.9831	3.4260	3.8064	3.7747
Fiscal year ended June 30, 2016	3.9604	3.7364	3.8599	3.8596
Month ended April 30, 2016	3.8139	3.7364	3.7722	3.7364
Month ended May 31, 2016	3.8869	3.7511	3.8156	3.8526
Month ended June 30, 2016	3.8905	3.8141	3.8558	3.8596
Month ended July 31, 2016	3.8875	3.8131	3.8570	3.8131
Month ended August 31, 2016	3.8362	3.7592	3.7946	3.7768
Month ended September 30, 2016	3.7853	3.7464	3.7642	3.7464
October 2016 (through October 13, 2016)	3.8155	3.7464	3.7901	3.8042

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

We depend on macroeconomic and political conditions in Argentina.

We are exposed to economic conditions in Argentina, considering that as of the date of this annual report, substantially all of our assets were located in Argentina and all of our activities are conducted in Argentina. The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high levels of inflation and currency devaluation, and may experience further volatility in the future.

The ongoing economic slowdown suggests uncertainty as to whether the economic growth experienced in the past decade is sustainable. This is mainly because economic growth was initially dependent on a significant devaluation of the Peso, excess production capacity resulting from a long period of deep recession and high commodity prices. Furthermore, the economy has suffered from a sustained erosion of direct investment and capital investment. After the 2001 economic crisis, Argentina recovered with significant increases in gross domestic product (“GDP”) at an average of 8.5% on an annual basis between 2003 and 2008. As a result of the 2008 global financial crisis, Argentina GDP’s growth rate decreased to 0.9% in 2009, though growth rebounded to 9.2% in 2010 and 8.9% in 2011. During 2012, the Argentine economy experienced a slowdown, with GDP increasing at a rate of 1.9%. In March 2014, the Argentine government announced a new method of calculating GDP as requested by the International Monetary Fund (“IMF”) (using 2004 as the base year instead of 1993, which was the base reference year used in the prior method of GDP calculation). Following changes in the methodology used in calculating GDP, the National Institute of Statistics (Instituto Nacional de Estadísticas y Censos or “INDEC” as per its acronym in Spanish) reported that Argentina’s GDP’s growth rate for 2013 was 3%, 0.5% for 2014, this decrease was principally due to the deceleration of the global economy and prevailing macroeconomic conditions in Argentina during 2014, and 2.3% for 2015. As of July 31, 2016, the Monthly Economic Activity Estimator (Estimador Mensual de Actividad Económica, or the “EMAE”) decreased 5.9%, relative to the same period in the prior year, according to data published by the INDEC. Argentina’s relative stability since 2002 has been affected by increased social and political tension and government intervention in the economy.

Our business depends to a significant extent on macroeconomic and political conditions in Argentina. In early December 2015 Mr. Mauricio Macri, was elected in Argentina. The President is expected, that hindered economic worth to continue promoting legal measures to reverse some of the previous presidential administrations, especially economic policies and exchange control regulations. However, until any changes in laws and regulations are enacted, we are uncertain how any such changes may affect our business and results of operations. Deterioration of the country's economy would likely have a significant adverse effect on our business, financial condition and results of operations.

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

In January 2007, the INDEC began to calculate the CPI, based on the monthly average of a weighted basket of consumer goods and services to reflect the pattern of consumption of Argentine households. At the time that the INDEC adopted this change in methodology the Argentine government also replaced several key officers at the INDEC, prompting complaints of governmental interference from the technical staff at the INDEC. In addition, the IMF requested a number of times that INDEC clarify its methodology for measuring inflation rates.

On November 23, 2010, the Argentine government began consulting with the IMF for technical assistance in order to prepare a new national CPI data 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, reports published by the IMF stated that its staff also used alternative measures of inflation for macroeconomic surveillance, including data produced by private sources, and such measures have shown inflation rates that are considerably higher than those published by the INDEC since 2007. Consequently, the IMF called on Argentina to adopt measures to improve the quality of data used by the INDEC. At a meeting held on February 1, 2013, the Executive Board of the IMF emphasized that the progress in implementing remedial measures since September 2012 had been insufficient. As a result, the IMF has issued a declaration of censure against Argentina in connection with the breach of its related obligations to the IMF and called on Argentina to adopt remedial measures to address the inaccuracy of inflation and GDP data without further delay.

In order to address the quality of official data, a new consumer price index denominated Urban National Consumer's Price Index (Indice de Precios al Consumidor Nacional urbano, or the "IPCNU"), was enacted on February 13, 2014. For the year ended December 31, 2014, the IPCNU was 23.9%. The IPCNU represents the first national indicator in Argentina to measure changes in prices of household goods for final consumption. While the previous price index only measured inflation in the Greater Buenos Aires area, the IPCNU is calculated by measuring prices of goods across the entire urban population of the 23 provinces of Argentina and the City of Buenos Aires. In addition, in February 2014, the INDEC released a new GDP index for 2013, equal to 3.0%, which differs from the GDP index originally released by the INDEC for the same period which was 5.5%. On December 15, 2014, the IMF recognized the progress of Argentine authorities to remedy the inaccurate provision of data, but has delayed the definitive evaluation of the new index. If the IMF finds that the methodology of INDEC for calculating a new measure of CPI or GDP is inaccurate, or concludes that its methodology should be adjusted, that could result in financial and economic consequences for Argentina, including a lack of access to financing from IMF. If the IMF adopts any measures that are adverse to Argentina, the Argentine economy could suffer adverse effects, either by limiting access to international financial markets or increasing the financing cost associated therewith, which in turn would adversely affect our financial condition and results of operations.

On January 8, 2016, as a result of the INDEC's historical inability to produce reliable statistical data, the Macri administration issued an emergency decree and ceased publication of national statistics. The INDEC suspended all publications of statistical data until the technical reorganization process was completed and the administrative structure of the INDEC was recomposed.



After this process of reorganization and recovery, the INDEC began to gradually publish official data. In this regard, on June 15, 2016, July 13, 2016, August 12, 2016, September 13, 2016 and October 13, 2016 the INDEC published inflation data of the months of in May, June, July, August and September reflecting a monthly increase of 4.2%, 3.1%, 2.0%, 0.2% and 1.1%, respectively; however, at the date hereof, the CPI for the first four months of 2016 has not been published.

In addition, on June 29, 2016, the INDEC recalculated historical GDP data dating back to 2014, and GDP was estimated at 2.3% in 2013, a contraction of 2.6% in 2014, an increase to 2.4% in 2015 and an increase to 0.5% the first six month of 2016. Uncertainty still remains regarding the reliability related to the inaccuracy of the economic indicators remains a factor that negatively affects the economy of Argentina and our business. However, on October 5, 2016, concluded the first IMF audit over the Argentine's public accounts, saying that the new government has achieved an important progress. As of the date of this annual report, the Argentine government was waiting for the final report of the IMF, which will possibly include the lifting of the censure against Argentina.

Notwithstanding these measures to address appropriate inflation statistics, there are private reports implying significantly higher inflation rates than the official reports of the INDEC. Despite the changes adopted by the INDEC to the measurement procedure with the IPCNu, there are still some differences between the figures resulting from this indicator and those recorded by private consultants, the Argentine Congress and the provincial statistic agencies. If it is determined that it is necessary to unfavorably adjust the consumer price index and other INDEC indices, there could be a significant decrease in confidence in the Argentine economy, which could, in turn, have a material adverse effect on us.

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

Inflation has, in the past, materially undermined the Argentine economy and the government's ability to foster conditions that would permit stable growth. In recent years, Argentina has confronted inflationary pressures, evidenced by significantly higher fuel, energy and food prices, among other factors. According to data published by the INDEC, the rate of inflation reached 10.9% in 2010, 9.5% in 2011, 10.8% in 2012, 10.9% in 2013, 23.9% in 2014, 11.9% in the ten-month period ended October, 31 2015. In response, the prior Argentine administration implemented programs to control inflation and monitor prices for essential goods and services, including freezing the prices of key products and services, and price support arrangements agreed between the Argentine government and private sector companies in several industries and markets.

In November 2015, the INDEC suspended the publication of the CPI. According to the most recent publicly available information based on data from the Province of San Luis, the CPI grew by 31.6% in 2015 and the inflation rate was 6.5%, 4.2%, 2.7%, 3.0% and 3.4% in December 2015 and January, February, March and April 2016, respectively. According to the most recent publicly available information based on data from the City of Buenos Aires, the CPI grew by 26.9% in 2015 and the inflation rate was 3.9%, 4.1%, 4.0%, 3.3% and 6.5% in December 2015 and January, February, March and April 2016, respectively. After implementing certain methodological reforms and adjusting certain macroeconomic statistics on the basis of these reforms, in June 2016 the INDEC resumed its CPI publications. According to the INDEC, Argentina's rate of inflation rate was 4.2%, 3.1%, 2.0%, 0.2% and 1.1% in May, June, July, August and September 2016, respectively.

A high inflation environment would undermine Argentina's foreign competitiveness by diluting the effects of a peso devaluation, negatively impact the level of economic activity and employment and undermine confidence in Argentina's banking system, which could further limit the availability of domestic and international credit to businesses. In turn, a portion of the Argentine debt is adjusted by the Stabilization Coefficient ("Coeficiente de Estabilización de Referencia", or "CER"), a currency index, that is strongly related to inflation. Therefore, any significant increase in inflation would cause an increase in the Argentine external debt and consequently in Argentina's financial



obligations, which could exacerbate the stress on the Argentine economy. A high level of uncertainty and a general lack of stability in terms of inflation could also lead to shortened contractual terms and affect the ability to plan and make decisions.

Inflation rates could escalate in the future, and there is uncertainty regarding the effects that the measures adopted, or that may be adopted in the future, by the Argentine government to control inflation may have. If inflation remains high or continues to rise, Argentina's economy may be negatively impacted and our results of operations could be materially affected.

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 (the "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.

As of the date of this annual report, there are four final awards issued by ICSID tribunals against Argentina for an aggregate total amount of US\$470.66 million and Argentina is seeking the annulment of four additional awards for an aggregate total amount of US\$831.73 million. There are six ongoing cases against Argentina before ICSID with claims totaling US\$2.15 billion (including two cases with claims for amounts that are currently undetermined), and in three of these cases (with aggregate claims for US\$2.08 billion) the ICSID tribunal has already ruled that it has jurisdiction. There are eight additional cases with claims totaling US\$6.17 billion in which the parties agreed to suspend the proceedings pending settlement discussions (including the proceedings initiated by Task Force Argentina, an Italian bondholder association known as "TFA"). A successful completion of these negotiations could lead additional ICSID claimants to withdraw their claims, although Argentina can offer no assurance to this effect.

It is not certain that Argentina will prevail in having any or all of those cases dismissed, or that if awards in favor of the plaintiffs are granted, that it will succeed in having those awards annulled.

Claimants have also filed claims before arbitral tribunals under the rules of the United Nations Commission on International Trade Law ("UNCITRAL") and under the rules of the International Chamber of Commerce ("ICC"). As of the date of this annual report, there are three final awards against Argentina for an aggregate total amount of US\$246.27 million and Argentina is seeking the annulment of an additional award for US\$96,509 million. There are three ongoing cases against Argentina before UNCITRAL and ICC tribunals with claims totaling US\$625.08 million, including one case with a US\$507.80 million claim in which the tribunal has already ruled that it has jurisdiction. There is one additional case with a claim of US\$168.69 million in which the parties agreed to suspend the proceedings pending settlement discussions.

We cannot give any assurance that Argentina will prevail in having any or all of those cases dismissed, or that if awards in favor of the plaintiffs are granted, that it will succeed in having those awards annulled.

Ongoing claims before the ICSID tribunal and other arbitral tribunals could lead to new awards against Argentina, which could have a material adverse effect on our capacity to access to international credit.



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

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

If the Peso continues to depreciate, all of the negative effects on the Argentine economy related to such devaluation could reappear, with adverse consequences on our business. Moreover, it would likely result in a material adverse effect in our business as a result of the exposure to financial commitments denominated in U.S. Dollar. While certain of our office space leases are denominated in U.S. dollars, we are only partially protected against depreciation of the Peso as payment is fixed in Pesos and there can be no assurance we will be able to maintain our U.S. Dollar-denominated leases.

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

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

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

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

Additionally, on December 19, 2012, the Argentine government issued Decree No.2552/12, which, ordered the expropriation of the "Predio Rural de Palermo." However, on January 4, 2013, the Federal Civil and Commercial Chamber granted an injunction that momentarily blocked the enforceability of Decree N° 2,552/2012; notwithstanding

the foregoing on June 1, 2015, the injunction was released. On June 2, 2015, this decision was appealed, and as a result the aforementioned injunction is still effective and the effects of the Decree No.2552/12 remain blocked as of the date hereof. The Argentine government filed a motion to revoke the injunction which was rejected by the Federal Civil and Commercial Chamber and as a consequence the Argentine government filed an extraordinary motion with the Supreme Court, which was rejected and therefore the injunction remains effective. as of the date of this annual report the Argentine government has answered the claim and requested the registration of the litis. The court granted the registration of the litis and ordered to notify the plaintiff of the answer of the claim filed by the Argentine Government however the notification has not been received by the plaintiff. The Decree No.2552/12 may indirectly affect IRSA's investment in Entertainment Holding S.A. ("EHSA").

Furthermore, on May 18, 2015, we were notified that the Agencia de Administración de Bienes del Estado ("AABE"), revoked the concession agreement granted to our subsidiary Arcos del Gourmet S.A, through Resolution No.170/2014. On June 2, 2015, we filed before the AABE a request to declare the notification void, as certain formal proceedings required under Argentine law have not been complied by the AABE. Furthermore, we filed an administrative appeal requesting the dismissal of the revocation of the agreement and a lawsuit seeking to declare the Resolution No. 170/2014 void. IRSA also filed a lawsuit in order to judicially pay the monthly rental fees of the property. As of the date of this annual report, the "Distrito Arcos" shopping center continues to operate normally.

There are other recent examples of government intervention. In December 2012 and August 2013, the Argentine Congress established new regulations relating to domestic capital markets. The new regulations generally provide for increased intervention in the capital markets by the government, authorizing, for example, the CNV to appoint observers with the ability to veto the decisions of the board of directors of companies admitted to the public offering regime under certain circumstances and suspend the board of directors for a period of up to 180 days.

Notwithstanding, the new government is working on an amendment to the Capital Markets Law, which will, among other things, take off the CNV the authorization to appoint observers mentioned before.

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

The Argentine presidential, congressional and certain municipal and state government elections that were held in October and November 2015 generated political uncertainty as to whether the new Argentine government, which took office on December 10, 2015, would implement changes in policy or regulation that could adversely affect the Argentine economy. As of the date of this annual report, the Argentine government has adopted a series of economic actions and foreign exchange regulations whose effects will be seen in the coming months. The President of Argentina and the Congress each have considerable power to determine governmental policies and actions that relate to the Argentine economy and, consequently, may affect our results of operations or financial condition. We can offer no assurances that the policies that may be implemented by the new Argentine government will not adversely affect our business, results of operations or financial condition.

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

In the past, the Argentine government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees and may do so again in the future. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors experienced significant pressure from their employees and labor organizations to increase wages and to provide additional employee benefits. In August 2012, the Argentine government established a 25% increase in 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 from January 2016. Due to ongoing high levels of inflation, employers in both the public and private sectors continue to experience significant pressure from unions and their employees to increase salaries. During the first months of the year 2016, various unions have agreed with employers' associations on salary increases between 30% and 35%.

In the future, the government could take new measures requiring salary increases or additional benefits for workers, and the labor force and labor unions may apply pressure for such measures. As of the date of this annual report, the government and labor representatives were engaged in negotiations to set national guidelines for salary increases during 2016. Any such increase in wage or worker benefit could result in added costs and reduced results operations for Argentine companies, including us.



Property values in Argentina could decline significantly.

Property values are influenced by multiple factors that are beyond our control, such as a decrease in the demand for real estate properties due to a deterioration of macroeconomic conditions or an increase in supply of real estate properties that could adversely affect the value of real estate properties. We cannot assure you that property values will increase or that they will not be reduced. Most 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.

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

According to current 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, some of which are still in effect. With the administration of President Macri, many of the ongoing restrictions were lifted.

On January 7, 2003, the Central Bank issued communication "A" 3859, which is still in force and pursuant to which there are no limitations on companies' ability to purchase foreign currency and transfer it outside Argentina to pay dividends, provided that those dividends arise from 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 through the date of this annual report. As a result of these informal restrictions, local residents and companies may be prevented from purchasing foreign currency through the foreign exchange market ("Mercado Único y Libre de Cambios" or "Exchange Market") for the purpose of making payments abroad, such as dividends, capital reductions, and payment for importation of goods and services.

Together with the new government administration, such restrictions and other foreign exchange control measures were lifted, 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-Argentinean residents to repatriate their investment capital and, recently, Communication "A" 6037 of the Central Bank defined the new regulations that apply to the acquisition of foreign currency and the elimination of all other restrictions that impair residents and non-residents to have access to the FX market.

However, in the future, the Argentine government or the Central Bank may impose formal restrictions to the payment of dividends abroad and established additional requirements. Any restrictions on transferring funds abroad imposed by the government could undermine our ability to pay dividends on our ADSs in U.S. Dollars.

The Rural Land Law and its application.

On December 22, 2011, the Argentine Congress passed the Rural Land Law in order to protect the ownership and sovereignty of certain rural areas of Argentina (the "Rural Land Law"). The Rural Land Law sets limits on the ownership of rural land by foreign individuals or legal entities acting in Argentina ("Foreign Persons"), setting a

maximum allowable percentage ownership for foreigners of 20%. Additionally, only 30% of the aforementioned 20% may be held by Foreign Persons of the same nationality, and from the date of enactment of the Rural Land Act, a Foreign Person may not own more than 1,000 hectares of rural land in total throughout Argentine territory. The Rural Land Law states that it will not affect any rights previously acquired by Foreign Persons.

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

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

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

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

Exchange controls and restrictions on transfers abroad and capital inflow restrictions have been limited in the past and may limit the availability of international credit.

Until December 2015, many foreign exchange restrictions and controls imposed by the Argentine government had limited the ability of companies and individuals to access the Exchange Market. On December 16, 2015, the new authorities issued Communication "A" 5850 of the Central Bank, lifting most of the restrictions then in place. Among these measures, free access to the Exchange Market was granted for the purchase of foreign currency intended for general purposes, without the need for the Central Bank's or AFIP's previous consent, and the requirement to deposit 30% of certain capital inflows into Argentina was eliminated, subsequently extended by Communication "A" 5963 and 5964. Also, on August 8, 2016, the Central Bank issued Communication "A" 6037, in which the exchange regulations, including the obligation was removed substantially redefined to justify with documentation each change operation, the daily and monthly to operate caps were removed to internet banking and exchange freely chosen schedule to operate and Communication a "4805" limiting repealed was allowed conducting derivative transactions with foreign countries, risks denying coverage to many companies, especially small- and medium-seized enterprises.





Although these recent changes in the foreign exchange policies tend to allow free access by companies and individuals to the Exchange Market, certain limitations remain in effect including the following:

.  
The proceeds of foreign currency sales in the Exchange Market exceeding the peso equivalent of US\$2,500 per month must be credited in pesos in a checking or savings account with a local financial institution;

.  
It is no longer necessary that the proceeds of external indebtedness be entered or settled in the local foreign exchange market;

.  
Any external indebtedness incurred or renewed after December 17, 2015 must remain in Argentina for a period of at least 120 calendar days from the date the proceeds were transferred into Argentina; and

.  
Capital inflows into the local foreign exchange market must be credited in an account opened with a local financial institution.

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

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

Argentina's economy is vulnerable to external shocks that could be caused by adverse developments affecting its principal trading partners. A significant decline in the economic growth of any of Argentina's major trading partners (including Brazil, the European Union, China and the United States) could have a material adverse impact on Argentina's balance of trade and adversely affect Argentina's economic growth. In 2015, there were declines in exports of 14% with Chile, 26% with MERCOSUR (Brazil) and 16% with NAFTA (the United States, Mexico and Canada), each as compared to 2014. Declining demand for Argentine exports could have a material adverse effect on Argentina's economic growth. For example, the recent significant depreciation of the Brazilian and Chinese currencies and the current slowdown of their respective economies may negatively affect the Argentine economy. Moreover, the political and social instability in Brazil, which includes the recent removal of the President Dilma Rousseff from office following an impeachment vote in the Senate, may have an adversely impact on Argentine's economy.

