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

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

For the fiscal year ended: June 30, 2004

OR

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

For the transition period from __________to__________

Commission file number: 1-13542

IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANÓNIMA

(Exact name of Registrant as specified in its charter)

IRSA INVESTMENTS AND REPRESENTATIONS INC.

(Translation of Registrant s name into English)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Bolívar 108

(C1066AAB) Buenos Aires

Argentina

(Address of principal executive offices)

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
Global Depositary Shares, each representing ten shares of Common Stock	**New York Stock Exchange**
Common Stock, par value one Peso per share	**New York Stock Exchange***

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* Not for trading, but only in connection with the registration of Global 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, 2004 was 248,802,993

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 x No ¨

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 ¨ Item 18 x

Table of Contents

IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANÓNIMA

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This annual report contains or incorporates by reference statements that constitute forward-looking statements, regarding the intent, belief or current expectations of our directors and officers with respect to our future operating performance. Such statements include any forecasts, projections and descriptions of anticipated cost savings or other synergies. Words such as anticipate , expect , intend , plan , believe , seek , variations of such words, and similar expressions are intended to identify such forward-looking statements. You should be aware that any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties, and that actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, without limitations, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates, and operating and financial risks related to managing growth and integrating acquired businesses), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.

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

- changes in general economic, business or political or other conditions in Argentina or changes in general economic or business conditions in Latin America;
- changes in capital markets in general that may affect policies or attitudes toward lending to Argentina or Argentine companies;
- changes in exchange rates or regulations applicable to currency exchanges or transfers;
- unexpected developments in certain existing litigation;
- increased costs;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and
- the factors discussed under Risk Factors beginning on page 14.

You should not place undue reliance on such statements, which speak only as of the date that they were made. Our independent public accountants have not examined or compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we might issue in the future. We do not undertake any obligation to release publicly any revisions to such forward-looking statements after filing of this Form to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

CERTAIN MEASUREMENTS AND TERMS

As used throughout this annual report, the terms IRSA, the Company, we, us, and our refer to IRSA Inversiones y Representaciones Socieda Anónima, together with our consolidated subsidiaries, except where we make clear that such terms refer only to the parent company.

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

Table of Contents

As used herein:

GLA or gross leasable area , in the case of offices and other rental properties, refers to the total leasable area of the units in each property in which we own an interest, irrespective of our ownership interest in such units and excluding common and parking areas;

GLA or gross leasable area , in the case of shopping centers, refers to the total leasable area of the property, irrespective of our ownership interest in such property (excluding common areas and parking);

net leasable area , refers to the gross leasable area of the units in each property in which we own an interest, adjusted to give effect to our ownership interest in such units;

GSA or gross salable area , in the case of development properties refers to the total area of the units or undeveloped land in each property in which we own an interest, held for sale upon completion of development and prior to the sale of any units, irrespective of our ownership interest in such property (including parking areas and storage facilities but excluding common areas);

GSA or gross salable area , in the case of undeveloped parcels of land, refers to the total area of undeveloped property, irrespective of our ownership interest in such property (including parking areas and storage facilities but excluding common areas);

net salable area , in the case of development properties, refers to the total area of the units or undeveloped land in each property in which we own an interest held for sale upon completion of development and prior to the sale of any units; and

net salable area , in the case of undeveloped parcels of land, refers to total area of undeveloped property, adjusted to give effect to our ownership interest and includes parking areas and storage facilities but excludes common areas.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

In this annual report, references to US$ and U.S. Dollars are to United States Dollars, and references to Ps. , Peso or Pesos are to Argentine Pesos.

This annual report contains our audited consolidated financial statements as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002 (Consolidated Financial Statements). Our Consolidated Financial Statements have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. The independent auditors report on our Consolidated Financial Statements includes an explanatory paragraph describing uncertainties which might affect the value of our equity investment in Banco Hipotecario S.A. (BHSA). As of June 30, 2004, our equity investment in BHSA accounts for approximately 7% of our total consolidated assets. See Risk Factors Our investment in BHSA subjects us to risks affecting the banking sector .

Except as discussed in the following paragraph, we prepare our Consolidated Financial Statements in thousand of Pesos and in accordance with Argentine GAAP and the regulations of the *Comisión Nacional de Valores* (CNV), which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the financial statements, as well as additional disclosures required by U.S. GAAP and regulations of the SEC. See Note 20 to our Consolidated Financial Statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to us, and reconciliation to U.S. GAAP of net income (loss) and shareholders equity.

As discussed in Note 3.n to our Consolidated Financial Statements, contained elsewhere in this annual report, in order to comply with regulations of the CNV, we recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represents a departure from generally

5

Table of Contents

accepted accounting principles in Argentina. However, such departure has not had a material effect on our Consolidated Financial Statements.

Additionally, as discussed in Notes 2.c. to our Consolidated Financial Statements, contained elsewhere in this annual report, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV *to* issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were restated until that date, using a conversion factor of 1.1237.

Since Argentine GAAP required companies to discontinue inflation accounting as from October 1, 2003, the application of the CNV resolution represents a departure from generally accepted accounting principles in Argentina. However, due to the low level of inflation rates during the period from March to September 2003, such a departure has not had a material effect on our Consolidated Financial Statements.

As a result of this matter, our Consolidated Financial Statements were prepared on the basis of general price-level accounting which reflects changes in the purchasing power of the Peso until February 28, 2003 in our historical financial statements using changes in the Argentine wholesale price index, as published by the *Instituto Nacional de Estadística y Censos,* as follows:

- we adjusted non-monetary items and consolidated statements of income amounts to reflect the then current general purchasing power;
- we did not adjust monetary items as such items were, by their nature, stated in terms of current general purchasing power in our Consolidated Financial Statements;
- we recognized monetary gains or losses in our consolidated statements of income, reflecting the effect of holding monetary items, and
- we included the gain or loss on exposure to inflation (monetary gain or loss) in our consolidated statements of income within financing results.

Also contained in this annual report are the consolidated financial statements of BHSA as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002, which also have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. As a result of the purchase of additional shares and the exercise of warrants of BHSA, effective June 30, 2004 we changed the method of accounting for our investment in BHSA from market value to the equity method of accounting. We recognized the cumulative effect of the change in earnings during the year ended June 30, 2004. The independent auditors report on the consolidated financial statements of BHSA includes an explanatory paragraph describing that the quality of BHSA s financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina. The political and economic crisis of late 2001 and early 2002 and the Argentine Government s actions to address such crisis have had a significant adverse effect on BHSA´s business activity. Currently, BHSA is significantly dependent on the Argentine Government s ability to perform on its obligations to BHSA and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and on its obligation to approve and deliver government securities under various laws and regulations.

As a result of the increase in the ownership interest and the consolidation of our subsidiary Alto Palermo S.A. (APSA), during 2003 we discontinued the application of the proportional consolidation method that was used for reporting results of our jointly controlled subsidiaries in prior years. Therefore, when issuing our 2003 financial statements, we restated our prior year financial statements and related data to reflect such investments under the equity method of accounting.

Table of Contents

Also contained in this annual report are the consolidated financial statements of APSA as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002, which have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. Our investment in APSA has been consolidated since fiscal year 2003. In prior years, APSA was an unconsolidated equity investee of the Company. As of June 30, 2004, 2003 and 2002 we owned 53.81%, 54.79% and 49.69% of APSA, respectively.

Except as discussed in the following paragraph, APSA prepares its financial statements in accordance with Argentine GAAP under regulations of the CNV, which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and regulations of the SEC. See Note 16 to APSA s Consolidated Financial Statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to APSA, and a reconciliation to U.S. GAAP of net income (loss) and shareholders equity.

As discussed in Notes 2.a. to APSA´s Consolidated Financial Statements, contained elsewhere in this annual report, in order to comply with regulations of the CNV, APSA discontinued inflation accounting as of March 1, 2003 as well as recognized deferred tax assets and liabilities on a non-discounted basis. These accounting practices represent a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on its consolidated financial statements.

During the year ended June 30, 2004 we adopted Technical Resolution No. 21 and, as a result, we began consolidating Llao Llao Resort S.A.. As required by the transition provisions of this standard, we restated our prior year´s consolidated financial statements and related data to reflect such investment on a consolidated basis.

Certain amounts which appear in this annual report (including percentage amounts) may not sum due to rounding. You should not construe the translations as a representation that the amounts shown could have been, or could be, converted into U.S. Dollars at that or any other rate.

References to fiscal years 2000, 2001, 2002, 2003 and 2004 are to the fiscal years ended June 30 of each such year.

MARKET DATA

Market data used throughout this annual report were 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 appear herein (including percentage amounts) may not sum due to rounding.

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 Financial Data

The following selected consolidated financial data has been derived from our Consolidated Financial Statements as of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our Consolidated Financial Statements and the discussion in Operating and Financial Review and Prospects included elsewhere in this annual report. The selected consolidated statement of income data for the years ended June 30, 2004, 2003 and 2002 and the selected consolidated balance sheet data as of June 30, 2004 and 2003 have been derived from our Consolidated Financial Statements included in this annual report which have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors. The independent auditors report on our Consolidated Financial Statements includes an explanatory paragraph describing uncertainties which might affect the value of our equity investment in BHSA. As of June 30, 2004, our equity investment in BHSA accounted for approximately 7% of our total consolidated assets. See Risk Factors Our investment in BHSA subjects us to risks affecting the banking sector .

The consolidated statements of income for the years ended June 30, 2001 and 2000 and the selected consolidated balance sheet data as of June 30, 2002, 2001 and 2000 have been derived from our audited consolidated financial statements that are not included herein.

As discussed in Notes 2.d. to our Consolidated Financial Statements, contained elsewhere in this annual report, on January 14, 2003, the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA) and the CNV approved, with certain amendments, Technical Resolutions No. 16, 17, 18, 19 and 20 issued by the *Federación Argentina de Consejos Profesional en Ciencias Económicas* (FACPCE), which establish new accounting and disclosure principles under Argentine GAAP. We adopted such standards on July 1, 2002, except for Technical Resolution No. 20, which we adopted on July 1, 2003. As required by Argentine GAAP, when issuing the 2003 Consolidated Financial Statements, we restated our prior year financial statements to give retroactive effect to the newly adopted accounting standards.

In addition, during 2003 the CPCECABA approved and the Comisión Nacional de Valores adopted with certain amendments Technical Resolution No. 21, which became effective to us for the fiscal year ended June 30, 2004. As a result of the adoption of RT No. 21, we started to consolidate Llao Llao during fiscal year 2004. As required by the transition provisions of this standard, we restated our prior year´s consolidated financial statements and related data to reflect such investment on a consolidated basis.

Our financial statements are presented in thousands of Pesos. Except as discussed in the following paragraph, our financial statements are prepared in accordance with Argentine GAAP and the regulations of the CNV, which differs in certain significant respects from U.S. GAAP. Note 20 to our Consolidated Financial Statements provides a description of the principal differences between Argentine GAAP and U.S. GAAP affecting our consolidated figures and a reconciliation to U.S. GAAP of net income (loss) reported under Argentine GAAP for the years ended June 30, 2004, 2003 and 2002, and of shareholders equity reported under Argentine GAAP as of June 30, 2004 and 2003. The differences involve methods of

8

measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP and regulations of the SEC.

As discussed in Note 3.n. to our financial statements, contained elsewhere in this annual report, in order to comply with regulations of the CNV, we recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represents a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on our Consolidated Financial Statements.

Additionally, as discussed in Note 2.c. to our Consolidated Financial Statements, contained elsewhere in this annual report, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were restated until that date, using a conversion factor of 1.1237.

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Also contained elsewhere in this annual report are the consolidated financial statements of BHSA as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002, which also have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. As a result of the purchase of additional shares and the exercise of warrants of BHSA, effective June 30, 2004 we changed the method of accounting for our investment in BHSA from market value to the equity method of accounting. We recognized the cumulative effect of the change in earnings during the year ended June 30, 2004. The independent auditors report on the consolidated financial statements of BHSA includes an explanatory paragraph describing that the quality of BHSA s financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina. The political and economic crisis of late 2001 and early 2002 and the Argentine Government s actions to address such crisis have had a significant adverse effect on BHSA´s business activity. Currently, BHSA is significantly dependent on the Argentine Government s ability to perform on its obligations to BHSA and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and on its obligation to approve and deliver government securities under various laws and regulations.

As a result of the increase in the ownership interest and the consolidation of our subsidiary APSA, during 2003, we discontinued the application of the proportional consolidation method that was used for reporting results of our jointly controlled subsidiaries in prior years. Therefore, when issuing our 2003 financial statements, we restated our financial statements of prior years and related data to reflect such investments under the equity method of accounting.

Also contained elsewhere in this annual report are the consolidated financial statements of APSA as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002, which have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. Our investment in APSA has been consolidated since fiscal year 2003. In prior years, APSA was an unconsolidated equity investee of the Company. At June 30, 2004, 2003 and 2002 we owned 53.81%, 54.79% and 49.69% of APSA, respectively.

Except as discussed in the following paragraph, APSA prepares its financial statements in accordance with Argentine GAAP which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and regulations of the SEC. See Note 16 to APSA s Consolidated Financial Statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to APSA, and a reconciliation to U.S. GAAP of net income (loss) and shareholders equity.

As discussed in Notes 2.a. to APSA´s Consolidated Financial Statements, contained elsewhere in this annual report, in order to comply with regulations of the CNV, APSA discontinued inflation accounting as of March 1, 2003 as well as recognized deferred tax assets and liabilities on a non-discounted basis. These accounting practices represented a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on its consolidated financial statements.

During the fiscal year ended June 30, 2004 we adopted Technical Resolution No. 21 and, as a result, we began consolidating Llao Llao Resort S.A.. As required by the transition provisions of this standard, we restated our prior year´s consolidated financial statements and related data to reflect such investment on a consolidated basis.

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Table of Contents

	As of and for the year ended June 30,					
	2004	2004	2003	2002	2001	2000
	(US$ 000) [2]	*(Ps.000)* [3]	**(As restated)** [1] *(Ps.000)* [3]	**(As restated)** [1] *(Ps.000)* [3]	**(As restated)** [1] *(Ps.000)* [3]	**(As restated)** [1] *(Ps.000)* [3]
INCOME STATEMENT DATA						
Argentine GAAP						
Revenues	88,169	260,805	236,495	156,244	244,052	256,608
Costs	(49,836)	(147,416)	(154,667)	(96,962)	(140,226)	(131,766)
Gross profit	38,333	113,389	81,828	59,282	103,826	124,842
Selling expenses	(7,787)	(23,033)	(28,555)	(14,246)	(26,284)	(22,624)
Administrative expenses	(16,984)	(50,240)	(45,194)	(36,258)	(44,798)	(47,373)
Gain on purchasers rescissions of sales contracts			9			
Gain (loss) in credit card trust	88	261	(4,077)			
Gain (loss) from operations and holdings of real estate assets, net [4]	21,752	64,343	21,507	(46,840)	(7,127)	(3,029)
Operating income (loss)	35,402	104,720	25,518	(38,062)	25,617	51,816
Amortization of goodwill	(982)	(2,904)	(6,631)			
Equity gain (loss) from related parties	9,010	26,653	(14,701)	(4,571)	9,509	23,332
Financial results, net	3,565	10,546	315,301	(496,498)	(99,465)	(45,446)
Other expenses, net	(4,257)	(12,591)	(859)	(4,483)	(5,983)	(7,160)
Income (loss) before taxes and minority interest	42,738	126,424	318,628	(543,614)	(70,322)	22,542
Income and asset tax (expense) benefit	(8,695)	(25,720)	3,529	(1,086)	37,783	(22,533)
Minority interest	(4,341)	(12,842)	(35,712)	977	3,415	(1,159)
Ordinary net income (loss)	29,702	87,862	286,445	(543,723)	(29,124)	(1,150)
Extraordinary loss					(12,706)	
Net income (loss)	29,702	87,862	286,445	(543,723)	(41,830)	(1,150)
Basic net income (loss) per share [5]	0.13	0.39	1.37	(2.62)	(0.20)	(0.01)
Basic net income (loss) per GDS [5]	1.32	3.90	13.65	(26.21)	(2.05)	(0.06)
Diluted net income (loss) per share [6]	0.08	0.23	0.57	(2.62)	(0.20)	(0.01)
Diluted net income (loss) per GDS [6]	0.75	2.23	5.65	(26.21)	(2.05)	(0.06)
Weighted - average common shares outstanding	225,005	225,005	209,840	207,412	204,189	204,652
Adjusted weighted - average number of shares [6]	554,271	554,271	439,064	207,412	204,189	204,652
U.S. GAAP						
Revenues	84,997	251,420	230,068	153,168	245,137	250,466
Net income (loss) [5]	955	2,825	235,126	(901,515)	19,420	(18,988)
Net income (loss) before extraordinary items and accounting changes	955	2,825	235,126	(901,515)	(4,479)	(15,071)
Basic net income (loss) per share [5]	0.004	0.013	1.121	(4.346)	0.095	(0.093)
Basic net income (loss) per GDS[5]	0.042	0.126	11.205	(43.465)	0.951	(0.928)
Basic net income (loss) before extraordinary items and accounting changes per share [5]	0.004	0.013	1.121	(4.346)	(0.022)	(0.074)

Diluted net income (loss) per share [5]	0.004	0.013	0.602	(4.346)	0.095	(0.093)
Diluted net income (loss) per GDS [6]	0.042	0.126	6.017	(43.465)	0.951	(0.928)
Diluted net (loss) income before extraordinary items and accounting changes per share [5]	0.004	0.013	0.602	(4.346)	(0.022)	(0.074)
Weighted - average common shares outstanding	225,005	225,005	209,840	207,412	204,189	204,652
Adjusted weighted - average number of shares [6]	225,005	225,005	338,416	207,412	204,189	204,652

BALANCE SHEET DATA

Argentine GAAP						
Cash and banks and current investments	55,409	163,900	232,001	71,150	113,730	92,751
Inventories	10,323	30,534	23,854	79,733	104,004	146,332
Mortgages and leases receivable, net	12,599	37,267	39,181	18,164	117,761	133,193
Non-current investments [7]	177,293	524,434	420,373	583,344	764,059	918,942
Fixed assets, net	427,879	1,265,666	1,227,639	409,469	501,245	538,237

Table of Contents

Total current assets	88,455	261,651	297,476	157,969	260,823	266,075
Total assets	744,741	2,202,944	2,081,956	1,316,050	1,700,227	1,893,517
Short-term debt (8)	48,386	143,126	96,159	635,533	395,666	221,461
Total current liabilities	86,552	256,022	188,738	693,543	458,697	268,512
Long-term debt (9)	158,488	468,807	592,104	975	32,418	234,365
Total non-current liabilities	174,723	516,831	629,988	4,061	41,642	293,436
Minority interest	158,971	470,237	454,044	95,726	133,445	132,911
Shareholders equity	324,494	959,854	809,186	522,720	1,066,443	1,198,658
U.S. GAAP						
Total assets	612,291	1,811,156	1,887,060	1,019,426	1,616,709	1,810,553
Total shareholders equity	198,695	587,740	502,803	197,124	988,523	1,151,142
CASH FLOW DATA						
Argentine GAAP						
Net cash provided by operating activities	24,818	73,414	93,945	54,313	106,994	139,231
Net cash (used in) provided by investing activities	(32,424)	(95,909)	(40,603)	(21,084)	81,559	(36,205)
Net cash (used in) provided by financing activities	(16,109)	(47,649)	109,439	(41,427)	(184,244)	(117,401)
U.S. GAAP						
Net cash provided by operating activities	31,230	92,378	55,135	11,871	98,299	102,162
Net cash (used in) provided by investing activities	(35,518)	(105,061)	(52,260)	(21,049)	80,728	(416)
Net cash (used in) provided by financing activities	(16,109)	(47,649)	109,439	(41,427)	(173,958)	(117,394)
Effect of exchange rate changes on cash and cash equivalents	(2,732)	(8,081)	51,743	2,043		
Effect of inflation accounting			(1,472)	39,113		
OTHER FINANCIAL DATA						
Argentine GAAP						
Depreciation and amortization	23,164	68,519	80,547	26,297	28,281	29,244
Capital expenditures (10)	51,717	152,979	42,735	50,139	70,337	41,962
Ratio of current assets to current liabilities	1.022	1.022	1.576	0.228	0.569	0.991
Ratio of shareholders equity to total liabilities	1.242	1.242	0.988	0.749	2.131	2.133
Ratio of non-current assets to total assets	0.881	0.881	0.857	0.880	0.847	0.859
Profitability (11)	0.099	0.099	0.430	(0.684)	(0.037)	(0.001)

(1) Under Argentine GAAP, we adopted RT No. 21 Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions during the year ended June 30, 2004. As a result of such an adoption, we began consolidating Llao Llao Resorts S.A. (hotel operations). As required by Argentine GAAP, our prior year s financial statements and related data were restated to reflect our investment in Llao Llao Resorts S.A. on a consolidated basis. In addition, as a result of the change in the accounting method for our investment in BHSA from market value to the equity method, under US GAAP our consolidated financial statements were retroactively adjusted as required by APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (APB No. 18), to reflect the investment under the equity method of accounting in a manner consistent with the accounting for a step acquisition of a subsidiary.

(2) Solely for the convenience of the reader, we have translated Argentine Peso amounts into U.S. Dollars at the exchange rate quoted by Banco de la Nación Argentina for June 30, 2004 which was Ps. 2.958 per US$1.0. We make no representation that the Argentine Peso or U.S. Dollar amounts actually represent, could have been or could be converted into Dollars at the rates indicated, at any particular rate or at all. See Exchange Rates . Sums may not total due to rounding.

(3) In thousands of constant Pesos of June 30, 2004, except for ratios and share data. Includes adjustment by inflation as of February 28, 2003. Sums may not total due to rounding.

(4) Includes results from temporary investments in affiliated companies and gain (losses) from holding investment in real estate assets. See Note 7 to our consolidated financial statements.

(5) We have calculated earnings per share data under Argentine GAAP and U.S. GAAP based on the weighted average number of common shares outstanding during the respective period. Each GDS represents ten common shares.

(6) Under both Argentine and U.S. GAAP we have considered the diluted effects of our outstanding convertible notes and warrants. However, under U.S. GAAP, we have used the treasury-stock method in calculating the diluted effect of the outstanding warrants. In addition, the computation of diluted net income per share / GDS under US GAAP for the year ended June 30, 2004 excludes potential common shares because the effect of their inclusion would be anti-dilutive, or would increase the reported net income per share / GDS. Each GDS represents ten common shares.

(7) Includes parcels of undeveloped land.

(8) Includes short-term loans, the current mortgages payable and the current portion of the seller financing.

(9) Includes long-term loans and the non-current portion of the seller financing.

(10) Includes the purchase of fixed assets and long-term investments.

(11) Net income (loss) / Average Shareholders Equity (simple average between the fiscal period s shareholders equity and the shareholders equity for the same fiscal period of the immediately preceding year)

Table of Contents

Exchange Rates

In April 1991, Convertibility Law No. 23,928 and its Regulatory Decree No. 529/91 (together the Convertibility Law) established a fixed exchange rate under which the Argentine Central Bank was obliged to sell U.S. Dollars to any person at a fixed rate of one Peso per U.S. Dollar.

On January 6, 2002, the Argentine Congress enacted the Public Emergency Law and Foreign Exchange System Reform Law No. 25,561 (the Public Emergency Law) whereby the Executive Branch was granted the authority to determine the new exchange rate between the Peso and foreign currencies and to approve the corresponding monetary regulations. Thereafter, the Executive Branch announced the devaluation of the Peso with the establishment of a dual exchange rate system pursuant to which certain limited transactions occurred at a fixed rate of Ps. 1.40 per US$ 1.00 and all other transactions were settled at a floating market rate, depending on supply and demand. See Risk Factors Risks related to Argentina .

The Public Emergency Law amends several provisions of the 1991 Convertibility Law, the most important of which are:

- the repeal of the Ps. 1.00 to US$ 1.00 fixed exchange rate established in 1991;
- the elimination of the obligation of the Argentine Central Bank to sell foreign currency for conversion transactions at the rate Ps. 1.00 = US$ 1.00;
- the elimination of the requirement that the Argentine Central Bank s reserves in gold and foreign currency shall at all times be equivalent to not less than 100% of the monetary base. However, the law only states that the Argentine Central Bank s reserves in gold and foreign currency will need to be at all times sufficient to support the monetary base. Accordingly, the monetary base is not necessarily fully backed by foreign currency-denominated reserves, which would potentially have an inflationary effect on prices; and
- the continuing prohibition of escalation clauses and other means of adjustment of monetary obligations in Pesos.

On January 11, 2002 the Argentine Central Bank ended a bank holiday that it had observed since December 21, 2001. The exchange rate began to float freely for the first time. Since then, the exchange rate has continued to grow, forcing the Argentine Central Bank to intervene in the market and sell U.S. Dollars in order to prevent a significant depreciation of the Peso.

Since February 11, 2002, there has been a single free exchange market for all exchange transactions, with the following main features:

- the rate of exchange is freely established by the market;
- exchange transactions may only be carried out by entities that obtain authorization from the Argentine Central Bank; and
- transfers of funds abroad by the private non-financial sector, the financial sector and public companies which do not depend on government s budget for principal servicing of financial loans or profit or dividend remittances generally require prior approval from

the Argentine Central Bank, regardless of their method of payment. This requirement does not apply to certain transfers. Please see Exchange Controls Export of capital including the availability of cash or cash equivalents for a more detailed information related to exchange controls restrictions and prior approval required from the Argentine Central Bank.

Table of Contents

In the past, before the enactment of the Convertibility Law, the Argentine economy experienced several currency devaluations and Argentina had adopted and operated under various exchange control policies. We cannot assure you that further devaluations will not take place.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. Dollars expressed in nominal Pesos per U.S. Dollar. On November 30, 2004, the applicable Peso/U.S. Dollar exchange rate was Ps. 2.945 to US$ 1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Pesos.

Nominal Exchange Rates

	Exchange Rate (5)			
	High (1)	Low (2)	Average (3)	Period End
Fiscal Year 2000	1.0000	0.9990	0.9995	1.0000
Fiscal Year 2001	1.0000	0.9990	0.9995	1.0000
Fiscal Year 2002 (4)	3.7400	0.9990	1.8206	3.7900
Fiscal Year 2003	3.7400	2.7120	3.2565	2.8000
Fiscal Year 2004	2.9510	2.7100	2.8649	2.9580
Month Ended May 31, 2004	2.9500	2.8300	2.9010	2.9600
Month Ended June 30, 2004	2.9510	2.9210	2.9400	2.9580
Month Ended July 31, 2004	2.9600	2.9200	2.9360	2.9800
Month Ended August 31, 2004	3.0400	2.9670	2.9930	2.9970
Month Ended September 30, 2004	2.9910	2.9580	2.9740	2.9810
Month Ended October 31, 2004	2.9600	2.8460	2.9430	2.9700
Month Ended November 30, 2004	2.9540	2.9140	2.9338	2.9450

(1) The high rate shown was the highest month-end rate during the year or any shorter period, as noted.

(2) The low rate shown was the lowest month-end rate during the year or any shorter period, as noted.

(3) Average of month-end rates.

(4) From December 23, 2001 through January 11, 2002 Banco Nación did not publish an official exchange rate due to governmental suspension of the exchange market.

(5) All prices are mid market prices.

Source: Argentine Central Bank; Banco de la Nación Argentina. Bloomberg

Fluctuations in the exchange rate between the Peso and the U.S. Dollar may affect our ability to service our Dollar-denominated debt.Inflation and further devaluation of the Argentine currency could materially and adversely affect our operating results.

B. Capitalization and Indebtedness

This item is not applicable.

C. Reasons for the Offer and Use of Proceeds

This item is not applicable.

D. Risk Factors

You should consider the following risks associated with our business, taking into account the inestability of the country in which we operate.

We may also face additional risks and uncertainties that are not presently affecting us, or that we currently deem immaterial, which may materially impair our business. In general, investing in companies which operate in emerging markets such as Argentina is more risky than investing in companies which operate in consolidated markets such as the United States.

Table of Contents

Risks Related to Argentina

Most of our revenues are earned in Argentina, and as a result we are highly dependent on economic and political conditions in Argentina.

We are a corporation (*sociedad anónima*) organized under the laws of the Republic of Argentina, and most of our revenues are earned in Argentina as most of our operations, developments, and customers are located in Argentina. Accordingly, our financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth and high and variable levels of inflation and currency devaluation. For example, in 1988, 1989 and 1990, the annual inflation rates were approximately 388%, 4,923% and 1,344%, respectively, based on the Argentine consumer price index, and approximately 432%, 5,386% and 798%, respectively, based on the Argentine wholesale price index. As a result of inflationary pressures, the Argentine currency had been devalued repeatedly during the 1960s, 1970s and 1980s, and macroeconomic instability led to broad fluctuations in the real exchange rate between the Argentine currency and the U.S. Dollar. In an attempt to address these pressures, the Argentine government during this period implemented various plans and utilized a number of exchange rate systems.

Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. In April 1991, the Argentine government launched a plan aimed at controlling inflation and restructuring the economy by enacting Law No. 23,928 and its Regulatory Decree No. 529/91, known as the Convertibility Law. The Convertibility Law fixed the exchange rate at Ps.1.00 per US$1.00 and required that the Argentine Central Bank maintain reserves in gold, foreign currency and certain foreign-currency denominated Argentine government bonds at least equal to the monetary base. Following the enactment of the Convertibility Law, inflation declined steadily and the economy experienced growth through most of the period from 1991 through 1997. In the fourth quarter of 1998, however, the Argentine economy entered into a recession that caused the gross domestic product to decrease by 3.4% in 1999, 0.8% in 2000, 4.4% in 2001 and 10.9% in 2002. In the second half of 2001, Argentina s recession worsened significantly, precipitating by the end of 2001 the political and economic crisis described in greater detail below.