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

economy of a country through higher interest rates or currency volatility. Moreover, Argentina may also be affected by other countries that have influence over world economic cycles.

The international economy is showing contradictory signals of global growth, leading to significant financial uncertainty. There is growing concern about the deceleration of growth in China in particular as well as the significant decline in global commodity prices, particularly oil and gas. In addition, emerging market economies have been affected by the recent change in the U.S. monetary policy, resulting in the unwinding of investments and increased volatility in the value of their currencies. If interest rates rise significantly in developed economies, including the United States, emerging market economies, including Argentina, could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. There is also global uncertainty about the degree of economic recovery in the United States, with no substantial positive signals from other developed countries. Moreover, the recent challenges faced by the European Union to stabilize certain of its member economies, such as Greece, have had and may continue to have international implications affecting the stability of global financial markets, which has hindered economies worldwide.

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

On June 23, 2016, the United Kingdom voted in favor of the United Kingdom exiting the European Union. As of the date of this annual report, the actions that the United Kingdom will take to effectively exit from the European Union or the length of such process are uncertain. The results of the United Kingdom's referendum have caused, and are anticipated to continue causing, volatility in the financial markets, which may in turn have a material adverse effect on our business, financial condition and results of operations.

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

High commodity prices have contributed significantly to the increase in Argentine exports since the third quarter of 2002 as well as in governmental revenues from export taxes (withholdings). However, this reliance on the export of certain commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. In December 2015, the new Argentine administration announced a plan to gradually reduce the exports tax payable by soy growers from January 2018 to December 2019 and eliminated export taxes on wheat, corn, sorghum and sunflower, in an attempt to encourage exports.

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

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



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

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

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

As a first step of these measures, subsidies on energy tariffs were withdrawn from industries and high income consumers. Additionally, since 2011, a series of rate increases and the reduction of subsidies mainly among industries and high-income consumers were implemented. In February 2016, the Argentine government revised the tariff schedule for electricity and gas rates and eliminated the subsidies for these utilities, (except for tariffs for certain economically vulnerable sectors). As a result, energy costs are expected to increase by 500% or more. By correcting tariffs, modifying the regulatory framework and reducing the federal government's role as an active market participant, the new administration aims to correct distortions in the energy sector and stimulate investment. In July 2016, a federal court in the city of La Plata suspended the increase in gas tariffs across the Province of Buenos Aires. In addition, on August 3, 2016, a federal court in San Martin suspended the increase in gas tariffs across the country until a public hearing to discuss the electricity tariffs increase is set. The case was brought before the Supreme Court of Argentina, and on August 18, 2016, the Supreme Court of Argentina upheld the suspension of gas tariffs increase to residential customers, arguing that a tariffs increase could not be established without public hearings. A public hearing on the increase was held on September 16, 2016 and as result, the increase in gas tariffs will be increased by approximately 203% in October 2016, with semi-annual increases until 2019. In relation to other services (water, transport and electricity), the government announced that other public meetings will be held in mid-October.

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

Over the last several years, the Argentine government has substantially increased public expenditures. In 2014, public sector expenditures increased by 43% year-over-year and the government reported a primary fiscal deficit of 0.9%. During recent years, the Argentine government has resorted to the Central Bank and to the Administración Nacional de la Seguridad Social (Federal Social Security Agency, or "ANSES", as per its acronym in Spanish) to source part of its funding requirements. In 2015, this trend continued as the primary fiscal balance showed a deficit of 5.4% as of December 31, 2015.

Recently, the Argentine government has begun adjusting its subsidy policies, particularly those related to energy, electricity and gas, water and public transportation. Changes in these policies could materially and adversely impact consumer purchase capacity and economic activity and may lead to an increase in prices.

Moreover, the primary fiscal balance could be negatively affected in the future if public expenditures continue to increase at a rate higher than revenues as a result of subsidies to lower-income sectors, social security benefits,

financial assistance to provinces with financial problems, increased spending on public works and subsidies to the energy and transportation sectors. A further deterioration in fiscal accounts could negatively affect the government's ability to access the long-term financial markets and could in turn result in more limited access to such markets by Argentine companies.

#### Risks Relating to Brazil

The Brazilian government has exercised and continues to exercise significant influence over the Brazilian economy, which combined with Brazil's 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. We cannot predict which policies will be adopted by the Brazilian government and whether these policies will negatively affect the economy or our business or financial performance.





The Brazilian economy has been experiencing a slowdown – GDP growth rates were 3.9%, 1.8%, 2.7%, 0.1%, in 2011, 2012, 2013, 2014, respectively, and decrease 3.8% in 2015, and 4.6% in the first six months of 2016. In addition, inflation, unemployment and interest rates have increased more recently. Our results of operations and financial condition may be adversely affected by the economic conditions in Brazil.

In addition to the recent economic crisis, protests, strikes and corruption scandals, including the “Lava Jato” investigation, has led to a fall in confidence and a political crisis. As a result of the Lava Jato, 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.

On August 31, 2016, the Senate approved the impeachment of Dilma Rousseff, and the Vice-President Michel Temer took office. On September 12, 2016, the former Speaker of the House of Representatives, Eduardo Cunha, had his mandate revoked the House and lost his political rights for eight years. The new President intends to implement some reforms, including in the labor laws and social security systems, and some other measures to achieve higher rates of economic growth and employment. We cannot predict which policies will be adopted by the Brazilian government and whether these policies will negatively affect the economy or Brasilagro’s business or results of its operations. In addition, we cannot predict whether the new government may become involved in corruption scandals or may face an increasing lack of support from Brazilian citizens, both of which may make it more difficult to implement new policies and increase the political and economic instability in Brazil. Such increase in instability or the new policies to be implemented by the new government (or the failure to implement them) may have an adverse effect in the Brazilian economy and in our financial performance.

The economic and political crisis have resulted in the downgrading of the country’s long-term credit rating from Standard & Poor's rating agency from BBB + to BBB-, placing Brazil back to speculative investment grade level ("junk"). Moody's downgraded Brazil from "Baa2" to "Baa3" and changed the negative perspective to stable, while Fitch Ratings downgraded Brazil from BBB to BBB- and changed the perspective from stable to negative. Both Moody’s and Fitch still consider Brazil investment grade. Further downgrading of Brazil’s ratings by any of these agencies may adversely affect us and the stock price of our securities.

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”, as per its acronym in Portuguese), 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, 2016, it was 14.15% per year. The inflation rates, as measured by the General Market Price Index (Índice Geral de Preços-Mercado or “IGP-M”, as per its acronym in Portuguese), and calculated by Fundação Getúlio Vargas, or “FGV”, were 7.8% in 2012, 5.5% in 2013, 3.67% in 2014 and 10,54% in 2015. Cumulative inflation in the first six months of 2016, calculated by the same index, was 5.91%.

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, 2016, 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", as per its acronym in Portuguese), and the interbank deposit rate (Certificados de Depósitos Interbancários or "CDI", as per its acronym in Portuguese). In the event of an abrupt increase in interest rates, our ability to comply with our financial obligations may be materially and adversely affected.

The Brazilian Real is subject to depreciation and exchange rate volatility which could adversely affect Brasilagro's and our financial condition and results of operations.

Brazil's rate of inflation and the government's actions to combat inflation have also affected the exchange rate between the Real and the U.S. Dollar. As a result of inflationary pressures, the Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian federal government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic devaluations (during which the frequency of adjustments has ranged from daily to monthly), floating exchange rate systems, exchange controls and dual exchange rate markets. During 2009 and 2010 the Real appreciated 24.9% and 4.6%, respectively, against the U.S. Dollar. As a contrast, during 2012 and 2013 the Real depreciated 13.3%, 9.6% and 15.5%, respectively, against the U.S. Dollar. In February, 2014, Brazilian Government started to devalue its currency, causing the Real to suffer the steepest depreciation in over a decade in its attempt to increase exports. Between January 2016 and August 2016 the Real appreciated 19.8%. There can be no assurance that the rate of exchange between the Real and the U.S. Dollar will not fluctuate significantly in the future. In the event of a devaluation of the Real, the financial condition and results of operations of our Brazilian subsidiary could be adversely affected. In addition, during September 2015, Standard & Poor's downgraded Brazil's credit rating to BB-plus and during October 2015, Fitch Ratings downgraded Brazil's credit rating to BBB-, which triggers funds that target investment-grade countries to sell its holdings in Brazil. As of August 2016, the Bovespa has increased 71,25% in U.S. Dollars terms during the year.

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



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

In addition, the Brazilian economy is affected by international economic and market conditions generally, especially economic conditions in the United States. Share prices on BM&FBOVESPA, 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 the interest rates in other countries, especially the United States, may reduce global liquidity and investors' interest in the Brazilian capital markets, adversely affecting the price of our common shares.

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

Brazilian law guarantees foreign shareholders of Brazilian companies the right to repatriate their invested capital and to receive all dividends in foreign currency provided that their investment is registered with the Banco Central do Brazil. We registered our investment in Brasilagro with the Brazilian Central Bank on April 28, 2006. Although dividend payments related to profits obtained subsequent to January 1, 1996 are not subject to income tax, if the sum of repatriated capital and invested capital exceeds the investment amount registered with the Brazilian Central Bank, repatriated capital is subject to a capital gains tax of 15%. There can be no assurance that the Brazilian government will not impose additional restrictions or modify existing regulations that would have an adverse effect on an investor's ability to repatriate funds from Brazil nor can there be any assurance of the timing or duration of such restrictions, if imposed in the future.

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

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

In addition, our land may be subject to expropriation by the Brazilian government. An expropriation could materially impair the normal use of our lands or have a material adverse effect on our results of operations. In addition, social

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

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

One of the principal disadvantages of the agriculture industry in some of the regions where Brasilagro operates is that they are located far from major ports (in some cases, up to 1,500 kilometers). Efficient access to transportation infrastructure and ports is critical to profitability in the agricultural industry. However, as part of our business strategy, we intend to acquire and develop land in specific areas where existing transportation is poor. A substantial portion of agricultural production in certain of the regions where we operate is currently transported by truck, a means of transportation significantly more expensive than the rail transportation available to the U.S. and other foreign countries. As a result, we may be unable to provide cost-efficient production to our potential most important markets, and this could have an adverse effect on our business and results of our operations.

#### Risks Relating to Our Region

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. 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, 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.

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 policy and regulations. Governmental actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and prospects may be adversely affected by changes in government policies or regulations, including factors, such as:

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

An eventual reduction of foreign investment in any of the countries where we operate may have a negative impact on such country's economy, affecting interest rates and the ability of companies 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 addition, we may be subject to exchange control regulations in these Latin American countries which might restrict our ability to convert local currencies into U.S. Dollars.

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

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

and results of operations.

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

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





## 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, can be expected to fluctuate significantly. The prices that we are able to obtain for our agriculture products depend on many factors beyond our control, including:

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

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

Unpredictable weather conditions 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. 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.

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

We cannot assure you that the current and future severe adverse weather conditions will not adversely affect our operating results and financial condition.

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

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

Our cattle are subject to diseases.

Diseases among our cattle herds, such as tuberculosis, brucellosis and foot-and-mouth disease, can have an adverse effect on milk production and fattening, rendering cows unable to produce milk or meat for human consumption. Outbreaks of cattle diseases may also result in the closure of certain important markets, such as the United States, to our cattle products. Although we abide by national veterinary health guidelines, which include laboratory analyses and

vaccination, to control diseases among the herds, especially foot-and-mouth disease, we cannot assure that future outbreaks of cattle diseases will not occur. A future outbreak of diseases among our cattle herds may adversely affect our 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.

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.

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. Many other producers of these products are larger than us, and have greater financial and other resources. Moreover, many other producers receive subsidies from their respective countries while we do not receive any such subsidies from the Argentine government. These subsidies may allow producers from other countries to produce at lower costs than us and/or endure periods of low prices and operating losses for longer periods than we can. Any increased competitive pressure with respect to our products could materially and adversely affect our financial condition and results of operations.

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

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

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

Our cattle sales are diversified, notwithstanding the aforementioned, we are and will continue to be significantly dependent on a number of third party relationships, mainly with our customers for crop and milk sales. During the fiscal year 2016, we sold our products to approximately 850 customers. Sales of agricultural products to our ten largest customers represented approximately 72% of our net sales for the fiscal year ended June 30, 2016. During fiscal year 2016, our biggest three customers were Bunge Argentina S. A., Cargill S.A.C.I. and Vicentin S.A.I.C. which represented, in the aggregate, approximately 31% of our net sales in agricultural products, while the remaining seven customers in the aggregate represented approximately 41% of our net sales in the fiscal year 2016.

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.





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.

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

As of June 30, 2016, Mr. Eduardo S. Elsztain, is the beneficial owner of 30.88% (on a fully diluted basis) of our common shares. As a result of his significant influence over us, Mr. Elsztain, by virtue of his position in IFISA, has been able to elect a majority of the members of our board of directors, direct our management and determine the result of substantially all resolutions that require shareholders' approval, including fundamental corporate transactions and our payment of dividends by us.

The interests of our principal shareholder and management may differ from, and could conflict with, those of our other shareholders. Pursuant to a consulting agreement we pay a management fee equal to 10% of our annual net income to Consultores Asset Management S.A., formerly known as Dolphin Fund Management S.A. ("Consultores Asset Management"), a company whose capital stock is 85% owned by Mr. Eduardo S. Elsztain and the remaining by Saúl Zang, our vice-chairman. This performance based fee could be viewed as an incentive for Consultores Asset Management to favor riskier or more speculative investments than would otherwise be the case. In addition, as of June 30, 2016 Mr. Elsztain was the beneficial owner, due to his indirect shareholding through us of 63.38% of IRSA (without considering treasury shares), an Argentine company that currently owns approximately 94.61% of the common shares of its subsidiary IRSA Commercial Properties whose chief executive officer is Mr. Alejandro G. Elsztain, Mr. Eduardo S. Elsztain's brother. We cannot assure you that our principal shareholders will not cause us to forego business opportunities that their affiliates may pursue or to pursue other opportunities that may not be in our interest, all of which may adversely affect our business, results of operations and financial condition and the value of our common shares and the ADSs.

We could be 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, 2016, we owned 39.76% 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, 2016, we owned land reserves extending over more than 365,306 hectares that were purchased at very attractive prices. In addition, we have a concession over 107,984 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.

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

In recent years we made a significant investment in the capital stock of IRSA. As of June 30, 2016, we owned approximately 63.38% of IRSA's outstanding shares. Although we believe we are not an "investment company" for purposes of the Investment Company Act, our belief is subject to substantial uncertainty, and we cannot give you any assurance that we would not be determined to be an "investment company" under the Investment Company Act. As a result, the uncertainty regarding our status under the Investment Company Act may adversely affect our ability to offer and sell securities in the United States or to U.S. persons. The U.S. capital markets have historically been an important source of funding for us, and our ability to obtain financing in the future may be adversely affected by a lack of access to the U.S. markets. If an exemption under the Investment Company Act is unavailable to us in the future and we desire to access the U.S. capital markets, our only recourse would be to file an application to the SEC for an exemption from the provisions of the Investment Company Act which is a lengthy and highly uncertain process.

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

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

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

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

·  
loss of principal.

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

Risks relating to our investment in IRSA.

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

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

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

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

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

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decline in its lease prices or increases in levels of default by IRSA's tenants due to economic conditions, increases in interest rates and other factors that IRSA cannot control;

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

.  
the intrinsic attractiveness of the shopping center;

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

.  
increasing competition from internet sales;

.  
the amount of rent collected from each shopping center rental unit;

.  
changes in consumer demand and availability of consumer credit (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

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fluctuations in occupancy levels in IRSA's shopping centers.

An increase in IRSA's operating costs, caused by inflation or by other factors, could have a material adverse effect on IRSA if its tenants are unable to pay higher rent due to the increase in expenses. Moreover, the shopping center business is closely related to consumer spending and by prevailing economic conditions that affect potential customers. All of IRSA's shopping centers and commercial properties, under Operations Center in Argentina, are located in Argentina, and, as a consequence, their business could be seriously affected by a recession in Argentina. For example, during the economic crisis in Argentina, spending decreased significantly, unemployment, political instability and inflation significantly reduced consumer spending in Argentina, lowering tenants' sales and forcing some tenants to leave IRSA's shopping centers. Persistently poor economic conditions in Argentina will likely have a material adverse effect on the revenues from shopping center activity and thus on IRSA's business.



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

For the fiscal year ended June 30, 2016, 78% of IRSA's sales from leases and services, for the Operations Center in Argentina, were derived from shopping centers located in the City of Buenos Aires and the Greater Buenos Aires metropolitan area. In addition, all of IRSA's office buildings are located in the City of Buenos Aires and a substantial portion of IRSA's revenues in Argentina are derived from such properties. Although IRSA owns properties and may acquire or develop additional properties outside of the City of Buenos Aires and the Greater Buenos Aires, IRSA expects to continue to depend to a large extent on economic conditions affecting those areas and therefore, an economic downturn in those areas could have a material adverse effect on IRSA's financial condition and results of operations by reducing our rental income may adversely affect its ability to meet their debt obligations.

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

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

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

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



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

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

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

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

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

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

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

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

The success of IRSA's business and profitability of its operations depend on continued investment in the real estate sector and access to capital and debt financing. A long term crisis of confidence in real estate investments and lack of credit for acquisitions may tend to constrain our growth. As part of our business goals, IRSA intends to increase its properties portfolio through strategic acquisitions of core properties at advantageous 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, including the bankruptcy and restructuring of major financial institutions, may adversely impact IRSA's ability to refinance existing debt and the availability and cost of credit in the near future. Any consideration of sales of existing properties or portfolio interests may be tempered by decreasing property values. IRSA's ability to make scheduled payments or to refinance its obligations with respect to indebtedness depends on its operating and financial performance, which in turn is subject to prevailing economic conditions. If a recurrence of the disruptions in financial markets 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 may face risks associated with property acquisitions.

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

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

.  
acquired properties may fail to perform as expected;

.  
the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates; and

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

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

IRSA's future acquisitions may be unprofitable.

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

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

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

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

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

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

Acquired properties may subject IRSA to unknown liabilities.

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

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

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, IRSA's performance depends on its ability to collect rent from its tenants. IRSA's income and funds for distribution would be negatively affected if a significant number of its tenants:

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

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 its ability to vary its portfolio in response to changes in the economy or other conditions. In addition, significant expenditures associated with each investment, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances

cause a decrease in income from an investment. If income from a property declines while the related expenses do not decline, IRSA's business would be adversely affected. Further, if it becomes necessary or desirable for it to dispose of one or more of the mortgaged properties, IRSA 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 it may be unable to obtain, or may face delays in obtaining the necessary zoning permits and other authorizations.

IRSA owns several plots of land which are not zoned for the type of projects it intends to develop. In addition, IRSA does not yet have the required land-use, building, occupancy and other required governmental permits and authorizations 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 it is unable to obtain all of the governmental permits and authorizations it needs to develop its present and future projects as planned, IRSA may be forced to make unwanted modifications to such projects or abandon them altogether.



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

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

IRSA's growth strategy is focused on the development and redevelopment of properties IRSA already owns and the acquisition and development of additional properties. As a result, IRSA is likely to depend to an important degree on the availability of debt or equity capital, which may or may not be available on favorable terms or at all. IRSA cannot guarantee that additional financing, refinancing or other capital will be available in the amounts IRSA desires or on favorable terms. IRSA's access to debt or equity capital markets depends on a number of factors, including the market's perception of IRSA's growth potential, IRSA's 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, it may have to seek additional financing. The availability of financing will depend on a variety of factors, such as economic and market conditions, the availability of credit and its credit ratings, as well as the possibility that lenders could develop a negative perception of the prospects of IRSA or the industry generally. IRSA may not be able to successfully obtain any necessary additional financing on favorable terms, or at all.

Serious illnesses and pandemics, such as the 2009 outbreak of Influenza A H1N1 virus (the "Swine Flu") and the current Zika virus, have in the past adversely affected consumer and tourist activity, may do so in the future and may adversely affect our results of operations.

As a result of the outbreak of Swine Flu during the winter of 2009, consumers and tourists dramatically changed their spending and travel habits to avoid contact with crowds. Furthermore, several governments enacted regulations limiting the operation of schools, cinemas and shopping centers. Even though the Argentine government only issued public service recommendations to the population regarding the risks involved in visiting crowded places, such as shopping centers, and did not issue specific regulations limiting access to public places, a significant number of consumers nonetheless changed their habits vis-a-vis shopping centers and malls. Similarly, the current zika virus pandemic may result in similar courses and outcomes. We 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 tourist activity, and that such scenario would not adversely affect our businesses.

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

Given that shopping centers 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 it adopts. In the event such an incident or series of incidents occurs, shopping center customers and visitors may choose to visit other shopping venues that they believe are safer and less violent, which may cause a reduction in the sales volume and operating income of IRSA's shopping centers.

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

In addition, on October 1, 2014, the Argentine Congress adopted a new Civil and Commercial Code (the “Civil and Commercial Code”) which became effective on June 30, 2015, and is in force since August 1, 2015, and requires that lease agreements provide for a minimum term of two years, and a maximum term of twenty years for residential leases and of fifty years for other 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 legal framework currently in force, pursuant to which debtors may only discharge their foreign currency payment obligations by making payment in the specific foreign currency agreed upon in their agreements; although the option to discharge in Pesos a foreign currency obligation may be waived by the debtor is still under discussion. Although certain judicial decisions have held that this regulation regarding foreign currency can be set aside by the parties to an agreement, it is still too early to determine whether or not this legal provision can be set aside in an agreement as a general rule. Moreover, and regarding the new provisions for leases, there are no judicial decisions on the scope of this amendment and, in particular, in connection with the ability of the parties to any contract to set aside the new provision and enforce such agreements before an Argentine court.

IRSA may be liable for some defects in its buildings.

According to the Argentine Civil Code as previously in effect, the builder of a real estate development was liable in case of property damage – meaning the damages compromises the structure and/or the defects render the building no longer useful – for a period of 10 years since the possession of the property; on the other hand, the builder was liable for latent defects, even when those defects did not imply significant property damage. In addition, the Argentine Civil Code as previously in effect, provided that such liability was extended to the technical project manager and the designer of any given project. Furthermore, in certain cases, such as when consumer law was involved, the liability could be extended to the developer. The Civil and Commercial Code, which became effective on August 1, 2015, has similar provisions and expressly extends the liability for such damage to real estate developers (i.e., any person who sells real estate built by either themselves or by a third party contractor), and any other person involved in the project, in addition to the liability of the builder, the technical project manager and the designer of the project. According to the Civil and Commercial Code, the warranty period for latent defects expires after three years after the client takes possession of the real estate, and both the builder and the seller are liable for such defects.

In IRSA’s real estate developments it usually act as developer and seller and build through 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 it has not recorded provisions associated with them in its financial statements. If IRSA were required to remedy any defects on completed works, its financial condition and results of operations could be adversely affected.







Eviction proceedings in Argentina are difficult and time consuming.

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

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

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

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

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

IRSA is a company engaged in the development and management of shopping centers, 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:

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abandonment of development opportunities and renovation proposals;

·  
construction costs of a project may exceed IRSA's original estimates for reasons including raises in interest rates or increases in the costs of materials and labor, making a project unprofitable;

·  
occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on our investment;

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

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

·  
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 IRSA to greater risks due to fluctuation in the general economy;

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

·  
general changes in IRSA's tenants' demand for rental properties; 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 and 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, nevertheless IRSA is subject to risks associated with the construction of properties, such as cost overruns, design changes and timing delays arising from a lack of availability of materials and labor, weather conditions and other factors outside of its control, as well as financing costs, may exceed original estimates, possibly making the associated investment unprofitable. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these redevelopment projects and harm its operating results.

IRSA is subject to great 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 it in seeking land for acquisition, financial resources for development and prospective purchasers and tenants. Other companies, including joint ventures of foreign and local companies, have become increasingly active in the real estate business and shopping center business in Argentina, further increasing this competition. To the extent that one or more of IRSA's competitors are able to acquire and develop desirable properties, as a result of greater financial resources or otherwise, its business could be materially and adversely affected. If IRSA is not able to respond to such pressures as promptly as its competitors, or the level of competition increases, its financial condition and results of its operations could be adversely affected.



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

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

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

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

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

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

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

Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, IRSA could lose

all or part of its invested capital, and anticipated revenue from, one or more of the properties, which could have a material adverse effect on our operating results and financial condition.

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

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

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

IRSA had, and expects to have, substantial liquidity and capital resource requirements to finance its business. As of June 30, 2016, IRSA's consolidated financial debt amounted to Ps.112,932 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 IRSA's ability to operate IDBD and implement its business strategy.

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

This would require IRSA to allocate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. Its leverage could also affect its competitiveness and limit its ability to 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 it cannot obtain future financing, it may have to delay or abandon some or all of its planned capital expenditures, which could adversely affect its ability to generate cash flows and repay its obligations as they become due.





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

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

IRSA is subject to risks affecting the hotel industry.

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

In addition, the profitability of our hotels depends on:

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

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

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

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

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

In recent years, internet retail sales have grown significantly in Argentina, even although the market share of such sales is still insignificant. The Internet enables manufacturers and retailers to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and shopping centers. IRSA believes that its target consumers are increasingly using the Internet, from home, work or elsewhere, to shop electronically for retail goods, and this trend is likely to continue. If e-commerce and retail sales through the Internet continue to grow, consumers' reliance on traditional distribution channels such as IRSA's shopping centers could be materially diminished, having a material adverse effect on our financial condition, results of operations and business prospects.

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

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

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

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

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

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

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

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





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

On April 18, 2000, Puerto Retiro S.A. ("Puerto Retiro") was served notice of a filing made by the Argentine Government, through the Ministry of Defense, seeking to extend bankruptcy of Inversora Dársena Norte S.A. ("Indarsa") to the Company. Upon filing of the complaint, the bankruptcy court issued an order, restraining the ability of Puerto Retiro to dispose of, in any manner, the real property purchased in 1993 from Tandanor.

Indarsa had acquired 90% of the capital stock in Tandanor from the Argentine Government in 1991. Tandanor's main business involved ship repairs performed in a 19-hectare property located in the vicinity of La Boca neighborhood and where the Syncrolift is installed.

As Indarsa failed to comply with its payment obligation for acquisition of the shares of stock in Tandanor, the Ministry of Defense filed a bankruptcy petition against Indarsa, seeking to extend it to the Company.

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

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

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

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

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

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

In some cases, IRSA develops and acquires properties through joint ventures with other persons or entities when IRSA believes circumstances warrant the use of such structures. For example, IRSA currently owns 80% of Panamerican Mall S.A. ("PAMSA"), while another 20% is owned by Centro Comercial Panamericano S.A., and 50% of Quality Invest S.A. ("Quality Invest").

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

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

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

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

IRSA is dependent on its Board of Directors.

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

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

IRSA's largest beneficial owner is Mr. Eduardo S. Elsztain, through us. As of June 30, 2016, such beneficial ownership consisted of: (i) 366,788,251 common shares held by us, and (ii) 900 common shares held directly by Mr. Elsztain.

See Item 7 – Major Shareholders and Related Party Transactions. Conflicts of interest between IRSA's management, us and its affiliates may arise in the performance of IRSA's business activities. As of June 30, 2016, Mr. Elsztain also beneficially owned (i) approximately 30.9% of ours' common shares and (ii) approximately 94.6% of the common shares of our subsidiary IRSA Commercial Properties. IRSA cannot assure you that its' principal shareholders and their affiliates will not limit or cause IRSA to forego business opportunities that its affiliates may pursue or that the pursuit of other opportunities will be in IRSA's interest.







Due to the currency mismatches between assets and liabilities, IRSA may have currency exposure.

As of June 30, 2016, the majority of IRSA's liabilities, From the Operation Center in Argentina, such as the Series II Notes are denominated in U.S. dollars while IRSA's revenues are mainly denominated in Pesos This currency gap exposes IRSA to a risk of volatility in the rate of exchange between the Peso and the U.S. dollar, and its financial results are adversely affected when the U.S. dollar appreciates against the Peso. Any depreciation of the Peso against the U.S. dollar will correspondingly increase the nominal amount of its debt in Pesos, with further adversely effects on its results of operation and financial condition and may increase the collection risk of its leases and other receivables from its tenants, most of which generate Peso-denominated revenues. Because IRSA records the value of its investment properties in Argentina at acquisition cost plus capital expenditure, less amortization, any depreciation or devaluation of the Peso will have an adverse effect on its financial statements.

IRSA's Investment in Banco Hipotecario.

As of June 30, 2016, IRSA owned approximately 29.91% of the outstanding capital stock of Banco Hipotecario S.A. ("Banco Hipotecario"), which represented 11% of IRSA's consolidated assets from its operations center in Argentina as of such date.

All of Banco Hipotecario's operations, properties and customers are located in Argentina. Accordingly, the quality of Banco Hipotecario's loan portfolio, financial condition and results of operations depend on economic, regulatory and political conditions prevailing in Argentina.

These conditions include growth rates, inflation rates, exchange rates, changes to interest rates, changes to government policies, social instability and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

Risks Relating to the Argentine Financial System and Banco Hipotecario

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

Given the short-term structure of the deposit base of the Argentine financial system, credit lines are also predominantly short-term, with the exception of mortgages, which represent a low proportion of the existing credit base.

Although liquidity levels are currently reasonable, no assurance can be given that these levels will not be reduced due to a future negative economic scenario. Therefore, there is still a risk of low liquidity levels that could increase funding cost in the event of a withdrawal of a significant amount of the deposit base of the financial system, and limit the long-term expansion of financial intermediation including Banco Hipotecario.

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

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

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

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

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

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

Financial institutions carry significant portfolios of bonds issued by the Argentine government and by provincial governments as well as loans granted to these governments. The exposure of the financial system to the non-financial public sector's indebtedness had been shrinking steadily, from 48.9% of total assets in 2002 to 10.3% in 2015 and 9.2% for the period of six months ended as June 30, 2016. To an extent, the value of the assets held by Argentine banks, as well as their capacity to generate income, is dependent on the creditworthiness of the non-financial public sector, which is in turn tied to the government's ability to foster sustainable long-term growth, generate fiscal revenues and reduce public expenditure.

In addition, financial institutions currently carry securities issued by the Central Bank in their portfolios, which generally are short-term; as of June 30, 2016 such securities issued by the Central Bank represented approximately 23.6% of the total assets of the Argentine financial system. As of June 30, 2016, Banco Hipotecario's total exposure to the public sector was Ps.7,517.5 million, which represented 20.3% of its assets as of that date, and the total exposure to securities issued by the Central Bank was Ps. 1,499.8 million, which represented 4.1% of its total assets as of June 30, 2016.

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

Argentine Law No. 24,240 (the "Consumer Protection Law") sets forth a series of rules and principles designed to protect consumers, which include Banco Hipotecario's customers. The Consumer Protection Law was amended by Law No. 26,361 on March 12, 2008 to expand its applicability and the penalties associated with violations thereof. Additionally, Law No. 25,065 (as amended by Law No. 26,010 and Law No. 26,361, the "Credit Card Law") also sets forth public policy regulations designed to protect credit card holders. Recent Central Bank regulations, such as Communication "A" 5388, also protect consumers of financial services.

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

The application of both the Consumer Protection Law and the Credit Card Law by administrative authorities and courts at the federal, provincial and municipal levels has increased. This trend has increased general consumer protection levels. If Banco Hipotecario is found to be liable for violations of any of the provisions of the Consumer Protection Law or the Credit Card Law, the potential penalties could limit some of Banco Hipotecario's rights, for example, with respect to its ability to collect payments due from services and financing provided by us, and adversely affect Banco Hipotecario's financial results of operations. We cannot assure you that court and administrative rulings based on the newly-enacted regulation or measures adopted by the enforcement authorities will not increase the degree

of protection given to Banco Hipotecario's debtors and other customers in the future, or that they will not favor the claims brought by consumer groups or associations. This may prevent or hinder the collection of payments resulting from services rendered and financing granted by us, which may have an adverse effect on Banco Hipotecario's business and results of operations.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Risks Relating to Banco Hipotecario's Business

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

Banco Hipotecario's loan portfolio is concentrated on recession-sensitive segments and it is to a large extent dependent upon local and international economic conditions. This in turn might affect the creditworthiness of Banco Hipotecario's loan portfolio and its results of operations.





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

The spread for Argentina's financial system between the interest rates on loans and deposits could be affected as a result of increased competition in the banking sector and the Argentine government's tightening of monetary policy in response to inflation concerns.

Since 2009, the interest rate spreads throughout the Argentine financial system have generally increased. This increase was sustained by a steady demand for consumer loans in recent years. In 2013 and 2014, borrowing and lending rates increased significantly. However, the net interest margin of the financial system remained stable due to a substantial growth both in the loan and deposit portfolios.

In June 2014, the Central Bank established a system of maximum active benchmark rates for consumer loans and secured loans and additionally, in October 2014, established a new mechanism of regulation by setting a minimum deposit rate for certain deposits of natural persons.

We cannot guarantee that interest rate spreads will remain stable unless increases in lending or additional cost-cutting occurs. A reversal of this trend, or a new regulation imposing maximum active benchmark rates, could adversely affect Banco Hipotecario's profitability.

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

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

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

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

Cybersecurity events could negatively affect Banco Hipotecario's reputation, its financial condition and results of operations.

Banco Hipotecario has access to large amounts of confidential financial information and control substantial financial assets belonging to the customers as well as to Banco Hipotecario. In addition, Banco Hipotecario provides its customers with continuous remote access to their accounts and the possibility of transferring substantial financial assets by electronic means. Accordingly, cybersecurity is a material risk for Banco Hipotecario. Cybersecurity

incidents, such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the security of information stored in and transmitted through Banco Hipotecario 's computer systems and network infrastructure and may cause existing and potential customers to refrain from doing business with Banco Hipotecario.

In addition, contingency plans in place may not be sufficient to cover liabilities associated with any such events and, therefore, applicable insurance coverage may be deemed inadequate, preventing Banco Hipotecario from receiving full compensation for the losses sustained because of such a disruption.

Although Banco Hipotecario intends to continue to implement security technology devices and establish operational procedures to prevent such damage, we cannot assure you that all of Banco Hipotecario's systems are entirely free from vulnerability and these security measures will be successful. If any of these events occur, it could damage Banco Hipotecario's reputation, entail serious costs and affect Banco Hipotecario's transactions, as well as its results of operations and financial condition.

A disruption or failure in any of Banco Hipotecario's information technology systems could adversely affect its business.

Banco Hipotecario depends on the efficient and uninterrupted operation of internet-based data processing, communication and information exchange platforms and networks, including those systems related to the operation of Banco Hipotecario's ATM network. Banco Hipotecario's operations depend on its ability to manage its information technology systems and communications efficiently and without interruption. Banco Hipotecario's communications, systems or transactions could be harmed or disrupted by fire, floods, power failures, defective telecommunications, computer viruses, electronic or physical theft and similar events or disruptions. In addition, Banco Hipotecario's information technology systems and operations may suffer if its suppliers do not meet the delivery of products in a timely manner or decide to end the relationship with Banco Hipotecario.

Any of the foregoing events may cause disruptions in Banco Hipotecario's information technology systems, delays and the loss of critical data, and could prevent Banco Hipotecario from operating at optimal levels. In addition, the contingency plans in place may not be sufficient to cover all those events and, therefore, this may mean that the applicable insurance coverage is limited or inadequate, preventing Banco Hipotecario from receiving full compensation for the losses sustained because of such a disruption. Also, Banco Hipotecario's recovery of losses plan may not be enough to prevent damage resulting from all the cases and Banco Hipotecario's insurance coverage could be inadequate to cover losses from interruptions. If any of these assumptions occur Banco Hipotecario's reputation, business, results of operations and financial condition could be adversely affected.

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

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



## Operations Center in Israel

### Risks related to Israel

Conditions in Israel could adversely affect our subsidiary IDBD.

Our subsidiary IDB Development Corporation is incorporated and operates in Israel. Accordingly, political, economic and military conditions in Israel directly affect IDBD's business. Since the State of Israel was established in 1948, a number of armed conflicts have occurred between Israel, the Palestinian Authority and Israel's Arab neighbors. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, there has been an increase in unrest and terrorist activity, which began in September 2000 and has continued with varying levels of severity. Starting in December 2008, for approximately three weeks, Israel engaged in an armed conflict with Hamas in the Gaza Strip, which involved missile strikes against civilian targets in various parts of Israel and negatively affected business conditions in Israel. In November 2012, for approximately one week, Israel experienced a similar armed conflict, resulting in hundreds of rockets being fired from the Gaza Strip and disrupting most day-to-day civilian activity in southern Israel. Due to these conflicts, political, economic and military conditions in Israel may directly affect IDBD and could result in physical damage to its related facilities or the interruption or curtailment of trade between Israel and its present trading partners. If IDBD's assets are damaged as a result of hostile action or hostilities otherwise disrupt its ongoing operations, IDBD's business could be materially adversely affected. We do not believe that the political and security situation has had any material impact on IDBD to date; however, we can give no assurance that security and political conditions will not have such effect in the future. Any armed conflict, political instability or continued violence in the region, or the interruption or curtailment of trade between Israel and its present trading partners may have a negative effect on the Israeli economy and IDBD and adversely affect the results of operations business, and financial condition, thereby negatively impacting its ability to generate revenue.

Israel's economy may become unstable.

Over the years, the Israeli economy has been subject to periods of inflation, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. For these and other reasons, the government of Israel has, from time to time, intervened in the economy employing fiscal and monetary policies. The Israeli government has periodically changed its policies in these areas. Reoccurrence of previous destabilizing factors could make it more difficult for IDBD to operate its business and could adversely affect its financial results.

In the years in which there is strong economic activity and positive growth in the Israeli economy, there is an increase in demand. Conversely, in times of financial crisis, demand decreases, which would adversely affect the results of IDBD and, in turn, adversely affect our consolidated results.

The compliance of the new provisions of the Reduced Centralization Act may have an adverse material impact in IDBD's results of operations.

In December 2013, the official "Reshumot" published in Israel the Promotion of Competition and Reduction of Centralization Law, 5774-2013 (the "Reduced Centralization Act"), which imposes certain limits in the ownership and control of reporting companies.

One provision limits the pyramidal structure (or multiholding companies) of control in reporting companies (in special entities whose securities are held by public shareholders) to two layers of entities (with the holding company in the first layer not including a reporting entity that has no controlling shareholder). In case Discount Investment is considered a second-tier company, it would be prohibited to control publicly held companies. IDBD may be required to merge Discount Investments in order to enable continued control of IDBD and/or Discount Investments in other

companies.

In connection with evaluating the application of the Law, in August 2014, IDBD's Board of Directors appointed an advisory committee to examine various alternatives to address the implications of the Law to comply with the provisions that apply to control in a pyramid or multiholding company structure in order to enable continued control of IDBD and/or Discount Investments in "other tier companies" (currently held directly by Discount Investments) as of December 2019. The advisory committee has recommended the following alternatives:

(a)

Taking either IDBD or Discount Investments private thereby removing the requirement that they be reporting entities (and as a result not a "tier company"); and

(b)

Merge IDBD and Discount Investments.

The Board of Directors of Discount Investments has appointed an advisory committee with a similar function. As of the date of this Annual Report, no specific alternatives have been identified. The implementation of an alternative that would be adopted is likely to take several years.

Based on these analyses, IDBD considers it more likely that the completion of one of the specified alternatives will be adopted to comply with the restrictions of the Law regarding pyramidal holdings, while allowing IDBD to continue to control Discount Investments, and Discount Investments to continue to control Cellcom after December 2019. PBC, which currently is a third-tier company that controls each of Gav-Yam, Ispro and Mehadrin, has preliminarily evaluated application of the Law on its holding structure and determined that it will be able to maintain said control, as it has concluded that the Law has no effect over its financial statements.

Another new provision determines the separation of significant affiliates and significant financial institutions. In May 2015, companies of Clal Holdings Insurance Enterprises (except Clal Holdings Insurance Enterprises), including Clal Insurance and Epsilon Investment House Ltd. (held by Discount Investments) were included in the list of the significant financial institutions published in the website Ministry of Finance and the official gazette in connection with the Reduced Centralization Act. Clal Holdings Insurance Enterprises was included in the list as a significant corporation. The classification of Clal Holdings Insurance Enterprises as a significant corporation directly impacts its control over Clal Insurance.