Beginning in December 2001, the Argentine government implemented an unexpected 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 Argentine Central Bank, some of which are still in effect. See Exchange Controls. On December 6, 2001, the Argentine government suspended payment on certain of Argentina s foreign debt. On December 21, 2001, the Argentine Central Bank decided to close the foreign exchange market which amounted to a *de facto* devaluation of the Peso. On January 6, 2002, the Argentine Congress enacted Law 25,561, known as the Public Emergency Law, which introduced dramatic changes to Argentina s economic model and amended the currency board that had pegged, statutorily, the Peso at parity with the U.S. Dollar since the enactment of the Convertibility Law in 1991. The Public Emergency Law empowered the Argentine government to implement, among other things, additional monetary, financial and foreign exchange measures to overcome the economic crisis in the short term, such as setting the exchange rate between the Peso and foreign currencies. Since the appointment on January 1, 2002 of a new administration by the Argentine Congress, the Argentine government has implemented measures, whether by executive order, Argentine Central Bank regulation or legislation passed by the Argentine Congress, attempting to address the effects of amending the Convertibility Law, recover access to financial markets, reduce government spending, restore liquidity to the financial system, reduce unemployment and generally stimulate the economy.

As detailed below, Argentina has experienced a severe recession and a political and economic crisis, and the abandonment of U.S. Dollar-Peso parity has led to significant devaluation of the Peso against major international currencies. The Argentine government measures concerning the economy, including measures related to inflation, interest rates, foreign exchange controls, the high unemployment rate and material decreases in incomes have had and could continue to have a material adverse effect on private sector entities, including us. We cannot assure you that future economic, financial, political and social developments in Argentina, over which we have no control, will not further adversely affect our business, financial condition or results of operations or our ability to make payments of principal and/or interest on

15

Table of Contents

our outstanding indebtedness. The macroeconomic situation in Argentina and the actions taken by the Argentine government pursuant to the Public Emergency Law will continue to affect us.

Recent political and economic instability resulted in a severe recession in 2001 and 2002 and may result in continued economic recession.

In the fourth quarter of 1998, the Argentine economy entered into a recession that caused the gross domestic product (GDP) to decrease by 3.4% in 1999. Following his election in October 1999, President Fernando De la Rúa was confronted with the challenges of dealing with Argentina s enduring economic recession and obtaining political consensus on critical issues related to the economy, public sector spending, legal reforms and social programs. The De la Rúa administration failed to address adequately the growing public sector deficit, both at the federal and at the provincial level. GDP contracted by 0.8% in 2000, by 4.4% in 2001 and an estimated 10.9% in 2002, according to the Argentine Ministry of Economy. The unemployment rate increased from 14.5% in May 1999 to 15.4% in May 2000, 16.4% in May 2001 and 18.3% in October 2001. The unemployment rate was 17.8% in October 2002 as published by the Argentine Ministry of Economy. As tax revenues dropped as a result of the recession, the public sector relied increasingly on financing from local and, to a lesser extent, foreign banks, effectively limiting the ability of private sector companies to obtain bank financing. As the public sector s creditworthiness deteriorated, interest rates increased dramatically, bringing the economy to a virtual standstill. The lack of confidence in the country s economic future and its ability to sustain the Peso s parity with the U.S. Dollar led to massive withdrawals of bank deposits. Despite assurances to the contrary, on December 1, 2001, the Argentine government effectively froze bank deposits and introduced foreign exchange controls to restrict capital outflows. Those unexpected measures were perceived as further paralyzing the economy for the benefit of the banking sector and caused a substantial increase in social unrest as well as incidents of violence. On December 21, 2001, after declaring a state of emergency and suspending certain civil liberties, President De la Rúa resigned in the midst of an escalating political, social and economic crisis.

On January 1, 2002, following the resignation of interim President Rodriguez Saá only one week after his appointment, the Argentine Congress elected Eduardo Duhalde, a Peronist senator who had lost the presidential election in 1999, as President to serve until December 2003, the end of the remaining term of former President De la Rúa. Since his appointment on January 2, 2002, President Duhalde and the Argentine government have undertaken a number of far-reaching initiatives including:

- ratifying the suspension of payment of certain of Argentina s sovereign debt which had been previously declared suspended by interim President Rodriguez Saá;

- amending the Convertibility Law to introduce a new foreign exchange rate system, resulting in volatility and further devaluation of the Peso;

- converting certain U.S. Dollar-denominated loans by financial institutions in the Argentine financial system into Peso-denominated loans (pesification) at a one-to-one exchange rate plus an adjustment for variations in consumer prices (*Coeficiente de Estabilización de Referencia* or CER) or in salaries (*Coeficiente de Variación de Salarios* or CVS), as the case may be;

- converting U.S. Dollar-denominated bank deposits in financial institutions in the Argentine financial system into Peso-denominated bank deposits at an exchange rate of Ps.1.40 per US$1.00 plus an adjustment pursuant to CER;

- requiring the obligatory sale, currently suspended, by all banks of all their foreign currency held in Argentina to the Argentine Central Bank at an exchange rate of Ps.1.40 per US$1.00 (in the case of U.S. Dollars) or at an equivalent rate (in the case of other currencies);

converting most foreign currency-denominated obligations of entities in Argentina to non-financial institutions in Argentina into Peso-denominated obligations at a one-to-one exchange rate (in the case of obligations denominated in U.S. Dollars) or at a comparable rate (in the case of obligations denominated in another foreign currency), plus an adjustment pursuant to the CER or the CVS, as the case may be, plus an equitable adjustment in certain cases;

restructuring the maturity of, and interest rates on, domestic bank deposits and maintaining restrictions on withdrawals of those deposits;

enacting an amendment to the charter of the Argentine Central Bank to allow it to (1) print currency in excess of the amount of foreign reserves it holds, (2) make short-term advances to the Argentine government and (3) provide financial assistance to financial institutions in the Argentine financial system with liquidity constraints or solvency problems;

converting or pesifying public service tariffs, originally calculated in U.S. Dollars, into Pesos at a one-to-one exchange rate;

freezing public service tariffs without permitting indexation of any kind in contracts executed after the effective date of the Public Emergency Law;

authorizing the Argentine government to renegotiate public utility contracts service tariffs;

imposing restrictions on transfers of funds abroad subject to certain exceptions; and

requiring the deposit into the Argentine financial system of foreign currency earned from exports, subject to certain exceptions.

Commercial and financial activities in Argentina were virtually paralyzed in 2002, further aggravating the economic recession that precipitated the current crisis. Moreover, due to ongoing social and political protests, Argentina s economy and society continue to or may face risks including (1) civil unrest, rioting, looting, nationwide protests, widespread social unrest and strikes, (2) expropriation, nationalization and forced renegotiation or modification of existing contracts, (3) changes in monetary and taxation policies, including tax increases and retroactive tax reforms and (4) mandatory salary increases.

The deepening recession, including a 10.9% decrease in GDP in 2002, high unemployment and underemployment that preceded and that followed the devaluation of the Peso and high inflation led to a reduction of wages in real terms and of disposable income and resulted in changes in consumer behavior across all sectors of the Argentine population adversely affecting our shopping center and real estate businesses.

In 2003 the Argentine economy began to experience a recovery which may not be sustained if the government fails to achieve its proposed goals.

On April 27, 2003, presidential elections took place, resulting in a run-off election between candidates Carlos Menem and Néstor Kirchner. On May 14, 2003, Mr. Menem announced his withdrawal from the run-off, leaving Mr. Kirchner as the sole candidate. Mr. Kirchner, who won the elections with only 22% of the votes, took office on May 25, 2003. The overall goal of his Administration is to achieve sustainable growth making structural reforms focusing on the reduction of poverty and social inequities, which increased as a result of the 1998-2002 recession. To achieve these goals, the Kirchner Administration has presented a medium-term program for the period through 2006. The main goals of the Administration s program are to:

increase growth and solidify price stability through macroeconomic policy;

increase government spending on social programs and investments in public infrastructure;

restructure Argentina s foreign debt, achieve fiscal discipline at the federal and provincial levels and establish responsible fiscal policies with the goal of achieving sustainable debt service obligations;

Table of Contents

- implement reforms designed to deter widespread tax evasion;
- reform the social security system;
- reach a sustainable revenue-sharing agreement with the provinces;
- increase lending activity by strengthening the stability of the financial system, phasing out certain bank regulations implemented during the economic crisis and conducting audits and strategic reviews of the leading public banks to ensure their independence from the government;
- implement an inflation-targeting monetary system; and
- attract private sector investment by creating a predicable and efficient legal framework to restructure corporate debts.

In 2003, the Argentine economy began to recover with a 8.7% increase in GDP. This recovery, at first based almost exclusively on import substitution, broadened as the level of consumption and investment increased. In 2003, the Peso appreciated against the U.S. Dollar. As of December 31, 2002, December 31, 2003 and November 30, 2004, the exchange rates were Ps. 3.37 = US$1.00, Ps.2.93 = US$1.00 and Ps. 2.945 = US$1.00, respectively. Moreover, the exchange rate stability allowed for a significant recovery of consumer confidence that translated into higher consumption levels. After reaching a peak of 41% in 2002, the inflation rate fell to 3.7% in 2003.

Although Argentine social and economic conditions have stabilized to some extent, important issues remain unresolved, such as renegotiating the external public debt and public utility contracts, restructuring the financial system and redesigning the federal fiscal regime. The government s actions concerning the economy, including the ones with respect to inflation, interest rates, price controls, foreign exchange controls and taxes, have had, and may continue to have, a material adverse effect on private sector entities, including us. Decisions with regards to those issues could paralyze investment and consumption decisions causing a reduction in retail sales, real estate sales and demand for office and commercial space. Consequently, we cannot provide any assurance that future economic, social and political developments in Argentina, over which we have no control, will not further impair our business, financial condition, or results of operations.

The devaluation of the Peso, pesification and macroeconomic conditions currently prevailing in Argentina have had, and may continue to have, a material adverse effect on our results of operations and financial condition.

The Argentine government s economic policies and any future depreciation of the Peso against the U.S. Dollar could adversely affect our financial condition and results of operations. The Peso and preceding currencies in Argentina have been subject to numerous and significant devaluations in the past and may be subject to significant fluctuations in the future.

The Public Emergency Law put a legal end to ten years of U.S. Dollar-Peso parity and authorized the Argentine government to set the exchange rate between the Peso and other currencies. The Argentine government initially established a dual exchange rate of Ps.1.40 per US$1.00 for certain transactions and a free-floating rate for all other transactions. This dual system was later eliminated in favor of a single free-floating exchange rate for all transactions. Since the floating of the Peso, the Peso has fluctuated significantly, causing the Argentine Central Bank to intervene in the market to limit changes in the value of the Peso by selling U.S. Dollars and, lately, by buying U.S. Dollars. As of November 30, 2004, the exchange rate was Ps.2.945 per US$1.00. See Exchange Rates for additional information regarding Peso/U.S. Dollar exchange rates.

We cannot assure you that future policies adopted by the Argentine government will be able to limit the volatility of the value of the Peso and, therefore, the Peso could be subject to significant fluctuations

Table of Contents

which could materially and adversely affect our financial conditions and results of operations. Further depreciation of the Peso would have particular impact on:

- revenues collected for services provided in Argentina, such as lease agreements;
- our assets valuation; and
- our Peso-denominated monetary assets and liabilities which could be affected by the introduction of different inflation adjustment indexes.

We collect most of our revenues in Argentina, and as a result of the enactment of the Public Emergency Law, most of our revenues are calculated and collected in Pesos. Furthermore, the devaluation of the Peso has had a material adverse effect on our financial condition as the Peso-denominated book value of our assets has not increased at the same rate as has the Peso-denominated book value of our foreign currency-denominated financial indebtedness. Any further depreciation of the Peso against the U. S. Dollar will correspondingly increase the amount of our financial indebtedness in Pesos, with further adverse effects on our results of operations and financial condition.

Given the economic crisis in Argentina and the related uncertain economic and political events, it is impossible to predict whether, and to what extent, the value of the Peso may further depreciate or appreciate against the U.S. Dollar and how those events will affect investment decisions and the ability to obtain financial resources from abroad. Moreover, we cannot predict whether the Argentine government will further modify its monetary policy and, if so, what impact these changes could have on our financial condition and results of operations.

The Argentine economy may continue to experience significant inflation.

On January 24, 2002, the Argentine government amended the charter of the Argentine Central Bank to allow it to print currency without having to maintain a monetary base with a fixed and direct relationship to foreign currency and gold reserves. This amendment allows the Argentine Central Bank to make short-term advances to the Argentine government to cover its anticipated budget deficits and to provide assistance to financial institutions with liquidity or solvency problems. There is considerable concern that, if the Argentine Central Bank prints currency to finance public-sector spending or financial institutions in distress, significant inflation will result. Past history raises serious doubts as to the ability of the Argentine government economy and the government s ability to create conditions that would foster long-term growth. Further inflation will negatively affect our results of operations and financial condition.

Future exchange controls may prevent us from servicing our foreign currency-denominated debt obligations.

Since early December 2001, the Argentine authorities implemented a number of monetary and currency exchange control measures that included restrictions on the withdrawal of funds deposited with banks and tight restrictions for making transfers abroad. Although most restrictions in connection with repayments to foreign creditors have been lifted, these regulations have been changing constantly since they were first enacted, and we cannot assure you that they will not be put in place again and, if they are, whether they will be made stricter than they were before. Currently, local companies may, without the Argentine Central Bank s approval, access the foreign exchange market and obtain foreign currency for the payment of principal and/or interest. In the case of interest payments, access to the foreign exchange market is allowed within 15 days prior to each interest service or at any moment during each outstanding interest period. In the case of payment of principal, access to the foreign exchange market is permitted at any time within a 90-day period before maturity. Pursuant to Decree 285/03 and *Comunicación A 3973*, as amended, in the case of new loans, access to the foreign exchange market is permitted provided that the proceeds of such loans enter Argentina and remain there for at least 180 days. See Exchange Controls.

Although most restrictions have been eliminated, there can be no assurance that the Argentine Central Bank will not reverse its position and once again restrict payments of principal and interest outside of Argentina. If more stringent restrictions are imposed by the Argentine Central Bank, we may be unable to make payments of principal and interest on our foreign currency-denominated debt obligations. If that were to occur, we would likely suffer payment defaults on our existing debt obligations, and such defaults would likely have a material adverse effect on our financial condition and prospects and our ability to service our external debt obligations.

The stability of the Argentine banking system is uncertain.

Although deposits in the Argentine banking system had grown in 1999 and 2000, in the fourth quarter of 2001, a significant amount of deposits were withdrawn from Argentine financial institutions as a result of the increasing political instability and uncertainty. This run on deposits had a material adverse effect on the Argentine financial system as a whole. For the most part, banks suspended the disbursement of new loans and focused on collection activities to be able to pay their depositors. However, the general unavailability of external or local credit created a liquidity crisis which triggered numerous payment defaults in the public and private sectors, which in turn undermined the ability of many Argentine banks to pay their depositors.

To prevent a run on the U.S. Dollar reserves of local banks, on December 3, 2001, the government of President De La Rúa restricted the amount of money that account holders could withdraw from banks and introduced exchange controls restricting capital outflows. Although these restrictions, known as *corralito,* are no longer in place, subsequently, President Duhalde imposed new restrictions known as *corralón* and released a schedule stating how and when such deposits would become available.

On February 4, 2002, pursuant to Emergency Decree No. 214, the Argentine government required the conversion of all U.S. Dollar or other foreign currency-denominated indebtedness to financial institutions into Pesos at a rate of Ps. 1.00 per US$ 1.00. After a six-month grace period, debts were adjusted pursuant to an index based on consumer price variations (CER) in the preceding month. Said decree also provided for the conversion of all foreign currency-denominated deposits at an exchange rate of Ps. 1.40 per U.S. Dollar plus CER, and the issuance by the government of U.S. Dollar-denominated bonds intended to compensate banks for the losses incurred as a result of the asymmetric conversion of loans and deposits into Pesos. The different exchange rates applied to the conversion of foreign currency-denominated deposits and loans had a material and adverse effect on the Argentine financial system. Despite these restrictions, on April 25, 2002, pursuant to Law 25,587, the Argentine government announced another banking moratorium in order to prevent further withdrawals from the financial system.

On June 1, 2002, the Argentine government published Decree No 905/02, pursuant to which owners of rescheduled foreign currency and Peso-denominated bank deposits were provided with the option to receive certain bonds issued by the Argentine government in lieu of payment of such deposits during a period of 30 banking days beginning on June 1, 2002. These bonds were applied to the payment of certain loans under certain conditions. Deposits not exchanged for bonds were considered securities that, under the conditions established by the CNV, were applied to the subscription of notes and to the cancellation of certain loans. On September 17, 2002, Decree No. 1836/02 established another exchange option. Depositors, however, showed little interest in the first or second stages of the voluntary exchange of deposits for bonds. Through Decree No. 739/03 dated April 1, 2003, the Argentine government made a further attempt to eliminate the *corralón* by giving depositors the option to be reimbursed in Pesos pursuant to a schedule for their deposits, at a Ps. 1.40 per US$1.00 exchange rate adjusted pursuant to the CER, plus accrued interest, and to receive a 10-year U.S. Dollar-denominated bond to be issued by the Argentine government to cover the difference between the amount in Pesos to be received by the depositors and the face amount of the original deposit made in U.S. Dollars at the exchange rate applicable on April 1, 2003.

While the restriction on bank withdrawals and the mandatory conversion of U.S. Dollar deposits to Pesos have shielded banks from a further massive withdrawal of deposits, they have also led to a significant decrease in commercial and financial activities, diminished spending and greatly increased social unrest resulting in widespread public protests. In a decision of March 2003, the Supreme Court of Argentina struck down on constitutional grounds the mandatory conversion of U.S. Dollar deposits held by the Province of San Luis with *Banco de la Nación Argentina* pursuant to Emergency Decree No. 214/02. In July 2004, in *Cabrera, Gerónimo Rafael, et al. vs. National Executive Power,* the

Argentine Supreme Court ruled that whenever a depositor accepts payment in Pesos for its Dollar-denominated deposit, at the exchange rate provided for in the pesification regulations (Ps.1.40 per US$1.00 plus CER), without reserving the right to challenge such payment in the future on the grounds of partial payment, he would not be entitled to claim the difference between the amount actually received and the amount of Pesos he would have received had the free market exchange rate been applied. On October 26, 2004, in *Bustos, Alberto Roque et al. v. National Government et al.*, the Argentine Supreme Court confirmed the constitutionality of the laws and regulations that provided for the conversion of U.S. Dollar bank deposits into Pesos and the restrictions imposed on deposit withdrawals. Under Argentine law, Supreme Court rulings are limited to the particular facts and defendant in the case; however, lower courts tend to follow the precedents set by the Supreme Court.

The Argentine banking system s collapse or the collapse of one or more of the larger banks would have a material adverse effect on the prospects for economic recovery and political stability in Argentina, resulting in a loss of consumer confidence, lower disposable income and fewer financing alternatives. These conditions would have a material adverse effect on us by resulting in a decrease in our property value, impossibility to collect revenues on our rented properties and impossibility to obtain financial resources for new developments.

The Argentine government is currently insolvent and is limited in its ability to obtain financing in the future, which may restrict its ability to implement reforms and restore economic growth.

The Argentine government is currently insolvent and has defaulted on a significant part of its public debt in recent years, although it has recently reached an agreement to postpone the maturity date of some of its debt owed to the International Monetary Fund and other international credit organizations. Due to a sustained lack of investor confidence in Argentina s ability to make payments due on its sovereign debt and in the Argentine economy generally, Argentina s opportunities to effectively raise capital in the international markets have been severely limited. Uncertainties regarding the Argentine government s debt restructuring and the adoption of certain measures adversely affecting key sectors of the economy, such as the utilities and the financial system, have had a significant impact on the private sector s long-term productivity and growth. If the Argentine government and its creditors fail to reach a debt agreement restructuring, the fiscal situation of Argentina could be severely affected, undermining the ability of the Argentine government to implement adequate economic policies and structural reforms. If economic growth fails to materialize in the medium and long term, political and economic volatility are likely to recur. This would most likely adversely and materially impact our business, financial condition and results of operations.

In light of this uncertainty, laws and regulations currently governing the economy may continue to change in the near future, and any changes may adversely affect our business, financial condition or results of operations. Accordingly, investing in Argentine companies or companies with Argentine operations entails risks of loss resulting from, among other things:

- changes in laws and policies of Argentina affecting foreign trade, taxation and investment;
- taxation policies, including royalty and tax increases and retroactive tax claims;
- restrictions on repatriation of investments and transfer of funds abroad;
- expropriation, nationalization and forced renegotiation or modification of existing contracts; and
- civil unrest, rioting, looting, nation-wide protests, road blockades, widespread social unrest and strikes.

If this economic and political instability continues or any of the above-described events occur, our results of operations and financial condition will be materially adversely affected.

Table of Contents

Promulgations of laws related to foreclosure on real state adversely affect our property rights.

In February 2002, the Argentine government amended Argentina s bankruptcy law, suspending bankruptcies and foreclosures on real estate that constitutes the debtor s primary dwelling, initially for a six-month period and subsequently extended until November 14, 2002.

On June 2, 2003, the Congress passed a law reinstating suspension on foreclosures of mortgage properties for a term of ninety days. However, the creditors voluntarily agreed, together with banks and other financial institutions, to extend such suspension until a new law solved. On November 5, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule the mortgage debts, by creating a Trust (paid by the Argentine Government) which will buy the portfolio mortgage debts and reschedule them in a more profitable way. Financial institutions were given until June 22, 2004 to accept this new mortgage system. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included different conditions referring to the incorporation to this system of the mortgage loans that were in judicial or private execution proceedings.

We cannot assure you that laws and regulations related to foreclosure on real estate will not continue to change in the future or that any changes will not adversely affect our business, financial condition or result of operations.

Future governmental policies will likely significantly affect the economy as well as 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. Due to the Argentine crisis, in the last few months the Argentine government has promulgated numerous, far-reaching and not always consistent laws and regulations affecting the economy as well as financial institutions in particular. We cannot assure you that laws and regulations currently governing the economy or the banking sector will not continue to change in the future, particularly in light of the continuing economic crisis, or that any changes will not adversely affect our business, financial condition or results of operations as well as our ability to honor our foreign-currency denominated debt obligations.

Due to the current social and political crisis, investing in Argentina also entails the following risks:

- civil unrest, rioting, looting, nation-wide protests, widespread social unrest and strikes;
- expropriation, nationalization and forced renegotiation or modification of existing contracts; and
- taxation policies, including royalty and tax increases and retroactive tax claims.

Despite the apparent disappearance of the signs of economic and political crisis, the structural problems of the Argentine economy, which have recurrently caused or contributed to political crisis in the past, have not been resolved, and it cannot be assured whether the policies of the elected president will be finally successful. Any economic and political crisis that could arise in the future, could adversely affect our business, financial condition or result of operations.

Risks Related to Our Business

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

We have, and expect to have, adequate liquidity and capital resources to finance our business. As of June 30, 2004, our consolidated financial debt amounted to Ps. 603.9 million (including accrued and unpaid interests and deffered financing costs).

The fact that we are highly leveraged may affect our ability to refinance existing debt or borrow additional funds to finance working capital, acquisitions and capital expenditures. This would require us to allocate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. Our high leverage

Table of Contents

could place us at a disadvantage compared to our competitors who are less leveraged and limit our ability to react to changes in market conditions, changes in the real estate industry and economic downturns. Although we have successfully restructured our debt we cannot assure you that we will not relapse and become unable to pay our obligations.

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

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

Our largest beneficial owner is Mr. Eduardo S. Elsztain. As of November 30, 2004, such beneficial ownership consisted of:

1,000 of our common shares owned by Inversiones Financieras del Sur S.A. (IFISA), a company where Mr. Eduardo S. Elsztain is the beneficial owner;

71,225,786 of our common shares owned by Cresud S.A.C.I.F. y A. (Cresud), for which Mr. Eduardo S. Elsztain by reason of his position with Cresud, may be deemed to own all of our common shares held for the account of Cresud.

Conflicts of interest between our management, ourselves and our affiliates may arise in the performance of our respective business activities. Mr. Elsztain also beneficially owns (i) approximately 27.5% of the common shares of Cresud S.A.C.I.F. y A., an Argentine company that currently owns approximately 27.5% of our common shares and (ii) approximately 62.6% of the common shares of our subsidiary APSA. We cannot assure you that our principal shareholders and their affiliates will not limit or cause us to forego business opportunities that their affiliates may pursue or that the pursuit of other opportunities will be in our interest.

The devaluation of the Peso and the deterioration of the Argentine economy have had, and may continue to have, a material adverse effect on the results of our operations and financial condition.

For so long as the Convertibility Law remained in effect, we had no exchange rate risk relating to our Peso-denominated revenues and our U.S. Dollar-denominated liabilities. However, with the repeal of the Convertibility Law on February 4, 2002, all U.S. Dollar-denominated obligations, which were within the Argentine banking sector and subject to Argentine Law, were mandatorily converted into Peso-denominated liabilities at an exchange rate one Peso to one U.S. Dollar. The majority of our liabilities (the Unsecured Loan Agreement, the Class 3 Floating Rate Notes and the Hoteles Argentinos Loan) are subject to New York law and thus have not been converted into Pesos. Furthermore, on February, 4, 2004 APSA was under a swap agreement by which it converted its Peso-denominated fixed rate debt into U.S. Dollar denominated floating rate debt for a notional amount of US$ 69.1 million with maturities through March 2005, which is also subject to New York law and thus has not been converted into Pesos. Moreover, our US$ 100.0 million Convertible Notes and APSA s US$ 50.0 million Convertible Notes are U.S. Dollar-denominated. (See: Item 5 -Section B.- Our Indebtedness).

We realize a substantial portion of our revenues in Pesos (such as rental contracts and seller financing) and, as a result, the devaluation of the Peso has adversely affected the U.S. Dollar value of our earnings and, thus, impaired our financial condition. Moreover, our Peso-denominated assets (which represent 93% of our total assets as of June 30, 2004) have depreciated against our indebtedness denominated in foreign currency. As of June 30, 2004, we had outstanding debt amounting to Ps. 603.9 million, of which, 86% was denominated in U.S. Dollars. Any further depreciation of the Peso against the

Table of Contents

U.S. Dollar will correspondingly increase the amount of our debt in Pesos, with further adverse effects on our results of operation and financial condition, and may increase the collection risk of our leases and other receivables from our tenants and mortgage debtors, most of whom have Peso-denominated revenues.

The mandatory pesification of contracts originally denominated in U.S. Dollars will adversely affect our profitability.

Although our lease agreements and seller financing loans were denominated in U.S. Dollars, the Argentine government mandatorily converted all U.S. Dollar monetary obligations entered into between non-financial private parties prior to January 7, 2002 into Peso-denominated obligations at a rate of Ps. 1.00 = US$ 1.00. Although the Argentine government sought to mitigate the adverse effects of this mandatory pesification by permitting the Peso-denominated obligations to be adjusted for inflation pursuant to an index known as the CER, we cannot assure you that an adequate adjustment will apply to amounts payable to us under our lease and loan agreements. If, as a consequence of this adjustment, the agreement is unfair to any of the parties, either party may ask the other for a fairness adjustment. If the parties do not reach an agreement, a court will make the decision. New lease agreements may be freely entered into between parties and may not contain inflation adjustment clauses based on consumer price indexes or whole price indexes. Although part of our new lease agreements are Dollar denominated, the mandatory pesification of contracts originally denominated in U.S. Dollars is likely to materially and adversely affect our financial condition and our ability to pay our liabilities denominated in U.S. Dollars (mostly banking and financial loans), because our cash flows will be mostly denominated in devalued Pesos.

The Argentine government may impose additional restrictions on the lease, operation and ownership of property.

In the past, in response to housing shortages, high rates of inflation and difficult access to credit, the Argentine government imposed strict and burdensome regulations regarding leases. Such regulations limited or prohibited rental increases and prohibited eviction of tenants, even for failure to pay rent. We cannot assure you that the Argentine government will not impose similar or other regulations in the future. Changes in existing laws or the enactment of new laws governing the ownership or operation or leasing of properties in Argentina could materially and adversely affect our operations and profitability.

There can be no assurance that additional regulations will not be imposed in the future. Such regulations could negatively affect the Argentine real estate market and the rental market. Furthermore, most of our leases provide that the tenants pay all costs and taxes related to their respective leasable areas. In the event of a significant increase in the amount of such costs and taxes, the Argentine government may respond to political pressure to intervene by regulating this practice, thereby negatively affecting our rental income.

We hold Argentine securities which are more volatile than United States securities, and carry a greater risk of default.

We currently hold certain investments in Argentine government debt, corporate debt and equity securities. In particular, we hold a significant interest in BHSA, an Argentine bank that has recently suffered material losses. Although the holding of these investments, with the exception of BHSA, 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

Table of Contents

subject to many of the risks that are described in this section, which could also adversely affect the value of these investments.

Real estate investments are subject to many risks.

Our real estate investments are subject to risks common to commercial and residential properties in general, many of which are not within our control. Any of these risks might materially and adversely affect our business, financial condition or results of operations. The yields available from equity investments in real estate depend on the level of sales or rental income generated and expenses incurred.

Our ability to generate income from our properties sufficient to service our debt and cover other expenses may be adversely affected by the following factors, among others, some of which we cannot control:

- oversupply of retail space or a reduction in demand for retail space, which could result in lower rent prices and lower revenues for us;
- increased competition from other real estate operators which might drive down our prices and profits;
- changes in our ability or our tenants ability to provide for adequate maintenance and insurance, possibly decreasing the life of and revenue from a property;
- increases in operating expenses which could lower our profitability;
- the inability to collect rents due to bankruptcy or insolvency of tenants or otherwise;
- the need to periodically renovate, repair and release space, the higher costs thereof and the ability of our tenants to provide adequate maintenance and insurance, possibly decreasing the life of and revenue from a property; and
- the exercise by our tenants of their legal right to early termination of their leases.