In December 2014, Israel's concentration committee issued directives for the appointment of a trustee in Clal Holdings Insurance Enterprises to hold the control currently held by IDBD. In addition, in December 30, 2014, the committee delivered a notification requesting IDBD to sell its interest in Clal Holdings Insurance Enterprises. The sale arrangement outlined in the letter involves IDBD's and the Trustee's interests in the sale process under different options and timeframes. As of June 30, 2016, the current sale arrangement involved the sale of the interest in the stock exchange or by over-the-counter trades, as per the following detail and by the following dates:

- a. IDBD would have to sell at least 5% of its equity interest in Clal from May 7, 2016.
- b. During each of the subsequent four-month periods, IDBD would have to sell at least an additional 5% of its equity interest in Clal.
- c. If IDBD sells more than 5% of its equity interest in Clal in any given four-month period, the percentage in excess of the required 5% would be offset against the percentage required in the following period.

As a result we record our investment in CLAL as a financial asset at market value through profit or loss. The request to sell the shares of CLAL in 5% tranches could cause a negative impact on the market price. A decrease in the market

price of Clal's shares would cause an immediate effect in our income statements and financial results.

Clal Holdings Insurance Enterprises appealed to the committee, requesting a reclassification of its status of significant corporation. Dolphin filed an appeal before the Supreme Court of Justice of Israel on the Tel Aviv-Jaffo Court's Decision. We cannot assure that we will be successful in our appealing with the concentration committee.

The compliance of the Reduced Centralization Act, in particular the provisions related to reporting companies in pyramid structure (or multiholding companies) and separation of significant corporations and significant financial corporations, may have a material adverse impact on IDBD's business and results of operations and, as a consequence, a negative effect on the value of our investment in IDBD. For more information about the Reduced Centralization Act and potential implications of its provisions on IDBD and its subsidiaries, see "Item 4 – Information on the Company".

IDBD's operations may be disrupted by the obligations of personnel to perform military service.

IDBD's Israeli employees may be called upon to perform up to 36 days (and in some cases more) of annual military reserve duty until they reach the age of 40 (and in some cases, up to the age of 45 or older) and, in emergency circumstances, could be called to permanent active duty. In response to increased tension and hostilities, there have been occasional call-ups of military reservists, including in connection with the mid-2006 war in Lebanon and the December 2008 and November 2012 conflicts with Hamas in the Gaza Strip. It is possible that there will be additional call-ups in the future. IDBD could be disrupted by the absence of a significant number of employees or the absence of one or more key employees for extended periods of times due to military service. Such disruption could materially adversely affect IDB's business and its results of operations. Additionally, the absence of a significant number of the employees of IDB's Israeli suppliers and contractors or the absence of one or more key employees for extended periods of time due to military service may disrupt their operations and thereby materially adversely affect IDBD's ability to generate revenue and, in turn, adversely affect our consolidated results.



Political relations could limit IDBD's ability to do business internationally.

Several countries, principally in the Middle East, restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continues or increases. These restrictions may materially limit IDBD's ability to export or import certain services, or reduce the domestic demand for its products and services as a result of the interruption or curtailment of trade between Israel and its present trading partners, which could adversely affect IDBD's ability to generate revenue and, in turn, adversely affect our consolidated results.

IDBD may face difficulties in exporting offshore.

Israel's export policy currently sets forth certain restrictions that may be unfavorable to IDBD's activities. Changes in customs tariffs for goods and in policy on protecting local production may impact the results of some IDBD's subsidiaries and/or associates. In addition, the possibility of exportation and sales in Israel depends on several factors, such as establishment of export and transportation facilities, obtaining regulatory approvals, the economic viability of exports, geopolitical challenges, identification of potential customers in the international market, and financing investments in development and establishment of the export projects. In view of the complexity and potential limited ability to export, IDBD may be unable to export surplus supply and this may materially adversely affect the its financial results.

IDBD's business is subject to substantial regulation and permit requirements in Israel and may be materially adversely affected if it is unable to comply with existing regulations or requirements, or changes in applicable regulations or requirements.

Our subsidiary IDBD is subject to a number of laws and regulations affecting many aspects of its present and future operations, as well as permits from Israeli government authorities. Such laws and regulations generally require that IDBD obtain and comply with a wide variety of licenses, permits and other approvals.

In recent years there is a trend of increased legislation, standards and regulations in various sectors of Israel's economy. Legislative changes in various areas in Israel, such as reducing economic concentration, promoting competition and laws concerning anti-trust, taxation, mandatory tender offers, regulation of the communications market, supervision of insurance business, corporate law and securities law, laws concerning supervision of prices of goods and services, consumer protection laws, environmental protection laws, planning and construction laws. This trend may impact the business and financial results of IDBD and its subsidiaries, their financial results and trading price of their securities. Furthermore, changes in policy applied by various Israeli authorities pursuant to these laws may also have similar impact.

Under these and other laws and regulations, IDBD could be subject to business restructurings, changes in its corporate structure, business strategy and other corporate adaptations. Failure to comply with these laws and regulations may also result in the suspension or termination of IDBD's operations and subject them to administrative, civil and criminal penalties. Moreover, these laws and regulations could change in ways that could substantially increase its costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could have a material adverse effect on IDBD's financial condition and results of operations. Stricter regulation applicable to IDBD's business, restrictive trade practices, control of prices and similar factors, may materially adversely affect IDBD's businesses.

IDBD's activities are subject to approvals, permits and licenses awarded to them by law by various authorities (such as: the Commissioner of Capital Market, Ministry of Communications, Ministry of Environmental Protection, Petroleum Supervisor at the Ministry of Energy and Water). Failure to comply with terms and conditions of such approvals, permits or licenses may result in sanctions being imposed (including criminal sanctions) on the companies



in breach, including fines and/or termination of the relevant approvals, permits or licenses. Some of the aforementioned licenses are for a limited term and may be renewed from time to time, all subject to terms and conditions thereof and to statutory provisions. As of the date hereof, we cannot predict what changes (if any) will be made with respect to future licensing and other regulatory matters. Furthermore, there is no certainty that IDBD's existing licenses will be renewed at the end of their terms or that there will not be a change in the licenses' conditions.

We cannot assure that the existing laws and regulations will not be revised or reinterpreted, that new laws and regulations will not be adopted or become applicable to IDBD, or that future changes in laws and regulations will not have a detrimental effect on its business. Although not currently required, additional regulatory approvals may be required in the future due to a change in laws and regulations or for other reasons. We cannot assure that IDBD will be able to obtain all required regulatory approvals that may be required in the future, or any necessary modifications to existing regulatory approvals, or maintain all required regulatory approvals.

Changes in regulations, licensing or any other regulatory matters could adversely affect IDBD's ability to generate revenues. This, in turn, could represent a negative effect in our consolidated results.

IDBD may be adversely affected by class actions on consumer-related matters and environmental protection-related matters

The nature of the business developed by certain IDBD's subsidiaries, namely Cellcom and Shufersal, the investment in Clal and the associate Adama, exposes these companies to class actions with regard to consumer issues and issues related to environmental protection, such as ionizing radiation from cellular devices, emissions, water, noise and smell pollution. Moreover, in most cases, our patients may benefit from Israeli consumer protection laws, which provide special procedural rules, such as the shifting of the burden of proof, strict liability and joint and several liability for damage caused by companies outsourced by us to provide specific services. The amount involved in this type of class action can be sumptuous, in special in issues related to environmental protection, and might even exceed IDBD's shareholders equity, and must defend against such lawsuits at significant cost, even if such lawsuits are unfounded. If the decisions in any such actions are unfavorable to IDBD, it might be required to pay heavy fines to cover damages. Any proceeding involving consumer complaints may also adversely affect IDBD's reputation and, consequently, its client base. Class actions may adversely affect IDBD's financial condition and materially adversely affect its reputation. As a result, IDBD's is subject to a potential decrease in the number of clients and in its gross operating revenue. Consequently, IDBD's business, results of operations, financial condition and the market price of its securities may be adversely affected.



Risks related to IDBD and IDBD's subsidiaries and/ or associates.

Most of IRSA's revenues are generated by IDBD, an entity incorporated and operating in Israel.

IDBD is incorporated in Israel, where it operates the totality of its business. As of June 30, 2016, IDBD's revenues corresponded to approximately 86.4% of IRSA's total revenues for our fiscal year then ended.

IDBD's activities are subject to Israel's political, economic and military conditions and also to extensive Israeli regulation related to, among other matters, licensing, competition, rates and environmental practices. There can be no assurance that governmental policies in Israel or the current regulations will not change in the future and adversely affect IDBD's business. We are unable to predict whether IDBD's success will continue to prosper in Israeli markets. For more information, please refer to the risk factors under "Risks Related to Israel".

IDBD may not be able to comply with financial commitments with its creditors and to fully comply with Israeli laws, which would have a material adverse effect on its financial condition and on its ability to continue as a going concern.

On October 11, 2015, we gained effective control over IDBD and we started consolidating IDBD's results of operations.

IDBD's activities were materially affected with the promulgation of the Promotion of Competition and Reduction of Centralization Law N° 5.774-13 (the "Reduced Centralization Act") published in December 2013. In order to fully comply with this law, IDBD could be forced to adopt some adverse measures, such as dispose its controlling interest in Clal or to merge with DIC. For more information about the Reduced Centralization Act and potential implications of its provisions on IDBD and its subsidiaries, see "Item 4 – Information on the Company".

IDBD is also subject to compliance with certain covenants under its debt arrangements. Although IDBD has successfully negotiated waivers to these covenants with its creditors valid until December 2016, we cannot assure that it will be successful in renegotiating an extension or other new terms. If IDBD is unable to renegotiate or, as an alternative, to raise additional capital, the original covenants of such arrangements will become effective again and creditors could require immediate repayment of the debt.

All factors mentioned above raise significant uncertainties as to IDBD's capacity to continue as a going-concern. IDBD's ability to continue as a going concern will depend on its ability in renegotiating the terms of its arrangements, in raising additional funds and also its ability to fully comply with Israel authority's demands.

IDBD is currently exploring alternative measures to meet its future liquidity requirements and is making payments to significant creditors as cash flow permits. IDBD is in ongoing contact with its creditors regarding future payments, and is attempting to resolve issues regarding its late payments or non-payments. Based on its future cash flow projections, IDBD expects to have the required liquidity to meet its commitments by issuing new debt in Israel, selling financial assets such as Clal and dividend payouts by Clal. IDBD could also secure additional financing through the private issuance of equity securities. However, there can be no assurance that IDBD will be able to resolve these matters satisfactorily, and if it is unable to do so, it may be unable to pay out debts as they become due and could be subject to litigation regarding non-payment that could have a material adverse effect on its business, financial condition, and results of operations.

Our independent registered public accounting firm has included an explanatory paragraph in their opinion to makes references to Note 1 of the consolidated financial statements as of and for the year ended June 30, 2016, which discloses the existence of risks and uncertainties in relation to IDBD and indicating that our financial statements do not include any adjustments related to the valuation of IDBD's assets and liabilities that would be required if IDBD

were not able to continue as a going-concern.

The outcome of the arbitration proceedings between Dolphin and ETH is uncertain and may have an adverse effect on our business.

The arbitration process between Dolphin and ETH (a non-related company established under the laws of the State of Israel, which was presented to Dolphin as a company controlled by Mordechai Ben Moshé) regarding certain matters related to the acquisition and obtainment of control of IDBD, though partially resolved, is still pending.

On September 24, 2015, the competent arbitrator resolved that: (i) Dolphin and IFISA were entitled to act as buyers in the BMBY process, and ETH had to sell all of the IDBD shares held by it at a price of NIS 1.64 per share; (ii) The buyer had to fulfill all of the commitments included in the Arrangement, including the commitment to carry out Tender Offers; (iii) The buyer had to pledge in favor of the Arrangement Trustees the shares that were previously pledged in favor of the Arrangement Trustees by the seller.

However, Dolphin and ETH still have counterclaims of different kinds which are subject to such arbitration proceeding, which, as of the filing date of this Annual Report, is still being heard. There can be no assurances of the final outcome of this process. Should the arbitrator rule in favor of ETH, the value of our investment in IDBD could be severely affected and therefore would likely have a significant adverse effect on our business, financial condition and results of operations.

IDBD's subsidiaries do business abroad and might be subject to foreign regulation and, therefore, are subject to substantial foreign regulations and permit requirements and may be materially adversely affected if it is unable to comply with existing regulations or requirements, or changes in applicable regulations or requirements.

Some of IDBD subsidiaries do business overseas or their securities are traded on foreign stock exchanges. Changes in legislation and regulatory policy in foreign countries as well as characteristics of the business environment in the operating country may impact the financial results and business standing of those companies.

Changes in international financial reporting standards or in accounting principles applicable to IDBD and its subsidiaries may impact various data (including equity attributable to equity holders and earnings) reported on the financial statements of IDBD and its subsidiaries, their compliance with financial covenants, if any, their compliance with terms and conditions of permits and licenses awarded to them and their capacity to distribute dividends. We cannot assure that the existing laws and regulations in the countries where IDBD's subsidiaries and/ or associates have operations will not be revised or reinterpreted, that new laws and regulations will not be adopted or become applicable to IDBD's subsidiaries and/ or associates, or that future changes in laws and regulations will not have a detrimental effect on its business. Although not currently required, additional regulatory approvals may be required in the future due to a change in laws and regulations or for other reasons. We cannot assure that IDBD's subsidiaries and/ or associates will be able to obtain all required regulatory approvals that may be required in the future, or any necessary modifications to existing regulatory approvals, or maintain all required regulatory approvals in the countries in which they operate.

Changes in regulations, licensing or any other regulatory matters in the countries where IDBD's subsidiaries and/ or associates operate could adversely affect their ability to generate revenues. This, in turn, could represent a negative effect in IDBD's and, as consequence, in our consolidated results.



IDBD's subsidiary Property and Building ("PBC") operates in real estate industry, and is exposed to the risks inherent to that industry.

As part of the real estate industry, PBC face similar risks as described above, regarding our Operation Center in Argentina, such as:

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

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

.  
"We may face risks associated with property acquisitions."

.  
"Our future acquisitions may be unprofitable."

.  
"Properties we acquire may subject us to unknown liabilities."

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

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

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

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

IDBD's subsidiary Shufersal operates in the retail industry, which is a highly regulated industry in Israel.

Israeli legislation with respect to sanitation licensing, as well as new consumer legislation which confers extensive authority upon the Israel Consumer Protection and Fair Trade Authority, consumer legislation and the increased enforcement thereof, and increased oversight of prices or increases in the minimum wage, may adversely affect the business affairs of Shufersal, its financial position and its results of operations. An increase in the minimum wage may adversely affect the financial results of Shufersal, including its profitability. Additionally, the regulator's determinations regarding the rules for conduct between the large marketing chains, of which Shufersal is one, and dominant suppliers in the food supply segment, including by virtue of the provisions of the Food Law, and regarding the merger of Shufersal with Clubmarket, which is one of the largest retail chains in Israel, may adversely affect Shufersal's business, financial condition and results of operations.

Shufersal faces intense competition in all aspects of its business.

Shufersal closely monitors the developments in the retail sector, and adjusts its operations, if and insofar as is required, in accordance with those developments. Shufersal faces intense competition, especially as it proceeds with full implementation of its business plan. Competitive pressures, including the responses of competitors to Shufersal's strategy and the manner of its implementation, may adversely affect Shufersal's ability to deal with competition, and may lead to lower pricing and the loss of market share in a manner which may have an adverse effect on Shufersal's business, financial condition and results of operations. The entry of new competitors into markets in which Shufersal is engaged, or the entry of existing competitors into segments in which they were not previously active, could adversely affect Shufersal's business.

An ineffective wholesale market for retail, the offering of services not in accordance with the criteria of the wholesale market, or the pricing thereof by competitors in order to expand market share could harm Shufersal's ability to offer competitive services and its competitive position. If Shufersal is unable to manage its competition in an effective manner, its future results might be adversely affected.

The sale of Adama is subject to Chinese regulatory and antitrust approvals and the sale transaction may not be completed.

On July 17, 2016, our indirect subsidiary DIC, agreed to sell its remaining 40% in Adama to ChemChina for cash consideration of US\$ 230 million and cancellation of a loan due to a Chinese bank. It is expected that the sale transaction be consummated by the first week of November 2016, subject to the fulfillment of certain conditions, including the receipt of Chinese regulatory and antitrust approvals. Upon completion of the transaction, each party will waive all claims and demands against each other. If the sale transaction is not completed for any reason, the value of our investment in IDBD could be materially adversely affected and therefore would likely have a significant adverse effect on our business, financial condition and results of operations.

IDBD's subsidiary Cellcom operates in telecommunications industry, which is a highly regulated industry in Israel. In recent years, regulation in Israel has materially adversely affected Cellcom's results.

A substantial part of Cellcom's operations is subject to the Israeli Communications Law, No 1982, the Israeli Wireless Telegraph Ordinance (New Version), No 1972, the regulations promulgated thereunder and the licenses for the provision of different telecommunications services that Cellcom received from the Ministry of Communications in accordance with the Communications Law. The interpretation and implementation of the Communications Law, Wireless Telegraph Ordinance and regulations and the provisions of its general licenses, as well as its other licenses, are not certain and subject to change, and disagreements have arisen and may arise in the future between the Ministry of Communications and us. The Communications Law and regulations thereunder grant the Ministry of Communications extensive regulatory and supervisory authority with regard to its activities, as well as the authority to impose substantial sanctions in the event of a breach of its licenses or the applicable laws and regulations. Further, in the event that Cellcom materially violate the terms of its licenses, the Ministry of Communications has the authority to revoke them. Cellcom's operations are also subject to the regulatory and supervisory authority of other Israeli

regulators which have the authority to impose criminal and administrative sanctions against us.





Cellcom's general cellular license is valid until February 2022. It may be extended for additional six-year periods upon request to the Ministry of Communications and confirmation from the Ministry of Communications that Cellcom has complied with the provisions of its license and applicable law, has invested in the improvement of its service and network and has demonstrated the ability to do so in the future. Netvision's unified licenses (granted in July 2015 and amended in February 2016) under which Netvision is providing landline telephony services, internet connectivity services, or ISP, and international long distance services, or ILD, are valid until March 2026 and February 2022, respectively, and may be extended for additional ten year periods, on terms similar to those provided in its cellular license. Cellcom's other licenses are also limited in time. Cellcom's licenses may not be extended when requested, or, if extended, the extensions may be granted on terms that are less favorable to Cellcom. In addition, the Ministry of Communications has interpreted and may interpret its licenses and has modified and may modify its licenses without Cellcom's consent and in a manner that could limit its ability to conduct its business and harm its results of operations. Possible changes to its licenses and legislation which would require us to change its pricing plans and information systems frequently or on a timetable Cellcom cannot meet, can increase the risk of noncompliance with its licenses or violation of such legislation and its exposure to lawsuits and regulatory sanctions.

IDBD's subsidiary Cellcom faces intense competition in all aspects of its business.

The Israeli telecommunications market is highly competitive in many of its elements, including the cellular and landline service markets. The competition level has increased substantially in recent years, following the entry of additional competitors and regulatory changes alleviating entry barriers and transfer barriers. Also, there is a continued increase of competition in the end user equipment market. In the last year, Cellcom entered both the TV market through its OTT TV service and the landline infrastructure market, through the landline wholesale market (VDSL). In the other markets Cellcom operates in and specifically in the cellular market, the intensified competition led to price competition, the adverse effects of which include a high churn rate and high subscriber acquisition costs, in addition to continued price erosion, all of which have ultimately led to a material decrease in revenues and profitability for us and other MNOs. The current level of competition in all the markets in which Cellcom operates and aggressive price plan offerings by its competitors are expected to continue. The entry of new competitors into markets in which Cellcom is engaged, or the entry of existing competitors into segments in which they were not previously active, or were partially active, as a result of regulatory changes, would allow other operators to provide services currently provided only by Cellcom to its subscribers.

An ineffective wholesale market for landline communication, including due to the exclusion of telephony services from the wholesale market, the offering of services not in accordance with the criteria of the wholesale market, or the pricing thereof in a manner which could harm Cellcom's ability to offer competitive services packages, and competition on the part of Bezeq and Hot (due to their dominant status in the landline communication market), particularly if the cancellation or easement of the structural separation which applies to the Bezeq and Hot groups is implemented before the creation of an effective wholesale market in the landline communication market. We are unable to foresee if the current high level of competition and trends will continue in the future or if it will continue to affect Cellcom results of operations. In case Cellcom is unable to manage its competition in an effective manner, its future results might be adversely affected.

Cellcom may be adversely affected by the significant technological and other changes in the cellular communications industry.