In addition, other factors may adversely affect the performance and value of our properties, including changes in laws and governmental regulations (including those governing usage, zoning and real property taxes), changes in interest rates (including the risk that increased interest rates may result in decreased sales of lots in the residential development properties) and the availability of financing. Increases in operating costs due to inflation and other factors may result in the inability or unwillingness of tenants to pay rent or expense increases. Certain significant expenditures, such as debt service, real estate taxes, and operating and maintenance costs, are generally not reduced, in circumstances resulting in a reduction in income from the investment. The foregoing and any other factor or event that would impede our ability to respond to adverse changes in the performance of our investments could have a material adverse effect on our financial condition and results of operations.

Real estate market illiquidity and declining property values in U.S. Dollars terms may adversely affect our financial condition.

The Argentine crisis, including the devaluation of the Peso, decreased real estate value in U.S. Dollar terms and liquidity of real estate investments. Despite the recovery of the value in U.S. Dollars of the real estate market, it may be more difficult for us to adjust our property portfolio promptly in response to changes in economic or business conditions or to the factors described above. The economic recession and the devaluation of the Peso significantly reduced consumer spending power while the social unrest and ensuing political instability together with the succession of governmental measures have adversely affected the normal operations of banks. If we are forced to sell one or more of our properties in order to cover operating expenses or to satisfy debt service obligations, or are forced to liquidate, the proceeds from such sales might be less than our total investment in the properties sold.

Table of Contents

Our business is subject to extensive regulation.

The real estate business is subject to extensive building and zoning regulations by various federal, state and municipal authorities, which affect land acquisition, development and construction activities, and certain dealings with customers, as well as consumer credit and consumer protection statutes and regulations. We are required to obtain approval from various governmental authorities for our development activities, and new laws or regulations could be adopted, enforced or interpreted in a manner that could adversely affect our results of operations and the level of cash flow necessary or available to meet our obligations. Development activities are also subject to risks relating to the inability to obtain, or delays in obtaining all necessary zoning, environmental, land-use, development, building, occupancy and other required governmental permits and authorizations. We and our affiliates operations are also subject to federal, state and municipal environmental laws applicable in Argentina. We believe that such laws and regulations currently do not materially affect our business or results of operations. We cannot assure you, however, that regulations affecting the real estate industry, including environmental regulations, will not change in a manner which could have a material adverse effect on our business.

Argentine lease law imposes lease restrictions that limit our flexibility.

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

- lease agreements may not contain inflation adjustment clauses based on consumer price indexes or wholesale price indexes. Although many of our lease agreements contain readjustment clauses, these are not based on an official index nor do they reflect the inflation index. In the event of litigation it may be impossible for us to increase the amounts owed under our lease agreements;

- lease agreements must be for a minimum term of two years for residential properties and three years for retail property, except in the case of stands and/or spaces for special exhibitions;

- lease terms may not exceed ten years, except for the leases regulated by Law No. 25,248 (which provides that leases containing a purchase option are not subject to term limitations); and

- tenants may rescind commercial lease agreements after the initial six months. The exercise of such rescission rights by our tenants could materially and adversely affect our business and we cannot assure you that our tenants will not exercise such right, especially if rent values stabilize or decline in the future.

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, historically, the heavy workload of the courts that hear these matters and the numerous procedural steps required have generally delayed landlords efforts to evict tenants. Eviction proceedings generally last from six months to two years from the date of filing of the suit to the time of actual eviction. Historically, delinquency regarding office rental space has been very low, approximately 2%, and we have usually attempted to negotiate the termination of lease agreements with defaulting tenants after the first few months of non-payment in order to avoid legal proceedings. Delinquency may increase significantly in the future, and such negotiations with tenants may not be as successful as they have been in the past. Moreover, new Argentine laws and regulations may forbid or restrict eviction proceedings, and in such case, they would likely have a material and adverse effect on our financial condition and results of operation.

Our assets are concentrated in the Buenos Aires area.

Our principal properties are located in the city of Buenos Aires and the province of Buenos Aires and a substantial portion of our revenues are derived from such properties.

Table of Contents

For the fiscal year ended June 30, 2004, a substantial part of our sales were derived from properties in the city of Buenos Aires and the province of Buenos Aires area. Although we own properties and may acquire or develop additional properties outside of the city of Buenos Aires and the province of Buenos Aires area, we expect to continue to depend to a very large extent on economic conditions affecting those areas, and therefore, an economic downturn in those areas could have a material adverse effect on our financial condition.

If APSA cannot reach an agreement with the sellers regarding its acquisition of a significant interest in the Neuquén Project, the sale may be voided and APSA may not recover its original investment.

On July 6, 1999, APSA acquired a 94.6% interest in Shopping Neuquén S.A. for Ps. 4.2 million. APSA paid Ps. 0.9 million on September 1, 1999, and the remaining Ps. 3.3 million was originally scheduled to be paid on the earlier of the opening of the shopping center or July 5, 2001. As of today the remaining payment is overdue.

Shopping Neuquén S.A. s sole asset is a piece of land of approximately 50,000 square meters. It had received preliminary governmental approval for construction of a shopping center on the site. The project contemplates construction of a shopping center with 100 stores, a hypermarket, a multiplex movie theater, a service station and a hotel.

In June 2001, Shopping Neuquén S.A. filed a request with the municipality of Neuquén for extension of the original construction timetable and for authorization to sell part of the land to third parties for construction of property which Shopping Neuquén S.A. would develop.

On December 20, 2002, the Municipality of Neuquén issued Decree 1437/02 rejecting the application by Shopping Neuquén S.A. for a readjustement of the terms for the construction of the project and the authorization to transfer part of the land to third parties. In addition, the rights granted in Ordinance 5178 were declared to have lapsed, and the contract for the purchase of the land was deemed void, with the loss of the improvements made in favor of the Municipality of Neuquén, without the right to compensation or any claim by Shopping Neuquén S.A.

In response to the terms of the mentioned Decree, on January 21, 2003 APSA applied for the administrative measure to be revoked, offering and attaching documentary proof of the reasons for such revocation and requesting authorization for the presentation of a new schedule, prepared on the basis of the current situation and reasonable short and medium-term projections.

The application was rejected by the Municipal authorities by means of Decree No. 585/2003. As a result, on June 25, 2003 the Company filed an Administrative Procedural Action in the High Court of Neuquén that is currently in process, requesting -among other matters- that Decrees 1437/2002 and 585/2003 issued by the Municipal Mayor be declared null and void.

As of June 30, 2004, the Company is negotiating with the Municipality of Neuquén the terms of a framework agreement that will establish the conditions for reactivation of the development and construction of the commercial project. Such agreement would be incorporated into a new Municipal Ordinance that would modify or annul the original ordinance.

Furthermore, on August 15, 2003 APSA was informed that 85.75% of the old shareholders of Shopping Neuquén S.A. filed a complaint against APSA for collection of the balance of the purchase price plus interest and legal costs.

Although APSA hopes for a favorable resolution to the judicial proceeding, and APSA is still negotiating a new arrangement with the old shareholders, we cannot assure the results will be favorable to it.

Table of Contents

Pérez Cuesta S.A.C.I., in which APSA currently owns a controlling interest, has defaulted on several payments which could result in its inability to remain as a going concern, jeopardizing APSA s investment in the company.

As of June 30, 2004, APSA owned an 18.9% non-controlling interest in Pérez Cuesta S.A.C.I. (Pérez Cuesta), which owns the Mendoza Plaza Shopping Center. As of such date it had Ps. 40.3 million of financial indebtedness (including accrued interests and CER), Ps. 23.1 million of which is due and on which the company has defaulted. (See Business overview, Mendoza Plaza). As of December 2, 2004, APSA increased its interest in Pérez Cuesta to 68.8%. Pursuant to Decree No. 214/02, Pérez Cuesta s U.S. Dollar-denominated financial indebtedness was converted into Pesos. Since its indebtedness includes outstanding mortgage loans and commercial leases, its default on several overdue payments raises substantial doubt of its ability to continue as a going concern. Currently, Pérez Cuesta and APSA are negotiating restructuring of the debt terms with its creditors. However, if APSA is unable to achieve a successful restructuring of its financial indebtedness the value of APSA s investment may be adversely affected.

Our real estate activities through subsidiaries and joint ventures are subject to additional risks.

We conduct a substantial part of our real estate activities through subsidiaries and strategic alliances with other companies. One of our principal investments is in APSA where we own a majority of the voting stock. In the future, we may increase our real estate activities through such vehicles. As a result, we depend to a certain extent on the successful operation of subsidiaries and strategic alliances and upon income, dividends and other distributions from these entities to maintain our profitability, liquidity and growth. Moreover, joint ownership of properties involves additional risks. For example, our partners or co-investors may:

- become bankrupt or insolvent;
- develop business objectives or goals which are different from ours; or
- take actions that are contrary to our instructions or requests or that are otherwise contrary to our interests.

Development and construction activities are inherently risky.

We are engaged in the development and construction of office, retail and residential properties, generally through third-party contractors. Risks associated with our development and construction activities include the following, among others:

- abandonment of development opportunities and renovation proposals;
- construction costs of a project may exceed our original estimates, making a project unprofitable;
- occupancy rates and rents of a newly completed project may be insufficient to make such project profitable;

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

we may be unable to obtain financing on favorable terms for the development of the project;

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

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

- we may be unable to obtain, or may face delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations.

We are subject to shopping center operating risks that may affect our profitability.

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

- the accessibility and the attractiveness of the area where the shopping center is located;
- the intrinsic attractiveness of the shopping center;
- the flow of people and the level of sales of each shopping center rental unit;
- the amount of rent collected from each shopping center rental unit; and
- the fluctuations in occupancy levels in the shopping centers.

An increase in operating costs, caused by inflation or other factors, could have a material adverse effect on us if our tenants are unable to pay higher rent obligations due to the increase in expenses.

Moreover, the shopping center business is closely related to consumer spending, and, therefore, to the economy in which such customers are located. All of our shopping centers are located in Argentina, and, as a consequence, their business has been seriously affected by the Argentine recession. Unemployment, political instability and inflation have reduced consumer spending in Argentina, lowering tenants sales and forcing some of them to leave our shopping centers. This has reduced the occupied space and consequently, our revenues.

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

During the last years, retail sales by means of the Internet have grown significantly in Argentina even though the market share of Internet sales related to retail sales is still not significant. 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. We believe that our target consumers are increasingly using the Internet, at home, work or elsewhere, to shop electronically for retail goods, and that this trend will continue. If e-commerce and retail sales through the Internet continue to grow at current rates, consumers reliance on traditional distribution channels such as our shopping centers could be materially diminished, having a material adverse effect on our financial condition, results of operations and prospects.

Our future acquisitions may be unprofitable.

We intend to acquire additional properties to the extent that they meet our investment criteria. Acquisitions of commercial properties entail general investment risks associated with any real estate investment, including:

- investments may fail to perform as expected, or
- estimates of the cost of improvements needed to bring the property up to established standards for the market might prove to be inaccurate.

Our shopping center business is subject to competitive pressure.

All of our shopping centers are located in Argentina. There are other shopping centers and numerous smaller retail stores and residential properties within the market area of each of our properties. The number of competitive properties in a particular area could have a material adverse effect on our ability to lease

Table of Contents

retail space in our shopping centers or sell units in our residential complexes and on the amount of rent or the sale price that we are able to charge. To date, there have been relatively few companies competing with us for shopping center properties, and, as additional companies become active in the Argentine shopping center market in the future, such competition could have a material adverse effect on our results of operations.

We are subject to the risk of payment defaults due to our investments in credit card businesses through our subsidiary APSA.

Investments in credit card businesses can be adversely affected by delinquency on credit card accounts, defaults in payments by credit card holders, judicial enforcement for the collection of payments, doubtful accounts or loss of receivables. The present rates of delinquency, collection proceedings and loss of receivables may vary and be affected by numerous factors, which among others include:

- adverse changes in the Argentine economy;
- adverse changes in the regional economies;
- political instability;
- increase of unemployment; and
- loss of value of actual salaries.

These and other factors may have an adverse effect on present rates of delinquency, executions and losses, any one or more of which could have a material adverse effect on the results of operations of our credit card business. In addition, if our credit card business is adversely affected by one or more of the above factors, the asset quality of our securitized receivables are also likely to be adversely affected. Therefore, we could adversely be affected to the extent that at such time we hold a participating interest in any such securitized receivables.

A high percentage of credit card holders are employees. Consequently, reductions in employment, suspensions or reductions in salaries may reduce credit card holders incomes, thus, adversely affecting our credit card revenue collections.

We may not be able to recover the mortgage loans we have provided to purchasers of units in our residential development properties.

In recent years, we have provided mortgage financing to purchasers of units in our residential development properties. Before January 2002, our mortgage loans were U.S. Dollar-denominated and accrued interest at a fixed interest rate ranging generally from 10% to 15% per year and for terms ranging generally from 1 to 15 years. However, on March 13, 2002, the Argentine Central Bank converted all U.S. Dollar denominated debts into Pesos at the exchange rate of Ps. 1.00 to U.S. Dollars 1.00 and imposed maximum interest rate on mortgage loans of 3.0% for residential mortgage loans granted to individuals and 6% for mortgage loans granted to business organizations. These modifications adversely affected the U.S. Dollar value of our outstanding mortgage loans which at June 30, 2004, aggregated approximately Ps. 1.4 million.

We are subject to risks normally associated with providing mortgage financing, including the risk of default in the payment of principal and interest, which could adversely affect our cash flow. Argentine law imposes significant restrictions on our ability to foreclose and auction properties. Thus, if there is a default under a mortgage loan, we do not have the right to foreclose on the unit. Instead, in order to reacquire a property, we are required to purchase each unit at a public court ordered auction, or at an out-of-court auction, in accordance with Law No. 24,441. However, the Public Emergency Law established the suspension of all the judicial and non-judicial enforcements including the enforcement of mortgages and pledges, regardless of its origin. Private and financial entities have voluntarily decided to suspend foreclosures, while Law No. 25,798 has been enacted by Congress in order to give a definite answer to the

30

problem of default in payment of mortgage loans. We cannot assure you that we will be able to recover any amount outstanding on any mortgage loan through the sale of any property at such an auction.

We cannot assure you that any future inflation adjustment indexes will adequately reflect inflation or that such adjustment will not increase delinquency on our outstanding mortgage portfolio, thus reducing future revenues.

Our subordinated participations in securitized mortgage loans may have no value.

Additionally, on December 2001, we securitized almost the entire mortgage portfolio held by us since late 1992, amounting to Ps. 29.9 million, through the sale of this portfolio to Fideicomiso IRSA I. Banco Sudameris Argentina acted as trustee and collection agent for the trust. Fideicomiso IRSA I issued four classes of participation certificates under a scheme of complete subordination, in which each class is serviced only upon the total payment of the preceding senior class. We held all of the Class B, Class C and Class D participation certificates and approximately 10% of the Class A certificates. Class D certificates represent the most junior class, have no fixed return and will yield the funds remaining in the trust after Classes A, B and C and all the expenses of the trust have been completely paid.

This portfolio was originally denominated U.S. Dollars and mandatorily converted into Pesos in January 2002. Additionally, mortgages in the trust were subject to inflation adjustment between February and April 2002. Following these changes, the terms and conditions of the certificates of deposit issued by the trust were modified to reflect changes in the underlying assets. In May 2002, inflation adjustment on residential mortgages on homes granted to individuals were eliminated until October 2002, when adjustment was performed according to a different inflation index, the CVS. Pursuant to Decree 117/04 and Law No. 25,796, the CVS became unenforceable on April 1, 2004. The terms and conditions of the certificates of deposit were modified again to reflect this new change.

The asset quality of the portfolio has declined due to the current economic crisis in Argentina, and as a result we cannot assure you that the trust will have sufficient funds to service the subordinated certificates held by us. If there are not sufficient funds, the value of these bonds might be considerably reduced or even equal to zero.

As of June 30, 2004, Classes A, B and C were completely amortized.

As of June 30, 2004, Class D s face value amounted to Ps. 10.3 million.

We cannot assure you that the theoretical cash flow to be generated by the participation certificates owned by us (and included in the annual report), will represent actual results. Successive changes in the terms and conditions of the underlying assets have been occurring since January 2002 and additional modifications might be introduced by fiscal authorities or the Ministry of Finance, which could further affect respective cash flows.

We are subject to risks affecting the hotel industry.

The full-service segment of the lodging industry in which we operate our hotels is highly competitive. The success of our hotels will depend, in large part, upon our ability to compete in areas such as access, location, quality of accommodations, room rate structure, quality and scope of 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 to the general risks associated with investments in Argentina and in real estate discussed elsewhere in this section, the profitability of our hotels depends on:

- our ability to form successful relationships with international operators to run our hotels;

- changes in travel patterns, including seasonal changes; and

31

taxes and governmental regulations which influence or determine wages, prices, interest rates, construction procedures and costs.

Our investment in BHSA subjects us to risks affecting the banking sector.

We have an investment in the banking sector, a different industry with different risks. We hold 17,641,162 Class D shares in BHSA which represented 7.2% of our consolidated assets as of June 30, 2004. BHSA has been the leading mortgage lender, largest mortgage servicer and provider of mortgage-related insurance in Argentina. Substantially all of its operations, property and customers are located in Argentina. Accordingly, the quality of its loan portfolio and its financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina. The political and economic crisis in Argentina during 2002, and the Argentine government s actions to address the crisis, described below, have had and could continue to have a material adverse effect on our business, financial condition and results of operations.

As a result of the crisis and government measures implemented to counteract its adverse impacts in December 2001, BHSA suspended origination of mortgage loans, and started focusing its efforts on servicing and collecting its existing mortgage loans. The economic crisis and the measures adopted to counteract its impact have effectively destroyed the BHSA s traditional mortgage lending business because long-term financing is temporarily not available to it. Historically, it funded its operations principally from bank loans and debt offerings in international markets, cash flow from operations and off-balance sheet domestic and international securitizations.

BHSA s mortgage loan portfolio has been materially and adversely affected by the devaluation of the peso and may be further impacted by future fluctuations in exchange rates

Beginning on February 3, 2002, the Argentine government converted (i) certain foreign currency-denominated debts into peso-denominated debts at a one-to-one exchange rate, (ii) certain foreign currency-denominated public sector debts into peso-denominated assets at an exchange rate of Ps. 1.40 per US$ 1.00 and (iii) foreign currency-denominated bank deposits into peso-denominated bank deposits at an exchange rate of Ps. 1.40 per US$ 1.00. As a result, 100% of BHSA s mortgage loans denominated in foreign currency were converted into pesos at a one-to-one exchange rate. These pesified loans were indexed for inflation pursuant to CER or the CVS. Furthermore, its mortgage loans originally denominated in pesos have not been adjusted for inflation despite the end of the peso-US Dollar parity. Its pesified mortgage loans have been capped to bear interest at an annual rate of (i) between 3.5% and 5% for loans to individuals that are adjusted for inflation pursuant to CER, (ii) 12.38% for loans to individuals that are adjusted pursuant to the CVS and (iii) between 6% and 8% for construction project loans. Also due to the fact that BHSA s loan portfolio now generates interest income only in devalued pesos, any further devaluation of the peso against the U.S. dollar or the euro will further impair its ability to make payments on its liabilities denominated in such currencies

Less than 8% of its liabilities denominated in foreign currency were converted to pesos at an exchange rate of Ps. 1.40 per US$ 1.00, and the remainder of its liabilities remained denominated in foreign currency.

All of the Argentine government securities held by BHSA, including federal, provincial and municipal bonds, were converted to pesos at an exchange rate of Ps. 1.40 per US$ 1.00. Although the government has issued BODEN, bonds, that are intended to compensate BHSA in part for its losses resulting from pesification, we cannot assure you that the government will honor its obligations to deliver the additional BODEN to which we believe BHSA is entitled, or that any BODEN it receives will be sufficient to compensate BHSA adequately for the harm caused by asymmetric pesification of its assets and liabilities.

Including the BODEN, BHSA expects to receive from the Argentine government as compensation for the negative effects of recent governmental measures (which are recorded at par value), Argentine government bonds which represented approximately 52.8% of its assets as of September 30, 2004 pursuant to Central Bank Accounting Rules.

We cannot assure you that BHSA will implement the subscription of additional BODEN with debt from bank

As of June 30, 2004, BHSA had Ps. 1,780.2 million of debt due to the Central Bank that will be incurred in the future to acquire additional BODEN, at a value of Ps. 140 adjusted by sell for every US$100 of nominal value, from the Argentine government. The Central Bank will require that BHSA provide collateral in an equal amount in order to advance to BHSA this loan. We cannot assure that the Central Bank will make this loan to BHSA or that it will be able to provide the necessary collateral to incur the loan and acquire the additional BODEN. This debt, once incurred, will accrue interest at an annual rate of CER plus 2% and mature in August 2012, to match the terms applicable to the additional BODEN.

BHSA s ability to foreclose on mortgaged collateral has been materially impaired

On February 14, 2002, the Argentine government suspended foreclosure and bankruptcy proceedings and the suspension remained in effect until November 14, 2002. On February 4, 2003, the Executive Branch enacted Decree 204/2003 establishing a mediation procedure for a limited period of 90 days. On May 2003, the Argentine Congress enacted Law 25,737 which suspends foreclosures for an additional period of 90 days. In September 2003, BHSA, together with other financial institutions voluntarily agreed not to foreclose on its mortgage loans until a new law proposed by the government that would extend credit to to the debtors is approved by Congress. On November 5, 2003, the Argentine Congress approved a law implementing a mortgage refinancing mechanism financed by a special fund which is expected to purchase certain delinquent loans and permits debtors to repay their debts at fixed rates in pesos. Because the Argentine Congress has not yet enacted the enabling legislation for this special fund, it is not clear at this time what impact the new law will have on BHSA s results of operations or on its ability to collect on or reclassify loans in its loan portfolio that are past due or on its ability to foreclose on mortgage loans outstanding.

On November 5, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule the mortgage debts financed by a Trust (paid by the Argentine Government) which will purchase the portfolio mortgage debts and reschedule them in a more profitable way. The financial institutions were given until June 22, 2004 to accept this mortgage reschedule system. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included different conditions referring to the incorporation in this system of the mortgage loans that were in judicial or private execution proceedings.

On June 22, 2004 BHSA accepted the mortgage refinancing mechanism and certified that the total amount of the loans included in this system amounts to Ps. 218 million, including Ps. 193 million to be refinanced in February 2004 according to Law 25,798. Furthermore, First Trust of New York National Association (trustee of BHN Master Mortgage Trust) also accepted the mortgage refinancing mechanism, certifying elegible notes which amounted to Ps. 6 million, including Ps. 6 million to be refinanced in February 2004. All these credits have been securitized and BHSA is the beneficiary of the results.

Once this system is operating, BHSA will be entitled to receive from the trustee notes due on November 1, 2006 for 60% of the unpaid amounts and for the remaining 40%, bonds due on November 1, 2014.

Table of Contents

BHSA is entirely dependent on mortgage lending which is not currently a viable business in Argentina, and its ability to continue as a going concern depends in part on a new and unproven business strategy

BHSA is entirely dependent on mortgage lending which is not currently a viable business in Argentina, and its ability to continue as a going concern depends in part on a new and unproven business strategy. Historically, BHSA has been engaged exclusively in mortgage lending and related activities. As a result, factors having an adverse effect on the mortgage market have a greater adverse impact on BHSA than on its more diversified competitors. Due to its concentration in this recession sensitive sector, BHSA is particularly vulnerable to adverse changes in economic and market conditions in Argentina due to their adverse effect on (i) the demand for new mortgage loans and (ii) the asset quality of outstanding mortgage loans.

In light of the economic conditions in Argentina and the likely unavailability of long-term financing to BHSA for the foreseeable future, it can no longer continue as a financial institution that relies solely on mortgage lending and related services. Accordingly, it is seeking to adapt its business strategy to confront the challenges of these new market conditions. Its ability to operate as a going concern will depend on how successfully it transforms into a diversified financial institution that no longer depends on mortgage lending. It must overcome significant challenges to achieve this goal including, among others, its precarious financial condition, lack of experience and client relationships outside the mortgage sector, the existence of large, well-capitalized competitors, its extremely limited ability to invest in new businesses and significant political, regulatory and economic uncertainties in Argentina. Therefore, BHSA cannot give us any assurance that it will be successful in implementing its new business strategy.

BHSA may try to achieve its new business goals through acquisitions which would create significant additional risk

BHSA faces significant obstacles in seeking to develop its business plan through internal growth and the acquisition of other banks or financial institutions or a significant portion of their assets and liabilities. These acquisition opportunities may require BHSA to incur additional debt or other direct or contingent liabilities, and its ability to incur such liabilities is very limited. In addition, any such acquisitions would likely cause BHSA s management to divert its attention to the integration of these businesses into its current operations. If BHSA fails to achieve and manage growth, its financial condition and ability to continue as a going concern would be materially and adversely affected.

BHSA s insurance business depends on their suspended mortgage business

Historically, BHSA originated insurance policies in connection with its mortgage lending business. Since BHSA suspended its mortgage loan originations, its insurance business has been adversely affected. BHSA s insurance sector was among the best performing lines of business in which it was involved. BHSA s failure to implement measures that create a new market for these policies or to otherwise generate revenue from insurance will have a material adverse effect on its financial condition and results of operations.

BHSA faces potential material litigation

As of June 30, 2004, approximately 3,642 borrowers of written-down pre-1991 loans had instituted legal proceedings against BHSA challenging the compliance of the write-down with the provisions of the Privatization Law, claiming that the write-downs had been insufficient. The affected loans had an aggregate outstanding balance as of such date of approximately Ps. 81.1 million. If BHSA loses this litigation or settles the claims, or if more borrowers bring similar claims against BHSA, it may need to effect substantial write downs of the affected loans. The majority of the remaining borrowers have obtained a preliminary injunction requiring BHSA to charge a lower service of capital and interest with respect to the amount previously determined by it. We cannot assure you that additional borrowers will not bring similar lawsuits or as to the outcome of the pending lawsuits. If BHSA loses this litigation, or settles the claims, or if more borrowers bring similar claims against BHSA, it may need to write off significant amounts that it had previously capitalized. Any one or more of these events may materially and adversely affect its business, financial condition or results of operations.

In May 2003, an Argentine court entered a judgment directing BHSA to pay an amount that, at the date of the judgment, was approximately Ps. 40 million in connection with a proceeding initiated by a private developer who received financing for construction of certain projects. The developer alleged that

Table of Contents

BHSA breached certain of the original conditions of the financing contract and the operating framework of such financing, including failure to make available agreed loan financings. BHSA currently faces other similar claims by other private developers or construction companies that involve an additional amount of approximately Ps. 421 million in the aggregate. Although BHSA has appealed the May 2003 judgment, the possible confirmation of the judgment and/or eventual extension of the ruling to other proceedings could materially adversely impact its financial condition and results of operations.

In addition, the Argentine social security administration has filed a suit seeking summary judgment against BHSA alleging that it owes Ps. 335 million in additional contributions to the pension plan that were not made by its predecessor, Banco Hipotecario Nacional. Although the privatization law under which BHSA was privatized clearly precludes it being liable for these payments and establishes that this obligation is the exclusive responsibility of the Argentine government, a court may nonetheless entertain this suit and rule against BHSA which could have a material adverse effect on its financial condition and results of operations.

Uncertainties affecting BHSA s business could negatively affect the value of our investment.

The auditors report on our Consolidated Financial Statements includes an explanatory paragraph describing that the quality of BHSA s financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina. The political and economic crisis of late 2001 and early 2002 and the Argentine government s actions to address such crisis have had a significant adverse effect on BHSA´s business activity. Currently, BHSA is significantly dependent on the Argentine Government s ability to perform on its obligations to BHSA and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and on its obligation to approve and deliver government securities under various laws and regulations. As of June 30, 2004, our investment in BHSA accounted for approximately 7% of our total consolidated assets. The future outcome of the uncertainties described above could have an adverse effect on the valuation of our investment in BHSA.

We are dependent on our senior manager and chairman Eduardo Elsztain.

Our success depends, to a significant extent, on the continued employment of Eduardo S. Elsztain, our chief executive officer, president and chairman of the board of directors. The loss of his services for any reason could have a material adverse effect on our business. Our future success also depends in part upon our ability to attract and retain other highly qualified personnel. We cannot assure you that we will be successful in hiring or retaining qualified personnel, or that any of our personnel will remain employed by us.

APSA s use of financial instruments for hedging may result in material losses.

APSA uses various financial instruments to reduce its financing cost associated with its borrowings. The interest rate swaps and foreign currency contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures.

Nevertheless, APSA s hedging strategies may prove ineffective to address the effects of interest rate or foreign currency exchange movements on its financial condition. APSA has experienced net hedging losses in the past, and could experience such losses in the future to the extent that interest rates or foreign exchange rates shift in excess of the risk covered by hedging arrangements. In entering into interest rate and foreign currency contracts, APSA bears the credit risk of counterparties being unable to meet the terms of their contracts, and APSA may be unable to recover damages from any such defaulting counter party through legal enforcement actions due to laws affording bankruptcy or similar protection to insolvent obligors, foreign laws limiting cross-border enforcement actions or otherwise.

On March 30, 2000, in connection with the issuance of Ps. 85 million Notes, APSA entered into a swap agreement with Morgan Guaranty Trust in order to reduce the related financing cost. This swap agreement initially allowed APSA to reduce the net cost of its debt. However, due to the Argentine economic crisis, the political instability, and the depreciation of the Argentine public debt, there was a substantial negative deviation of the performance of the swap agreement that required the modification of

Table of Contents

the original terms. Under the terms of the revised agreement, APSA agreed to pay US$ 69.1 million on March 30, 2005 and receive Ps. 69.1 million on such date. As collateral for its payment obligations under the modified agreement, APSA was required to make a deposit of US$ 50 million with the counterparty. APSA is not required to make additional deposits until maturity. An additional payment at maturity could be required depending on the prevailing exchange rate between the Peso and the U.S. Dollar. Thus, a continued devaluation of the Peso against the US Dollar and/or an increase in interest rates would increase its loss which could be material.

As of June 30, 2004, APSA was not using any other derivatives.