The telecommunications market is known for rapid and significant technological changes and requires ongoing investments in advanced technologies in order to remain competitive. In recent years Cellcom has witnessed a growing demand for Internet, content and data through advanced third and fourth generation cellular phones, smartphones, modems, tablets and other devices using cellular data that resulted in a rapid and immense growth of data traffic on cellular networks and required cellular operators to upgrade their networks to accord such demand.

Transfer of subscribers to unlimited packages of services and national roaming on its network, have contributed to the substantially growing demand for data traffic on its network, as well as to voice and text messages.

We estimate that data traffic will continue to rapidly grow in the future. To meet the growing demand for cellular data traffic, Cellcom is required, among others, to continue its investment in its 4G network and upgrading its transmission network, to allow larger capacity and higher data speed rates. In addition, as in order to provide optimal performance, its LTE network requires additional frequencies to those allocated to us under the LTE frequencies tender (as the Ministry of Communications expects us to evacuate 12 1800MHz which were allocated to us for its 2G network, to be used by its LTE network), Cellcom is in the process of allocating additional 1800MHz to its LTE network, in areas where lower usage of its 2G network, together with advanced and modern equipment and software features, allows such allocation, with negligible adverse effect to its 2G network performance. Nonetheless, such limited quantity of frequencies may adversely affect its network performance, specifically if Cellcom cannot use additional frequencies under network sharing agreements, as its 4G network will have 15MHz at most (similar to Pelephone's network, unless Pelephone enters a network sharing agreement), whereas Partner and Hot's 4G combined network enjoys 20MHz.

If Cellcom fails to obtain or maintain favorable arrangements with foreign telecommunications operators, its services may be less attractive or less profitable.

Cellcom relies on agreements with cellular providers outside Israel to provide roaming capabilities to its cellular subscribers in many areas outside Israel. Cellcom cannot control or compel the improvement of the quality of the service that they provide and it may be inferior or less advanced than the service that it provides. Some of Cellcom's competitors may be able to obtain lower roaming rates than it does because they may have larger call volumes or can use more favorable agreements of their overseas affiliates. If Cellcom's competitors' providers can deliver a higher quality, more advanced or a more cost effective roaming service, then subscribers may migrate to those competitors and its results of operation could be adversely affected, more so if the proposed amendment to its license, allowing other operators to provide roaming services to its subscribers, will be adopted.

In recent years, roaming tariffs for Cellcom's subscribers have decreased. If roaming tariffs continue to decrease including as a result of the increasing competition or the changing regulation, this could adversely affect its profitability and results of operations. Inbound roaming to its network is also influenced by its ability to maintain favorable roaming arrangements. The entry of additional UMTS providers has not only increased competition regarding outgoing roaming services but also increased competition on inbound roaming services. Additional operators or the abovementioned proposed amendment to its license, may increase such competition further. Cellcom also relies on agreements with foreign carriers to provide ILD services by Netvision as well as its international voice hubbing (providing ILD services to foreign operators) services. The risks detailed above in relation to roaming services and possible effects of such risks, apply to Netvion's ILD and hubbing services as well.

Cellcom's substantial debt increases its exposure to market risks, may limit its ability to incur additional debt that may be necessary to fund its operations and could adversely affect its financial stability; regulatory change, market terms and its financial results may affect its possibilities to raise debt.

IDBD's investment Clal operates in the insurance industry, which is a highly regulated industry in Israel. Therefore, Clal is subject to substantial regulations and permit requirements in the insurance area and may be materially adversely affected if it is unable to comply with existing regulations or requirements, or changes in applicable regulations or requirements.

Clal is exposed to changes in legislation and regulation which pertain to its operating segments. In particular, some of the regulatory changes which were recently implemented and proposed, may adversely affect components of the business model in the sector. Additionally, changes in legislation and regulation, including circulars, determinations in principle, position papers and provisions which the Commissioner of Capital Markets is authorized to impose in connection with changes to policy terms, including policy premiums which may affect Clal, including with reference

to products which were sold in the past, both by way of retroactive application and due to their effect on the interpretation of agreements which were signed in the past.

Significant operations in Clal are subject to detailed and complex regulation. In particular, the insurance and long-term savings activities are subject to regulatory directives which change from time to time, with respect to products which were sold over many years, and which have long insurance coverage periods and/or savings periods. Non-compliance with the regulatory requirements, including by mistake, may lead to sanctions, including the revocation of licenses and permits and monetary fines, against Clal, also as part of audits on behalf of oversight entities, and may serve as a basis for claims against it.

#### Risks Related to the ADSs and the Common Shares.

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

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

The ADSs are freely transferable under U.S. securities laws, including common shares sold to our affiliates. IFISA, which as of June 30, 2016, owned approximately 30.88% of our common shares (or approximately 154,898,780 common shares which may be exchanged for an aggregate of 15,489,878 ADSs), is free to dispose of any or all of its common shares or ADSs at any time in its discretion. Sales of a large number of our common shares and/or ADSs would likely have an adverse effect on the market price of our common shares and the ADSs.



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

We may issue additional shares of our common stock for financing future acquisitions or new projects or for other general corporate purposes, although there is no present intention to do so. Any such issuance could result in a dilution of your ownership stake and/or the perception of any such issuances could have an adverse impact on the market price of the ADSs.

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

There may be less publicly available information about the issuers of securities listed on the Buenos Aires Stock Market (“Mercado de Valores de Buenos Aires” or “MERVAL” as per its acronym in Spanish) than is regularly published by or about domestic issuers of listed securities in the United States and certain other countries.

We are exempt from the rules under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

The identification of a material weakness in our internal controls over financial reporting could negatively affect the trading price of our shares or ADSs.

Our management is responsible for establishing and maintaining adequate Internal Control over Financial Reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our Internal Control over Financial Reporting includes a series of procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes, in accordance with IFRS and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS and that the relevant entity’s or division’s receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our consolidated financial statements.

Our management concluded that our disclosure controls and procedures as of the end of fiscal year 2014 were not effective given to a material weakness in our internal control over financial reporting. This material weakness was related to the accounting for derivative financial instruments derived from non-routine complex contractual provisions in the context of the acquisition of an associate and was already remediated. Under this concept, a material weakness is a deficiency, or combination of deficiencies, in the internal control over financial reporting that may reasonably cause that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. See “Controls and Procedures - A. Disclosure Controls and Procedures”.

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

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

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

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

Based on the current and projected composition of our income and valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company (“PFIC”) for United States federal income tax purposes for the taxable year ending June 30, 2016, and we do not currently expect to become a PFIC, although there can be no assurance in this regard. The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may be a PFIC in the current or any future taxable year due to changes in our asset or income composition or if our projections are not accurate. The volatility and instability of Argentina’s economic and financial system may substantially affect the composition of our income and assets and the accuracy of our projections. In addition, this determination is based on the interpretation of certain U.S. Treasury regulations relating to rental income, which regulations are potentially subject to differing interpretation. If we become a PFIC, U.S. Holders (as defined in “Taxation—United States Taxation”) of our common shares or ADSs will be subject to certain United States federal income tax rules that have negative consequences for U.S. Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our common shares or ADSs at a gain, as well as reporting requirements. Please see “Taxation—United States Taxation—Passive Foreign Investment Company” for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

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

On September 23, 2013, the Argentine income tax law was amended by the passage of Law N° 26,893. Under the amended law, the distribution of dividends is subject to income tax at a rate of 10%, unless the dividends are distributed to Argentine corporate entities. In addition, the amended law establishes that the sale, exchange or other transfer of shares and other securities is subject to a capital gain tax at a rate of 15% for Argentine resident individuals and foreign beneficiaries. There is an exemption for Argentine resident individuals if certain requirements are met; however, there is no such exemption for non-Argentine residents. See “Item 10.E - Taxation —Argentine Taxation”. However, as of the date hereof many aspects of the amended tax law remain unclear and, pursuant to certain announcements made by Argentine tax authorities, they are subject to further rulemaking and interpretation, which may adversely affect the tax treatment of our common shares and/or ADSs.

The income tax treatment of income derived from the sale of ADSs, dividends or exchanges of shares from the ADS facility may not be uniform under the revised Argentine income tax law. The possibly varying treatment of source income could impact both Argentine resident holders as well as non-Argentine resident holders. In addition, should a sale of ADSs be deemed to give rise to Argentine source income, as of the date of this annual report no regulations have been issued regarding the mechanism for paying the Argentine capital gains tax when the sale exclusively involves non-Argentine parties. However, as of the date of this annual report, no administrative or judicial rulings have clarified the ambiguity in the law.

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







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

We will not treat the holders of our ADSs as one of our shareholders and the holders of our ADSs will not have shareholder rights. The ADS depositary will be the holder of the common shares underlying your ADSs and ADS holders may exercise voting rights with respect to the common shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are no provisions under Argentine law or under our by-laws that limit the exercise by ADS holders of their voting rights through the ADS depositary with respect to the underlying common shares. However, there are practical limitations on the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with these holders. For example, holders of our common shares will receive notice of shareholders' meetings through publication of a notice in an Official Gazette in Argentina, an Argentine newspaper of general circulation and the bulletin of the Buenos Aires Stock Exchange ("BCBA"), and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, will not receive notice directly from us. Instead, in accordance with the deposit agreement, we will provide the notice to the ADS depositary. If requested by us, the ADS depositary will mail to holders of ADSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the ADS depositary as to voting the common shares represented by their ADSs. Due to these procedural steps involving the ADS depositary, the process for exercising voting rights may take longer for ADS holders than for holders of common shares and common shares represented by ADSs may not be voted as ADS holders desire.

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

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

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

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

The majority of our shareholders may determine to not pay any dividends.

In accordance with Argentine corporate law we may pay dividends to shareholders out of net and realized profits, if any, as set forth in our Audited Financial Statements prepared in accordance with IFRS. The approval, amount and

payment of dividends are subject to the approval by our shareholders at our annual ordinary shareholders meeting. The approval of dividends requires the affirmative vote of a majority of the shareholders entitled to vote at the meeting. As a result, we cannot assure you that we will be able to generate enough net and realized profits so as to pay dividends or that our shareholders will decide that dividends will be paid.

Our ability to pay dividends is limited by law and economic conditions.

In accordance with Argentine corporate law, we may pay dividends in Pesos out of retained earnings, if any, to the extent set forth in our Audited Financial Statements. Our ability to generate retained earnings is subject to the results of our operations.. The uncertainty surrounding future rates of inflation may affect our results of operations and consequently our ability to pay dividends. If the Peso continues to devalue significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences on our business and as a result on the results of our operations and our ability to pay dividends.

The ability of holders of the ADS to receive cash dividends may be limited.

The ability of the ADS holders to receive cash dividends may be limited by the ability of the depositary to convert cash dividends paid in Pesos into U.S. Dollars. Under the terms of our deposit agreement with the depositary for the ADSs, to the extent that the ADS depositary can in its judgment, and in accordance with local exchange regulations, convert Pesos (or any other foreign currency) into U.S. Dollars on a reasonable basis and transfer the resulting U.S. Dollars abroad, the ADS depositary will promptly as practicable convert or cause to be converted all cash dividends received by it in Pesos on the deposited securities common shares into U.S. Dollars. If, in the judgment of the depositary, this conversion is not possible on a reasonable basis (or is not permitted by applicable Argentine laws, regulations and approval requirements), the ADS depositary may distribute the foreign currency received by it in Pesos in Argentina or in its discretion hold such currency uninvested for the respective accounts of the owners entitled to receive the same. As a result, if the exchange rate fluctuates significantly during a time when the depositary cannot or does not convert the foreign currency, you may lose some or all of the value of the dividend distribution. For further information see “Risks Relating to Argentina—Restrictions on transfers of foreign currency and the repatriation of capital from Argentina may impair our ability to pay dividends and distributions.”

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

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



Item 4. Information on the Company

A. HISTORY AND DEVELOPMENT OF THE COMPANY

General Information

Our legal name is Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria, and our commercial name is “Cresud”. We were incorporated and organized on December 31, 1936 under Argentine law as a stock corporation (sociedad anónima) and were registered with the Public Registry of Commerce of the City of Buenos Aires (Inspección General de Justicia), on February 19, 1937 under number 26, on page 2, book 45 of National By-laws Volume. Pursuant to our bylaws, our term of duration expires on July 6, 2082. Our headquarters are located at Moreno 877, 23rd Floor (C1091AAQ), Ciudad Autónoma de Buenos Aires, Argentina. Our telephone is +54 (11) 4814-7800, and our website is [www.cresud.com.ar](http://www.cresud.com.ar).

Information contained in or accessible through our website is not a part of this annual report on Form 20-F. All references in this annual report on Form 20-F to this or other internet sites are inactive textual references to these URLs, or “uniform resource locators” and are for information purposes only. We assume no responsibility for the information contained on these sites.

History

We were incorporated in 1936 as a subsidiary of Credit Foncier, a Belgian company engaged in the business of providing rural and urban loans in Argentina. We were incorporated to administer real estate holdings foreclosed by Credit Foncier. Credit Foncier was liquidated in 1959, and as part of such liquidation, our shares were distributed to Credit Foncier’s shareholders and in 1960 were listed on the Buenos Aires Stock Exchange (“BASE”). During the 1960s and 1970s, our business shifted to exclusively agricultural activities.

In 1993 and 1994, Consultores Asset Management acquired, on behalf of certain investors, approximately 22% of our shares on the BASE. In late 1994, an investor group led by Consultores Asset Management (including Dolphin Fund plc.) acquired additional shares increasing their aggregate shareholding to approximately 51.4% of our outstanding shares. In 1995, we increased our capital through a rights offering and global public offering of ADRs representing our common shares and listed such ADRs on the NASDAQ. We started our agricultural activities with 7 farmlands and 20,000 hectares under management.

As of June 30, 2016, we had a 63.77% equity interest in IRSA (without considering treasury shares). IRSA is one of Argentina’s largest real estate companies and is engaged in a range of diversified real estate activities including residential properties, office buildings, shopping centers and luxury hotels in Argentina. A majority of our directors are also directors of IRSA.

In line with our international expansion strategy, on September of 2005 we participated in the creation of Brasilagro with the purpose of replicating our business model in Brazil. We created BrasilAgro together with our partners, Cape Town Llc, Tarpon Investimentos S.A., Tarpon Agro LLC, Agro Investments S.A. and Agro Managers S.A.

On May 2, 2006, BrasilAgro’s shares were listed on the Novo Mercado of the Brazilian Stock Exchange (“BOVESPA”) with the symbol AGRO3. BrasilAgro’s shares were placed jointly with Banco de Investimentos Credit Suisse (Brazil) S.A. in the Brazilian market through investment mechanisms regulated by controlling authorities and with sales efforts pursuant to an exception from registration under the US Securities Act of 1933. The amount originally offered was R\$ 532 million, equivalent to 532,000 common shares at a price of R\$ 1,000 per share of BrasilAgro.

In addition, we purchased shares in the offering for R\$ 42.4 million (approximately US\$ 20.6 million). Following such contribution we held a total amount of 42,705 shares, equivalent to 7.4% of BrasilAgro's capital stock. On October 31, 2007, BrasilAgro carried out a 1-for-100 share split approved at the special shareholders' meeting held on March 15, 2007 and ratified at the annual shareholders' meeting held on October 29, 2007. Following this split, BrasilAgro's capital stock was composed of 58,422,400 common shares.

On October 20, 2010 and on December 23, 2010, along with Tarpon we executed two amendments to the share purchase agreement dated as of April 28, 2010, under which we acquired 9,581,750 shares of common stock of BrasilAgro, representing 16.40% of the outstanding stock. Consequently, on October 20, 2010 we paid R\$25.2 million and on December 23, 2010 we paid R\$50.8 million, and the price remainder of R\$52.6 million was paid on April 27, 2011.

Consequently, as of the date of this annual report, we hold 23,150,050 shares or 39.76% of BrasilAgro's outstanding capital stock. It should be noted that such acquisition of shares does not imply any change of control within the shareholders' group of BrasilAgro according to the legal regime in Brazil. Additionally, we own 177,004 BrasilAgro's first issuance warrants and 177,004 BrasilAgro's second issuance warrants.

In addition, during the last quarter of calendar year 2010, we entered into an agreement by means of which we assigned all equity and political rights related to 2,276,534 shares of BrasilAgro for two years. The agreement also provides a promise to sell, under which the assignee may at any time request the sale of BOVESPA's shares or the transfer of shares on its behalf. In consideration for the assignment, we paid a fixed value of US\$0.8 million and additionally, in the event the assignee requested the sale or transfer of share, it should paid US\$7.15 per share sold or transferred. On June 27, 2012, we agreed together with Mr. Elie Horn and Cape Town Llc. to terminate the shareholder's agreement. From fiscal year 2011, we present our financial statements in consolidated form with BrasilAgro's. In November past, BrasilAgro's shares became listed as Level II ADRs on the NYSE, under the ticker symbol LND.

In the context of operations that represent a new expansion of our agricultural business in south america, on September 2008, we entered into several agreements to carry out real estate and agricultural, livestock and forestry activities in the Republic of Paraguay. Under these agreements, a new corporation was organized together with Carlos Casado S.A. ("Carlos Casado") under the name Cresca, in which we hold a 50% equity interest. Additionally, we provide consulting services for the agricultural, livestock and forestry development of a rural property of 41,931 hectares.

In March 2008 we concluded a capital increase of 180 million shares. As a result, 180 million shares offered at the subscription price of US\$ 1.60 or Ps. 5.0528 per share were fully subscribed, in the local and international markets. In addition, each shareholder received, without additional cost, one warrant for each share subscribed. See Item 9 "The Offer and Listing – A. Offer and Listing Details - Stock Exchanges in which our securities are listed". This capital increase allows us to expand our international operations to Paraguay and Bolivia.

We entered into an agreement to purchase a 50% interest in a rural property located in Mariscal José Felix Estigarribia, Department of Boquerón, Chaco Paraguayo, Republic of Paraguay, owned by Carlos Casado, for a price of US\$5.2 million, in order to contribute them to the new company organized. The contribution was made on January 26, 2009, and the title deed to the property was executed on February 3, 2009. Therefore, jointly with the contribution made by Carlos Casado, the total value of the contributions in Cresca is US\$10.5 million. In addition, Cresca has an option granted by Carlos Casado for the purchase of 100,000 additional hectares located in Paraguay.

On March 19, 2010 the option granted under the agreement dated September 3, 2008 was partially exercised, whereby 3,614 hectares, valued at US\$350 each, were transferred to Cresca. Finally, on June 29, 2010, the title deed was executed, involving the conveyance of 3,646 hectares.

In December 2013, we sold our entire interest in Cresca, in which we held 50% of its capital stock, and the option granted by Carlos Casado for the purchase of 100,000 additional hectares located in Paraguay, to our subsidiary Brasilagro for US\$ 18.5 million, thus adding 145,000 hectares in the Paraguayan Chaco to its land portfolio intended for development. On April 3, 2014, Cresca signed a bill of sale whereby it sells an area of 24,624 hectares located in Chaco Paraguayo.

During fiscal year 2015 the option granted under the agreement dated September 3, 2008 was exercised, whereby 60,531 hectares, valued at US\$350 each, were transferred to Cresca.





In the framework of a series of transactions that represent a new expansion of our agribusiness operations in South America, in line with our business plan, we have incorporated companies that own land in the Republic of Bolivia during 2008.

For such purposes, the following companies were incorporated: Agropecuaria Acres del Sud S.A (“Acres del Sud”), Ombú Agropecuaria S.A. (“Ombú”), Yatay Agropecuaria S.A. (“Yatay”) and Yuchan Agropecuaria S.A. (“Yuchan”). The preceding Bolivia-based companies acquired land for agricultural operations. We maintain a 100% ownership interest in the capital stock of those companies, all engaged in agricultural operations.

In addition, during October 2008, we acquired, a company named Helmir S.A. (“Helmir”), domiciled in the Republic of Uruguay and incorporated with a broad-ranging corporate purpose.

In line with our international expansion strategy, we have entered into a number of agreements to formalize our position in various South American countries. In July 2008, we, executed several promise to purchase agreements for an aggregate of 12,166 hectares in the Republic of Bolivia for a total price of US\$28.9 million.

In connection with these lands, on November 20, 2008, two purchase instruments including delivery of possession were executed, as part of the process of casting into public deed and filing of deeds with the relevant registries, involving the purchase of 883, 2,969 and 3,748 hectares in “San Cayetano,” “San Rafael” and “La Fon Fon” farmlands, respectively, located in Santa Cruz, Bolivia.