Risks Related to the Global Depositary Shares and the Shares

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 *Bolsa de Comercio de Buenos Aires* (BCBA) than is regularly published by or about domestic issuers of listed securities in the United States and certain other countries. In addition, all listed Argentine companies must prepare their financial statements in accordance with Argentine GAAP which differs in certain significant respects from U.S. GAAP. For this and other reasons, the presentation of Argentine financial statements and reported earnings may differ from that of companies in other countries in this and other respects.

We are exempt from the rules under 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.

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, and most of our assets are located in Argentina. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against them in United States courts judgments obtained in such courts predicated upon the civil liability provisions of the United States federal securities laws. We have been advised by our Argentine counsel, Zang, Bergel & Viñes, that there is doubt whether the Argentine courts will enforce in all respects, 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, United States Holders of our securities would suffer negative consequences.

Based on the current and projected composition of our income and valuation of our assets we do not believe we were a Passive Foreign Investment Company (PFIC), for United States federal income tax purposes for the tax year ending June 30, 2004, 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. If we become a PFIC, United States Holders of our shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for United States Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our shares or GDSs at a gain, as well as reporting requirements. Please see Taxation-United States Taxation for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

Table of Contents

ITEM 4. Information on the Company

A. History and Development of the Company

General Information

Our legal name is IRSA Inversiones y Representaciones Sociedad Anónima. We were incorporated and organized on April 30, 1943 under Argentine law as a sociedad anónima (stock corporation), and we were registered with the Inspección General de Justicia (Public Registry of Commerce of the City of Buenos Aires) on June 23, 1943 under number 284, on page 291, book 46 of volume A. Pursuant to our bylaws, our term of duration expires on April 5, 2043. Our shares are listed and traded on the BCBA and global depositary shares representing our shares are listed on the New York Stock Exchange. Our principal executive offices are located at Bolívar 108, Buenos Aires (C1066AAD), Argentina. Our headquarters are located at Moreno 877, (C1091AAQ), Buenos Aires, Argentina. Our telephone is +54 (11) 4323-7400, and our website is www.irsa.com. Our Depositary Agent for the Global Depositary Shares in the United States is The Bank of New York whose address is P.O. Box 11258 Church Street Station, New York, New York 10286, and whose telephone is 001-610-312-5315.

History

Since 1991, when our current management and certain international investors acquired substantially all of our capital stock, we have been actively engaged in diverse real estate activities in Argentina. Following our global public offering in December 1994, we developed our real estate activities in the office rental market by acquiring three office towers located in prime office zones of Buenos Aires: Libertador 498, Maipú 1300 and Madero 1020.

Since 1996, through our subsidiary APSA, we expanded our real estate activities into the shopping center segment. As of June, 30, 2004, we had a controlling interest in a portfolio of seven shopping centers: Paseo Alcorta, Alto Palermo Shopping, Buenos Aires Design, Alto Avellaneda, Nuevo Noa Shopping, Abasto and Patio Bullrich and a minority interest in Mendoza Plaza Shopping. Since 1996, we also entered into the residential real estate market through the development and construction of multi-tower apartment complexes in the City of Buenos Aires and through the development of private residential communities in greater Buenos Aires.

In 1997, we entered the hotel market through the acquisition of a 50% interest in the Llao Llao Hotel near Bariloche and the Inter-Continental Hotel in the City of Buenos Aires. In 1998, we also acquired the Sheraton Libertador Hotel in the City of Buenos Aires and subsequently sold a 20% interest to an affiliate of Sheraton Hotels.

In December 2000, we sold to Consultoria Inmobiliaria Velutini y Asociados all of our interest in Venezuela Invest Ltd. and Fondo de Valores Inmobiliarios (FVI), companies through which we held our interests in Venezuela, for total consideration of US$ 67.0 million. On February 28, 2002, we sold all of our interest in Brazil Realty for US$ 44.2 million.

From December 2000 to June 30, 2004, Cresud acquired approximately 25.42% of our outstanding shares in exchange for Ps. 162.9 million.

In September 2002, we acquired the Piscis Hotel located in Valle de Las Leñas, an important ski resort in Argentina, for US$ 1.4 million. During that month, we also acquired 30.955% of the share ownership of Valle de Las Leñas S.A. and US$ 3.7 million convertible notes due October 31, 2005, issued by that company, for US$ 2.4 million. Valle de Las Leñas S.A. is the operator of the ski resort. In March 2003, we sold the Piscis Hotel and our stake in Valle de Las Leñas S.A. for a total consideration of US$ 7.7 million.

On October 15, 2002, we initiated a preemptive rights offering of rights for 100 million units consisting of US$ 100.0 million of 8% convertible notes (the Convertible Notes) due 2007 and non-detachable warrants to purchase shares of our common stock. The Convertible Notes may be converted into shares of our common stock after December 13, 2002, and until maturity on November 14, 2007, at the initial conversion price of US$ 0.5450 per common share. Each warrant will be exercisable on or after conversion of the convertible note to which it is attached at the same conversion price plus a 20% premium (US$ 0.6541). The rights offering to holders of our common shares and GDSs expired on November 13, 2002. Existing shareholders have subscribed through the exercise of their preemptive rights for US$ 66.7 million and they have exercised their accretion rights for US$ 10.7 million, adding together US$ 77.4 million. During the allocation of the remainder new investors have subscribed the remaining 22.6 million units completing the US$ 100 million offering.

As of November 30, 2004, certain holders of our Convertible Notes exercised their conversion rights for a total of 13,468,670 units with a face value of US$ 1 each, whereas the ordinary stock delivered under this heading amounted to 24,713,137 with a face value of Ps. 1.0 each.

The number of Convertible Notes currently outstanding amounts to US$ 86,531,330, the number of warrants currently outstanding amounts to 87,734,038, while the number of our outstanding shares is 259,218,751.

During fiscal year 2004, we increased our stake in BHSA. As of June 30, 2004, we owned 11.76% of BHSA and 5.22% of such ownership is through our subsidiary Ritelco S.A. As of June 30, 2004, IRSA and Ritelco S.A. valued their shares in BHSA at their proportional equity value. In contrast, as of June 30, 2003 they had been valued at their market value at year-end, deducting estimated sales costs.

On September 29, 2004, we entered into an agreement for the purchase of 49.9% of the capital stock of Pérez Cuesta S.A.C.I., a company mainly engaged in the operation of Mendoza Plaza Shopping. The transaction was consummated on December 2, 2004, after APSA obtained approval from the Antitrust Authorities. As a result, APSA currently owns a 68.8% interest in this shopping center.

On November 9, 2004 APSA opened Alto Rosario Shopping, with 99% of the units already leased. The first stage required an investment of approximately Ps. 55 million, that was fully financed with our cash flow from operations.

On November 30, 2004, we purchased from GSEM/AP Holdings LP (GSEM/AP), a wholly owned subsidiary of Goldman Sachs, 3,061,450 Convertible Notes and 1,114,520 American Depositary Shares (ADS) of APSA. We paid U$S 15.3 million for such securities. We then agreed to transfer to Parque Arauco, owner as of June 30, 2004 of a 27.78% interest in APSA, 1,004,866 Convertible Notes and 365,821 ADS of APSA pursuant to a prior agreement for a price of U$S 5.0 million (32.8% of the acquisition by IRSA from GS).

Capital Expenditures

During the fiscal year ended June 30, 2004 we made capital expenditures of Ps. 153.0 million. Our principal capital expenditure was the purchase of shares and options of BHSA for a total amount of Ps. 127.3. We also made investments in fixed assets of Ps. 25.1 million primarily in the construction of Rosario Shopping in APSA of Ps. 20.4 million and in improvement of Llao Llao Hotel of Ps. 3.3 million. We also invested Ps. 0.6 million in undeveloped parcels of land.

During the fiscal year ended June 30, 2003 we made capital expenditures of Ps. 42.7 million. We made investments in our subsidiaries and equity investees of Ps. 31.7 million primarily in APSA. We also made investments in fixed assets of Ps. 10.8 million among which we can highlight fixed assets belonging to the shopping center and hotel segment. In addition we made investments in undeveloped parcels of land of Ps. 0.2 million.

During the fiscal year ended June 30, 2002 we had capital expenditures of Ps. 50.1 million. We made investments in fixed assets of Ps. 25.1 million primarily to the acquisition of Edificios Costeros Dock IV in the office segment of Ps. 20.6 million and Ps. 3.1 in the Llao Llao Hotel. We also made investments in undeveloped parcels of land of Ps. 3.3 million primarily in Dique III of Ps. 2.5 million and in our subsidiaries and equity investees of Ps. 21.7 million.

Table of Contents

We plan to use cash proceeds from the exercise of warrants to finance new projects and continue our expansion.

B. Business Overview

Operations and Principal Activities

We are one of Argentina s leading real estate companies. We are engaged directly, or indirectly through subsidiaries and joint ventures in a range of real estate activities in Argentina.

Our principal activities consist of:

- the acquisition and development of residential properties primarily for sale;
- the acquisition, development and operation of office and other non-shopping center retail properties primarily for rental purposes;
- the acquisition, development and operation of shopping centers properties;
- the acquisition and operation of luxury hotels; and
- the acquisition of undeveloped land reserves for future developments or sale.

Overview of properties

As of June 30, 2004 we either directly or through our subsidiaries and joint ventures, owned significant interests in a portfolio of 53 properties in Argentina, located principally in Buenos Aires. The following table sets forth certain information concerning our operation and property portfolio.

Consolidated Operating Income

	Years ended June 30, (1)		
	2004	2003 (As restated)	2002 (As restated)

		(2)	(2)
	(in thousands of Pesos)		
Offices and other non-shopping center rental properties	30,229	2,297	(24,656)
Shopping centers	63,493	14,093	(1,393)
Development and sale of properties	860	2,952	(33,832)
Hotels operations	10,138	6,176	(12,775)
International			34,594
Total	**104,720**	**25,518**	**(38,062)**

(1) At June 30, 2004, 2003 and 2002 includes Ps. 64.3 million, Ps. 21.5 million and Ps. (46.8) million gain (loss) from operations and holdings of real estate assets, net distributed as follows: Offices and other non-shopping center rental properties Ps. 27.7 million, Ps. (1.9) million and Ps. (49.3) million, Shopping centers Ps. 26.9 million, Ps. 10.5 million and Ps. 0.0 million. Developments and Sales of properties Ps. 7.0 million, Ps. 12.9 million and Ps. (26.8) million and Hotels operations Ps. 2.7 million, Ps. 0.0 million and Ps. (6.6) million.

(2) Under Argentine GAAP, we adopted RT No. 21 Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions during the year ended June 30, 2004. As a result of such an adoption, we began consolidating Llao Llao Resorts S.A. (hotel operations). As required by Argentine GAAP, our prior year s financial statements and related data were restated to reflect our investment in Llao Llao Resorts S.A. on a consolidated basis.

Table of Contents

Consolidated Income by Geographic Area

	Total rentals/sales income for the fiscal years Ps./000 (1)		
	2004	**2003**	**2002**
Offices and other non-shopping center rental properties			
City of Buenos Aires	15,144	17,770	44,472
Shopping Centers			
City of Buenos Aires	125,747	101,629	
Province of Buenos Aires	14,734	10,038	
Province of Salta	2,769	2,087	
Development and sale of properties			
City of Buenos Aires	11,894	23,140	39,206
Province of Buenos Aires	19,222	14,189	15,170
Province of Mendoza		9,912	
Hotels operations			
City of Buenos Aires	41,729	33,826	38,795
Province of Rio Negro	29,566	23,560	18,398
Province of Mendoza		344	
Total City of Buenos Aires	194,514	176,365	122,473
Total Province of Buenos Aires	33,956	24,227	15,170
Total Province of Rio Negro	29,566	23,560	18,398
Total Province of Salta	2,769	2,087	
Total Province of Mendoza		10,256	
TOTAL	**260,805**	**236,495**	**156,041**

(1) Corresponds to the company s sales and rentals consolidated by the RT21 method which stablishes the consolidation line by line with the financial statements of its controlled companies, adjusted for inflation.

Offices and other non-shopping center rental properties

We are engaged in the acquisition, development and management of offices and other non-shopping center rental properties in Argentina. As of June 30, 2004, we, directly and indirectly, owned interests in 18 office and other non-shopping center rental properties in Argentina which comprised 121,446 square meters of gross leasable area. Of these properties, 13 were office properties which comprised 84,055 square meters of gross leasable area. For the fiscal year 2004, we had net revenues from office and other non-shopping center rental properties of Ps. 15.1 million.

All our office rental property in Argentina is located in the City of Buenos Aires. All of these properties are rented to various different premium tenants. For the year ended June 30, 2004 the average occupancy rate for all our properties in the Offices and other non-shopping center rental property segment was approximately 83%. Seven different tenants accounted for approximately 43% of our monthly office rental and 14% of our total income for the fiscal year 2004. Our seven main office rental tenant are: Grupo Total Austral, Grupo Danone, Cisco Systems Argentina S.A., Vintage Oil Argentina, Allende y Brea, CRM Movicom and Nextel Argentina S.A.

Administration and Management. We generally act as the managing agent of the office properties in which we own an interest. These interests consist primarily of the ownership of entire buildings or a substantial number of floors in a building. The buildings in which we own floors are generally managed pursuant to the terms of a condominium agreement that typically provides for control by a simple majority of the interests (based on the area owned) in the building. As the managing agent of operations, we are responsible for handling services, such as security, maintenance and housekeeping. These services are generally contracted to third party providers. The cost of the services are passed-through and paid for by the tenants, except in the case of our unrented units, in which case we absorb the cost. Our leasable space is marketed through commissioned brokers, the media and directly by us.

Leases. We lease our offices and other properties pursuant to contracts with terms of three years, with the exception of a few contracts with terms of five years. These contracts are renewable for two or three additional years at the tenant s option. Contracts for the rental of property not located in shopping

Table of Contents

malls are generally stated in U.S. Dollars, and in accordance with Argentine law they are not subject to inflation adjustment. Rental rates for renewed periods are negotiated at market value.

The following table sets forth certain information regarding our direct and indirect ownership interest in offices and other non-shopping center rental properties.

Offices and other non-shopping center rental properties

	Date of Acquisition	Leaseable area m2 [1]	Occupancy rate [2]	Monthly rental income Ps./000 [3]	Total rental income for the fiscal years Ps./000 [4] 2004	2003	2002	Net Book Value Ps./000 [5]
Offices								
Inter-Continental Plaza [6]	11/18/97	22,535	84%	417	4,108	5,648	12,749	65,152
Libertador 498	12/20/95	10,533	88%	247	2,524	2,359	5,212	42,679
Maipú 1300	09/28/95	10,325	92%	210	2,040	2,100	5,057	45,432
Laminar Plaza	03/25/99	6,521	95%	195	2,288	2,902	4,973	31,126
Madero 1020	12/21/95	1,359	16%	3	104	876	2,119	4,047
Reconquista 823/41	11/12/93	6,100	0%				2,326	17,733
Suipacha 652/64	11/22/91	11,453	45%	47	530	576	1,460	10,641
Edificios Costeros	03/20/97	6,389	98%	97	820	403	1,520	19,726
Costeros Dique IV	08/29/01	5,437	87%	96	744	695	1,924	20,123
Other [7]		3,403	100%	65	628	602	1,499	9,381
Subtotal		84,055	76%	1,377	13,786	16,161	38,839	266,040
Other rental properties								
Commercial properties [8]		4,062	97%	14	153	191	2,354	1,951
Other properties [9]		33,329	100%	42	623	742	2,005	3,697
Subtotal		**37,391**	100%	56	776	933	4,359	5,648
Related expenses								
Management fees					582	676	1,274	
TOTAL OFFICES AND OTHERS [10]		**121,446**	83%	1,433	15,144	17,770	44,472	271,688

Notes:

(1) Total leasable area for each property. Excludes common areas and parking.

(2) Calculated dividing occupied square meters by leasable area.

(3) Agreements in force as of 06/30/04 were calculated.

(4) Total consolidated leases, according to RT 21 method which stablishes the consolidation line by line with the financial statements of its controlled companies.

(5) Cost of acquisition, plus improvements, less accumulated depreciation, plus adjustment for inflation until 02/28/03, less allowance for impairment value, plus net recovery of the allowance for impairment, if corresponded.

(6) Through Inversora Bolívar S.A. (IBSA)

(7) Includes the following properties: Madero 942, Av. de Mayo 595/99, Av. Libertador 602 y Sarmiento 517 (through our company). In fiscal year 2002, cumulative revenues also include the revenues from Puerto Madero Dock 5 (fully sold).

(8) Includes the following properties: Constitución 1111 and Alsina 934/44 (through our company). In fiscal year 2002, cumulative revenues also include the revenues from Santa Fe 1588 and Rivadavia 2243 (fully sold).

(9) Includes Thames, one unit in Alto Palermo Park (through Inversora Bolívar). In fiscal years 2003 and 2002, cumulative revenues include the revenues from Alto Palermo Plaza (fully sold).

(10) Corresponds to the Offices and Other business unit mentioned in Note 6 to the Consolidated Financial Statements.

The following table shows a schedule of the lease expirations of our office and other non-shopping center properties for leases outstanding as of June 30, 2004, assuming that none of the tenants exercise renewal options or terminate their lease early. Most tenants have renewal clauses in their leases.

Fiscal year of lease expiration	**Number of leases expiring**	**Square meters subject to expiring leases**	**Percentage of total square meters subject to expiration**	**Annual rental income under expiring leases**	**Percentage of total rental income under expiring leases**
		(m2)	**(%)**	**(Ps.)**	**(%)**
2004	25	47,033	47	3,324,768	19
2005	18	12,493	12	3,025,201	18
2006	43	30,671	30	8,055,852	47
2007	17	6,569	7	1,753,649	10
2008	6	3,892	4	1,038,506	6
Total	109	100,658	100%	17,197,976	100%

41

Table of Contents

The following table shows the average occupancy rate for our offices during the last three fiscal years ended June 30, 2004, 2003 and 2002.

	Fiscal year ended June 30 [1],		
	2004	2003	2002
	(%)	(%)	(%)
Offices			
Inter-Continental Plaza	84	73	83
Libertador 498	88	53	59
Maipú 1300	92	70	62
Laminar Plaza	95	90	95
Madero 1020	16	100	45
Suipacha 652/64	45	45	45
Reconquista 823/41	0	0	0
Edificios Costeros	98	63	27
Costeros Dique IV [2]	87	48	63
Others [3]	100	45	63

(1) Calculated by dividing square meters leased under leases in effect as of June 30, 2004, 2003 and 2002 by the total gross leasable area of offices in the same periods.

(2) Lease commenced during first quarter 2002.

(3) Fiscal years 2004 and 2003 include the following properties: Madero 942, Av. de Mayo 595/99, Av. Libertador 602 and Sarmiento 517.

The following table shows the average annual rent per square meter for our offices for the last three fiscal years ended June 30, 2004, 2003 and 2002.

	Fiscal year ended June 30 [1],		
	2004	2003	2002
	(Ps./m2)	*(Ps./m2)*	*(Ps./m2)*
Offices			
Inter-Continental Plaza	262	251	566
Libertador 498	323	224	467
Maipú 1300	235	203	490
Laminar Plaza	381	445	763
Madero 1020	281	350	419
Suipacha 652/64	104	50	127
Reconquista 823/41			381
Edificios Costeros	154	63	238
Costeros Dique IV [2]	226	128	354
Others [3]	307	169	338

(1) Calculated dividing annual rents per gross leasable area of offices according to our interest in each building.

(2) Leases commenced during first quarter 2002.

(3) Fiscal years 2004 and 2003 includes the following properties: Madero 942, Av. de Mayo 595/99, Av. Libertador 602 and Sarmiento 517.

Properties. Set forth below you will find information regarding our principal currently owned office properties, including the names of the tenants occupying 5% or more of the gross leasable area of each property.

Inter-Continental Plaza, City of Buenos Aires. Inter-Continental Plaza is a modern 24-story building located next to the Inter-Continental Hotel in the historic neighborhood of Monserrat in downtown city of Buenos Aires. We own the entire building which has floor plates averaging 900 square meters. The principal tenants currently include Total Austral S.A., Danone Argentina S.A., Vintage Oil Argentina Inc. Sucursal Argentina and Cresud.

Libertador 498, City of Buenos Aires. Libertador 498 is a 27-story office tower located at the intersection of Avenida 9 de Julio, Avenida del Libertador and Autopista Illia, three of the most important thoroughfares of the City of Buenos Aires, making it accessible from the north, west and south of the city. We own 17 floors with floor plates averaging 620 square meters. The building has a singular cylindrical design and a highly visible circular neon billboard that makes it a landmark in the Buenos Aires skyline. The principal tenants in this building currently include Voridiam Argentina S.R.L., MTV Networks Argentina S.R.L., Epson Argentina S.A., Cervecería y Maltería Quilmes, Yara Argentina S.A. and Farmanet S.A., Chrysler Argentina S.A. leases the billboard for an annual rent of Ps. 120,000 through June 30, 2004.

Table of Contents

Maipú 1300, City of Buenos Aires. Maipú 1300 is a 23-story office tower located on the San Martín Plaza, a prime office zone, on Avenida del Libertador, a major north-south thoroughfare. The building is also located within walking distance of the Retiro commuter train station, Buenos Aires most important public transportation hub, connecting rail, subway and bus transit. We own the entire building which has floor plates measuring 440 square meters on most floors. The building s principal tenants currently include Allende & Brea, Totalfinaelf Gas Transmission Argentina S.A., Carlson Wagonlint Travel Argentina S.A., and PPD Argentina S.A.

Laminar Plaza, City of Buenos Aires. Laminar Plaza is a 20-story office building located in Catalinas, the City of Buenos Aires most exclusive office district. The floor plates each measure 1,453 square meters, including common areas. We own 5 floors and 66 parking spaces. The main tenants, among others, are as follows: Cisco Systems, CRM Movicom, Chubb Argentina de Seguros S.A. and Bank Hapoalim B.M.

Madero 1020, City of Buenos Aires. Madero 1020 is a 25-story office tower located in the center of the Catalinas area, a prime office zone, with spectacular views of the Port of Buenos Aires, the Río de la Plata and downtown Buenos Aires. As of June 30, 2004 we owned 2 non-contiguous floors with the floor plates averaging 572 square meters and 8 parking spaces. As of November 30, 2004 one floor was sold.

Reconquista 823/41, City of Buenos Aires. Reconquista 823/41 is a 15-story office tower located in the Catalinas area. We own the entire building which consists of four basements, 52 parking spaces and 16 floors of office space. The building has floor plates averaging 540 square meters. Until May, 2002 the entire building was being leased to Aguas Argentinas who decided not to renew the contract at maturity. Since May 2002, the building has been available for rent.

Suipacha 652/64, City of Buenos Aires. Suipacha 652/64 is a seven-floor office building located in the office district of the City of Buenos Aires. We own the entire building which has floor plates unusually large, measuring 1,580 square meters on most floors. This property underwent substantial renovations shortly after we acquired the deed in 1991 to prepare the building for rental. The building s principal tenants currently include Procter & Gamble Interaméricas Inc., Monitor de Medios Publicitarios S.A./IBOPE and APSA s subsidiary, Tarshop S.A.

Edificios Costeros, City of Buenos Aires. Costeros A and B are two four-story buildings developed by us and located in the Puerto Madero area. We own the two buildings which have a gross leasable area of 6,389 square. In September 1999 we completed their construction and in April 2000 began to market the office spaces and 147 parking spaces. The main tenants of these properties are Leo Burnett Worldwide Invest. Inc., Martina Di Trento S.A., APSA s subsidiary, Altocity.Com S.A., Red Alternativa S.A., Reckitt Benchiser Argentina S.A. and Citybrokers.

Costeros Dique IV, City of Buenos Aires. On August 29, 2001 we signed for the deed of sale of Section C of the office complex known as Puerto del Centro that includes buildings 5 and 6 . The property is located in Pierina Daelessi street No. 340, over the East Side of Dock 4 of Puerto Madero and has approximately 5,500 square meters of gross leasable area and 50 parking spaces. The building s principal tenants currently include Nextel Argentina S.A., London Suply S.A.C.I.F. and Petroenergy S.A.

Other office properties. We also have interests in three other office properties, all of which are located in the City of Buenos Aires. These properties are either entire buildings or portions of buildings. none of which contributed more than Ps. 0.63 million in annual rental income for fiscal year 2004. Among these properties are Madero 942, Libertador 602, Av. De Mayo 595/599 and Sarmiento 517.

Retail and other properties. Our portfolio of rental properties includes four rental properties that are leased as street retail, a warehouse and various other uses. Most of these properties are located in the city of Buenos Aires. These properties include Constitución 1111, Alsina 934, Thames and Alto Palermo Park.

Shopping centers

We are also engaged in purchasing, developing and managing shopping centers, through our subsidiary APSA. As of June 30, 2004, APSA operated and owned majority interests in seven shopping centers, five of which are located in the city of Buenos Aires, one shopping center is located in the greater Buenos Aires area and another in the city of Salta. As of such date, APSA also owned indirectly an 18.9% non-controlling interest in Mendoza Plaza, a shopping center located in the city of Mendoza. In addition to purchasing, developing and managing shopping centers, APSA owns an 80% interest in Tarshop S.A. (Tarshop), a limited purpose credit card company which originates credit card accounts to promote the sales of APSA s tenants and other selected retailers.

On September 29, 2004, APSA entered into an agreement for the purchase of 49.9% of the capital stock of Perez Cuesta S.A.C.I., a company mainly engaged in the operation of the Mendoza Plaza Shopping Center. The transaction was consummated on December 2, 2004, after APSA obtained approval from the Antitrust Authorities. As a result, APSA currently owns a 68.8% interest in this shopping center.

On November 9, 2004 APSA opened Alto Rosario Shopping, with 99% of the units already leased. The first stage required an investment of approximately Ps.55 million, that was fully financed with our cash flow from operations.

APSA s shopping centers comprise a total of 143,693 square meters of gross leasable area excluding certain space occupied by hypermarkets which are not APSA s tenants. This area accounts for approximately 60% of the gross leasable area of Ciudad de Buenos Aires and 30% of the gross leasable area in Argentina. For the year ended June 30, 2004, the average occupancy rate of the shopping center portfolio was approximately 98.3%. For the fiscal year 2004, our revenues from shopping centers and Tarjeta Shopping were Ps. 143.3 million.

Management and administration. As a result of the acquisition of several shopping centers and of the corporate reorganization of APSA, we were able to reduce expenses by centralizing management of the shopping centers in APSA. All of our shopping centers are owned through APSA, and all of them, including Mendoza Plaza, as of December 2, 2004, are managed by APSA. As manager, APSA is responsible for providing common area electrical power, a main telephone switchboard, central air conditioning and other basic common area services.

As of June 30, 2004 we owned 53.81% of APSA. As of June 30, 2004, 27.8% of APSA s shares were held by Parque Arauco S.A., and 6.1% by GSEM/AP. The remaining shares are held by the public and traded on the BCBA and on the Nasdaq Stock Market in the form of American Depositary Shares (NASDAQ symbol: APSA).

Leases. Under Argentine Law, terms of commercial leases must be between three to ten years, with most leases in the shopping center business having terms of no more than five years. Lease agreements are generally denominated in argentine pesos with the exception of some renewals and new lease contracts signed during this fiscal year which are subject to rent escalation clauses.

Tenants are generally charged a rent which consists of the higher of (i) a base rent and (ii) a percentage rent which generally ranges between 4% and 8% of tenant s sales. Furthermore, pursuant to the rent escalation clause in most leases, a tenant s base rent generally increases between 4% and 7% each year during the term of the lease. Tenants are also required to pay for the direct expenses of their units, such as electricity, water, telephone and air conditioning, as well as their proportion of the common area expenses. In addition, tenants pay approximately between 12% and 15% of their base rent into a common promotion fund. In the cases where APSA acts as manager, APSA receives an administration fee.

In addition to rent, tenants are generally charged with an admission right paid upon entering into a lease and upon lease renewal. Admission right is normally paid in one lump sum or in a small number of monthly installments. If the tenant pays in installments, it is the tenant s responsibility to pay for the balance of any such amount unpaid in the event the tenant terminates its lease prior to its expiration date. In the event of termination, a tenant will not be refunded its admission right without APSA´s consent.

44

Table of Contents

The following table shows certain information concerning our shopping centers (excluding Mendoza Plaza):

Shopping center properties

	Date of Acquisition	Leaseable Area m2 [1]	Occupancy rate [2]	Total rental income for the fiscal years Ps./000 [3] 2004	2003	2002	Net Book Value Ps./000[4]
Shopping Centers [5]							
Alto Palermo	11/18/97	17,900	100%	28,341	24,596	37,655	229,117
Abasto	07/17/94	39,325	99%	26,478	20,531	34,601	210,696
Alto Avellaneda	11/18/97	27,451	99%	14,734	10,038	23,871	107,333
Paseo Alcorta	06/06/97	14,829	99%	15,434	12,216	18,528	69,003
Patio Bullrich	10/01/98	10,882	100%	12,744	10,610	14,339	121,678
Alto Noa	03/29/95	18,818	97%	2,769	2,087	4,450	29,589
Buenos Aires Design	11/18/97	14,488	98%	5,936	3,801	7,605	23,381
Fibesa and others [6]				6,780	4,940	5,074	
Revenues Tarjeta Shopping				30,034	24,935	45,840	
SUBTOTAL SHOPPING CENTERS		**143,693**	**98%**	**143,250**	**113,754**	**191,963**	**790,797**
Projects in progress [7]		20,000	N/A	N/A	N/A	N/A	53,295
TOTAL SHOPPING CENTER [8]		**163,693**	**98%**	**143,250**	**113,754**	**191,963**	**844,092**

Notes:

(1) Total leaseable area in each property. Excludes common areas and parking spaces.

(2) Calculated dividing occupied square meters by leaseable area.

(3) Total consolidated rents, according to RT21 method, which establishes the consolidation line by line with the financial statements of its controlled companies, adjusted for inflation until 02/28/03.

(4) Cost of acquisition plus improvements, less accumulated depreciation, plus adjustment for inflation, less allowance for impairment in value, plus recovery of allowances if applicable.

(5) Through Alto Palermo S.A. (APSA)

(6) Includes revenues from Fibesa S.A. and Alto Research and Development S.A.

(7) Corresponds to the Rosario Project. The completion date of the project is scheduled for the end of 2004 with an estimated leaseable area of 20,000 m^2.

(8) Corresponds to the Shopping Centers business unit mentioned in Note 6 to the Consolidated Financial Statements.

The following table shows a schedule of lease expirations for our shopping center properties in place (except for Mendoza Plaza) as of June 30, 2004, assuming that none of the tenants exercise renewal options or terminate their lease early.

Lease Expiration as of June 30,	Number of Leases Expiring (2)	Square Meters Subject to Expiring Leases	Percentage of Total Square Meters Subject to Expiration	Annual Base Rent Under Expiring Leases (1)	Percentage of Total Base Rent Under Expiring Leases
		(m2)	(%)	(Ps.)	(%)
2005	345	44,114	30.70	23,103,562	37.40
2006	230	34,495	24.01	15,718,828	25.44
2007	212	28,554	19.87	15,585,319	25.23
2008	20	5,645	3.93	2,709,180	4.39
2009+	24	30,885	21.49	4,660,081	7.54
Total	**831**	**143,693**	**100.00**	**61,776,970**	**100.00**

(1) Includes only the basic rental income amount. Does not give effect to our ownership interest.

(2) Includes the vacant stores as of June 30, 2004. A lease may be associated with one or more stores.

Table of Contents

The following table shows the average occupancy rate expressed as a percentage of the Gross Leasable Area for the fiscal years ended June 30, 2004, 2003 and 2002:

	Fiscal Years Ended June 30,		
	2004	2003	2002
		%	
Abasto de Buenos Aires	98.9	99.4	95.4
Alto Palermo Shopping	100.0	94.1	92.1
Alto Avellaneda	99.2	99.5	93.6
Paseo Alcorta	99.4	91.9	84.3
Patio Bullrich	99.6	91.7	91.1
Alto Noa	96.8	90.3	87.6
Buenos Aires Design	97.9	94.3	81.3
Mendoza Plaza Shopping	96.3	96.2	97.1
Total	98.3	95.8	92.4

The following table shows the annual average rental price per square meter:

	Fiscal Year Ended June 30, [1]		
	2004	2003	2002
Abasto de Buenos Aires	591.29	435.90	738.36
Alto Palermo Shopping	1,455.72	1,151.26	1,658.90
Alto Avellaneda	515.94	352.07	860.45
Buenos Aires Design	339.99	195.83	614.72
Paseo Alcorta	1,022.50	799.21	1,216.01
Patio Bullrich	1,009.41	749.81	1,014.06
Alto Noa	140.75	107.72	235.76

(1) Annual sales per gross leasable square meter reflect the sum of base rent, percentage rent and revenues from admission rights (excluding any applicable tax on sales) divided by gross leasable square meters.

Properties. Set forth below is information regarding our principal shopping centers.

Alto Palermo Shopping, City of Buenos Aires. Alto Palermo Shopping is a 152-store shopping center that opened in 1990 and is located in the densely populated neighborhood of Palermo in the city of Buenos Aires. Alto Palermo Shopping is located at the intersection of Santa Fe and Coronel Díaz avenues, only a few minutes from downtown city of Buenos Aires and has nearby access from the Bulne*s* subway station. Alto Palermo Shopping has a total constructed area of 64,574 square meters that consists of 17,900 square meters of gross leasable area. The shopping center has a food court with 20 restaurants. Alto Palermo Shopping Center is spread out over four levels and has a 647 parking spaces. Tenants in this shopping center generated average estimated monthly retail sales of approximately Ps. 1,295 per square meter for the fiscal year ended June 30, 2004. Principal tenants currently include Frávega, Librerías Yenny, Garbarino and Zara*.*

Alto Avellaneda, Avellaneda, Greater Buenos Aires area. Alto Avellaneda is a 156-store shopping center that opened in October 1995 and is located in the highly populated neighborhood known as Avellaneda, on the southern border of the city of Buenos Aires. Alto Avellaneda has a total constructed area of 97,655 square meters that includes 27,451 square meters of gross leasable area. Alto Avellaneda includes several anchor stores, a six-screen multiplex movie theatre, a Wal-Mart superstore, an entertainment area, a bowling alley, a 15-restaurant food court and an outdoor parking lot. Wal-Mart purchased the space it now occupies. Tenants in this shopping center generated average estimated monthly retail sales of Ps. 573 per square meter for the fiscal year ended June 30, 2004. Principal tenants currently include Dexter, Frávega, Bingo, Rodo and Garbarino.

Paseo Alcorta, City of Buenos Aires. Paseo Alcorta is a 122-store shopping center that opened in 1992 and is located in the residential neighborhood of Palermo Chico, one of the most exclusive areas in the city of Buenos Aires, within a short drive from downtown City of Buenos Aires. Paseo Alcorta has a

Table of Contents

total constructed area of approximately 54,728 square meters that consists of 14,829 square meters of gross leasable area. The three-level shopping center includes a four-screen multiplex movie theatre, a 18-restaurant food court, a Carrefour hypermarket, and a free parking lot with approximately 1,300 spaces. Carrefour purchased the space it now occupies but it pays proportional expenses of the shopping center. Tenants in this shopping center generated average estimated monthly retail sales of Ps. 950 per square meter for the fiscal year ended June 30, 2004. Principal tenants currently include Rapsodia, Kartun, Las Pepas and Frávega.

Abasto Shopping, City of Buenos Aires. Abasto Shopping is a 189-store shopping center located in the city of Buenos Aires. Abasto Shopping is directly accessible from the Carlos Gardel subway station and is located six blocks from the Once railway terminal and a few blocks from the highway to Ezeiza International Airport. Abasto Shopping opened in November 1998. The principal building is a landmark building which during the period 1889 to 1984 operated as the primary fresh produce market for city of Buenos Aires. The property was converted into a 115,905 square meter shopping center, with approximately 39,325 square meters of gross leasable area. Abasto Shopping is located across from Torres de Abasto residential apartment development. The shopping center includes a food court with restaurants covering an area of 5,600 square meters, a 12-screen multiplex movie theatre, entertainment facilities and the Museo de los Niños Abasto , a museum for children. Abasto Shopping is spread out over five levels and has a 1,200-car parking lot. Tenants in Abasto have generated estimated average monthly sales of Ps. 574 per square meter for the fiscal year ended June 30, 2004. Principal tenants currently include Musimundo, McDonald s, Zara, Rodo and Hoyts Cinemas.

Patio Bullrich, City of Buenos Aires. Patio Bullrich is a 93-store shopping center located in Recoleta, a popular tourist zone in the city of Buenos Aires a short distance from the Caesar Park and Four Seasons hotels. Patio Bullrich has a total constructed area of 28,211square meters that consists of 10,882 square meters of gross leasable area. The four-story shopping center includes a 18-restaurant food court, an entertainment area, a six-screen multiplex movie theatre and a parking lot with 212 spaces. Tenants in Patio Bullrich have generated estimated average monthly sales of Ps. 992 per square meter for the fiscal year ended June 30, 2004. Principal tenants currently include Rapsodia, Casa López, Christian Dior, Cacharel Damas and Etiqueta Negra.

Alto Noa, Salta, Province of Salta. Alto Noa is a 94-store shopping center located in the city of Salta, the capital of the province of Salta. The shopping center consists of 41,700 square meters of total constructed area that consists of 18,818 square meters of gross leasable area and includes a 13-restaurant food court, a large entertainment center, a supermarket, an eight-screen movie theatre and parking facilities for 551 cars. Tenants have generated estimated average monthly sales of Ps. 229 per square meter for the fiscal year ended June 30, 2004. Principal tenants currently include Frávega, Slots, Hoyts General Cinema, Repsol Y.P.F and Supermercado Norte.

Buenos Aires Design, City of Buenos Aires. Buenos Aires Design Center is a 59-store shopping center intended for specialty interior, home decorating and restaurants that opened in 1993. APSA owns Buenos Aires Design through a 51% interest in Emprendimientos Recoleta, which owns the concession to operate the shopping center. Buenos Aires Design is located in Recoleta, one of the most popular cities in Buenos Aires for tourists. Buenos Aires Design has a total constructed area of 31,645 square meters that consists of 14,488 square meters of gross leasable area. The shopping center has 5 restaurants, is divided into two floors and has a 174-car parking lot. Tenants in this shopping have generated estimated average monthly sales of Ps. 348 per square meter for the fiscal year ended June 30, 2004. Principal tenants currently include OKKO, Barugel Azulay, Kalpakian, Hard Rock Café and Morph.

Mendoza Plaza, Mendoza, Province of Mendoza. Mendoza Plaza is a 144-store shopping center located in the City of Mendoza in the Province of Mendoza. It consists of 37,090 square meters of gross leasable area. Mendoza Plaza has a multiplex movie theatre covering an area of approximately 3,515 square meters, the Chilean department store Falabella, a food court, an entertainment center and a supermarket. Tenants in this shopping center have generated estimated average monthly sales of Ps. 353 per square meter for the fiscal year 2004.

Table of Contents

Tarjeta Shopping. Tarjeta Shopping is a non banking credit card issued by Tarshop, which is a limited purpose credit card company engaged in credit card operations and is not affiliated to any bank. Tarshop originates credit card accounts to encourage customers to purchase goods and services from our shopping centers. Tarjeta Shopping is currently accepted at five shopping malls and an extensive network of supermarkets and stores.

As of June 30, 2004 Tarshop recorded total assets of approximately Ps. 40.6 million and a net worth of Ps. 6.9 million. During the year ended June 30, 2004, Tarshop s total sales amounted to Ps. 30 million, representing approximately 21% of APSA s sales for the period. For the same period it also recorded a net loss of Ps. 2.8 million. As of June 30, 2004, Tarshop had approximately Ps. 92.0 million in credit card accounts receivable, including the securitized portfolio, compared to Ps. 49.4 million at June 30, 2003.

Sales and development properties; Undeveloped parcels of land

Residential development properties

The acquisition and development of residential apartment complexes and residential communities for sale is one of our core activities. Our development of residential apartment complexes consists of the new construction of high-rise towers or the conversion and renovation of existing structures such as factories and warehouses. In residential communities, we acquire vacant land, develop the infrastructure such as roads, utilities and common areas, and sell plots of land for construction of single-family homes. We may also develop or sell portions of land for others to develop complementary facilities such as areas for shopping in the area of the residential developments.

In fiscal year 2004 net sales from the sales and developments sector fell to Ps. 31.1 million, compared to Ps. 47.2 million in fiscal 2003. The uncertainty generated in relation to the exchange rate and the low level of interest rates in the developed nations has encouraged the public to invest in secure assets such as real estate. In spite of the limited stock of property we had available for sale, given the interruption months earlier of the launch of new developments, the factors mentioned have benefited our sales in this sector, allowing us to complete the sale of several projects.

Construction and renovation works on our residential development properties is currently performed, under our supervision, by independent Argentine construction companies that are selected through a bidding process. We enter into turnkey contracts with the selected company for the construction of residential development properties pursuant to which the selected company agrees to build and deliver the development for a fixed price and at a fixed date. We are generally not responsible for any additional costs based upon the turnkey contract. All other aspects of the construction including architectural design are performed by third parties.

Prior to the commencement of construction of a residential project, we conduct an advertising program that continues after the launching of the sales of the units. In addition, we have showcased some of our renovation projects through Casa FOA, a highly visited fundraising exhibition where architects and designers display their work. This exhibition has wide public appeal and has been a successful marketing tool for us.

Table of Contents

The following table shows certain information and gives an overview regarding our sales and development properties:

Development Properties

	Date of acquisition	Estimated/ Actual cost (Ps.000) (1)	Area destined for sales (m2) (2)	Total units or lots (3)	Percentage constructed	Percentage sold (4)	Accumulated sales (Ps. 000) (5)	Accumulated sales for fiscal year ended June 30 (6) (Ps. 000) 2004 (Ps. 000)	2003 (Ps. 000)	2002 (Ps. 000)	Book Value (7) (Ps. 000)
Apartment Complexes											
Torres Jardín	7/18/96	56,579	32,339	490	100%	98%	70.028		161	2,064	245
Torres de Abasto (8)	7/17/94	74,810	35,630	545	100%	100%	109,245		462		555
Torres de Rosario (15)											15,414
Palacio Alcorta	5/20/93	75,811	25,555	191	100%	100%	76,582			607	
Concepción Arenal	12/20/96	15,069	6,913	70	100%	99%	11,626	9	100	363	33
Alto Palermo Park (9)	11/18/97	35,956	10,488	72	100%	100%	47,467		5,305	14,713	
Other (10)		50,196	23,900	184	N/A	99%	57,325	349	3,989	2,756	13
Subtotal		308,421	134,825	1,552	N/A	N/A	372,273	358	10,017	20,503	16,260
Residential Communities											
Abril/Baldovinos (11)	1/3/95	130,955	1,408,905	1,273	100%	94%	209,554	7,369	14,161	15,086	7,787
Villa Celina I, II y III	5/26/92	4,742	75,970	219	100%	99%	13,952		28	(52)	43
Villa Celina IV y V	12/17/97	2,450	58,373	181	100%	100%	9,505	23		136	
Subtotal		138,147	1,543,248	1,673	N/A	N/A	233,011	7,392	14,189	15,170	7,830
Land Reserves											
Dock 3 (12)	9/9/99		10,474		0%	0%					25,979
Puerto Retiro (9)	5/18/97		82,051		0%	0%					46,424
Caballito	11/3/97		20,968		0%	0%					19,898
Santa María del Plata	7/10/97		715,952		0%	0%					124,783
Pereiraola (11)	12/16/96		1,299,630		0%	0%					21,875
Dique 4 (ex Soc del Dique)	12/2/97		4,653		0%	50%	12,310				6,160
Benavídez	11/18/97					100%	11,830	11,830			
Other (13)			3,527,493		0%						77,931
Subtotal			5,661,221		N/A	N/A	24,140	11,830			323,050
Other											
Hotel Piscis	9/30/02	5,231		1	100%	100%	9,912		9,912		
Santa Fe 1588	11/2/94	8,341	2,713	20	100%	100%	8,166			8,166	
Rivadavia 2243/65	5/2/94	8,166	2,070	4	100%	100%	3,660			3,660	
Libertador 498	12/20/95	7,452	2,191	3	100%	100%	5,931		2,313	3,618	
Constitución 1159	6/16/94	2,314	2,430	1	100%	100%	1,988		1,988		
Madero 1020	12/21/95	16,008	5,056	8	100%	100%	12,928	4,774	5,626		
Madero 940	8/31/94	2,867	772	1	100%	100%	1,649		1,649		

Other Properties (14)	83,963	40,412	263	100%	91%	102,427	5,903	922	2,226	4,905
Subtotal	134,342	55,644	301	N/A	N/A	146,661	10,677	22,410	17,670	4,905
Subtotal	580,910	7,394,938	3,526	N/A	N/A	776,085	30,257	46,616	53,343	352,045
Management fees							859	625	1,033	
TOTAL (16)	580,910	7,394,938	3,526	N/A	N/A	776,085	31,116	47,241	54,376	352,045

Notes:

(1) Cost of acquisition plus total investment made and/or planned if the project has not been completed, adjusted for inflation until 02/28/03

49

(2) Total area devoted to sales upon completion of the development or acquisition and before the sale of any of the units (including parking and storage spaces, but excluding common areas). In the case of Land Reserves the land area was considered.

(3) Represents the total units or plots upon completion of the development or acquisition (excluding parking and storage spaces).

(4) The percentage sold is calculated dividing the square meters sold by the total saleable square meters.

(5) Includes only the cumulative sales consolidated by the RT21 method adjusted for inflation until 02/28/03

(6) Corresponds to the company s sales consolidated by the RT21 method adjusted for inflation until 02/28/03. Excludes turnover tax deduction.

(7) Cost of acquisition plus improvement, plus activated interest of properties consolidated in portfolio at June 30, 2004, adjusted for inflation at 02/28/03, less allowance for impairment in value, plus recovery of allowances if corresponded.

(8) Through APSA.

(9) Through Inversora Bolívar S.A.

(10) Includes the following properties:, Dorrego 1916 through IRSA, República de la India 2785 (fully sold), Arcos 2343, Fco. Lacroze 1732 (fully sold), Yerbal 855, Pampa 2966 and J.M. Moreno 285 (fully sold) through Baldovinos and Alto Palermo Plaza (fully sold) through Inversora Bolívar.(IBSA)

(11) Directly through IRSA and indirectly through IBSA.

(12) Through Bs. As. Trade & Finance S.A.

(13) Includes the following land reserves: Torre Jardín IV, Constitución 1159, Padilla 902 and Terreno Pilar (through IRSA), Pontevedra, Mariano Acosta, Merlo, Intercontinental Plaza II (through IBSA) and Terrenos Alcorta, Neuquén, Caballito, and the Coto project (through APSA).

(14) Includes the following properties: Dique II, Jerónimo Salguero 3133, Sarmiento 517 (through IRSA), Montevideo 1975 (Rosario), Puerto Madero Dock 13, Puerto Madero Dock 5, Puerto Madero Dock 6, Av. de Mayo 701, Rivadavia 2768 and Serrano 250 (fully sold through IRSA).

(15) Through Alto Palermo S.A.

(16) Corresponds to the Sales and Developments business unit mentioned in Note 6 to the Consolidated Financial Statements.

Apartment complexes and loft buildings

In the apartment building market, we acquire undeveloped properties that are strategically located in densely populated areas of the city of Buenos Aires, particularly properties located next to shopping centers and hypermarkets or those that are to be constructed. We then develop multi-building high-rise complexes targeted towards the middle-income market which are equipped with modern comforts and services such as open green areas, swimming pools, sports and recreation facilities and 24-hour security. In the loft buildings market, our strategy is to acquire old buildings in disuse that are located in areas with a significant middle and upper-income population. The properties are then renovated into unfinished lofts allowing buyers the opportunity to design and decorate them to their preferences.

***Torres Jardín, City of* Buenos Aires**. Torres Jardín is a high-rise residential complex located in the Buenos Aires neighborhood of Villa Crespo, five minutes from Abasto Shopping. The project originally included four 23-story towers directed towards the middle-income market, however, we decided not to construct Torres Jardín IV. Torres Jardín I, II and III have been completed and consist of 490 one, two and three bedroom residential apartments. The complex also includes 295 spaces of underground parking. As of June 30, 2004 there is only one apartment and 37 parking spaces for sale.

Torres de Abasto, City of* Buenos Aires.* Torres de Abasto is a 545-apartment high-rise residential apartment complex developed through APSA and is located one block from Abasto Shopping. The project consists of three 28-story buildings and one 10-story building directed towards the middle-income market. The apartments were completed in May 1999. The complex has a swimming pool, a terrace, 24-hour security project also includes four retail stores on the ground floor of one of the buildings and 310 underground parking spaces. As of June 30, 2004 100% of the complex was sold.

***Palacio Alcorta, City of* Buenos Aires.** Palacio Alcorta is a 191-loft residential property that we converted from a former Chrysler factory located in the residential neighborhood of Palermo Chico, one of the most exclusive areas of the city of Buenos Aires, which is a ten minute drive from downtown. The loft area ranges from 60 to 271 square meters. This project is directed towards the upper-income market and it is 100% sold. Palacio Alcorta also has two big retail units and 165 parking spaces.

***Concepción Arenal 3000, City of* Buenos Aires.** Concepción Arenal 3000is a 70-loft residential property located in north-central city of Buenos Aires. Each loft unit has a salable area of 86 square meters and a parking space. Lofts in this building are directed towards the middle-income market.

***Alto Palermo Park, City of* Buenos Aires.** Alto Palermo Park is one of two 34-story apartment buildings located two blocks away from Alto Palermo Shopping in the exclusive neighborhood of Palermo. Apartments in the building are targeted towards the upper-income market. The building is also located next to its twin, Alto Palermo Plaza. The buildings are comprised of 3 and 4-room apartments with an average area of 158 square meters in the case of Alto Palermo Park and of 294.5 square meters, in the case of Alto

Palermo Plaza and each unit includes an average of 18 and 29 square meter parking/storage space, respectively. These buildings were included in the assets we acquired from Pérez Companc S.A. As of June 30, 2004 100% of Alto Palermo Plaza was sold.

Residential communities

In the residential communities market, we acquire extensive undeveloped properties located in suburban areas or neighborhoods near the city of Buenos Aires to develop private neighborhoods and country clubs in which to sell vacant lots for the construction of single family homes. In these properties we build streets and roads, we arrange for the provision of basic municipal services and amenities such as open spaces, sport facilities and security. We seek to capitalize on improvements in transportation and communication around the city of Buenos Aires, the growing suburbanization of the region and the shift of the population moving to countryside-type residential communities.

An important factor in the trend towards living in suburban areas has been the improvements and additions to the highways Autopista Panamericana, Avenida General Paz and Acceso Oeste highways which significantly reduce traveling time, encouraging a large number of families to move to the new residential neighborhoods. Furthermore, the improvement in public train, subway and bus transportation since their privatization also provides another factor that influences the trend to adopt this lifestyle.

As of June 30, 2004, our residential communities for the construction of single-family homes for sale in Argentina had a total of 83,211 square meters of gross salable area in the Abril residential community located in the province of Buenos Aires.

Abril, Hudson, Greater Buenos Aires. Abril is one of our private residential communities. It is a 312-hectare property located near the city of Hudson, approximately 34 kilometers south of the City Buenos Aire*s*, developed into a private residential community for the construction of single family homes directed towards the upper-middle-income market. The property includes 20 neighborhoods subdivided into 1,273 lots consisting of approximately 1,107 square meters each. Abril also includes an 18-hole golf course, 130 hectares of woodlands, a 4,000 square meter mansion and entertainment facilities, a trilingual school, horse stables and sports centers and the construction of the shopping center was concluded in 1999.

The neighborhoods have been completed and as of June 30, 2004, 94% of the property was sold, 89 homes were under construction and approximately 566 homes were completed.

Villa Celina, Greater Buenos Aires. Villa Celina is a 400-lot residential community for the construction of single family homes located in the residential neighborhood of Villa Celina, on the southeastern edge of the city of Buenos Aires, a short distance from the intersection of the Ricchieri highway and the Avenida General Paz beltway. We have been developing this property in several stages since 1994. The first three stages represent 219 lots, each measuring 347 square meters on average and the two last stages represent 181 lots. As of June 30, 2004 100% of the residential community was sold.

Undeveloped reserves of land

We have acquired large undeveloped properties as land reserves located in strategic areas for the future development of office and apartment buildings, shopping centers and single family housing. We have acquired what we believe to be two of the largest and most important undeveloped river front parcels in Buenos Aires, Puerto Retiro and Santa María del Plata, for the future development of residential and office spaces. In addition, we have benefited from the improvement of land values during periods of economic growth, As of June 30, 2004, our land reserve totaled 18 properties consisting of approximately 566 hectares (includingNeuquen and Caballito, the ones owned by APSA).

City of Buenos Aires

Puerto Madero Dock 3**.** Plot 5M , located in Dique 3, East side of Puerto Madero, comprises 20,947 square meters and is subdivided in three plots. The plots were owned by three different companies: Buenos Trade & Finance Center S.A. (BAT&FCSA), Buenos Aires Realty S.A. (BARSA) and

Table of Contents

Argentine Realty S.A. (ARSA). We owned 50% of the capital stock of each of the companies, and the other 50% is owned by a company named RAGHSA S.A. (RAGHSA).

On August 16, 2002, we signed an agreement with RAGHSA for the redistribution of the plot 5M . As a result of the redistribution, we own 100% of the capital stock of BAT&FCSA, and have transferred our 50% ownership in ARSA and BARSA, respectively for the benefit of RAGHSA. This agreement has also provided the division and redistribution of the debt held with Corporación Antiguo Puerto Madero S.A. (CAPM), the adjustment of the remaining commitments and obligations also assumed with CAPM and the exchange of the shares issued by the mentioned companies owning the plots making up the 5M site, ARSA, BARSA and BAT&FCSA, respectively.

On November 2004, we signed an exchange deed, for one of the three parcels in which our plot is divided whereby Desarrollos y Proyectos Sociedad Anónima (DYPSA) agreed to pay US$ 8,030,000 through the exchange of 28.5% of the total meters to be constructed.

Puerto Retiro. Puerto Retiro is an 8.2-hectare undeveloped riverside property bounded by the Catalinas and Puerto Madero office zones to the west, the transportation hub Retiro to the north and the Río de la Plata to the south and east. One of the only two significant privately owned waterfront properties in the city of Buenos Aires, Puerto Retiro may currently be utilized only for port activities. We have initiated negotiations with municipal authorities in order to rezone the area. Our plan is to develop a 360,000 square meter financial center. The launching date has not been settled and consequently, the estimated cost and financing method are not decided. We own 67% of our subsidiary Inversora Bolívar S.A. (Inversora Bolívar), who owns a 50% interest in Puerto Retiro.

Santa María del Plata. Santa María del Plata is an undeveloped waterfront property located at the southern end of Puerto Madero, adjacent to the city of Buenos Aires nature reserve. The development will be targeted at the high-income market and will include different residential projects, taking advantage of the river and related nautical activities. Approval has been granted for the construction of 715,952 square meters. As of December 2004, all the steps required for final approval have been completed. The authorization for the development of the project is awaiting execution by the chief of government of the City of Buenos Aires.

Caballito. Caballito is a 2.1-hectare undeveloped property located in the residential neighborhood of Caballito in the City of Buenos Aires. We are considering several alternatives for this property including the development of residential apartment complexes or the sale of this property as it is. Zoning approvals for the development of residential apartments have been obtained. As the plan has not been decided, we do not have an estimated cost and financing method for it.

Caballito, Ferro Project. It is a property of approximately 25,539 square meters in the Buenos Aires city neighborhood of Caballito that APSA purchased in October 1998. This land could be used to build a shopping center like Alto Palermo including a hypermarket. APSA is currently making the final changes to the commercial project, APSA has not yet obtained the authorization from the Government of the City of Buenos Aires to develop the center on this land and cannot at this stage guarantee that this will be granted.

Alcorta Plaza. This land is located in the neighborhood of Palermo Chico in the city of Buenos Aires. We are working on the commercial project that may involve an office building and/or apartment block.

Cruceros, Dock 2. This is a unique project in Puerto Madero. This residential block of 6,400 square meters will be built alongside the Edificios Costeros office buildings. It is aimed at the upper-income segment and most condominium areas have spectacular views of the river. On

December 2003 an exchange deed was signed whereby Residencial Dique S.A. agreed to pay US$ 2,000,000 through the exchange of 40% of the total meters to be constructed. The project is at an advanced stage, and sales are expected to start in the next months.

San Martin de Tours. In March 2003 we purchased a plot located in San Martin de Tours Street in the Barrio Parque district, the most exclusive residential zone in the city of Buenos Aires. With the signature of the sales contract, a prepayment of US$ 80,000 was made and at the time of the transfer of the title deed in June 2003, US$ 230,000 were paid. At that time, a mortgage was set up in favor of Providence for US$ 750,000 as a guarantee of 25% of the functional units that IRSA must hand over when the building is completed.

We are building a high-quality house-type residence complex unlike other property available aimed at the high-income segment.

Province of Buenos Aires

Pereiraola, Hudson. We own an 83% interest in Pereiraola S.A., a company, whose principal asset is a 130 hectare undeveloped property adjacent to Abril. We intend to use this property to develop a private community for the construction of single family homes targeted at the middle-income market. We have not yet established the costs and financing method for this proposed project.

Benavídez, Tigre. Benavídez is a 98,9 hectare undeveloped land reserve property located in Tigre, 35 kilometers to the north of downtown of the city of Buenos Aires. On May 21 the title deed was executed through which DEESA undertook to pay Inversora Bolívar S.A. US$ 3,980,000, of which US$ 979,537 were paid during the current quarter and the balance of US$ 3,000,463 will be settled with the barter of 110 residential plots that have already been chosen and established in the purchase option contract for Benavidez, included in the contract dated December 3, 2003. On that occasion, DEESA set up a senior mortgage in favor of Inversora Bolívar S.A. on the property in the amount of US$ 3,000,463, in guarantee of compliance of the transaction and handed Inversora Bolívar S.A. US$ 500,000 in guarantee deposit and surety of compliance with each and every obligation assumed. This amount will not accrue interest for DEESA and will be returned as follows: 50% of the balance with the certification of 50% completion, and the remaining 50% with the certification of 90% of completion. We will begin to sell the 110 residential plots during the first months of 2005.

Pilar. Pilar is a 74.0-hectare undeveloped land reserve property located close to the City of Pilar, 55 kilometers to the northwest of downtown of the City of Buenos Aires. The property is easily accessible due to its proximity to the Autopista del Norte. The Pilar area is one of the most rapidly developing areas of the country. We are considering several alternatives for this property including the development of a residential community or the sale of this property as it is and, therefore, we do not have a cost estimate nor a financing plan.

Other undeveloped parcels of land in the city of Buenos Aires

Our land reserve property portfolio also includes nine land reserve properties located in Buenos Aires and its surrounding areas. These properties are projected for future developments of offices, shopping centers, apartment buildings and residential communities. The principal properties include Puerto Madero Dock 4 block 1M and Merlo.

Other provinces

Alto Rosario, city of Rosario. On August 25, 1998, together with Coto Centro Integral de Comercialización S.A. (Coto), our subsidiary, APSA acquired a 213,372 square meter development property located in the City of Rosario, the third largest city in Argentina in terms of population, in a public auction conducted by the Ente Nacional de Administración de Bienes Ferroviarios (ENABIEF), an Argentine government entity within the Ministry of Infrastructure and Housing, dedicated to the administration of national government properties (subsequently ENABIEF changed its name to Organismo Nacional de Administración de Bienes del Estado - ONABE -). APSA paid US$ 17.5 million (net of closing costs) for a 66.67% ownership interest in the property.

On December 17, 1999, APSA obtained exclusive title to a portion of this property. APSA owns 56% of the land and Coto owns the remaining 44%.