On January 22, 2009, we executed a deed of purchase for 4,566 hectares in Las Londras farmlands, located in the Province of Guarayos, Republic of Bolivia. On that date, the sum of US\$3.8 million was paid, representing 42.9% of the total agreed price. The remaining balance is payable in two annual installments: the first one was paid during the 2010 fiscal period, and the second one was paid in fiscal year 2011.

During fiscal year 2010, 10,800 hectares of the farmlands located in Bolivia were sown. This region has traditionally achieved double harvesting of soybean, which means that better results can be obtained per hectare during a single season; yet, the weather conditions that prevailed during the last year have not allowed double harvesting.

In June 2011, we entered into a purchase agreement for two agricultural parcels located at Santa Cruz, Republic of Bolivia, with a total surface of 5,000 hectares, which are used for agricultural exploitation: (i) The first parcel has a surface of approximately 2,660 hectares for sugar cane exploitation purposes. The purchase price was US\$8.4 million which was fully paid, and (ii) the second parcel has a surface of approximately 2,340 hectares for soybeans exploitation purposes. The purchase price was US\$4.9 million which was fully paid.

Additionally, we have agreed to sell a parcel of La Fon Fon with a surface of 910 hectares for US\$3.64 million and 1,643 hectares of "La Fon Fon II" for an overall amount of US\$ 7.21 million.

In December 2013, we sold to our subsidiary Brasilagro the entire interest in CRESCA, representing 50% of its stock capital.

On May 27, 2014 Ombú executed a purchase and sale agreement involving a sale subject to retention of title covering 883 hectares of “San Cayetano I” for an aggregate amount of US\$ 4.2 million.

On July 6, 2016, we sold to the "El Invierno" and "La Esperanza" farmlands. The total amount of the transaction was set at US\$ 6 million, which of US\$ 5 million have been paid and the balance of US\$ 1 million, secured by a mortgage on the property, in five equal, consecutive and annual installments ending in August 2021. For more information see “Cresud’s Recent Developments.”

In October 11, 2015, continuing with IRSA's strategy of expansion and diversification in the international markets, we gained control of the Israeli conglomerate IDBD. IDBD is one of the largest and most diversified conglomerates in Israel which participates through its subsidiaries in numerous markets and industry sectors, such as: real estate (Property & Building Corporation), supermarkets (Shufersal), agrochemicals (Adama), insurance (Clal Holdings Insurance Enterprises), and telecommunications (Cellcom), among others. IDBD's shares ceased to be listed on the Stock Exchange of Tel Aviv ("TASE"). For more information about the control obtainment of IDBD please see "Significant acquisitions, dispositions and development of business - Acquisition of control of IDBD".

## Significant acquisitions, dispositions and development of business

### Acquisitions

a)

#### Acquisition of control of IDBD.

On May 7, 2014, the Company, acting indirectly through Dolphin, acquired jointly with ETH, an aggregate of 106.6 million common shares in IDBD, representing 53.30% of IDBD's stock capital, in the context of a restructuring Arrangement of IDBH, IDBD's parent company. Under the terms of the agreement, Dolphin and ETH (the "Shareholders' Agreement")<sup>1</sup>, Dolphin acquired 50% interest in this investment, and ETH acquired a 50% equity stake in IDBH. The initial investment amount was NIS 950 million, equivalent to approximately US\$272 million at the exchange rate prevailing on that date.

On May 28, 2015, in accordance to the requirements under existing shareholder arrangements, ETH launched a tender offer to acquire all the shares of IDBD held by minority shareholders, at a fixed price. The obligation to consummate this acquisition was assumed by the buyers. On June 10 and 11, 2015, Dolphin gave notice to ETH of its intention to buy all the shares of IDBD held by ETH.

After certain aspects of the offer were resolved in arbitration brought by Dolphin and ETH, on September 24, 2015, the arbitration panel resolved that: (i) Dolphin and IFISA were entitled to act as buyers in the tender offer and ETH had to sell all IDBD shares held by it (92,665,925 shares) at a price of NIS 1.64 per share; (ii) the buyer was obligated to fulfill the commitments assumed by ETH, including the commitment to carry out the tender offers; and (iii) the buyer was obligated to pledge the shares of acquired from ERT to the Agreement Trustees.

On October 11, 2015, the BMBY process concluded, and IFISA acquired all IDBD's shares from ETH. Consequently, the Shareholders' Agreement was terminated and members of IDBD's board of directors appointed by ETH tendered their resignations, leaving Dolphin with the authority to appoint new members to the Board. Additionally, Dolphin pledged additional shares as collateral to secure compliance with the IDBD stock purchase agreement, thereby increasing the number of pledged shares to 64,067,710. As a consequence, IRSA acquired control of IDBD and started to consolidate financial statements as from that date.

In addition to the arbitration decision issued on September 24, 2016, ETH and Dolphin have counterclaims that remain unresolved in such arbitration proceeding. As of the date of this Annual Report, the proceeding is still pending.

Subsequently following the exercise of BMBY, Dolphin has entered into an option agreement with IFISA that grants Dolphin the right for a period of two years to acquire the 92,665,925 shares in IDBD owned by IFISA at a price per share of NIS 1.64 plus an annual interest rate of 8.5%. The exercise date for the option extends for two years. Dolphin also has a first refusal if IFISA agrees to sell these shares to a third party. The value of the option agreement as of June

30, 2016 is zero.

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b)

Acquisition of non-controlling interest

Dolphin was required to carry out the first tranche of tender offers in December 2015. Before expiration of such first tranche, Dolphin and the arrangement trustees (the “Trustees”) entered into an extension agreement (the “Extension Agreement”), which was replaced by the final agreement approved by approximately 95% of the non-controlling shareholders of IDBD (excluding IFISA) and by warrants holders of IDBD on March 2, 2016 and by the competent court on March 10, 2016. The major amendments to the Arrangement were:

(i) Replacement of the obligation to conduct tender offers as previously established under the Arrangement whereby Dolphin would purchase all the shares outstanding on March 29, 2016 from non-controlling shareholders of IDBD (except for those held by IFISA) on March 31, 2016. On March 29, 2016, all IDBD shares would be delisted from the TASE. On that date, all IDBD warrants held by non-controlling shareholders would expire and Dolphin would make capital contributions to IDBD or grant subordinate loans, as described hereafter.

(ii) The price to be paid for each IDBD share held by non-controlling shareholders on March 29, 2016 would be NIS 1.25 payable in cash, plus NIS 1.20 adjusted nominal value in bonds of the IDBD Series 9 (the “IDBD Bonds”), which IDBD will issue directly to non-controlling shareholders and holders of warrants, and Dolphin will inject funds into IDBD equal to the adjusted nominal value of IDBD Bonds. Additionally, Dolphin would undertake to pay NIS 1.05 per share (subject to adjustments) in cash if Dolphin, either directly or indirectly, gains control of Clal, or if IDBD sells a controlling stake in Clal under certain parameters (the “Clal payment”), which refers mainly to Clal’s sale price (at a price which exceeds 75% of its book value upon execution of the sale agreement, subject to adjustments) and, under certain circumstances, the proportion of ownership of Clal shares sold by IDBD.

(iii) The warrants held by non-controlling shareholders that have not been exercised until March 28, 2016 expired on March 31, 2016. Each warrant holder was entitled to elect whether: (a) to receive IDBD bonds (based on the adjusted nominal value) in an amount equal to the difference between NIS 2.45 and the exercise price of the warrants and be entitled to the Clal payment; or (b) to receive a payment determined by an independent appraiser and approved by Court. Regarding warrant holders choosing this second alternative of payment, the District Court has rejected the experts opinion with respect to the evaluation of the Clal payment and one of the warrants holders has decided to file an appeal before the Supreme Court. As of the date of this filing, the process has not been ended and the Supreme Court has not rendered a decision yet.

(iv) Dolphin committed to providing IDBD a total amount of NIS 515 million (the “Contribution to IDBD”), out of which Dolphin contributed NIS 15 million in February 2016 and NIS 85 million in March 2016. The amount injected to IDBD would be reduced by any capital contribution resulting from the exercise of warrants held by non-controlling shareholders (maximum amount of approximately NIS 37.5 million). The contribution to IDBD would further cover the IDBD Bonds necessary to comply with the transactions described above (between NIS 166.5 million and NIS 178 million), and the balance would be contributed until completing the amount committed by Dolphin either as a capital contribution or as a subordinated loan which amounted to NIS 248.45 million.

(v) Dolphin had to pledge 28% of its IDBD shares, as well as all rights held by Dolphin in relation to the subordinated loan granted in the amount of NIS 210 million in December 2015, until the payment obligation for Clal has been completed or has expired, after which the pledge will be discharged. Should new shares be issued by IDBD, Dolphin will be required to pledge additional shares until completing the 28% of all IDBD share capital. This pledge supersedes the existing pledge on approximately 64 million shares of IDBD and all Dolphin’s rights in relation to the Subordinated Loan.

(vi) Additionally, Dolphin agreed not to exercise its right to convert the subordinated loans into shares of IDBD until the pledge described above has been released. Should the pledge on subordinated loans be exercised by the Trustees, then those trustees may convert the subordinated loans into shares; however, in such case, the maximum percentage of the IDBD capital that may be pledged is 35%, and any shares in excess of such amount will be released from the pledge.

On March 31, 2016: (i) Dolphin acquired all shares from IDBD' minority shareholders (except for IFISA), (ii) all warrants held by IDBDs minority shareholders expired, and (iii) Dolphin made additional contributions to IDBD via subordinated loans pursuant. All commitments to invest in IDBD by Dolphin have been satisfied; only obligation to make a payment to Clal is outstanding, provided certain conditions are met. Additionally, Dolphin is obligated to exercise its warrants if both of the following conditions occur:

- (i) An agreement is reached to renegotiate the debt covenants applicable to IDBD and its subsidiaries; and
- (ii) Control over Clal is obtained.

The obligation would amount to NIS 391 million. The warrants mature on February 10, 2018. As of June 30, 2016, IRSA's indirect interest in IDBD was 68.28% without considering dilution.

The transaction described above represented the acquisition of an additional interest of 19.28% in IDBD for a total amount of Ps.1,249 million. As a result of this transaction, the non-controlling interest was increased by Ps.346 million and the interest attributable to the shareholders' of the controlling parents was increased by Ps.234 million.

#### Acquisition and disposal of investment properties

During the fiscal year ended June 30, 2016, IRSA sold certain floors corresponding to Maipú 1300 Building, Intercontinental Plaza and all the floors corresponding to Dique IV and Isla Sirgadero, among others. All sales of the year led to a combined profit for the us of Ps. 1,101 million, disclosed within the line "Gain from disposal of investment properties" in the Statement of Income.

During the fiscal year ended June 30, 2015, IRSA acquired five plots of farmlands in Luján in the amount of Ps. 210 million and, through IRSA CP, a plot of land in Córdoba in the amount of Ps. 3.1 million, and has sold floors corresponding to Maipú 1300 building, Intercontinental Plaza, Bouchard 551, the entire Madison 183 building and parking spaces in Bouchard 551, Libertador 498 and Maipú 1300. All sales of the year led to a combined profit for us of Ps. 1,150.2 million, disclosed within the line "Gain from disposal of investment properties" in the Statement of Income.

During the fiscal year ended June 30, 2014, IRSA acquired, through IRSA CP, a building next to Alto Palermo Shopping for US\$ 3.8 million and has sold floors corresponding to Maipú 1300 building, Bouchard 551 and the entire buildings Mayo 589, Rivadavia 565, Costeros Dique IV Constitución 1159 and parking spaces in Maipú 1300, Bouchard 551 and Libertador 498 buildings. All sales of the year led to a combined profit for us of Ps. 230.9 million, disclosed within the line "Gain from disposal of investment properties" in the Statement of Income.

#### Changes in non-controlling interest

IRSA

During the fiscal year ended June 30, 2016, we sold a 0.93% interest in IRSA for a total amount of Ps. 86.4 million. This resulted in an increase in non-controlling interests of Ps. 20.6 million and a increase in equity attributable to holders of the parent of Ps. 40.3 million, net of tax effect.

During the fiscal year ended June 30, 2015, we sold a 1.81% interest in IRSA for a total amount of Ps. 181.8 million. This resulted in an increase in non-controlling interests of Ps. 33.7 million and a increase in equity attributable to owners of the parent of Ps. 97.7 million, net of tax effect.





The effects of disposals of the ownership interest of IRSA on the equity attributable to owners of us is summarized as follows:

	June 30, 2016	June 30, 2015
	Ps. Million	Ps. Million
Carrying amount of the non-controlling interests sold by us	(20.6)	(33.7)
Consideration collected	86.4	181.8
Tax effect	(25.5)	(50.4)
Reserve recorded in equity	40.3	97.7

During the fiscal year ended June 30, 2015, we acquired a 0.65% interest in IRSA for a total amount of Ps. 50.7 million. This resulted in a decrease in non-controlling interests of Ps. 12.7 million and an decrease in equity attributable to holders of the parent of Ps. 38 million, net of tax effect.

The effect of acquisition of the ownership interest of IRSA on the equity attributable to owners of us is summarized as follows:

	June 30, 2015
	Ps. Million
Carrying amount of our interest acquired of	12.7
Consideration paid for non-controlling interests	(50.7)
Reserve recorded in equity	(38.0)

On June 10, 2014, the Board of Directors of IRSA resolved to finish the stock repurchase plan that was approved by resolution of the Board on July 25, 2013, and modified by resolutions adopted on September 18, 2013, October 15, 2013 and October 22, 2013. During the term of the Stock Repurchase Plan, IRSA has repurchased 4,904,697 shares for an aggregate amount of Ps. 37,905,631.

#### Dolphin

During year 2015, we through our subsidiaries, contributed an amount of US\$ 146 million in Dolphin. Such amount was also allocated to increase Dolphin's investment in IDBD. This resulted in a decrease in non-controlling interests of Ps. 21 million and an increase in equity attributable to the holders of the parent.

#### Sale of Farmlands

##### Cresca

On April 3, 2014, Cresca S.A. signed a bill of sale whereby it sells an area of 24,624 hectares located in Chaco Paraguay. The total price was US\$ 14.7 million (equivalent to Ps. 116.9 million), which amount shall be collectable as follows: US\$ 1.8 million (equivalent to Ps. 14.3 million) were collected upon the execution of the bill of sale, US\$ 4.3 million (equivalent to Ps. 34.2 million) upon execution of the conveyance deed; US\$ 3.7 million (equivalent to Ps. 33.1 million) interest-free between April and July, 2015; and US\$ 4.9 million (equivalent to Ps. 73.1 million) interest-free were collected in July 2016, thus being cancelled all the mortgage that had been granted in guarantee price balance. Possession was delivered upon execution of the conveyance deed. We have recognized gains of Ps. 19.1

million as result of this transaction.

#### Cremaq

On June 10, 2015, Brasilagro sold the remaining area of 27,745 hectares of Cremaq field, an establishment, located in the municipality of Baixa Grande do Ribeiro (Piauí). The transaction price was fixed at Rs. 270 million (equal to Ps. 694 million), which have already been fully collected, and Rs. 49.7 million (equivalent to Ps. 127.7 million) of which remain under "Restricted Assets" on condition that the public deed for 6,020 be registered and that an agreement for the termination of possessory actions related to a disputed fraction be notarized. We have recognized gains of Ps. 525.9 million as result of this transaction.

#### La Fon Fon II

On October 17, 2013, Yuchán signed a purchase-sale agreement involving a sale subject to retention of title involving 1,643 hectares of "La Fon Fon II" for an overall amount of US\$ 7.21 million (equivalents to Ps. 59 million). As of the balance sheet date, the amount of US\$ 7.1 million (equivalent to Ps. 58.1 million) has been collected, and the remaining balance amounts to US\$ 0.12 million (equivalent to Ps. 0.9 million) that will be cancelled in 2 installments, starting in December this year, and concluding in December 2017. Under the contract, the conveyance will be recorded with the Registry once the price has been fully paid off. On June 24, 2015, possession was granted by Yuchán. During the year 2015 we recognized a profit before tax of US\$ 2.7 million (equivalents to Ps. 24.6 million) as result of this transaction.

#### Araucária

On June 27, 2014, Brasilagro sold a total area of 1,164 hectares of Araucaria farmland.

The sale was priced at Rs. 32.5 million (Ps. 117.5 million). We recorded a profit before tax on the sale of the Araucaria farmland for an amount of Rs. 21.0 million (or Ps. 75.8 million).

#### San Cayetano

On May 27, 2014, Ombú signed a purchase-sale agreement involving a sale subject to retention of title for 883 hectares of "San Cayetano I" establishment for an overall amount of US\$ 4.2 million (equivalents to Ps. 31 million).

On June 20, 2016, an Agreement was signed to modify a Purchase-Sale Private Deed with Reserve of Property Rights where the precise area of the property has been determined to cover 855,3213; the parties have agreed to adjust the sale price of the property by deduction US\$ 0.1 million (equivalent to Ps. 1.4 million) from the total price.

The amount of US\$ 3.2 million (equivalent to Ps. 23.6 million) of the price has already been paid, and the balance will be paid in three installments, with the last installment being due upon execution of the title conveyance deed.

Under the contract, the conveyance shall be recorded once the price has been fully collected off. Possession was granted upon execution of the contract. We recorded a gain of US\$ 1.8 million (Ps.15.6 million) on the sale.



#### Acquisition of additional interest in BHSA

During the year ended June 30, 2015, IRSA acquired 3,289,029 additional shares of for Ps.14.2 million, thereby increasing its equity stake from 29.77% to 29.99%. During the year ended June 30, 2016 IRSA sold 1,115,165 shares of BHSA in a total amount of Ps.7.7 million, thereby decreasing its interest to 29.91%.

#### Disposal of financial assets

During August 2014, IRSA has sold through its subsidiary, Real Estate Investment Group IV, the balance of one million shares in Hersha Hospitality Trust, at an average price of US\$ 6.74 per share.

#### Disposal of Associates

On February 5, 2014, IRSA, through Ritelco, sold its interest in Bitania, representing 49% of its capital stock, for an amount of US\$ 4.2 million. Such transaction generated a net gain of approximately Ps. 13.3 million which are shown in the line "Other operating results, net" in the statement of income.

#### Acquisition of BACS

IRSA through Tyrus, subscribed a purchase-sale agreement of shares of BACS, representing an interest of 6.125%, for US\$ 1.35 million. This operation is yet to be approved by the BCRA as of June 30, 2016, according to regulations in force. The advance payment related to this transaction is disclosed in "Trade and other receivables". On August 24, 2016 the operation was approved by the BCRA.

On June 17, 2015, we through IRSA, subscribed Convertible Notes, issued by BACS with a nominal value of Ps. 100,000,000, which are convertible into common stock.

On June 21, 2016 we notified BACS on our right to convert all of the convertible subordinated corporate notes into common shares.

As a consequence, BACS initiated the relevant diligence before the Argentine Central Bank in order to secure the authorization to issue the shares in our favor.

#### Capital reduction of Rigby

On October 17, 2014, Rigby reduced its capital stock by distributing among existing shareholders, proportionally to their shareholdings, the gain made from the sale of the Madison building. The total amount distributed is US\$ 103.8 million, of which IRSA received US\$ 77.4 million (US\$ 26.5 million through IRSA International and US\$ 50.9 million through IMadison LLC) and US\$ 26.4 million were distributed to other shareholders. As a result of such reduction, IRSA has decided to reverse the corresponding accumulated conversion difference on a pro rata basis, which amounted to Ps. 188.3 million. This reversal has been recognized in the line "Other operating results, net" in the statement of income.

## Capital Expenditures

Our capital expenditures totaled Ps. 2,458<sup>2</sup> million, Ps. 488<sup>3</sup> million and Ps. 436<sup>4</sup> million for the fiscal years ended on June 30, 2016, 2015 and 2014, including other property and equipment acquired in business combinations. Our capital expenditures consisted in the purchase of real estate and farms, acquisition and improvement of productive agricultural assets, completion of building a shopping center, construction of real estate and acquisition of land reserves.

Our capital expenditures for the new fiscal year will depend on the prices of real estate, land for agriculture and cattle as well as the evolution of commodity prices.

### Fiscal Year Ended June 30, 2016

Fiscal Year 2016. During the fiscal year ended June 30, 2016, we invested Ps. 2,369 million, mainly related to: (a) acquisitions and improvements in Property, plant and equipment for Ps. 1,172 million, primarily i) Ps. 378 million in buildings and facilities, mainly in our operation center in Israel's supermarkets, ii) Ps. 310 million in communication networks, and iii) Ps. 291 million in machinery and equipment; (b) improvements in our rental properties for Ps. 260 million, primarily in our operation center in Argentina's shopping centers; and (c) the development of properties for Ps. 919 million, mainly in our operation center in Israel.

In addition, our main investments in the agriculture business during the fiscal year 2015 were Ps. 89 million, mainly due (a) acquisition and development of owner occupied farmland for Ps. 65 million (including Ps. 36 million of subsidiary Brasilagro), (b) Ps. 7 million in machinery and equipment, (c) Ps. 3 million in vehicles, and (d) Ps. 14 million in other building and facilities.

### Fiscal Year Ended June 30, 2015

Fiscal Year 2015. During the fiscal year ended June 30, 2015 we invested Ps. 307 million in the urban properties and investment business, mainly due to (a) improvements in our hotels Sheraton Libertador, Intercontinental and Llao Llao for Ps. 1 million, Ps. 9 million and Ps. 5 million, respectively, (b) acquisition of furniture and fixtures, machinery and equipment, vehicles and other buildings and facilities for Ps. 35 million, (c) improvements made to our shopping centers for Ps. 60 million, (d) development of properties for Ps. 175 million, corresponding Ps. 1 million to "Distrito Arcos" project and Ps. 174 million to Shopping Neuquén project, (e) suppliers advances for investment acquisitions for Ps. 14 million, (f) Ps. 6 million improvements in our Office buildings and other rental properties and (g) Ps. 2 million were related to the acquisition of plots of lands.

In addition, our main investments in the agriculture business during the fiscal year 2015 were Ps. 181 million, mainly due (a) acquisition and development of owner occupied farmland for Ps. 153 million (including Ps. 93 million of subsidiary Brasilagro), (b) Ps. 8 million in investment properties, (c) Ps. 6 million in machinery and equipment, (d) Ps. 5 million in vehicles, (e) Ps. 8 million in other building and facilities and (f) Ps. 1 million in furniture and fixtures.



Fiscal Year Ended June 30, 2014

Fiscal Year 2014. During the fiscal year ended June 30, 2014 we invested Ps. 318 million in the urban properties and investment business, mainly due to (a) improvements in our hotels Sheraton Libertador, Intercontinental and Llao Llao for Ps. 6 million, Ps. 2 million and Ps. 3 million, respectively, (b) acquisition of furniture and fixtures, machinery and equipment, and other buildings and facilities for Ps. 10 million, (c) improvements made to our shopping centers for Ps. 61 million, (d) development of properties for Ps. 180 million, corresponding Ps. 100 million to "Arcos" project and Ps. 80 million to Shopping Neuquén project, (e) suppliers advances for investment acquisitions for Ps. 30 million, (f) Ps. 25 million improvements in our Office buildings and other rental properties and (g) Ps. 1 million were related to the acquisition of plots of lands.

In addition, our main investments in the agriculture business during the fiscal year 2014 were Ps. 118 million, mainly due (a) acquisition and development of owner occupied farmland for Ps. 97 million (including Ps. 58 million of subsidiary Brasilagro), (b) Ps. 7 million in investment properties, (c) Ps. 6 million in machinery and equipment, (d) Ps. 3 million in vehicles, (e) Ps. 3 million in other building and facilities and (f) Ps. 1 million in furniture and fixtures.

#### Recent Developments

##### Cresud's Recent Developments

##### Credit Line with IFISA.

On July 1<sup>o</sup>, 2016, we renewed the credit line with IFISA for up to 3,500,000 ADRs (previously 4,053,942) of our subsidiary IRSA, in which we are the lender and IFISA is the borrower. The term of the transaction was set at 30 days, renewable up to a maximum of 365 calendar days with an annual interest rate of 6%.

##### Selling of "El Invierno" and "La Esperanza" farmlands, city of Rancul, province of La Pampa.

On July 6, 2016, we sold to an unrelated party the "El Invierno" and "La Esperanza" farmlands. The transaction included 2,615 hectares suitable for agricultural activities which are located in "Rancul" province of La Pampa. The total amount of the transaction was set at US\$ 6 million (US\$ / ha 2,294). US\$ 5 million have been paid to date and the remaining balance of US\$ 1 million, secured by a mortgage on the property, in 5 equal, consecutive and annual installments ending in August 2021.

##### Director renouncement

On September 6, 2016, David Alberto Perednik resigned, being its mandate up to June 30, 2016. Its replacement will be appointed in the next shareholder meeting.

##### Subscription of the Prior Commitment of Merger between Cresud and AGRO MANAGERS S.A.

In July 2016, Cresud made a shares purchase offer to the other shareholders of Ps. 5.5 million to acquire their total ownership interest, this offer was accepted. Thus, our direct interest increased to 100%.

On September 16, 2016, a pre-merger agreement was executed, by which all assets, rights and obligations of Agromanagers S.A. are transferred to us.

#### Annual Shareholders' Meeting

Our annual shareholders' meeting will be held on October 31, 2016, in order to consider and approve, among others, the following matters: (i) consideration of documents contemplated in section 234, paragraph 1, of the Argentine Companies Law No. 19,550 for the fiscal year ended June 30, 2016; (ii) Consideration of the result of the fiscal year ended June 30, 2016 which resulted in a loss for the amount of Ps.1,401,856,585; (iii) consideration of Board of Directors' performance; (iv) consideration of Supervisory Committee's performance; (v) consideration of compensation payable to the Board of Directors for Ps.18,985,218 (total compensation) for the fiscal year ended June 30, 2016; (vi) consideration of compensation payable to the Supervisory Committee for the fiscal year ended June 30, 2016; (vii) consideration of the appointment of Regular Directors and Alternate Directors, as applicable; (viii) appointment of Regular and Alternate Members of the Supervisory Committee; (ix) appointment of Certifying Accountant for the next fiscal year and determination of its compensation. Delegation of powers; (x) updating of report on Shared Services Agreement; (xi) treatment of amounts paid as personal assets tax levied on the shareholders; (xii) consideration of the renewal of the delegation to the Board of Directors of the broadest powers to establish the time and currency of issuance, and other terms and conditions of the issuance of notes under the global note program, for up to US\$ 300.000.000 currently in force in accordance with approval of the shareholders' meeting dated October 31, 2012, and November 14, 2014 and its extension for an additional amount of US\$ 200.000.000 in accordance with the approval of the shareholders' meeting dated October 30, 2015; (xiii) consideration of granting indemnities to Messrs. Directors, Syndics and Managers who work or have worked in the Company in a manner subsidiary to D&O policies; (xiv) consideration of special financial merger statement of AGRO MANAGERS S.A.; special separate financial merger statements of Cresud and consolidated financial merger statements of Cresud with AGRO MANAGERS S.A. as of June 30, 2016 as well as the reports of the supervisory committee and the auditor. Consideration of the preliminary merger by absorption with AGRO MANAGERS S.A. and other related documentation. Authorizations and delegations. Appointment of proxy to grant definitive agreements and other formalities; (xv) consideration of the distribution of treasury shares.

#### Repurchased of notes

Since the end of fiscal year 2016 until October 7, 2016, we have repurchased Notes (Class XIV, XVI and XVIII) by operations in the local market with unrelated parties for a total amount of Ps.149,821,406, equivalent to the amount of NV 11,022,123.





## IRSA's Recent Developments

### Operations Center in Argentina

Dolphin Netherlands shares subscription.

On August 10, 2016, through a subsidiary, IRSA subscribed additional shares of Dolphin Netherlands B.V. for a subscription price of US\$ 3.2 million. As of June 30, 2016 IRSA owned 98.6% of Dolphin Netherlands B.V.

### Issuance of Series VII and Series VIII Notes.

On September 8, 2016, IRSA issued the Series VII Notes, for Ps. 384,233,262, bearing an adjustable interest rate of BADLAR + 2.99% and the Series VIII Notes, for US\$ 184,507,138, bearing interest at a fixed rate of 7% per year. Both Series mature on September 9, 2019. The use of proceeds was mainly to repay debt.

### Redemption of Series I Notes.

On September 9, 2016, IRSA announced its intention to redeem all outstanding Series I Notes for a total amount of US\$ 74.55 million. The redemption took place on October 11, 2016, and the redemption price was equal to 100% of the aggregate principal amount of the outstanding Notes plus accrued interest, as a result of the redemption, the outstanding amount of the Notes was cancelled in full.

### Operations Center in Israel

### ChemChina's offer for Adama Agricultural Solutions Ltd.

On July 17, 2016, IRSA's indirect subsidiary DIC, agreed to sell its remaining 40% in Adama to ChemChina for cash consideration of US\$ 230 million and cancellation of a loan due to a Chinese bank. It is expected that the sale transaction be consummated by the first week of November 2016, subject to the fulfillment of certain conditions, including the receipt of Chinese regulatory and antitrust approvals.

### Dismissal of liquidation request of IDBD.

On July 18, 2016, the Tel Aviv District Court dismissed the request for liquidation of IDBD and appointment of interim liquidator put forward by Hermetic Trust (1975) Ltd. on behalf of IDBD's Series 9 bondholders.

### Issuance of Notes by IDBD and DIC.

On August 2, 2016 IDBD issued a new Series of Debentures in the Israeli market for an amount of NIS 325 million due November 2019 at an annual interest rate adjustable by CPI plus 4.25%. The notes are pledged by shares of Clal Insurance Enterprise Holdings Ltd ("Clal"), subject to the approval of the Commissioner of Capital Markets, Insurance

and Savings. IDBD is working to get the authorization to constitute the guarantee through the filing of an application to the Supreme Court asking for such approval. In case IDBD does not get the required approval, funds must be repaid with interest plus a penalty. On September 15, 2016, the High Court of Justice gave a partial judgment and decision, according to which it was decided, to reject the petition for the most part and to grant an order which instructs the Commissioner to appear and show a reason for her opposition to the request of the company to pledge up to 5% of the shares of Clal Holdings, subject to an outline agreed to at the time by the company. Furthermore, the company maintains the right to accede to a proposal for compromise which was raised in the context of the discussion. A hearing date was set for January 2017.

Furthermore, DIC re-opened its issuance of Notes due 2025 for an additional principal amount of NIS 360 million.

#### Notes in IDBD and subsidiaries

In July 2016, Shufersal acquired Notes Series B shares with a Nominal Value of NIS 511 million by way of an additional issue of Notes Series F shares at a ratio of 1.175 for each NIS 1 nominal value of the Series B shares outstanding. The Notes Series B shares acquired by Shufersal were cancelled and delisted.

#### Acquisition of DIC shares from IDBD

On September 23, 2016, we acquired from IDBD 8,888,888 shares of Discount Investment Corporation (“DIC”) (DISI:TASE) for NIS 100 million (approximately US\$ 26.7 million), equivalent to the 8.8% of DIC’s shares outstanding.

## B. BUSINESS OVERVIEW

### General

We are a leading Latin American agricultural company engaged in the production of basic agricultural commodities with a growing presence in the agricultural sector of Brazil, through our investment in Brasilagro, as well as in other Latin American countries. We are currently involved in several farming activities including grains and sugarcane production, cattle raising and milk production. Our business model focuses on the acquisition, development and exploitation of agricultural properties having attractive prospects for agricultural production and/or value appreciation and the selective sale of such properties where appreciation has been realized. In addition, we lease land to third parties and perform agency and agro-industrial services, including a meat packing plant. Our shares are listed on Mercado de Valores de Buenos Aires (“MVBA”) and the NASDAQ.

We are also directly and indirectly engaged in the real estate business through our subsidiary IRSA and its subsidiaries and joint ventures, one of Argentina’s leading real estate companies. IRSA is engaged in the development, acquisition and operation of shopping centers, premium offices, and luxury hotels in Argentina, as well as the sales and development properties. Also, IRSA has international investments, that mainly operate in the United States in relation to the lease of office buildings and hotels in that country, and the investment in IDBD, one of the largest and most diversified investment groups of Israel, which, through its subsidiaries, participates in numerous markets and industry sectors, including real estate, retail, agroindustry, insurance, telecommunications, among others. IRSA’s shares are listed on the MVBA and the NYSE. We own 63.38% of the outstanding common shares of IRSA and a majority of our directors are also directors of IRSA.





During fiscal years ended June 30, 2016, 2015 and 2014, we had consolidated revenues of Ps. 35,384 million, Ps. 5,652 and Ps. 4,604 million, and consolidated net income/(loss) of Ps. 4,166 million, Ps. 1,767 million and Ps. 1,186 million, respectively. During the fiscal years ended June 30, 2015 and June 30, 2016, our total consolidated assets increased 986.7% from Ps. 15,276 million to Ps. 166,001 million, and our consolidated shareholders' equity decreased 290.3% from Ps. 3,903 million to Ps. 15,232 million.

We operate in two businesses areas, namely, "Agricultural" and "Investment and Development Properties" businesses, as further described below.

In fiscal year ended June 30, 2016, the Company has changed the presentation of the agricultural business segments which are reviewed by the CODM for a better alignment with the current business vision and the metrics used to such end. Our Agricultural business is further comprised of three reportable segments:

The "Agricultural production" segment consists of planting, harvesting and sale of crops as wheat, corn, soybeans, cotton and sunflowers; breeding, purchasing and/or fattening of free-range cattle for sale to slaughterhouses and local livestock auction markets; breeding and/or purchasing dairy cows for the production of raw milk for sale to local milk and milk-related products producers; and planting, harvesting and sale of sugarcane. The new segment "agricultural production" aggregate the old segments crops, cattle, dairy and sugarcane:

Our "Crops" segment consists of planting, harvesting and sale of crops as wheat, corn, soybeans, cotton, and sunflowers. The Company is focused on the long-term performance of the land and seeks to maximize the use of the land through crop rotation; the use of technology and techniques. In this way, the type and quantity of harvested crops change in each agricultural campaign. Our Crops Segment had assets of Ps. 2,775 million and Ps. 1,913 million as of June 30, 2016 and 2015, respectively, representing 60% and 58% of our agricultural business assets at such dates, respectively. Our Crops segment generated operating income of Ps. 154 million, operating loss of Ps. 277 million and Ps. 140 million for fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing 53%, (90%) and 368%, of our consolidated operating income/loss from Agricultural Business for such years, respectively.

Our "Cattle" segment consists of breeding, purchasing and/or fattening of free-range cattle for sale to meat processors and local livestock auction markets. Our Cattle segment had assets of Ps. 815 million and Ps. 606 million as of June 30, 2016 and 2015, respectively, representing 18% and 18% of our agricultural business assets at such dates, respectively. Our Cattle segment generated operating income of Ps. 103 million, Ps. 36 million and Ps. 31 million for fiscal years ended June 30, 2016, 2015 and 2014 respectively, representing 35%, 12% and (82%), of our consolidated operating income from Agricultural Business for such years, respectively.

Our "Dairy" segment consists of breeding and/or purchasing dairy cows for the production of raw milk for sale to local milk and milk-related products producers. Our Dairy segment had assets of Ps. 77 million and Ps. 65 million as of June 30, 2016 and 2015, respectively, representing 2% and 2% of our agricultural business assets at such dates, respectively. Our Dairy segment generated operating loss of Ps. 8 million for fiscal year ended June 30, 2016, representing (3%), of our consolidated operating income from Agricultural Business for such years, respectively and operating income of Ps. 4 million and Ps. 5 million for fiscal year ended June 30, 2015 and 2014, representing 1% and (13%), of our consolidated operating income from Agricultural Business for such year.

Our "Sugarcane" segment consists of planting, harvesting and sale of sugarcane. Our Sugarcane segment had assets of Ps. 713 million and Ps. 410 million as of June 30, 2016 and 2015, respectively, representing 13% and 12% of our agricultural business assets at such dates, respectively. Our Sugarcane segment generated operating income of Ps. 63 million for the fiscal year ended June 30, 2016, representing 22% of our consolidated operating income from Agricultural Business for such year and operating loss of Ps. 13 million and Ps. 23 million for fiscal years ended June 30, 2015 and 2014, respectively, representing (4%) and 61%, of our consolidated operating income from Agricultural

Business for such years.

Our “Land Transformation and Sales” segment comprises gains from the disposal and development of farmlands activities. Our Land Transformation and Sales segment had assets of Ps. 13 million and Ps. 13 million as of June 30, 2016 and 2015, respectively, representing 0% and 0% of our agricultural business assets at such dates, respectively. Our Land Transformation and Sales segment generated operating loss of Ps. 12 million for fiscal year ended June 30, 2016, representing (4%) of our consolidated operating income from Agricultural Business for such year, respectively, and operating income of Ps. 552 million and Ps. 78 million for fiscal years ended June 30, 2015 and 2014, representing 180% and (205%), of our consolidated operating income from Agricultural Business for such years, respectively.

The "Other segments" segment includes, principally, agricultural services (for example, irrigation); leasing of the Company's farms to third parties; feedlot farming, slaughtering and processing in the meat refrigeration plant; and brokerage activities, among others. The new segment “Other segments” aggregate the old segments Agricultural Rentals and Services, Agro-industrial and Others:

Our “Agricultural Rentals and Services” segment consists of services (for example: irrigation) and leasing of the Company’s farms to third parties. Our Agricultural Rentals and Services Segment had assets of Ps. 22 million and Ps. 118 million as of June 30, 2016 and 2015, respectively, representing 0% and 4% of our agricultural business assets at such dates, respectively. Our Agricultural Rentals and Services segment generated operating income of Ps. 53 million, Ps. 37 million and Ps. 7 million for fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing 18%, 12% and (18%) of our consolidated operating income from Agricultural Business for such years.

Our “Agro-industrial” segment consists of feedlot farming and the slaughtering and processing in the meat refrigerating plant. Feedlot farming is distinctive and requires specific care and diets which differ from those provided to free-range cattle. This activity represents a separate operating segment due to the distinctive characteristics of the cattle feedlot system and the industrialized meat processing in the packing plant. Our Agro-industrial segment had assets of Ps. 71 million and Ps. 42 million as of June 30, 2016 and 2015, respectively, representing 2% and 1% of our agricultural business assets at such dates, respectively. Our Agro-Industrial segment generated operating income of Ps. 1 million for the fiscal year ended June 30, 2014, representing (3%) of our consolidated operating income from Agricultural Business for such year, and operating loss of Ps. 63 million and Ps. 35 million for the fiscal years ended June 30, 2016 and 2015, respectively, representing (22%) and (11%), of our consolidated operating income from Agricultural Business for such years, respectively.

Our “Others” segment consists of the aggregation of the remaining operating segments, which do not meet the quantitative thresholds for disclosure. This segment includes the brokerage and sale of inputs activities. Our Others segment had assets of Ps. 129 million and Ps. 114 million as of June 30, 2016 and 2015, respectively, representing 3% and 3% of our agricultural business assets at such dates, respectively. Our Others segment generated operating income of Ps. 2 million, Ps. 3 million and Ps. 3 million for fiscal years ended June 30, 2016, 2015 and 2014, representing 1%, 1% and (8%) of our consolidated operating income for such years, respectively.

Our Agricultural business is further comprised of eight reportable segments:

Our “Agricultural production” segment consists of planting, harvesting and sale of crops as wheat, corn, soybeans, cotton and sunflowers; breeding, purchasing and/or fattening of free-range cattle for sale to slaughterhouses and local livestock auction markets; breeding and/or purchasing dairy cows for the production of raw milk for sale to local milk and milk-related products producers; and planting, harvesting and sale of sugarcane. Our Agricultural production segment had assets of Ps. 4,380 million and Ps. 2,994 million as of June 30, 2016 and 2015, respectively, representing 95% and 91% of our agricultural business assets at such dates, respectively. Our Agricultural production segment generated operating income of Ps. 312 million, operating loss of Ps. 250 million and operating loss Ps. 127 million for

fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing 107%, (4%) and (3%), of our consolidated operating income/loss from Agricultural Business for such years, respectively.

Our “Land Transformation and Sales” segment comprises gains from the disposal and development of farmlands activities. Our Land Transformation and Sales segment had assets of Ps. 13 million and Ps. 13 million as of June 30, 2016 and 2015, respectively, representing 0% and 0% of our agricultural business assets at such dates, respectively. Our Land Transformation and Sales segment generated operating loss of Ps. 12 million for fiscal year ended June 30, 2016, representing (4%) of our consolidated operating income from Agricultural Business for such year, respectively, and operating income of Ps. 552 million and Ps. 78 million for fiscal years ended June 30, 2015 and 2014, representing 180% and (205%), of our consolidated operating income from Agricultural Business for such years, respectively.