The proposed project is composed of two parts. The first part involves the construction of a shopping center. The second part involves the construction of a residential complex center on approximately 50,000 square meters.

Table of Contents

In December 2003, construction began on Alto Rosario Shopping located in the city of Rosario, the eighth shopping center managed by the Company. In early 2004, in view of the substantial increase in the demand for stores, APSA decided to extend this project. As a result, the shopping center that initially held 20,000 square meters of leaseable area will now hold 29,300 square meters.

As of June 30, 2004, 73.2% of the 138 stores were leased.

The shopping center opened on November 9, 2004, with 99.1% of the units already leased. The first part of the project involves three stages. The first stage was the construction of the mall, which opened on November 9, 2004, with 123 retail stores, 40 stands and 14 fast food stores, restaurants and cafes, totaling 19,297 square meters of gross leasable area with a 99.1% occupancy rate. The second stage involved the opening of the Coto hypermarket, which opened on December 9, 2004, and the third stage includes the extension of the mall and the opening of Showcase cinemas (with 3,400 seats and 14 state-of-the-art movie screens) and the Museo de Los Niños children attraction, during the first quarter of 2005.

The shopping center will provide top-quality entertainment areas and services.

Including the expansion, the project will require an investment of approximately Ps. 67.5 million (excluding the amount paid for the purchase of the land).

Increased investment in this project is already having a positive economic impact. It is estimated that 4,000 job positions will be generated by this project, and the community is already noticing an urban revaluation of the area. Investments have been made in roadworks and repair of facades, and the Company has made donations to improve parks near its premises.

Neuquén Project, Province of Neuquén. On July 6, 1999 we purchased through our subsidiary APSA a 94.6% interest in Shopping Neuquén S.A. (Shopping Neuquén or the company) for Ps. 4.2 million. On September 1, 1999 payment was made of Ps. 0.9 million, and the remaining Ps. 3.3 million were to be paid on July 5, 2001 or when the shopping mall it was planned to build on the property owned by Shopping Neuquén was inaugurated, whichever took place first. To date, this payment has not been made.

Shopping Neuquén s sole asset comprises of a piece of land of approximately 50,000 square meters with preliminary governmental approval for construction of a shopping center on the site. The project contemplates construction of a shopping center with 100 stores, a hypermarket, a multiplex movie theater, a service station and a luxury hotel.

Legal issues with former shareholders of Shopping Neuquén

In 2002 the sellers had initiated a mediation process which is a mandatory non-judicial process prior to filing a suit to collect the payment. The result of the mediation was negative, the parties did not reach an agreement.

Furthermore, on August 15, 2003 we were informed that 85.75% of the old shareholders of Shopping Neuquén have filed a complaint against us, claiming collection of a price balance plus interest and legal costs. In September 2003, we answered the complaint and filed a counterclaim for the contract readjustment based on the economic and social emergency situation. In November 2003 the old shareholders of Shopping Neuquén answered to counterclaim alleging that the payment was overdue before the economic and social emergency situation. For that reason they allege that we cannot plead readjustment of the contract. On May 11, 2004, the judicial procedure entered into trial stage.

Although we hope for a favorable resolution to the judicial proceeding, and we still are negotiating a new arrangement with the old shareholders, we cannot assure a favorable result to us.

Legal issues with Neuquén Municipality

In June, 2001 Shopping Neuquén filed a request with the municipality of Neuquén for extension of the original construction timetable and for authorization to sell part of the land to third parties for the construction by them of the property that Shopping Neuquén will develop. The proposed new timetable contemplates that the construction of the first stage would start on December 15, 2002 and would finish on December 31, 2004. The second optional stage would be finished on December 31, 2006.

The extension has to be approved by the City Counsel of the City of Neuquén which is the municipal legislative body. On December 20, 2002, the Municipality of Neuquén rejected our request for a readjustment of the terms and the transfer of the plots, and declared the expiration of ordinance 5178/91, annulling the purchase contracts for the real estate that had been transferred to us previously.

In view of this situation, Shopping Neuquén requested the revocation of this administrative act, but this request was rejected by the Municipal Mayor on May 9, 2003 through decree 585/03.

Subsequently, in June 2003, Shopping Neuquén lodged a remedy before the Province of Neuquén Supreme Court, requesting the annulment of the above resolutions issued by the Mayor. At the date, the Neuquén Supreme Court has not yet issued a decision regarding our remedy.

If the extension is not approved, the Municipality of Neuquén could request the reconveyance of the real estate previously sold by it, in which case Shopping Neuquén runs the risk of not recovering its initial investment.

At June 30, 2004, the company was negotiating with the Municipality of Neuquén the terms of a framework agreement that would establish the conditions for a reactivation of the development and construction of the commercial undertaking. Such agreement would then be incorporated to a new Municipal Ordinance that would modify or annul the original ordinance.

Although we hope for a favorable resolution to the remedy filed, and we still are negotiating a new arrangement with the Neuquén Municipality, we cannot assure a favorable result to us.

We are involved in other litigation from time to time in the ordinary course of business, but we believe that the litigation in which we are currently involved is not likely to be material to our financial condition or result of operations.

Hotels

At the end of the 1997 fiscal year, we acquired the Hotel Llao Llao, our first luxury hotel. Some months later, as part of the acquisition from Pérez Companc of the Old Alto Palermo, we acquired an indirect 51% interest in the Hotel Inter-Continental in Buenos Aires which we own through our subsidiary Inversora Bolívar. In March 1998, we acquired the Hotel Libertador. During fiscal year 1999, we sold a 20% interest in the Hotel Libertador to Hoteles Sheraton de Argentina S.A.C. (Hoteles Sheraton de Argentina) and during the fiscal year 2000, we sold 50% of our interest in the Hotel Llao Llao to the Sutton group.

The following chart shows certain information regarding our luxury hotels:

Hotel properties

Hotel	**Date of acquisition**	**Number of Rooms**	**Average occupancy%** [1]	**Avg. price per room Ps.**[2]	**Accumulated sales as of June 30, of fiscal years (Ps.000)** [3]			**Book value as of June 30, 2004**
					2004	**2003**	**2002**	**(Ps. 000)**
Inter-Continental	11/97	312	64.3%	219	26,079	22,297	23,558	57,447
Sheraton Libertador	03/98	200	70.1%	200	15,650	11,529	15,237	37,795
Llao Llao	06/97	158	71.0%	460	29,566	23,560	18,398	30,827
Hotel Piscis [4]	09/02					344		
Total HOTELS [5]		670	67.6%	270	71,295	57,730	57,193	126,069

Notes:

(1) Accumulated average in the twelve-month period.

(2) Accumulated average in the twelve-month period.

(3) Corresponds to our total sales consolidated by the R21 method adjusted by inflation until 02/28/03.

55

Table of Contents

(4) The Piscis Hotel was sold on March 19, 2003. See table Sales and Developments .

(5) Corresponds to the Hotels business unit mentioned in Note 6 to the consolidated financial statement.

Hotel Llao Llao, San Carlos de Bariloche, Province of Rio Negro. Hotel Llao Llao is located on the Llao Llao península, 25 kilometers from the City of San Carlos de Bariloche, and is one of the most important tourist hotels in Argentina, Surrounded by mountains and lakes, this hotel was designed and built by the famous architect Bustillo in a traditional alpine style and first opened in 1938. The hotel was renovated between 1990 and 1993. The building has a total constructed surface area of 15,000 square meters and 158 rooms. The hotel-resort also includes an 18-hole golf course, tennis courts, health club, spa, game room and swimming pool. The hotel is a member of The Leading Hotels of the World and is currently being managed by Compañía de Servicios Hoteleros S.A. which manages the Hotel Alvear, a luxury hotel located in the Recoleta neighborhood of the City of Buenos Aires.

Hotel Inter-Continental, City of Buenos Aires. Hotel Inter-Continental is located in the downtown city of Buenos Aires neighborhood of Monserrat, adjacent to the Inter-Continental Plaza office building. This property was also a part of the acquisition of Old Alto Palermo from Pérez Companc. The hotel s meeting facilities include eight meeting rooms, a convention center and a divisible 569 square meter ballroom. Other amenities include a restaurant, a business center, a spa and a fitness facilitiy with swimming pool. The hotel was completed in December 1994 and has 312 rooms. The hotel is managed by the Inter-Continental Hotels Corporation, a United States corporation.

Hotel Sheraton Libertador, City of Buenos Aires. Hotel Sheraton Libertador is located in downtown City of Buenos Aires at the corner of the streets Córdoba and Maipú, one block from Galerías Pacífico. The hotel contains 193 rooms and 7 suites, eight meeting rooms, a restaurant, a business center, a spa and fitness facilities with a swimming pool. In March 1999, we sold 20% of our interest in the Sheraton Libertador Hotel for US$ 4,7 million to Hoteles Sheraton de Argentina. The hotel is managed by Sheraton Overseas Management Corporation, a United States corporation.

Hotel Piscis and Valle de Las Leñas. On March 18, 2003, we sold Hotel Piscis and 31% of the shares and convertible negotiable bonds of Valle de Las Leñas S.A., which we had purchased eight months earlier. Valle de Las Leñas is the operator of a leading Argentine ski resort and Hotel Piscis is a five-star hotel located in this resort. The stock was sold for US$ 6.5 million and the hotel was sold for US$ 3.2 million. This transaction represented in fiscal year 2003, a profit of US$ 5.9 million.

Investments in Banco Hipotecario S.A.

We have a significant investment in BHSA which represents 7.2% of our consolidated assets as of June 30, 2004. Established in 1886 by the Argentine government, BHSA has historically been the leading mortgage lender in Argentina, largest mortgage servicer and Argentina s largest provider of mortgage-related insurance. Substantially all of BHSA s operations, property and customers are located in Argentina.

In 1996, the Argentine government announced its intention to privatize BHSA and, pursuant to the Privatization Law, converted its predecessor, Banco Hipotecario Nacional, to Banco Hipotecario S.A., a corporation (*sociedad anónima*), effective September 28, 1997.

BHSA has historically engaged in three principal business activities:

(1) lending to individuals and developers for the purchase, construction and improvement of housing units;

(2) underwriting credit life, property damage and unemployment insurance related to its mortgage lending activities; and

(3) servicing its own and third-party mortgage loan portfolios.

It has a nationwide network of 25 branches and 3 sales offices, and in the past it had also, to a lesser extent, distributed its products through a network of approximately 24 commercial banks which generally did not develop their own mortgage operations.

Table of Contents

The Economic Crisis and its Adverse Effect on the Bank s Business

The Argentine economy has experienced a persistent recession since the end of 1998. In December 2001, the recession deepened into an unprecedented political and economic crisis, which disrupted Argentina s financial system and effectively paralyzed its economy. In response to the crisis, the Argentine government has undertaken numerous and far-reaching initiatives that have changed and continue to change the macroeconomic and regulatory environment for doing business in Argentina, generally, and for the financial sector in particular. The crisis and the recent governmental measures adopted to countermand its effects have materially and adversely affected BHSA s liquidity, financial condition, results of operations and business prospects.

The Argentine financial system as a whole has been harmed by the current crisis, and the following governmental measures have had an adverse effect on BHSA in particular:

Asymmetric Pesification of Our Assets and Liabilities. All of its mortgage loans denominated in foreign currency were converted to pesos at a one-to-one exchange rate (which was substantially less than the market value of the peso), but substantially all of its liabilities remained denominated in foreign currencies. The resulting mismatch of its assets and liabilities has significantly contributed to BHSA s inability to generate sufficient revenue to comply with payment obligations on its outstanding debt obligations and has had a significant adverse impact on its ability to operate as a going concern.

Inadequate Adjustment of its Loans for Inflation. Notwithstanding the devaluation of the peso and the significant inflation in Argentina, BHSA was not permitted to make any inflation adjustment to approximately 60% of our mortgage loans. Moreover, it was permitted to adjust an additional 30% of its loans only pursuant to a wage-based inflation index (CVS) which during 2002 was significantly less than inflation as measured by the domestic wholesale price index, or WPI. Lastly, approximately 10% of its loan portfolio was adjusted by the CER, which in 2002 was substantially lower than the WPI. As a result, during 2002 BHSA s mortgage loan portfolio and related revenues suffered, and may continue to suffer, a very significant erosion in value.

Cap on its Interest Rates. Pursuant to decree 1242/02 issued by the Argentine government, the interest rates on BHSA s pesified mortgage loans that were adjusted for inflation have been capped at (i) between 3.5% to 5% for mortgage loans to individuals indexed by CER and (ii) 12.3% for mortgage loans to individuals indexed by the CVS. As a result, during 2002 its interest income was substantially less than its interest expense.

Impairment of Our Ability to Foreclose. Like other mortgage lenders, BHSA depends on the right to foreclose on properties which have been mortgaged to secure its loans. However, BHSA s ability to foreclose on mortgaged properties was suspended by the Argentine government effective February 2002, and this suspension has been effectively extended several times until November 14, 2002. On February 4, 2003, the Executive Branch enacted Decree 204/2003 establishing a mediation procedure for a limited period of 90 days. On May 2003, the Argentine Congress enacted Law 25,737 which suspends foreclosures for an additional period of 90 days. In September 2003, BHSA, together with other financial institutions voluntarily agreed not to foreclose on its mortgage loans until a new law proposed by the government that would extend credit to mortgage to the debtors is approved by Congress. As a result, BHSA s ability to recover on its non-performing loans has been, and continues to be, materially impaired.

Reschedule of the mortgage debts. On November 5, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule the mortgage debts financed by a Trust (paid by the Argentine Government) which will buy the portfolio mortgage debts and reschedule the maturity dates. The financial institutions were given until June 22, 2004 to accept this mortgage reschedule system. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included different conditions for the incorporation to this system of the mortgage loans that were in judicial or private execution proceedings.

Table of Contents

As a result of the foregoing, BHSA began experiencing a severe liquidity crisis. Due to the unavailability of financing from any source, in December 2001 BHSA ceased originating any new mortgage loans, and on August 16, 2002 it suspended payment on all of its debt obligations. BHSA began focusing on maximizing collections from its existing loan portfolio which is a self-liquidating asset.

BHSA s restructuring plan: The Exchange Offers

In December 8, 2003, as part of an ambitious plan to restructure a substantial portion of its financial debt, BHSA launched an offer to exchange its existing notes for U.S. Dollar-denominated long-term notes, Euro-denominated long-term notes, guaranteed notes and cash.

The following results illustrate the successful completion of the exchange offers which concluded BHSA s voluntary debt restructuring process that commenced in August 2002:

The final aggregate principal amount of existing notes validly tendered was US$906 million (including the Dollar equivalent of euro-denominated Existing Notes), which represented approximately 93% of the aggregate principal amount of existing notes outstanding. Of the final amounts validly tendered, approximately 77% (US$701 million) elected to receive long-term notes, approximately 7% (US$57 million) elected to receive cash and approximately 16% (US$148 million) elected to receive guaranteed notes, in each case, including the Dollar equivalent of euro-denominated existing notes.

Of the US$302.4 million aggregate principal amount of existing bank indebtedness outstanding as of December 29, 2003 (including the Dollar equivalent of peso-denominated bank debt), 100% participated in the concurrent restructuring of BHSA s existing debt. Of the amount that participated, approximately 20% (US$60 million) elected to receive long-term loans, approximately 10% (US$31 million) elected to receive cash and approximately 70% (US$211 million) elected to receive guaranteed loans.

Technology investments in Latin America

Latin American Econetworks N.V.

In July 2000, together with divine InterVentures, Inc., Dolphin Fund Plc (formerly Quantum Dolphin Plc) and Catanzaro Holding B.V., we formed Latin American Econetworks N.V., a holding company organized in the Netherlands Antilles (LAE). LAE was conceived as a developer of software, technology and internet-related information network for the technology service suppliers. In connection with the formation, an 11.2% interest in the holding company was issued to us in exchange for US$ 5.3 million in cash.

On November 7, 2001, we sold our ownership in Latin American Econetworks for US$ 5.2 million.

IRSA Telecomunicaciones N.V.

In the fourth quarter of fiscal year 2000, we had invested US$ 3.0 million, in the form of irrevocable capital contributions, into two unrelated companies, namely, Red Alternativa, a provider of satellite capacity to internet service providers, and Alternativa Gratis, an internet service provider (the Companies). At that date, the Companies were development stage companies with no significant operations. Between July 2000 and August 2000, we, together with Dolphin Fund Plc (formerly Quantum Dolphin Plc), increased our respective investments in the abovementioned Companies, in exchange for shares of common stock. In a series of transactions, which occurred between August 2000 and December 2000, (i) we formed IRSA Telecomunicaciones N,V, (ITNV), a holding company organized under the laws of the Netherlands Antilles, for the purposes of completing a reorganization of the Companies and (ii) Dolphin Fund Plc (formerly Quantum Dolphin Plc), the previous majority shareholder of the Companies and us contributed our respective ownership interest in the Companies into ITNV in exchange for shares of common stock of ITNV. As a result of the reorganization, the Companies are now wholly owned subsidiaries of ITNV, Following the reorganization, we held a 49.36% interest in ITNV and Dolphin Fund Plc, held a 20.13% interest in ITNV.

On December 27, 2000, the shareholders of ITNV entered into a shareholders agreement with new investors in ITNV, namely Quantum Industrial Partners LDC and SFM Domestic Investment LLC, under which such new investors contributed US$ 4.0 million in cash in exchange for 1,751,453 shares of Series A mandatorily redeemable convertible preferred stock and an option to purchase 2,627,179 additional shares of mandatorily redeemable convertible preferred stock. Pursuant to the terms of the Shareholders Agreement, options were granted for a period up to five years and at an exercise price equal to the quotient of US$ 6.0 million by 2,627,179 preferred shares. On or after December 27, 2005, ITNV might be required, at the written request of holders of the then outstanding Series A preferred stock to redeem such holders outstanding shares of series A preferred stock for cash at the greater of (i) 200% of the original issue price multiplied by the number of preferred stock to be redeemed, and (ii) the fair market value of the common shares each holder of Series A preferred stock would have been entitled to receive if such holder had converted the number of Series A preferred stock to be redeemed into common stock at the redemption date; in both cases plus any accrued or declared but unpaid dividends.

Altocity.Com S.A.

Altocity.Com S.A. (Altocity) is a company engaged in delivering e-commerce services providing customers with the information necessary to make personalized online buying decisions and giving retailers the ability to reach a large customer base. Altocity is a wholly owned subsidiary of E-Commerce Latina S.A., (E-Commerce Latina), an Internet venture between APSA and Telefónica de Argentina S.A. (Telefónica), where each have a 50% interest. Previously, APSA s partner in the venture was Telinver S.A. (Telinver), a wholly owned subsidiary of Telefónica, but on April 27, 2001 Telinver notified APSA that it had transferred its holdings in E-Commerce Latina to Telefónica.

Four years from its launch, Altocity offers an attractive integral product selection, with a broad range of categories and brands, forms of payment, support and a request and delivery system, combined with a high-quality image.

During the fiscal year ended June 30, 2004, Altocity strengthened its corporate sales, increasing the number of new customers and invoicing amounts in this segment.

For the year ended June 30, 2004, Altocity net revenues totaled Ps. 1.7 million and had a net loss of Ps. 2.1 million. Approximately 98.5% of such revenues were derived from product sales and commissions earned and 1.5% represented fixed charges to retailers.

In connection with the formation of E-Commerce Latina, on December 15, 1999 APSA entered into a shareholders agreement with Telinver. On April 27, 2001, Telinver notified APSA that it had assigned that agreement to Telefónica. Pursuant to the shareholders agreement, Telinver contributed to E-Commerce Latina US$ 5.0 million upon execution, and an additional US$ 5.0 million on June 15, 2000 in return for its 50% ownership position. APSA contributed intellectual property rights in exchange for its 50% ownership interest.

Telinver and APSA agreed to:

make capital contributions of up to US$ 5 million each, which were paid during April 2001 and,

make optional capital contributions to be approved by E-Commerce Latina s Board of Directors of up to US$ 12.0 million to develop new lines of business, of which 75% is to be contributed by Telinver and 25% is to be contributed by APSA.

Table of Contents

The shareholders agreement also sets forth the rights and obligations of each party over the operation of E-commerce Latina. The significant provisions of the shareholders agreement include:

- the obligation of IRSA to remain as our controlling shareholder and of Grupo Telefónica to control Telinver or any successor;
- the determination of the election of the members of the Board of Directors;
- terms for notices of the shareholders meetings; and
- certain restrictions on transfers of shares for the first two years, and thereafter reciprocal first refusal and tag along rights.

Currently, the website receives an average of 300,000 unique visitors per month, turning Altocity into one of the most visited sites in the country and the most visited site in concerning e-commerce. The company has more than 55,000 registered citizens (registered visitors who purchased and/or wish to receive information on news and special offers) who have made more than 52,000 transactions to date.

For fiscal year 2005 Altocity s main objective is to focus on the following three areas:

- Marketing of the portal, loyalty activities and new customers;
- e-commerce services for shopping centers tenants; and
- Barter and reward program.

Competition

We have a large and difficult to determine number of small competitors in each of the different markets in which we operate.

Offices and Others

With respect to the segment of office and other non-shopping center rental properties, most of our Argentine properties are located in developed areas. There are numerous other offices, retail and residential properties within the market area of each of our properties. The number of competitive properties in a particular area could have a material adverse effect on our ability to lease or sell units in the properties and on the amount of rent or the sale price that we are able to charge. Historically, there have been relatively few companies competing with us for rental or development property acquisitions. Actually, it is a very atomized market, with no big players, so there is no important competitor. We own Santa María del Plata and Puerto Retiro, two unique waterfront land reserves by the city of Buenos Aires which are yet not developed, but don t have competition. However, additional companies, including foreign companies, may become active in the real estate acquisition and development markets in Argentina, as well as in the markets outside of Argentina in which we participate, in the future.

Hotels

We own three five-star hotels in Argentina which are managed through strategic alliances by international operators such as Sheraton Overseas Management Corporation, Inter-Continental Hotels Corporation and the local operator Compañía de Servicios Hoteleros S.A., which also manages the Hotel Alvear. The Hotel Llao Llao is unique for his landscape and beauty and is well known around the world. Our other two hotels, that is, Hotel Inter-Continental and Hotel Sheraton Libertador, are located in the city of Buenos Aires and concentrate the 24% of the total available rooms for this five-star hotel category. The following table shows the breakdown of five-star hotels in the city of Buenos Aires as of June 30, 2004:

Hotel	Number of rooms	Occupancy rate (2)	Revenue generation index (1)	Average daily rate in US$
Caesar	170	66%	1.31	127.75
Hilton	421	76%	1.46	106.06
Sheraton	742	55%	0.75	95.1
Marriot Plaza	325	68%	0.96	81.17
Intercontinental	312	64%	0.95	77.16
Sheraton Libertador	200	70%	0.97	72.76
Total/average	2170	65%	1.00	90.35

(1) The revenue generation index is the relative participation of the Revpar (revenue per available room) of each hotel with respect to the average of the market.

Table of Contents

(2) Occupancy rate as of June 30, 2004.

Shopping Centers

In the shopping center sector we compete through APSA. Because most of our shopping centers are located in developed and highly populated areas, there are competing shopping centers within, or in close proximity to, our targeted areas. The number of shopping centers in a particular area could have a material effect on our ability to lease space in our shopping centers and on the amount of rent that we are able to charge. We believe that due to the limited availability of large plots of land and zoning restrictions in the city of Buenos Aires, it will not be easy for other companies to compete with us in areas through the development of new shopping center properties. Our principal competitor is Cencosud S.A. which owns and operates Unicenter shopping center and the Jumbo hypermarket chain, among others.

The following table shows the breakdown of the main owners and operators of shopping centers in Argentina:

Companies	Location (1)	Gross Leasable Area	Stores	% of national gross leasable area (2)	Stores (2)
				(%)	(%)
APSA					
Alto Avellaneda (5)	GBA	58,405	156	5.9	4.2
Abasto de Buenos Aires	CBA	39,325	189	3.9	5.1
Mendoza Plaza Shopping (3) (5)	Mendoza	37,090	144	3.7	3.9
Paseo Alcorta (5)	CBA	53,479	122	5.4	3.3
Alto Palermo Shopping	CBA	17,900	152	1.8	4.1
Buenos Aires Design (4)	CBA	14,488	59	1.4	1.6
Patio Bullrich	CBA	10,882	93	1.1	2.5
Alto Noa (5)	Salta	21,882	94	2.2	2.6
Subtotal		**253,451**	**1,009**	**25.45**	**27.3**
Cencosud S.A.					
Unicenter Shopping (5)	GBA	90,869	287	9.1	7.8
Plaza Oeste Shopping (5)	GBA	38,720	138	3.9	3.8
Quilmes Factory (5)	GBA	31,373	47	3.1	1.3
Lomas Center Shopping (5)	GBA	24,271	50	2.4	1.4
San Martin Factory (5)	GBA	24,388	31	2.4	0.8
Parque Brown Factory Outlet (5)	GBA	23,553	41	2.4	1.1
Las Palmas Pilar (5)	GBA	37,662	102	3.8	2.8
Jumbo Palermo Centro Comercial (5)	CBA	22,763	46	2.3	1.3
El Portal de la Patagonia (5)	GBA	21,700	45	2.2	1.2
El Portal de Escobar (5)	GBA	18,886	24	1.9	0.7
Subtotal		**334,185**	**811**	**33.5**	**22.2**
Other Operators		**409,499**	**1,860**	**41.1**	**50.5**

Totals	**997,135**	**3,680**	**100.0**	**100.0**

(1) GBA means Greater Buenos Aires and CBA means the City of Buenos Aires.

(2) Percentage of the total shopping centers in Argentina. Sums may not total due to rounding.

(3) APSA owns indirectly a 18.9% interest in this property. On September 29, 2004, APSA entered into an agreement to purchase 49.9% of the capital stock of Pérez Cuesta S.A.C.I. The transaction was consummated on December 2, 2004, after APSA obtained approval from the Antitrust Authorities. As a result, APSA currently owns a 68.8% interest in this shopping center.

(4) APSA owns directly a 51% interest in ERSA the company that operates the concession of this property.

(5) Includes gross leasable area occupied by supermarkets and hypermarkets.

Table of Contents

Sources: Argentine Chamber of Shopping Centers and APSA.

Regulation and Government Supervision

Leases

Argentine Law imposes certain restrictions on landlords, including:

- the prohibition of lease agreements that adjust prices for inflation; and
- the imposition of minimum three-year lease terms for retail property, except in the case of stands and/or space for special exhibitions.

Although our lease agreements were U.S. Dollar-denominated, Decree No. 214/02, Decree No. 762/02 and Law No. 25,820 that amend the Public Emergency Law provide that monetary obligations in force as of January 7, 2002 resulting from agreements entered into before December 2001 and governed by private law and which provide for payments in U.S. Dollars are subject to the following rules:

- the obligations are to be paid in Pesos at the exchange rate of Ps. 1.00 = US$ 1.00 plus the CER for commercial leases; or
- since October 1, 2002 and until March 31, 2004, for residential leases, the obligations are to be paid in Pesos at the exchange rate of Ps. 1.00 = US$ 1.00 plus the CVS; and
- if for the application of these provisions the value of the installment were higher or lower to the value at the moment of the payment, any of the parties could require an equitable adjustment of the price. If in the event the parties do not reach an agreement, the judicial courts will decide about the difference in each particular case.

Pursuant to Decree 117/04 and Law No. 25,796 that amends Law No. 25,713, the CVS became unenforceable on April 1, 2004.

In addition, there are currently conflicting policies and judicial decisions as to whether rent may be increased during the term of a lease. For example, certain sections of the Convertibility Law prohibit lease agreements that adjust rents for inflation based on an official index such as the Argentine Consumer price index or wholesale price index. Most of our leases contain rent escalation clauses. However, they are not based on an official index.

To this date, no tenant has filed a judicial action or used in court an argument against us based on the existence of the escalation clause, but no assurance can be given that such actions will not be taken in the future, which if they prevail could materially and adversely affect us.

Under the Lease Law and the Argentine Civil Code, lease terms may not exceed ten years, except for the leases regulated by Law No. 25,248, which provides that leases containing a purchase option (leasing *inmobiliario*), are not subject to term limitations. Generally, our lease agreements vary from three to ten years.

Law No. 23,091, as amended by Law No. 24,808 provides that tenants may rescind commercial lease agreements after the initial six months, upon not less than 60 days written notice, subject to penalties which vary from one to one and a half months rent, if the tenant rescinds during the first year of its lease, and one month of rent if the tenant rescinds after the first year of its lease.

Argentine law permits the parties to a lease agreement to freely define their rights and obligations thereunder, provided that the minimum rules established by the Lease Law are observed. However, in the past, in response to housing shortages, high rates of inflation and difficult access to credit, the Argentine Government imposed strict and burdensome regulations regarding leases. Such regulations limited or prohibited rental increases and prohibited the eviction of tenants even for failure to pay rent. These regulations discouraged both property rental and the construction of new housing.

While current Argentine government policy discourages Argentine government regulation of lease agreements, there can be no assurance that additional regulations will not be imposed in the future by the Congress, including regulations similar to those previously in place. Furthermore, most of our leases provide that the tenants pay all costs and taxes related to the property in proportion to their respective leasable areas. In the event of a significant increase in the amount of such costs and taxes, the Argentine Government may respond to political pressure to intervene by regulating this practice, thereby negatively affecting our rental income.

Argentine civil procedure permits to collect unpaid rent in an ordinary proceeding, although under certain special conditions (e.g. low amount of unpaid rent) the judge may decide to go on a expedited summary proceeding. While it is a special procedure to evict tenants, historically, the heavy workload of the courts that hear these matters and the existence of numerous procedural steps required have tended to delay efforts of lessors to evict tenants. Moreover, the lessor must provide written notice to the tenant at least ten days prior to commencing the eviction proceedings.

Despite the amendment of the Argentine civil procedures code by which the lessor may, by posting a bond, obtain the immediate eviction of the tenant, eviction proceedings generally took from six months to two years from the date of filing of the suit to the time of actual eviction. However, historically we have generally attempted to negotiate with defaulting tenants the termination of lease agreements in order to avoid legal proceedings.

The Public Emergency Law, as amended by Law No. 25,640, suspended for the term of 270 days from the enactment of that law (ended on November 15, 2002) the auction of the debtor s property or the property used by the debtor for production, service rendering or trade activities and the enforcement of precautionary measures resulting in the divestiture of property used by the debtor. On February 4, 2003, the Executive Branch enacted Decree 204/2003 establishing a mediation procedure for a limited period of 90 days. On May 2003, the Argentine Congress enacted Law No. 25,737 which suspended foreclosures for an additional period of 90 days, up to August 2003. On September 2003, several financial institutions voluntarily agreed not to foreclose on its mortgage loans.

On November 5, 2003 Law No. 25,798 was enacted. It establishes a mechanism in order to reschedule the mortgage debts, the way in which it will be carried out is by creating a Trust (paid by the Argentine Government) which will buy the portfolio mortgage debts and reschedule them in a more profitable way. The financial institutions were given until June 22, 2004 to accept this mortgage reschedule system. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included different conditions referring the incorporation into this system of the mortgage loans that were in judicial or private execution proceedings.

Development and land use

Buenos Aires Urban Planning Code. Our real estate activities are subject to various municipal zoning, building and environmental regulations. In the City of Buenos Aires, where the vast majority of our real estate properties are located, the Buenos Aires Urban Planning generally restricts the density and use of property and controls physical features of improvements on property, such as height, design, set-back and overhang, consistent with the city s urban landscape policy. The regulatory body of the Urban Planning Code is the Secretary of Urban Planning of the Government of the City of Buenos Aires.

Buenos Aires Building Code. The Buenos Aires Building Code complements the Buenos Aires Urban Planning Code and regulates the structural use and development of property in the City of Buenos Aires. The Buenos Aires Building Code requires builders and developers to file applications for building permits, including the submission to the Secretary of Work and Public Services of architectural plans for review, to assure compliance therewith.

We believe that all of our real estate properties are in material compliance with all relevant laws, ordinances and regulations.

Table of Contents

Sales and ownership

Real Estate Installment Sales Act. The Real Estate Installment Sales Act Law No. 14,005, as amended by Law No. 23,266 and Decree No. 2015/85, imposes a series of requirements on contracts for the sale of subdivided plots of land when the sales price is paid in installments and the deed is not conveyed until final payment. The provisions of this law require, among other things,

- the registration of the sale in the Real Estate Registry corresponding to the jurisdiction of the property, provided that such property is free and clear of all liens and encumbrances, and

- the registration of any contract with the Real Estate Registry within 30 days of execution.

Once the property is registered, the installment sale may not occur in a manner inconsistent with the Real Estate Installment Sales Act. In the event of a dispute over title between the purchaser and third-party creditors of the seller, the installment purchaser who has duly registered the installment sales contract prevails.

Further, the purchaser can demand conveyance of title after at least 25% of the purchase price has been paid, although the seller may demand a mortgage to secure payment of the balance of the purchase price.

After payment of 25% of the purchase price or the construction of improvements on the property equal to at least 50% of the property value, the Real Estate Installment Sales Act prohibits the rescission of the sales contract for failure by the purchaser to pay the balance of the purchase price. However, in such event the seller may take action under any mortgage on the property.

Consumer Protection Act. Consumer Protection Law No. 24,240, as amended, regulates several issues concerning the protection of consumers in the formation and execution of contracts.

The Consumer Protection Act aims at preventing certain potential abuses deriving from the strong bargaining position of sellers of goods and services in a mass market economy where standard form contracts are widespread.

For that reason, the Consumer Protection Act deems void and unenforceable certain contractual provisions in consumer contracts, including: (i) warranty and liability disclaimers, (ii) waiver of rights, and (iii) changes of the burden of proof. In addition, the Consumer Protection Act imposes fines to induce compliance from sellers.

The Consumer Protection Law defines consumers or users, as the individuals or legal entities that contract for a price for final use or their own benefit or their family or social group:

(a) the acquisition or hiring of personal property things;

(b) the supply of services;

(c) the acquisition of new real estate bounded to housing, including plots of land acquired with the same intent, when the offer is public and directed to undetermined persons.

It also establishes that they will not be considered consumers or users, those who acquire, store, utilize or consume goods or services to integrate them into a production, transformation, commercialization or supplying to third parties process.

In addition, the Consumer Protection Law defines the suppliers of goods and services as the individuals or legal entities, either public or private that in a professional way, even occasionally, produce, import, distribute or commercialize goods or supply services to consumers or users.

Table of Contents

It is excluded from the application of the Consumer Protection Law:

(a) the services supplied by liberal professionals that require a registration with professional bars officially recognized or by another authority (nevertheless, they are included the advertising done for its offering); and

(b) the contracts over used assets, executed between consumers.

The Consumer Protection Law determines that the information contained in the offer addressed to undetermined prospective consumers, binds the offeror during the period in which the offer takes place and until its public revocation. Further, it determines that specifications included in advertisements, announcements, prospects, circulars or other media bind the offeror and are considered part of the contract entered into by the consumer.

With regard to services, the Consumer Protection Law establishes that those who supply services of any nature are obliged to respect the terms, conditions, and other circumstances according to which they have been offered, published or accepted.

Buildings. Buildings Law No. 19,724, as amended, establish a regime for the construction of buildings for later subdivision into strata title. Under this law, developers must inform potential purchasers of the future existence of a strata regime or co-proprietorship proposal, as well as of all sale conditions, and the size of each unit in relation to the whole.

Unit sales subject to the pre-strata title regime must be registered with the Real Estate Registry.

The owner of the property subject to pre-strata title regulations may not take out a mortgage on the property without the consent of the purchasers of individual units unless expressly stipulated in the purchase contract. In addition, the owner must inform such purchasers of the conditions of the mortgage, which may not retroactively affect contracts previously signed.

This law also states that, in the event that construction is not completed, all amounts already deposited must be repaid to the purchasers.

Mortgage Regulation. The Argentine Civil Code of 1871, as amended, regulates mortgages both as a contract and as a right over property. There are no special provisions in the Civil Code aimed at protecting mortgagors. Nevertheless, any agreement entered into by a mortgagor and a mortgagee at the time of execution of a mortgage contract or prior to the default of the mortgagor allowing the mortgagee to recover the property without a public auction of the property will not be enforced by the courts as contrary to Argentine public policy.

In an attempt to facilitate the development of a strong secondary market for mortgages, Law No. 24,441, enacted in 1995, establishes a new alternative proceeding to collect unpaid amounts secured by a mortgage. The new rules introduced by Law No. 24,441 are aimed at overcoming the difficulties and delays of the traditional ordinary proceeding.

Until the enactment of Law No. 24,441, the only procedure available to collect unpaid amounts secured by a mortgage was a summary proceeding regulated by the Code of Civil and Commercial Procedure. The heavy caseload on the courts that heard such matters usually delayed the summary proceeding, which currently took an average of 12 months to complete.

Chapter V of Law No. 24,441 institutes a new procedure which may expedite collection of unpaid amounts secured by a mortgage. To be applicable, the new rules, which allow an out-of-court auction, need to be expressly agreed to by the parties in the mortgage contract.

Currently, we include in our mortgages a clause enabling the enforcement of Law No. 24,441. However, there can be no assurance that such collection provisions will accelerate the recovery of unpaid amounts under mortgage guarantees.

On the other hand, the Public Emergency Law, as amended established the suspension for the term of 270 days from the enactment of that law, of all the judicial or non-judicial enforcement including the enforcement of mortgages and pledges, regardless of its origin. On February 14, 2002, Law No. 25,563 amending the Bankruptcy Law (the New Bankruptcy Law) was enacted. Under the New Bankruptcy Law, certain bankruptcies and foreclosures (including foreclosures on mortgage loans) would be suspended for a period of 180 days from the law s effective date. Such period was extended for 180 days more by Law No. 25,589 and afterwards for 90 days more by Law No. 25,640 of September 2002, expiring on February 2003.

On February 4, 2003, the Executive Branch enacted Decree No. 204/2003 creating a mediation procedure, for a limited period of 90 days, to be conducted through the Emergency Legal Units (*Unidades de Emergencias Legales*) depending from the Ministry of Labor, Employment and Social Security and the Ministry of Production. Such Emergency Legal Units shall intervene at the request of debtors or creditors in foreclosure cases.

The mediation procedure is voluntary and free. Proposals and negotiations made by the parties are subject to the confidentiality of ordinary mediations. The mediation procedure in no case will result in the suspension or interruption of the legal terms running in judicial or out-of-court foreclosure proceedings.

The Emergency Legal Units will try to approximate the parties proposals to reach an agreement enabling the debtor the performance of his obligations without lessening the creditors rights. The intervention of the Emergency Legal Units shall conclude with an agreement or with the impossibility of reaching such agreement. The Decree establishes that the conciliation proceeding shall be in force from the day of its publication in the Official Gazette and will have a term of force of 90 days.

On May 8, 2003 the Congress enacted Law No. 25,737 which suspended foreclosures for a period of 90 days more. Afterwards, private and financial entities voluntarily decided to suspend foreclosures.

On November 5, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule the mortgage debts by creating a Trust (paid by the Argentine Government) which will purchase the portfolio mortgage debts and reschedule them in a more profitable way. Financial institutions were given until June 22, 2004 to accept this mortgage reschedule system. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included various conditions referring to the incorporation into this system of the mortgage loans that were in judicial or private execution proceedings.

Most mortgages executed by us provide that we are empowered to declare the anticipated expiration of the loan upon non-payment of an installment. This enables us to recover the unpaid amounts through the sale of the relevant property pursuant to the Code of Civil and Commercial Procedure of Argentina or Law No. 24,441.

Pursuant to the Argentine law, fees and expenses related to collection procedures must be borne by the debtor, and the proceeds from any auction of the property may be used for the settlement of such obligation.

Protection for the Disabled Law. Protection for the Disabled Law No. 22,431, enacted on March 20, 1981, as amended, provides that in connection with the construction and renovation of buildings, obstructions to access must be eliminated in order to enable access by mobility impaired individuals. In the construction of public buildings, entrances, transit pathways and adequate facilities for mobility impaired individuals must be provided.

Buildings constructed before the enforcement of the Protection for the Disabled Law must be adapted to provide accesses, transit pathways and adequate facilities for mobility-impaired individuals.

Those pre-existing buildings, which due to their architectural design may not be adapted to the use by mobility-impaired individuals, are excepted from the fulfillment of these requirements.

The Protection for the Disabled Law provides that residential buildings must ensure access by mobility impaired individuals to elevators and aisles. Differential architectural requirements refer to pathways, stairs, ramps and parking spaces.

Table of Contents

Antitrust Law. Antitrust Law No. 25,156 prevents antitrust practices and requires administrative authorization for transactions that according to the Antitrust Law constitute an economic concentrations.

According to such law, mergers, transfers of goodwill, acquisitions of property or rights over shares, capital or other convertible securities, or similar operations by which the acquirer controls a company, are considered economic concentration.

Whenever an economic concentration involves a company or companies (i) which hold 25% or more of the relevant market or (ii) which accumulated sales volume exceeds approximately Ps. 200 million in Argentina or Ps. 2,500 million worldwide, then the respective concentration should be submitted for approval to the National Antitrust Commission.

The request for approval may be filed, either prior to the transaction or within a week after its completion.

Because the consolidated annual sales volume of APSA and IRSA exceeds Ps. 200 million, we should give notice to the National Antitrust Commission of any transaction referred in the Antitrust Law.

Currently, we have no transaction required to be notified. Compliance with the Antitrust Law provisions does not affect our ongoing business.

Hotel Regulatory Issues. The Hotel Regulation Act Law No. 18,828 enacted on November 6, 1970, as amended, creates The National Registry of Hotels in which certain hotels may be registered. Our hotels are required to meet certain conditions with respect to facilities, services and employees.

C. Organizational Structure

The following table presents information relating to our ownership interest and the percentage of our consolidated total net revenues represented by our subsidiaries as of June 30, 2004.

Subsidiary	Activity	Country of incorporation	Percentage ownership	Percentage of voting power	Percentage of our total net revenues
Palermo Invest	Investment	Argentina	66.7%	66.7%	0.0%
Inversora Bolívar	Real Estate	Argentina	66.7%	66.7%	7.3%
Ritelco	Investment	Uruguay	100.0%	100.0%	0.0%
Nuevas Fronteras	Hotel	Argentina	50.9%	50.9%	10.0%
Pereiraola	Real Estate	Argentina	83.3%	83.3%	0.0%
Abril	Real Estate	Argentina	83.3%	83.3%	0.5%
Baldovinos	Real Estate	Argentina	83.3%	83.3%	1.1%

Bs. As. Trade & F.C.	Real Estate	Argentina	100.0%	100.0%	0.0%
Hoteles Argentinos	Hotel	Argentina	80.0%	80.0%	6.0%
APSA	Shopping Centers	Argentina	53.8%	53.8%(1)(2)	54.9%
Llao Llao	Hotel	Argentina	50.0%	50.0%(3)	11.3%

(1) Pursuant to a voting agreement subscribed, GSEM/AP granted us, subject to certain conditions, rights to vote the shares held by GSEM/AP in APSA for a period of ten years.

(2) On November 30, 2004, IRSA purchased from GSEM/AP Holdings LP (GS), a wholly owned subsidiary of Goldman Sachs, 3,061,450 Convertible Notes and 1,114,520 ADSs of APSA. IRSA paid a total U$S 15.3 million. IRSA then agree to transfer to Parque Arauco, owner as of June 30, 2004 of a 27.78% interest in APSA, 1,004,866 Convertible Notes and 365,821 ADSs of APSA pursuant to a prior agreement for a price of US$ 5.0 million (32.8% of the acquisition by IRSA from GS).

(3) During the year ended June 30, 2004 we adopted Technical Resolution No. 21 and, as a result, we started to consolidate Llao Llao. As required by the transition provisions of this standard, we restated our prior year´s consolidated financial statements and related data to reflect such investment on a consolidated basis.

Table of Contents

As of June 30, 2004, we owned 11.76% of BHSA, 5.22% of such ownership is through our subsidiary Ritelco S.A. BHSA is an Argentine company engaged in banking activity.

Table of Contents

The following is our organizational chart and our principal subsidiaries as of June 30, 2004:

69

Table of Contents

D. Property, Plant and Equipment

As of June 30, 2004, all of our property, consisting of rental properties in the office and retail real estate sectors, development properties primarily in the residential real estate sector and Shoppings Centers through our subsidiary APSA, were located in Argentina. We lease our headquarters, located at Bolívar 108, C1066AAD and Moreno 877, piso 22, C1091AAQ Buenos Aires, Argentina, pursuant to two lease agreements that expire on Febrery 28, 2014 and November 30, 2008 respectively.

Table of Contents

The following table sets forth certain information about our properties that are held in fee:

perty	Date Of Acquisition	Leaseable/ Saleable Area m2 (1)	Location	Book Value Ps./000 (2)	Encumbrance	Outstanding principal amount Ps./000	Maturity date	Balance due at maturity	Rate	Use
er-Continental Plaza (3)	11/18/97	22,535	City of Buenos Aires	65,152						Office Rental
pertador 498	12/20/95	10,533	City of Buenos Aires	42,679	Mortgage (4)	2.4	Nov-09	0,2	Libor 3M + 200 bps	Office Rental
aipú 1300	09/28/95	10,325	City of Buenos Aires	45,432						Office Rental
minar Plaza	03/25/99	6,521	City of Buenos Aires	31,126	Mortgage (4)	28.8	Nov-09	2.9	Libor 3M + 200 bps	Office Rental
adero 1020	12/21/95	1,359	City of Buenos Aires	4,047						Office Rental
conquista 823/41	11/12/93	6,100	City of Buenos Aires	17,733						Office Rental
ipacha 652/64	11/22/91	11,453	City of Buenos Aires	10,641						Office Rental
ificios Dock II	03/20/97	6,389	City of Buenos Aires	19,726						Office Rental
ificios Costeros Dock IV	08/29/01	5,437	City of Buenos Aires	20,123	Mortgage (4)	24.0	Nov-09	2.4	Libor 3M + 200 bps	Office Rental
adero 942	08/31/94	768	City of Buenos Aires	2,213						Office Rental
. De Mayo 595/99	19/08/92	1,958	City of Buenos Aires	4,419						Office Rental
. Libertador 602	01/05/96	638	City of Buenos Aires	2,628						Office Rental
rmiento 517	01/12/94	39	City of Buenos Aires	121						Office Rental
nstitución 1111	16/06/94	312	City of Buenos Aires	494						Comercial Rental
sina 934/44	01/08/91	3,750	City of Buenos Aires	1,457						Comercial Rental
her Properties (5)		33,329	City and Provine of Buenos Aires	3,697						Office Rental
to Palermo Shopping Center 7)	11/18/97	17,900	City of Buenos Aires	229,117						Shopping Cen
asto (6)	07/17/94	39,325	City of Buenos Aires	210,696						Shopping Cen
to Avellaneda (6)	11/18/97	27,451	City of Avellaneda	107,333						Shopping Cen
seo Alcorta (6)	06/06/97	14,829	City of Buenos Aires	69,003						Shopping Cen
tio Bullrich (6)	10/01/98	10,882	City of Buenos Aires	121,678						Shopping Cen
evo Noa (6)	03/29/95	18,818	City of Salta	29,589						Shopping Cen
enos Aires Desing (6)	11/18/97	14,488	City of Buenos Aires	23,381						Shopping Cen
endoza Plaza (6)	12/01/94	37,090	City of Mendoza	14,516	Mortgage (8)	15.0	Aug-10	0.6	Libor 6M + 3.1%	Shopping Cen

						2.5	May-05	0.1	Libor 6M + 6.81%	
ck III [9]	9/9/99	10,474	City of Buenos Aires	25,979						Land Reserve
erto Retiro [3]	5/18/97	82,051	City of Buenos Aires	46,424						Land Reserve
ballito	11/3/97	20,968	City of Buenos Aires	19,898						Land Reserve
nta Marìa del Plata	7/10/97	715,952	City of Buenos Aires	124,783						Land Reserve
reiraola [10]	12/16/96	1,299,630	Province of Buenos Aires	21,875						Land Reserve
que IV	12/2/97	4,653	City of Buenos Aires	6,160						Land Reserve
hers City of Buenos Aires [11]		1,006,231	City of Buenos Aires	63,139						Land Reserve
hers Province of Buenos Aires		2,471,232	Province of Buenos Aires	4,809						Land Reserve
her Neuquen [13]		50,000	City of Neuquen	9,983	Mortgage [14]					Land Reserve
er-Continental	11/01/97	37,742	City of Buenos Aires	57,447						Hotel
eraton Libertador [15]	03/01/98	17,463	City of Buenos Aires	37,795	Mortgage	35.5	Jan-06	18.6	Libor 3M + 401/476 bps	Hotel
ao Llao	06/01/97	15,000	City of Bariloche	30,827						Hotel
n Martín de Tours	06/26/03	2,154	City of Buenos Aires	4,744	Mortgage	2.2	Mar-05	2.2		Development

(1) Total leaseable area for each property. Excludes common areas and parking spaces.

(2) Cost of acquisition, plus improvements, less accumulated depreciation, plus adjustment for inflation until 02/28/03, less allowance for impairment value, plus net recovery of the allowance for impairment, if corresponded.

(3) Through Inversora Bolivar S.A. (IBSA)

(4) US$ 37.4 million in floating rate Secured Floating Rate Notes with a 90-day Libor rate plus 200 bps and maturing in the year 2009 are secured by a first mortgage on these properties for an amount equivalent to 50% of the debt.

(5) Includes Thames, and one unit in Alto Palermo Park.

(6) Through Alto Palermo S.A. (APSA)

(7) Shopping Alto Palermo is owned by APSA. On January 18, 2001, (i) APSA issued Series A Senior Notes for US$ 40 million and (ii) APSA and SAPSA co-issued Series B Senior Notes for US$ 80 million that will be severally paid by APSA and SAPSA. The Series A and B Senior Notes are due on 2005. The payment of the total amount of the Senior Notes is guaranteed by a Trust Agreement pursuant to which all of APSA s shares of SAPSA were transferred to a trust. The Trust Agreement was entered into on January 16, 2001 between APSA and Ritelco, as shareholders of SAPSA and as Trustors, Río Trust S.A., as Trustee, and the holders of the Senior Notes as Beneficiaries.

(8) APSA owns a 18.9% non-controlling interest Pérez Cuesta S.A.C.I. which owns Mendoza Plaza. In 1998, Banco de Chile granted Pérez Cuesta S.A.C.I. a twelve-year loan for US$ 15.0 million and a three-year loan for US$ 2.5 million, both secured by a mortgage on Mendoza Plaza. As of June 30, 2004, Pérez Cuesta S.A.C.I., had Ps. 10.7 million expired debt. Pérez Cuesta S.A.C.I. is currently negotiating an extension of the original payment terms with its creditors. However, APSA cannot assure you that it will achieve a successful restructuring of its financial indebtedness. On September 29, 2004, APSA entered into an agreement to purchase 49.9% of the capital stock of Pérez Cuesta S.A.C.I. The transaction was consummated on December 2, 2004, once APSA obtained the approval from the Antitrust Authorities. As a result, APSA currently owns a 68.8% interest in this shopping center.

(9) Through Bs. As. Trade & Finance S.A. On November 2004, we signed an exchange deed for one of the three parcels in which our plot is divided wherely DYPSA agreed to pay US$ 8,030,000 through the exchange of 28.50% of the total meters to be constructed.

(10) Directly through IRSA and indirectly through IBSA.

(11) Includes the following land reserves: Torres Jardin IV, Constitucion 1159 and Padilla 902 (through IRSA), Mariano Acosta and Intercontinental Plaza II (through IBSA) and Terrenos Alcorta, Caballito and the Coto project (through APSA).

(12) Includes the following land reserves: Terrenos Pilar (through IRSA), Pontevedra and Merlo (through IBSA).

(13) Included Terrenos Neuquen (through APSA).

(14) At June 30, 2004, Shopping Neuquen S.A. included a Ps. 41,792 loan secured by a mortage on the land.

(15) In January 2001 our subsidiary Hoteles Argentinos, owner of 100% of the Sheraton Libertador, obtained a loan from Bank Boston N.A. for US$ 12.0 million. Subsequently, Bank Boston sold this loan to Marathon Master Fund Ltd. This loan is due in January 2006 with interest being payable quarterly at Libor plus a spread ranging between 401 and 476 basis points, depending on the value of certain financial ratios.

This loan was not converted into Pesos and it is stated in U.S. Dollars because it is governed by the laws of the State of New York. There are currently installments of the principal and interest that are overdue and unpaid. This loan is with no recourse to us. On December 16, 2004, our wholly-owned subsidiary Ritelco S.A. acquired 100% of the debt Hoteles Argentinos had with Marathon Master Fund, Ltd. Ritelco S.A. paid a total amount of US$ 8.0 million.

We do not currently lease any material properties other than our headquarters.

Insurance

We carry liability and fire insurance with respect to all of our properties. Such insurance policies have specifications, limits and deductibles customary for the community where the property is located. We believe that the insurance coverage for our properties is adequate.

ITEM 5. Operating and Financial Review and Prospects

A. Operating Results

The following Operating and financial review and prospects should be read together with Item 3: Key Information Selected Financial Data and our financial statements appearing elsewhere in this annual report. This Operating and Financial Review and Prospects discussion contains forward-looking statements that involve risks, uncertainties and assumptions. These forward-looking statements include, among others, those statements including the words expects , anticipates , intends , believes and similar language. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many risk factors, including those set forth elsewhere in this annual report.

For purposes of the following discussion, unless otherwise specified, references to fiscal years 2004, 2003 and 2002 relate to the fiscal years ended June 30, 2004, 2003 and 2002 respectively.

Our financial statements are presented in thousands of Pesos. Except as discussed in the following paragraph, our financial statements are prepared in accordance with Argentine GAAP and the CNV regulation, which differs in certain significant respects from U.S. GAAP. Note 20 to our Consolidated

Financial Statements provides a description of the principal differences between Argentine GAAP and U.S. GAAP affecting our consolidated figures and a reconciliation to U.S. GAAP of net income (loss) reported under Argentine GAAP for the years ended June 30, 2004, 2003 and 2002, and of shareholders equity reported under Argentine GAAP as of June 30, 2004 and 2003. The differences involve methods of measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP and regulations of the SEC.

As discussed in Notes 2.c. and 3.n. to our Consolidated Financial Statements, contained elsewhere in this annual report, in order to comply with CNV regulations, we discontinued inflation accounting as of March 1, 2003 as well as recognized deferred income tax assets and liabilities on a non-discounted basis. These accounting practices represent departures from generally accepted accounting principles in Argentina. However, such departures have not had a material effect on our Consolidated Financial Statements.

Critical Accounting Policies and Estimates

In connection with the preparation of the financial statements included in this annual report, we have relied on variables and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Although we review these estimates and assumptions in the ordinary course of business, the portrayal of our financial condition and results of operation often requires our management to make judgments regarding the effects of matters that are inherently uncertain on the carrying value of our assets and liabilities. Actual results may differ from those estimated under different variables, assumptions or conditions. In order to provide an understanding about how management forms its judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, we have included comments related to each critical accounting policy described as follows:

- revenue recognition;
- rental property depreciation;
- provision for allowances and contingencies;
- impairment of long-lived assets;
- debt restructuring;
- deferred income tax.

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles used in Argentina and regulations of the CNV which differ in certain significant respects from generally accepted accounting principles in the United States of America. Such differences involve methods of measuring the amounts shown in the financial statements, as well as additional disclosures required by U.S. GAAP and regulations of the SEC.

Revenue recognition

We primarily derive our revenues from the development and sale of properties, leases of office and other non-retail building properties, leases and services of our shopping centers (including revenues from credit card transactions), hotel operations, and, to a lesser extent, from e-commerce activities. Except for revenues derived from the sale and development of properties, our revenue recognition policies do not require management to make estimates.

Development and sale of properties. We generally enter into purchase and sale agreements with purchasers of units in our residential development properties prior to the commencement of construction. Pursuant to this practice, we initiate our marketing and sales efforts on the basis of already-commissioned architectural designs and model units. As a general rule, purchasers pay a booking charge for the units and subsequently enter into fixed price purchase and sale agreements by advancing us approximately 5% of the purchase price and agreeing to advance an additional 15% / 20% of the purchase price in equal installments over an agreed upon construction period. The balance of the purchase price is due upon delivery of the constructed and completed unit.

Construction of such residential development properties is done pursuant to turn-key contracts with major Argentine and South American construction companies that provide for construction to be completed within a prescribed period and budget, in most of the cases.

We record revenue from the sale of properties when all of the following criteria are met:

- the sale has been consummated;
- there is sufficient evidence of the buyer s initial capacity and commitment to pay for the property;
- our receivable is not subject to future subordination; and
- we have transferred to the buyer the risk of ownership, and do not have a continuing involvement in the property.

We use the percentage-of-completion method of accounting with respect to sales of development properties under construction effected under fixed-priced contracts. Under this method, revenue is recognized based on the ratio of costs incurred to total estimated costs applied to the total contract price. We do not commence revenue and cost recognition until such time as the decision to proceed with the project is made and construction activities have begun.

The percentage-of-completion method of accounting requires management to prepare budgeted costs (*i.e.*, the estimated costs of completion) in connection with sales of properties / units. All changes to estimated costs of completion are incorporated into revised estimates during the contract period.

Under this method of accounting, revenues for work completed may be recognized in the statement of income prior to the period in which actual cash proceeds from the sale are received. In this situation, a deferred asset is recorded. Alternatively, and as is more common for us, where property unit purchasers pay us an advance down-payment and monthly cash installments prior to the commencement of construction, a liability is recorded. This is recorded as a customer advance in the financial statements.

Rental property depreciation

We compute depreciation using the straight-line method over an estimated useful life of 50 years for buildings, ten years for facilities and five years for furniture and other equipment, all of which are judgmental determinations. These determinations may prove to be different than the actual life of the properties.

Provision for allowances and contingencies

We provide for losses relating to mortgage, lease and other accounts receivable. The allowance for losses is recognized when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the terms of the agreements. The allowance is determined on a one-by-one basis considering the present value of expected future cash flow or the fair value of collateral if the loan is collateral dependent, when applicable. While we use the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making these evaluations. We have considered all events and/or transactions that are subject to reasonable and normal methods of estimations, and our Consolidated Financial Statements reflect that consideration.

Table of Contents

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor and other matters. We accrue liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, our estimate of the outcomes of these matters and our lawyers experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs, which could have a material effect our future results of operations and financial condition or liquidity.

Impairment of long-lived assets

We periodically evaluate the carrying value of our long-lived assets for impairment. We consider the carrying value of a long-lived asset to be impaired when the expected cash flows, undiscounted and without interest, from such asset is separately identifiable and less than its carrying value. Impairments are allocated to the results of the period. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. We determine the fair market value primarily using independent appraisals valuations.

A previously recognized impairment loss is reversed when there is a subsequent change in estimates used to compute the fair market value of the asset. In that event, the new carrying amount of the asset is the lower of its fair market value or the net carrying amount the asset would have had if no impairment had been recognized.

We believe that the accounting policy related to asset impairment is a critical accounting policy because:

- it is highly susceptible to change from period to period because it requires company management to make assumptions such as, future sales and cost of sale, future vacancy rates and future prices; and

- the impact that recognizing an impairment would have on assets reported on our balance sheet as well as on the results of our operations could be material. Estimates about future sales prices and future vacancy rates require significant judgment because actual sales prices and vacancy rates have fluctuated in the past and are expected to continue to do so.

During the year ended June 30, 2004 as a result of an increase in the fair market value of our parcels of undeveloped land and rental properties (including shopping centers), we reversed impairment losses previously recognized for a total amount of Ps. 15.1 million and Ps. 49.2 million respectively, which have been included within Gain (loss) from operations and holdings of real estate assets, net in the Statement of Income. A reduction in the fair market value of this properties by 5% would have resulted in a less reversion of impairment losses of Ps. 3.6 million and Ps. 14.0 million respectively.