Our “Others” segment consists of the aggregation of the remaining operating segments, which do not meet the quantitative thresholds for disclosure. This segment includes the brokerage and sale of inputs activities. Our Others segment had assets of Ps. 222 million and Ps. 274 million as of June 30, 2016 and 2015, respectively, representing 5% and 8% of our agricultural business assets at such dates, respectively. Our Others segment generated operating loss of Ps. 8 million, operating income Ps. 5 million and operating income Ps. 11 million for fiscal years ended June 30, 2016, 2015 and 2014, representing (3%), 2% and (29%) of our consolidated operating income from Agricultural Business for such years, respectively.

We have decided to break down reporting of our Urban properties and investment business into an Operation Center in Argentina and an Operation Center in Israel. From the Operation Center in Argentina, the Company, through IRSA and its subsidiaries, manages the businesses in Argentina and the international investments in the Lipstick Building in New York and the Condor hotel REIT. From the Operation Center in Israel, the Company manages IDBD.

#### Operations Center in Argentina

We operate our business in Argentina through six reportable segments, namely “Shopping Centers”, “Offices and Others”, “Sales and Developments”, “Hotels”, “International” and “Financial Operations and Others” as further described below:

Our “Shopping Centers” segment includes the operating results from our portfolio of shopping centers principally comprised of lease and service revenue from tenants. Our Shopping Centers segment had assets of Ps. 2,365 million and Ps. 2,400 million as of June 30, 2016 and 2015, respectively, representing 47.8% and 37.5% of our investment and development properties business assets for the Operations Center in Argentina at such dates, respectively. Our Shopping Centers segment generated operating income of Ps. 1,637 million, Ps. 1,190 million and Ps. 864 million, for fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing 60.3%, 47.2% and 69.7%, of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

Our “Offices and Others” segment includes the operating results of our lease and service revenues of office space and other non-retail building properties principally comprised of lease and service revenue from tenants. Our Offices and Others segment had assets of Ps. 941 million and Ps. 1,036 million as of June 30, 2016 and 2015, respectively, representing 19.0% and 16.2% of our investment and development properties business assets for the Operations Center in Argentina at such dates, respectively. Our Offices and Others segment generated operating income of Ps. 219 million, Ps. 99 million and Ps. 160 million, for fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing 8.1%, 3.9% and 12.9%, of our consolidated operating income for the Operations Center in Argentina for such years, respectively.



Our “Sales and Developments” segment includes the operating results of our acquisition and/or construction of housing and other properties for sale in the ordinary course of business. Our Sales and Developments segment had assets of Ps. 585 million and Ps. 466 million as of June 30, 2016 and 2015, respectively, representing 11.8% and 7.3% of our investment and development properties business assets for the Operations Center in Argentina at such dates, respectively. Our Sales and Developments segment generated operating income of Ps. 864 million, Ps. 1,099 million and Ps. 239 million, for fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing 31.8%, 43.6% and 19.3%, of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

Our “Hotels” segment includes the operating results of our hotels mainly comprised of room, catering and restaurant revenues. Our Hotels segment had assets of Ps. 174 million and Ps. 182 million as of June 30, 2016 and 2015, respectively, representing 3.5% and 2.8% of our investment and development properties business assets for the Operations Center in Argentina at such dates, respectively. Our Hotels segment generated, operating losses of Ps. 2 million and Ps. 13 million, and operating income of Ps. 10 million, for fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing (0.1%), (0.5%) and 0.8%, of our consolidated operating income for the Operations Center in Argentina for such years.

Our “International” segment includes investments that mainly operate in the United States in relation to the lease of office buildings and hotels in that country, and the results arising from investment in IDBD at fair value. We intend to continue evaluating investment opportunities outside Argentina as long as they offer attractive investment and development options. Our International segment generated operating losses of Ps. 2 million and operating income of Ps. 148 million, and operating losses of Ps. 30 million, for fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing (0.1%), 5.9% and (2.4%), of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

Our “Financial Operations and Others” segment includes principally the income or loss generated by our associates Banco Hipotecario, BACS and Tarshop, and the residual financial operations of Metroshop carried on through Apsamedia. During fiscal year 2015, we decreased equity interest in Banco Hipotecario from 29.99% to 29.91%, held in the form of Class D shares, which are currently entitled to three votes per share. As of June 30, 2016, our investment in Banco Hipotecario generated income for Ps. 257 million. Tarshop’s operations consist primarily of lending and servicing activities related to the credit card offered to consumers at retail venues. Our Financial Operations and Others segment had assets of Ps. 1,709 million and Ps. 1,411 million as of June 30, 2016 and 2015, respectively, representing 34.6% and 22.0% of our investment and development properties business assets for the Operations Center in Argentina at such dates, respectively. Our Financial Operations and Others segment generated operating losses for Ps. 1 million, Ps. 3 million and Ps. 3 million, for fiscal years ended June 30, 2016, 2015 and 2014, respectively, representing 0.0%, (0.1%) and (0.2%) of our consolidated operating income for the Operations Center in Argentina for such years.



## Operations Center in Israel

We operate our business in Israel through six reportable segments, namely “Real Estate”, “Supermarkets”, “Agrochemicals”, “Telecommunications”, “Insurances” and “Others” as further described below:

Our “Real Estate” segment includes mainly assets and operating income derived from business related to the subsidiary PBC. Through PBC, the Company operates rental properties and residential properties in Israel, United States and other parts of the world and carries out commercial projects in Las Vegas. Our Real Estate segment had net assets of Ps. 10,745 million as of June 30, 2016, representing 76.1% of our operating assets for the Operations Center in Israel at such date. Our Real Estate segment generated operating income of Ps. 617 million for fiscal year ended June 30, 2016, representing 85.7%, of our consolidated operating income for the Operations Center in Israel for such year.

Our “Supermarkets” segment includes assets and operating income derived from the business related to the subsidiary Shufersal. Through Shufersal, the Company mainly operates a supermarket chain in Israel. Our Supermarkets segment had net assets of Ps. 5,826 million as of June 30, 2016, representing 41.2% of our operating assets for the Operations Center in Israel at such date. Our Supermarkets segment generated operating income of Ps. 424 million for fiscal year ended June 30, 2016, representing 58.9%, of our consolidated operating income for the Operations Center in Israel for such year.

Our “Agrochemicals” segment includes income derived from the associate Adama. Adama is a company specialized in agrochemicals, particularly for the production of crops.. Our Agrochemicals segment generated operating income of Ps. 0 million for fiscal year ended June 30, 2016, for the Operations Center in Israel.

Our “Telecommunications” segment includes assets and operating income derived from the business related to the subsidiary Cellcom. Cellcom is a provider of telecommunication services and its main activities include the provision of mobile phone services, fixed line phone services, data and Internet, among others. Our Telecommunications segment had net assets of Ps. 5,688 million as of June 30, 2016, representing 40.3% of our operating assets for the Operations Center in Israel at such date. Our Telecommunications segment generated operating losses of Ps. 71 million for fiscal year ended June 30, 2016, representing (9.9%), of our consolidated operating income for the Operations Center in Israel for such year.

Our “Insurance” segment includes the investment in Clal. This company is one of the most important insurance groups in Israel, and is mainly engaged in pension and social security insurance, among others. As indicated in Note 16 of the Financial Statements, 51% of the controlling shares of Clal are held in a trust following the instructions of the Israel Securities Commission in order to comply with the sale of the controlling shares of Clal; as a result, Clal is not fully consolidated on a line-by-line basis but rather in a single line as a financial instrument at fair value, as required by the IFRS under the current circumstances where no control is exercised. Our Insurance segment had assets of Ps. 4,602 million as of June 30, 2016, representing 32.6% of our operating assets for the Operations Center in Israel at such date. Our Insurance segment generated operating income of Ps. 0 million for fiscal year ended June 30, 2016, for the Operations Center in Israel.

Our “Others” segment includes the assets and income derived from other diverse business activities, such as technological developments, tourism, oil and gas assets, electronics, and others. Our Others segment had negative net

assets of Ps. 12,737 million as of June 30, 2016, representing (90.2%) of our operating assets for the Operations Center in Israel at such date. Our Others segment generated operating losses of Ps. 250 million for fiscal year ended June 30, 2016, representing (34.7%), of our consolidated operating income for the Operations Center in Israel for such year.

### Agricultural Business

As of June 30, 2016, we owned 27 farms with approximately 622,217 hectares distributed in Argentina, Brazil, Bolivia and Paraguay. Approximately 96,710 hectares of the land we own are used for crop production, approximately 71,937 hectares are for Cattle production, 85,000 hectares are for sheep production, 2,231 hectares are for milk production and approximately 2,435 hectares are leased to third parties for crop and cattle beef production. The remaining 363,904 hectares of land reserves are primarily natural woodlands. In addition, we have the rights to hold approximately 132,000 hectares of land under concession for a 35-year period that can be extended for another 29 years. Out of this total, we have developed 23,196 hectares for crop production. Also, during fiscal year 2016 ended on June 30, 2016, we leased 41,966 hectares to third parties for crop production and 13,455 hectares for Cattle production

The following table sets forth, at the dates indicated, the amount of land used for each production activity (including owned and leased land, and land under concession):

	2016(1)	2015(1)(6)	2014(1)(6)	2013(1)(6)	2012(1)(6)
Crops (2)	178,617	187,438	201,648	182,513	181,079
Cattle (3)	85,392	88,643	95,160	91,053	95,995
Milk/Dairy	2,231	2,864	2,864	2,780	3,022
Sheep	85,000	85,000	85,000	85,000	85,000
Land Reserves (4)	473,290	467,568	467,532	461,729	459,979
Own farmlands leased to third parties	2,435	10,026	13,111	31,593	25,538
Total (5)	826,965	841,539	865,315	854,668	850,613

(1)

Includes 35.72% of approximately 8,299 hectares owned by Agro-Uranga S.A., an affiliated Argentine company in which we own a non-controlling 35.72% interest.

(2)

Includes wheat, corn, sunflower, soybean, sorghum and others, including double crop production.

(3)

Breeding and fattening.

(4)

We use part of our land reserves to produce charcoal, rods and fence posts.

(5)

It includes Brasilagro and our interest in CRESCA at 50%.

(6)

Includes farms owned by Brasilagro and CRESUD sold in 2014 and 2015.



## Strategy

We seek to maximize our return on assets and overall profitability by (i) identifying, acquiring and operating agricultural properties having attractive prospects for increased agricultural production and/or medium or long-term value appreciation and selectively disposing of properties as appreciation is realized, (ii) optimizing the yields and productivity of our agricultural properties through the implementation of state-of-the-art technologies and agricultural techniques and (iii) preserving the value of our significant long-term investment in the urban real estate sector through our subsidiary IRSA.

To such end, we seek to:

### Focus on maximizing the value of our agricultural real estate assets

We conduct our agricultural activities with a focus on maximizing the value of our agricultural real estate assets. We rotate our portfolio of properties from time to time by purchasing properties which we believe have a high potential for appreciation and selling them selectively as opportunities arise to realize attractive capital gains. We achieve this by relying on the following principles:

Acquiring under-utilized properties and enhancing their land use: We seek to purchase under-utilized properties at attractive prices and develop them to achieve more productive uses. We seek to do so by (i) transforming non-productive land into cattle feeding land, (ii) transforming cattle feeding land into land suitable for more productive agricultural uses, (iii) enhancing the value of agricultural lands by changing their use to more profitable agricultural activities; and (iv) reaching the final stage of the real estate development cycle by transforming rural properties into urban areas as the boundaries of urban development continue to extend into rural areas. To do so, we generally focus on acquisitions of properties outside of highly developed agricultural regions and/or properties whose value we believe is likely to be enhanced by proximity to existing or expected infrastructure.

Applying modern technologies to enhance operating yields and property values. We believe that an opportunity exists to improve the productivity and long-term value of inexpensive and/or underdeveloped land by investing in modern technologies such as genetically modified and high yield seeds, direct sowing techniques, and machinery. We optimize crop yield through land rotation, irrigation and the use of fertilizers and agrochemicals. To enhance our cattle production, we use genetic technology and have a strict animal health plan controlled periodically through traceability systems. In addition, we have introduced state-of-the-art milking technologies in our dairy business. Anticipating market trends. We seek to anticipate market trends in the agribusiness sector by (i) identifying opportunities generated by economic development at local, regional and worldwide levels, (ii) detecting medium- and long-term increases or decreases in supply and demand caused by changes in the world's food consumption patterns and (iii) using land for the production of food and energy.

International expansion. We believe that an attractive opportunity exists to acquire and develop agricultural properties outside Argentina, and our objective is to replicate our business model in other countries. Although most of our properties are located in different areas of Argentina, we have begun a process of expansion into other Latin American countries, including Brazil, Bolivia, and Paraguay.

### Increase and optimize production yields

We seek to increase and improve our production yields through the following initiatives:

Implementation of technology.

-

To improve crop production, we use state-of-the-art technology. We invest in machinery and the implementation of agricultural techniques such as direct sowing. In addition, we use high-potential seeds (GMOs) and fertilizers and we apply advanced land rotation techniques. In addition, we consider installing irrigation equipment in some of our farms.

To increase cattle production we use advanced breeding techniques and technologies related to animal health. Moreover, we optimize the use of pastures and we make investments in infrastructure, including installation of watering troughs and electrical fencing. In addition, we have one of the few vertically integrated cattle processing operations in Argentina through Sociedad Anónima Carnes Pampeanas S.A.

In our milking facility, we have implemented an individual animal identification system, using plastic tags for our cattle and “RFID” tags. We use software from Westfalia Co. which enables us to store individual information about each of our dairy cows.

Increased production.

Our goal is to increase our crop, cattle and milk production in order to achieve economies of scale by:

Increasing our owned land in various regions by taking advantage of attractive land purchase opportunities. In addition, we expand our production areas by developing lands in regions where agricultural and livestock production is not developed to its full potential. We believe in the use of technological tools for improving the productivity of our land reserves and enhancing their long-term value. However, current or future environmental regulations could prevent us from fully developing our lands by demanding us to maintain part of them as natural woodlands not allocated to production.

Diversifying our production and the weather risk by leasing farms, thus expanding our product portfolio and optimizing our geographic focus, in particular in areas that are not appealing in terms of land value appreciation but with attractive productivity levels. We believe that this diversification mix mitigates our exposure to seasonality, commodity price fluctuations, weather conditions and other factors affecting the agricultural and livestock sector.

Moreover, we believe that continuing to expand our agricultural operations outside of Argentina will help us improve even more our ability to produce new agricultural products, further diversifying our mix of products, and mitigating our exposure to regional weather conditions and country-specific risks.





## Focus on preserving long-term value of our investment in our real estate subsidiary IRSA

As a leading company engaged in acquiring, developing and managing real estate, IRSA seeks to (i) generate stable cash flows through the operation of its real estate rental assets (shopping centers, office buildings, hotels), (ii) achieve long-term appreciation of its asset portfolio by taking advantage of development opportunities, (iii) increase the productivity of its land reserves and enhance the margins of its development and sale of properties segment through partnerships with other developers, and (iv) look for opportunities abroad offering capital gain potential.

## Operations Center in Argentina

**Shopping Center.** Our main purpose is to maximize our shareholders' profitability. By using our know-how in the shopping center industry in Argentina as well as our leading position, we seek to generate a sustainable growth of cash flow and to increase the long-term value of our real estate assets. We attempt to take advantage of the unsatisfied supply in different urban areas of the region, as well as of our customers' purchase experience. Therefore, we seek to develop new shopping centers in urban areas with attractive prospects for growth, including Buenos Aires' Metropolitan area, some cities in the provinces of Argentina and possibly, other places abroad. To achieve this strategy, the close business relationship we have had for years with more than 1,000 retail companies and trademarks composing our selected group of tenants is of utmost importance, as it allows us to offer an adequate mix of tenants for each particular case.

**Offices and Others.** We seek to purchase and develop premium office buildings in strategically-located business districts in the City of Buenos Aires and other strategic locations that we believe offer return and potential for long-term capital gain. We expect to continue our focus on attracting premium corporate tenants to our office buildings. Furthermore, we intend to consider new opportunities on a selective basis to acquire or construct new rental office buildings.

**Sales and Developments.** We seek to purchase undeveloped properties in densely-populated areas and build apartment complexes offering green space for recreational activities. We also seek to develop residential communities by acquiring undeveloped properties with convenient access to the City of Buenos Aires, developing roads and other basic infrastructure such as electric power and water, and then selling lots for the construction of residential units. The scarcity of mortgage financing restricted the growth in low class home purchases and, as a result, we mainly focused on the development of residential communities for middle and high-income individuals, who do not need to finance their home purchases. We seek to continue to acquire undeveloped land at locations we consider attractive within and outside Buenos Aires. In each case, our intention is to purchase land with significant development or appreciation potential to resell. We believe that holding a portfolio of desirable undeveloped plots of land enhances our ability to make strategic long-term investments and affords us a valuable pipeline of new development projects for upcoming years.

**Hotels.** We believe our portfolio of three luxury hotels is positioned to take advantage of the future growth in tourism and business travel in Argentina. We seek to continue with our strategy to invest in high-quality properties that are operated by leading international hotel companies to capitalize on their operating experience and international reputation. We also seek to continue to invest in improvements for our hotels.

**International.** In this segment, we seek investments that represent an opportunity of capital appreciation potential in the long term. After the international financial crisis in 2008, we took advantage of the price opportunity in the real estate sector in the United States and invested in two office buildings in Manhattan, New York. In 2015, we sold the Madison building and we hold a 49.9% interest in a US company, whose main asset is the so-called "Lipstick" office building located in the City of New York. In addition, jointly with subsidiaries, we hold 49.0% of the voting securities of Condor Hospitality Trust REIT (NASDAQ: CDOR). We intend to continue evaluating -on a selective basis- investment opportunities outside Argentina as long as they offer attractive investment and development options.

Financial Operations and Other. Through our investment in Banco Hipotecario, the main mortgage-lending bank in Argentina, we believe that we are able to achieve good synergies in the long term with a developed mortgage market.

#### Operations Center in Israel

We hold, through Dolphin, 68.3% of IDBD, which is one of the largest and most diversified investment groups in Israel, which participates, through its subsidiaries, associates and joint ventures, in numerous markets and industry sectors, including real estate, retail, agricultural industry, insurance, telecommunications, among others. We seek to continue to reduce IDBD's indebtedness level, simplifying its capital structure and nurturing a strategy in each business unit aimed at improving operating margins and the results of our investment.

Real Estate. PBC has partnered with IDBD in two projects based in Las Vegas, through IDBG Ltd., including commercial and office building project (Tivoli). The first stage of this project has been fully completed. The second stage of the project is undergoing the building and marketing stages, and will include commercial areas with a surface area of approximately 16,000 square meters and office areas with a surface area of approximately 12,000 square meters. We have already entered into lease agreements with an anchor tenant and other tenants covering approximately 66% of the commercial area included in the second stage of the project and around 8% of the office areas. We also expect to develop an additional project encompassing two residential buildings and, during the year under review, have sold all the remaining residential units of these buildings.

Supermarkets. Shufersal continued developing its business plan, with a focus on building a commercial and operating infrastructure to enable growth in the coming years; strengthening its competitive edge; offering more value to customers; and improving its service. Under its business plan, Shufersal continues expanding and strengthening its brand; boosting the development of its digital platforms, with "Shufersal Online" at the core; fostering new and supplementary operations in the sectors in which it currently operates; and streamlining its real property, including the closure and downsizing of existing branches and the opening of new ones.

Agrochemicals. As a part of Adama's long-term strategy, in December 2015, Adama entered into a commercial cooperation agreement, according to which Adama will gradually become the sole distributor of formulated agrochemical products in China of several agrochemical companies controlled by China National Chemical Corporation ("ChemChina"). This cooperation is expected to support the strengthening of Adama's status in the Chinese market, by combining sales of Adama's products with products of ChemChina's companies and setting up a significant distribution platform in China, starting at the beginning of 2016. On July 17, 2016, DIC, reported that it had accepted ChemChina's offer for 40% of Adama Agricultural Solutions Ltd.'s shares, indirectly controlled by IDBD through DIC. For more information see "Recent Developments".

Telecommunications. Cellcom operates in a highly competitive environment. The main elements of Cellcom's business strategy are: offering comprehensive solutions to expand landline and mobile communication services, optimization of costs and expenses, including by means of carrying out streamlining measures.