We also evaluated the carrying value of our long-lived assets related to Development and sales of properties, Office and others, Hotel and Shopping Centers segments for impairments as of June 30, 2003. Assets related to those four segments represent approximately 92% of our total long-lived assets. During the year ended June 30, 2004 we did not recognize an impairment of certain long-lived assets as their carrying value did not exceeded their fair market value.

The fair market value of our office and retail buildings was determined following the Rent Value Method, considering each property s future cash flow, competition and historical vacancy rates. The price per square meter of our properties varies based on the category and the type of building. For premium buildings the average price per square meter used was Ps. 38 while for buildings the average price per square meter was Ps. 15. The average vacancy rate was calculated taking into account the last ten years. As of June 30, 2004 we did not record any impairment loss. A reduction in the fair market value of these properties by 5% would not have resulted in the recognition of an impairment loss.

The fair market value of our shopping centers was also determined following the Rent Value Method using an average discount rate between 12.5% and 16%, an average price per square meter of Ps. 7,088 and the actual vacancy rates. A reduction in the fair market value of these properties by 5.0% would have resulted in an impairment of Ps. 1.5 million during the year ended June 30, 2004.

We used the open market method for determining the fair market value of our land reserve and inventories. During the year ended June 30, 2004 we did not recognized any impairment loss in this regard. A reduction in the fair market value of these properties by 5% also would not have resulted in an impairment loss.

Debt restructuring

In November 2002 we completed the refinancing of our debt for a total amount of US$ 103.4 million and we also fulfilled the operation with our lenders to refinance the Syndicate Loan for US$ 80 million and our Notes for US$ 37 million.

Since the conditions of the new debt instruments were substantially different from the original conditions (as defined by Technical Resolution No. 17), we removed the original loans from the consolidated balance sheet and recognized the new debt instruments at the present value discounted at an 8% market interest rate. This rate was determined taking into consideration the rates that we used in reference to our local operations. As a result of the debt restructuring in 2003, we recognized a gain of Ps. 36.5 million (Ps. 31.7 million net of expenses incurred in the restructuring), which represents the difference between the present value of the new debt instruments and the carrying value of the old debts.

We believe that the accounting estimate related to debt restructuring was a critical accounting estimate because if we would calculate the present value of our debts using higher interest rates than 8%, we would have a material impact on our debts reported on our balance sheet as well as on our financing results.

The utilization of interest rates other than 8% in calculating the present value of the new debts instruments would have the following effects on the related results for the fiscal year 2003:

Interest Rates	Gain in million	Impact on Net Income	Impact on Shareholder s equity
11%	16	5.59%	1.98%
16%	47	16.4%	5.81%
23%	73	25.49%	9.02%

Deferred income tax

As described in Note 2.d to our Consolidated Financial Statements, we adopted new accounting standards effective July 1, 2002. Pursuant to this adoption, we recognize income tax using the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Technical Resolution No. 17 requires companies to record a valuation allowance for that component of net deferred tax assets which is not recoverable.

We provided a valuation allowance for a portion of our net deferred tax assets, as we do not considered the realization of the full tax benefit to be more likely than not. We considered all evidence, both positive and negative, in determining if a valuation allowance is needed for some portion or all our deferred tax assets. These evidences consist primarily in:

Limitations in the use of certain deferred tax assets, primarily tax loss carry forwards

Table of Contents

Reversals of existing taxable temporary differences

Business projections

As a result of the evaluation of this evidence, we accounted for a valuation allowance of approximately 48% of our deferred tax assets, amounting to Ps. 46.9 million. Net deferred tax assets as of June 30, 2004 was Ps. 97.1 million.

A decrease and an increase of 10%, 20% and 30% in the net result from our projections, except for the exchange rate which remained stable, utilized in determining the valuation allowance of our deferred tax assets would have had the following impact:

Premises fluctuation	Valuation allowance in million	Additional (loss) / gain in million of Ps.	Impact on Net income	Impact on Shareholder s equity
-10%	53,30	-6,44	-7,33%	-0,67%
-20%	58,40	-11,54	-13,13%	-1,20%
-30%	62,00	-15,14	-17,22%	-1,58%
10%	42,66	4,20	4,78%	0,44%
20%	37,60	9,26	10,53%	0,96%
30%	33,10	13,76	15,65%	1,43%

We believe that the accounting estimate related to deferred income tax is a critical accounting estimate because:

it is highly susceptible to change from period to period because it requires company management to make assumptions such as, future revenues and expenses, exchange rates and inflation among others; and

because the impact that calculating income tax using this method would have on assets or liabilities reported on our balance sheet as well as on the income tax result reported in our statement of income could be material.

Variability of quarterly results

A principal source of our revenue is rental income derived from leases of office and retail properties and sales of developed properties. Nevertheless, our historical revenues have varied from period to period depending upon the timeliness of sales of properties. No assurance can be given that our period-to-period results of operations will not continue to vary as a result of periodic property sales.

Overview

As described below, economic and political factors affecting Argentina as well as changes in interest rates and foreign currency have a substantial impact on our financial performance.

Effect on us of devaluation and economic crisis

Most of our assets are located and our operations are performed in Argentina. Accordingly, our financial condition and results of operations depend substantially upon economic conditions prevailing in Argentina. Due to the four-year recession which ended in the second quarter of 2002, the Argentine economy has deteriorated sharply.

Table of Contents

In the fourth quarter of 1998, the Argentine economy entered into a recession that caused the gross domestic product to decreased by 3.0% in 1999, 0.5% in 2000 and 4.9% in 2001. During the second half of 2001, Argentina s recession worsened significantly, precipitating a serious political and economic crisis. During 2002, the gross domestic product decreased 10.9% as compared to 2001. In 2003, the economy began to recover, ending the year with a 11.7% annual growth year over year. Estimates for 2004, indicate a GDP growth of approximately 8%.

On January 6, 2002, the Congress enacted the Public Emergency Law which repeals several provisions of the Convertibility Law which prevailed in Argentina for 10 years, and the executive branch announced the devaluation of the Peso the establishment of a dual exchange rate system in which certain limited transactions will occur at a fixed rate of Ps. 1.4 to US$ 1.0 and all other transactions will be settled at a floating market rate depending on supply and demand. This legislation had a material adverse impact on our financial position and the results of our operations in fiscal year 2002, which was partially offset during fiscal year 2003 and 2004.

Effects of inflation

From 1997 until the end of year 2001, policies adopted by Argentine government have substantially reduced the level of inflation. Therefore, during that period inflation did not significantly affect our financial condition and results of operations. The following are annual inflation rates figures published by the Ministry of Economy of Argentina:

Year ended June 30,	Consumer Price Index	Wholesale Price Index
1997	0.9%	0.1%
1998	1.1%	-1.9%
1999	-1.3%	-5.3%
2000	-1.1%	4.4%
2001	-0.3%	-1.6%
2002	28.4%	95,6%
2003	10,2%	8,3%
2004	4.9%	0.1%

The Public Emergency Law authorizes the executive branch to establish the system which will determine the new exchange ratio between the Peso and foreign currencies, and to approve the corresponding monetary regulations. The devaluation of the Peso by the executive branch creates a significant risk that inflation will increase materially, and we have no means of hedging and protecting ourselves from the risks of inflation.

During fiscal year 2002, the impact of inflation on our financial condition and results of operations was significant and generated a gain of Ps. 22.5 million. During fiscal year 2003, we recognized a loss of Ps. 1.9 million, taking into consideration that as a result of the Resolution No. 441 issued by the National Securities Commission we discontinued the restatement of our financial statements as from March 1, 2003. Since June 30, 2003, however, this deviation has not had a material effect on our financial statements.

Effects of interest rate fluctuations

Part of our Dollar denominated debt bears a variable interest rate. An increase in interest rates may significantly increase our financial costs and materially affect our financial condition and our results of operations.

Table of Contents

Effects of foreign currency fluctuations

Since April 1, 1991 until the beginning of 2002, the Convertibility Law was applicable in Argentina. This law established a fixed exchange rate, under which the Argentine Central Bank was obliged to sell U.S. Dollars to any person at a fixed rate of one Peso per U.S. Dollar. The primarily economic change announced by Duhalde s Administration in January 2002 was the devaluation of the Peso. A substantial portion of our financial debt is denominated in U.S. Dollars. Foreign currency exchange rate depreciation significantly increases the risk of default on our U.S. Dollar-denominated liabilities, as almost all of our revenues are denominated inArgentine Pesos. Foreign currency exchange restrictions hereafter imposed by the Argentine Government could prevent or restrict our access to U.S. Dollars, affecting our ability to service our U.S. Dollar- denominated liabilities. Also, fluctuations in the exchange rate between the Peso and the U.S. Dollar may adversely affect the U.S. Dollar equivalent of the Peso price of our common shares on the BCBA, and as a result are likely to affect the market price of our GDS in the United States.

Due to our significant exposure to U.S. Dollar-denominated liabilities, our financial results are very sensitive to fluctuations in the nominal exchange rates. In this way, strong depreciation in the Peso will affect negatively our results while strong appreciation will affect our results positively.

Suspension of the application of section 206 of the Law of Corporations No. 19,550

Our negative results for the fiscal year ended June 30, 2002 forced us to use more than 50% of our capital and reserves. Section 206 of the Law of Corporations No. 19,550 requires mandatory capital reduction when such a situation exists. However, in view of the economic crisis, Decree No.1269/02 was suspended, and Decree No. 1293/03 extended the application of this section until December 10, 2004. However, we cannot assure you that if we have negative results in the future fiscal years, we will not be required to make a capital reduction.

Operating costs and expenses

Allocation of selling expenses to business segments

Selling expenses related to the shopping centers, hotels and international segments are directly allocated to such segments because such segments are individually managed and clearly identifiable. The remaining selling expenses are allocated among the development and sale of properties and offices and other non-shopping center rental properties segments, excluding those located in shopping centers, based on the cost center which incurred the selling expense.

Allocation of administrative expenses to business segments

Administrative expenses (other than those expenses we incurred for the benefit of all the business segments) related to our shopping centers, hotels and International business segments are directly attributable to such segments because such segments are individually managed and are clearly identifiable. Administrative expenses include management fees paid, if any, to the managers of such segments. The remaining administrative expenses are allocated to the different segments, based on the cost center in which they are incurred, as follows:

- administrative expenses related to all business segments, as those corresponding to the board of directors, are allocated among each segment pro rata on the basis of their respective assets;
- administrative expenses incurred by certain departments associated with specific segments are allocated to such segments; and
- 70% of the remaining administrative expenses are allocated to the development and sale of properties segment, and 30% to the offices and other non-shopping center rental properties segment.

Allocation of results from the rescinding of Torres

These results derive from the rescinding of purchase agreements for units in Torres de Abasto in APSA and are allocated to Sales and Developments .

Table of Contents

Allocation of profits from our interest in the Tarjeta Shopping trust funds

This allocation of profits stems from the partnership interest of APSA in the Tarjeta Shopping trust funds. These profits have been allocated to the Shopping Centers segment.

Allocation of results from operations and the holding of real estate assets

These results are allocated to the segment that generates them.

Allocation of the goodwill depreciation

This includes mainly the depreciation of goodwill stemming from the acquisition of the Alto Palermo subsidiaries and of our own goodwill as a result of the purchase of stock in APSA, and is allocated to the Shopping Centers segments.

Allocation of other expenses and net income to business segments

Financial Results, Net. Includes interest income, gain (loss) on financial operations, financing expenses, gain (loss) on exposure to inflation, exchange differences and miscellaneous income (expense) allocable to each segment, as described below:

Income from financial operations. Only income related to Shopping Centers and Hotels were segregated by segment, as in these cases each of them manages the financial surplus recorded. The remaining amounts are recognized under Financial Operations and Others as they are not directly related to any specific segment.

Interest income, interest on discount of assets and liabilities and financing expenses. Only the results generated by APSA and Hotels are recorded in the Shopping Centers and Hotels segments. The remaining results are prorated among Sales and Development, Offices and Others, Hotels, Shopping Centers and in the column Financial Operations and Others in proportion to the corresponding assets.

*REI and exchange differences, discounts and sundry***.** In the case of Shopping Centers and Hotels, they are charged to the segments giving rise to them. The remaining items are recorded in the column Financial and Other operations as they are not directly related to any segment.

*Result of corporations under section 33 of Law No. 19,550***.** Applicable to the corresponding segments. Results generated by investments in corporations carrying out activities not falling under any of our segments of activity are recorded under Financial and Other operations .

Other income and expenses, net. Only those associated to Shopping Malls and Hotels are segregated by segment. The remaining items are recorded in the column Financial and Other operations as they are not directly related to any segment.

Minority interest. This result is applied to the segment of the company that generates it.

Income tax and minimum notional income tax. The corresponding income tax is applied to each segment.

Business Segment Reporting

We have determined that our reportable segments are those that are based on our method of internal reporting. Accordingly, we have six reportable segments. These segments are development and sales of properties, office and other non-shopping center rental properties, shopping centers, hotel operations, international, financial operations and others. The Consolidated Financial Statements were prepared in accordance with the procedure established by Technical Resolution No. 21 of the F.A.C.P.C.E., which requires the consolidation of every line of the Balance Sheet as of June 30, 2004 and 2003 of our company, the financial statements and Statements of Financial Position for the twelve-month periods ending on those dates, with the financial statement of those companies in which the we have direct or indirect decisive voting power.

A general description of each segment follows:

Development and sale of properties. This segment includes the operating results of our construction and ultimate sale of residential buildings business.

Offices and other non-shopping center rental properties. This segment includes the operating results of our lease and service revenues of office space and other non-retail building properties from tenants.

Shopping centers. This segment includes the operating results of our shopping centers principally comprised of lease and service revenues from tenants. This segment also includes revenues derived from credit card transactions which consist of commissions and financing income.

Hotel operations. This segment includes the operating results of our hotels principally comprised of room, catering and restaurant revenues.

International. This segment includes the results of operations of our equity investments in Brazil for the year ended June 30, 2002. We sold our ownership interests in FVI and Venezuela Invest in December 2000 and our ownership interest in Brazil Realty in February 2002.

Financial Operations and Others. This segment primarily includes revenues and associated costs generated from the sale of equity securities, other securities-related transactions and other non-core activities. For the fiscal year ended June 30, 2002, this segment also includes the loss in our equity investees relating to Internet, telecommunications and other technology-related activities.

We measure our reportable segments based on net income. Inter-segment transactions, if any, are accounted for at current market prices. We evaluate performance and allocate our resources to each segment based on net segment income. During the year ended June 30, 2004, no single customer accounted for more than 5% of our total sales or our total operating income.

Table of Contents

The following tables show certain operating data by business activity:

	For the fiscal year 2004 (in millions of Pesos)					
	Development and sale of properties	Offices and other non-shopping center properties	Shopping centers	Hotel operations	Other	Total
Revenues	31.1	15.1	143.3	71.3		260.8
Costs	(26.6)	(8.3)	(72.4)	(40.0)		(147.4)
Gross profit	4.5	6.9	70.8	31.2		113.4
Selling expenses	(4.0)	(0.1)	(10.9)	(8.2)		(23.0)
Administrative expenses	(6.7)	(4.3)	(23.6)	(15.6)		(50.2)
Gain in credit card trust			0.3			0.3
Gain from operations and holdings of real estate assets, net	7.0	27.7	26.9	2.7		64.3
Operating income	0.9	30.2	63.5	10.1		104.7
Amortization of goodwill			(2.9)			(2.9)
Financial results, net	(6.1)	(6.2)	(13.5)	(4.9)	41.4	10.5
Equity (loss) gain from related parties	(0.2)		(1.1)		28.0	26.7
Other expenses, net			(4.8)	(2.1)	(5.7)	(12.6)
Income before taxes and minority interest	(5.5)	24.0	41.1	3.1	63.6	126.4
Income and asset tax expense	(0.5)	(3.3)	(16.3)	(3.1)	(2.6)	(25.7)
Minority interest	0.4	(1.3)	(9.3)	(2.7)		(12.8)
Net (loss) income	(5.5)	19.5	15.5	(2.7)	61.0	87.9
Total assets	355.2	331.2	1,051.5	138.5	326.6	2,202.9

82

Table of Contents

	For the fiscal year 2003 (in millions of Pesos) [1]					
	Development and sale of properties	Offices and other non-shopping center properties	Shopping centers	Hotel operations	Other	Total
Revenues	47.2	17.8	113.8	57.7		236.5
Costs	(47.1)	(9.1)	(67.1)	(31.4)		(154.7)
Gross profit	0.1	8.7	46.7	26.4		81.8
Selling expenses	(4.0)	(0.1)	(17.6)	(6.9)		(28.6)
Administrative expenses	(6.1)	(4.4)	(21.4)	(13.3)		(45.2)
Gain on purchasers rescissions of sale contracts	0.0					0.0
Loss in credit card trust			(4.1)			(4.1)
Gain (loss) from operations and holdings of real estate assets	12.9	(1.9)	10.5			21.5
Operating income	3.0	2.3	14.1	6.2		25.5
Amortization of goodwill			(6.6)			(6.6)
Financial results, net	(2.1)	(2.1)	83.3	11.1	225.2	315.3
Equity loss from related parties	(0.3)		(12.1)		(2.3)	(14.7)
Other income (expenses), net			13.3	(3.7)	(10.4)	(0.9)
Income before taxes and minority interest	0.5	0.2	92.0	13.5	212.4	318.6
Income and asset tax benefit (expense)	0.7	(1.0)	(46.8)	1.4	49.2	3.5
Minority interest	5.1	(1.4)	(35.2)	(4.2)		(35.7)
Net income (loss)	6.3	(2.2)	10.0	10.7	261.6	286.4
Total assets	342.9	293.4	1,044.2	138.8	262.7	2,082.0

[1] Under Argentine GAAP, we adopted RT No. 21 Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions during the year ended June 30, 2004. As a result of such an adoption, we began consolidating Llao Llao Resorts S.A. (hotel operations). As required by Argentine GAAP, our prior year s financial statements and related data were restated to reflect our investment in Llao Llao Resorts S.A. on a consolidated basis.

	For the fiscal year 2002 (in millions of Pesos) [(1)]						
	Development and sale of properties	Offices and other non-shopping center properties	Shopping centers	Hotel operations	International	Other	Total
Revenues	54.5	44.5		57.4			156.4
Costs	(43.5)	(13.2)		(40.3)			(97.0)
Gross profit	11.0	31.3		17.1			59.4
Selling expenses	(6.8)	(0.6)		(6.9)			(14.3)
Administrative expenses	(11.2)	(6.1)	(1.4)	(16.3)	(1.3)		(36.3)
Gain (loss) from operations and holdings of real estate assets	(26.8)	(49.3)		(6.6)	35.9		(46.8)
Operating income	(33.8)	(24.7)	(1.4)	(12.7)	34.6		(38.0)
Financial results, net	(29.0)	(16.7)		(12.4)		(438.4)	(496.5)
Equity gain (loss) from related parties	1.6		(4.6)		(3.4)	1.8	(4.6)
Other expenses, net						(4.5)	(4.5)
(Loss) income before taxes and minority interest	(61.2)	(41.4)	(6.0)	(25.1)	31.2	(441.1)	(543.6)
Income and asset tax benefit (expense)	4.6	(5.2)	(0.8)	1.8	(1.3)	(0.2)	(1.1)
Minority interest	(4.0)			5.0			1.0
Net (loss) income	(60.6)	(46.6)	(6.8)	(18.3)	29.9	(441.3)	(543.7)
Total assets	399.3	309.2	338.8	150.5	29.4	88.8	1,316.0

(1) Under Argentine GAAP, we adopted RT No. 21 Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions during the year ended June 30, 2004. As a result of such an adoption, we began consolidating Llao Llao Resorts S.A. (hotel operations). As required by Argentine GAAP, our prior year s financial statements and related data were restated to reflect our investment in Llao Llao Resorts S.A. on a consolidated basis.

Results of Operations for the fiscal years ended June 30, 2004 and 2003.

Revenues

Revenues increased 10.3%, from Ps. 236.5 million for the fiscal year ended June 30, 2003, to Ps. 260.8 million for the fiscal year ended June 30, 2004. This increase reflects a rise in revenues from the Shopping Center and Hotels segments, partially offset by a decrease in revenues from the Development and Sale of Properties, Offices and Other and Non-shopping Center Rental Properties segments as discussed in detail below.

Development and Sale of Properties. Revenues from Development and Sale of Properties decreased 34.1%, from Ps. 47.2 million for the fiscal year ended June 30, 2003, to Ps. 31.1 million for the fiscal year ended June 30, 2004. This decrease was attributable to (i) a Ps. 9.7 million reduction in sales of housing units principally in Alto Palermo Park as a result of the sale of this property during 2003; (ii) a Ps. 6.8 million decrease in sales of residential communities principally Abril, which fell by 50%; and (iii) a Ps. 11.7 million decrease in sales of other properties due to the sale of Hotel Piscis for Ps. 9.9 million during 2003. Such decreases were partially offset by the sale of Benavídez in 2004.

Offices and Others. Revenues from Offices and Other decreased 14.8%, from Ps. 17.8 million during the fiscal year ended June 30, 2003, to Ps. 15.1 million during the fiscal year ended June 30, 2004. This decrease is mainly due to a decrease in revenues from leases primarily as a result of a decrease in the average rates and in the average occupancy level, from Ps. 16.2 million in the fiscal year ended June 30, 2003, to Ps. 13.8 million in the fiscal year ended June 30, 2004. This decrease in revenues from leases was attributed to (i) the decrease in monthly rental income during the current year, especially in Intecontinental Plaza Tower (Ps. 1.5 million decrease) and Laminar Plaza (Ps. 0.6 million decrease), and (ii) the sale of three floors and several parking spaces in Madero 1020, which generated a reduction in leases of Ps. 0.8 million. This decrease was partially offset by a Ps. 0.4 million increase in revenue from Edificios Costeros, where the average occupancy level rose from 63% to 98%.

Shopping Centers. Revenues from Shopping Centers increased 25.9 %, from Ps. 113.7 million during the fiscal year ended June 30, 2003, to Ps. 143.2 million during the fiscal year ended June 30, 2004. The increase was attributed principally to a 27.5% increase in income from leases and services, from Ps. 88.8 million to Ps. 113.2 million, and an increase of 20.5% from Tarjeta Shoping´s sales, from Ps. 24.9 million to Ps. 30.0 million. The percentage of occupancy ratios of our Shopping Centers increased from 96% in fiscal year 2003 to 99% in fiscal year 2004.

Hotels. Revenues from Hotels went up 23.5%, from Ps. 57.7 million for the fiscal year ended June 30, 2003 to Ps. 71.3 million for the fiscal year ended June 30, 2004, as a result of an increase in Llao Llao s average price per room and an increase in average occupancy in all our hotels, from 57% during fiscal year 2003 to 68% during fiscal year 2004. Revenues from Hotel Sheraton Libertador increased by Ps. 4.1 million, revenues from Hotel Intercontinental increased by Ps. 3.8 million and revenues from Hotel Llao Llao increased by Ps. 6.0 million. Furthermore, during fiscal year 2003 we recognized sales from the Hotel Piscis for Ps. 0.3 million.

Costs

Total costs decreased 4.7%, from Ps. 154.7 million during the fiscal year ended June 30, 2003 to Ps. 147.4 million for the fiscal year ended June 30, 2004. This reduction is the net result of (i) an increase in costs in the Shopping Centers and Hotels segments and (ii) a decrease in costs in the Development and Sale of Properties, Offices and Other and Non-shopping Rental Properties segments.

Development and Sale of Properties. Costs related to Development and Sale of Properties decreased 43.4%, from Ps. 47.1 million in the fiscal year ended June 30, 2003 to Ps. 26.6 million for the fiscal year ended June 30, 2004 mainly as a result of a decrease in total costs per square meters sold due to lower sales and in a less degree as a result of a decrease in mantainance expenses of the available for sale properties due to a small portfolio. Costs relating to Development and Sale of Properties as a percentage of revenues from the segment decreased from 99.7% during the fiscal year ended June 30, 2003 to 86.4% during the fiscal year ended June 30, 2004.

Offices and Other. Costs of Offices and Other decreased 9%, from Ps 9.1 million during the fiscal year ended June 30, 2003 to Ps. 8.3 million during the fiscal year ended June 30, 2004 due to a decrease in mantainance expenses of the available for rent properties. The main component of cost of Offices and Other is represented by the depreciation of leased properties, which remained stable.

Shopping Centers. Costs related to Shopping Centers increased 8.0%, from Ps. 67.1 million in the fiscal year ended June 2003 to Ps. 72.4 million in the fiscal year ended June 30, 2004. This increase was due to: (i) a 2.5% increase in leases and services costs resulting mainly from higher costs derived from car-parking of Ps. 0.9 million, increases in the number of personnel and an increase in security and cleaning costs, and to a lesser extent, because of (a) an increased depreciation charge of Ps. 0.6 million, (b) an increase in maintenance and repair costs of Ps. 0.2 million, that enable us to make changes to the areas to be leased, and (c) an increase in condominium expenses not recovered of Ps. 0.1 million because of the decision not to pass on the total amount of the increase in shared expenses to our tenants; and (ii) a 43.6%

increase in costs from credit card operation, due to the expansion that took place during the year, which included increasing personnel in the areas of customer and store service and adapting the telephone assistance centers to new customer volume.

Hotels. Costs from hotel operations increased 27.7%, from Ps. 31.4 million during the fiscal year ended June 30, 2003 to Ps. 40.0 million during the fiscal year ended June 30, 2004, primarily due to an increase of Ps. 2.8 million in salaries due to an increase in the staff of the hotel; (ii) an increase of Ps. 2.8 million in mantainance expenses and (iii) an increase of Ps. 1.5 million in direct costs such as food and beverages. Costs of hotels are primarily composed of depreciation, food and beverages, salaries and social security contributions. Costs relating to hotel operations as a percentage of revenues from the segment increased from 54.3% during the fiscal year ended June 30, 2003 to 56.2% during the fiscal year ended June 30, 2004.

Gross Profit

As a result of the foregoing, gross profit increased 38.6%, from Ps. 81.8 million during the fiscal year ended June 30, 2003 to Ps 113.4 million during the fiscal year ended June 30, 2004.

Selling Expenses

Selling expenses decreased 19.3%, from Ps. 28.6 million during the fiscal year ended June 30, 2003 to Ps. 23.0 million during the fiscal year ended June 30, 2004, primarily due to the net effect of (i) a decrease in selling expenses in Development and Sale of Properties and Offices and Other and (ii) an increase in selling expenses of Shopping Centers and Hotels. Selling expenses as a percentage of revenues decreased from 12.1% during the fiscal year ended June 30, 2003, to 8.8% during the fiscal year ended June 30, 2004.

Development and Sale of Properties. Selling expenses from Development and Sale of Properties decreased 1.6%, from Ps. 4.0 million during the fiscal year ended June 30, 2003 to Ps. 3.9 million during the fiscal year ended June 30, 2004, due to the decrease in sales during this fiscal year, which generated less direct selling expenses. The main components of selling expenses of Development and Sale of Properties are commissions and expenses from sales, advertising and gross sales tax.

Offices and Other. Selling expenses relating to Offices and Other decreased 32.5%, from Ps. 0.1 million during the fiscal year ended June 30, 2003 to Ps. 0.05 million during the fiscal year ended June 30, 2004.

Shopping Centers. Selling expenses relating to Shopping Centers decreased 38.2%, from Ps. 17.6 million during the fiscal year ended June 30, 2003 to Ps. 10.9 million during the fiscal year ended June 30, 2004. This decrease was mainly due to a 100% decrease in the allowance for doubtful accounts, from Ps. 10.3 million during fiscal year 2003 to zero during fiscal year 2004, as a consequence of the improvement during the year in the collection activities carried out by our shopping centers which was partly offset by (i) a 36% increase in gross sales tax, from Ps. 4.4 million during the fiscal year ended June 30, 2003 to Ps. 6.0 million during 2004, due to a similar increase in our sales, (ii) a 78.7% increase in advertising expenses, from Ps. 1.5 million in fiscal year 2003 to Ps. 2.6 million in fiscal year 2004, and (iii) an 85 % increase in the cost of personnel, from Ps. 1.2 million during fiscal year 2003 to Ps. 2.2 million during fiscal year 2004.

Hotels. Selling expenses relating to Hotel operations increased 18.8%, from Ps. 6.9 million during fiscal year 2003 to Ps. 8.1 during fiscal year 2004, mainly due to an increase in advertising expenses and an increase in the gross sales tax as a consequence of an increase in sales.

Table of Contents

Administrative Expenses

Administrative expenses increased 11.2%, from Ps. 45.2 million during the fiscal year 2003 to Ps. 50.2 million during the fiscal year 2004, due to an increase in administrative expenses relating to all our business units due to (i) an increase of Ps. 2.8 million in salaries and (ii) an increase of Ps. 1.5 million in fees and payments for services, except for Offices and Other which showed a light decrease. The main components of administrative expenses are salaries, social security, fees, compensation for services, depreciation and amortization.

Development and Sale of Properties. The administrative expenses from Development and Sale of Properties increased 9.5%, from Ps. 6.1 million during the fiscal year ended June 30, 2003 to Ps. 6.7 million for the fiscal year ended June 30, 2004. This variation was primarily due to (i) a Ps. 1.0 million increase in salary, social security, and depreciation, and (ii) a Ps. 0.4. million decrease in Directors fees. Administrative expenses of Development and Sale of Properties as a percentage of income from this segment increased from 12.9% during the fiscal year ended June 30, 2003 to 21.5% during the fiscal year ended June 30, 2004.

Offices and Other. Administrative expenses from Offices and Other decreased 1.8%, from Ps. 4.4 million during the fiscal year ended June 30, 2003 to Ps. 4.3 million during the fiscal year ended June 30, 2004. This decrease of Ps. 0.1 million was due to (i) Ps. 1.1 million increase in salary; (ii) Ps. 0.5 million decrease in Directors fees and (iii) Ps. 0.5 million decrease in fees allocated to this segment.

Shopping Centers. Administrative expenses of Shopping Centers increased 10.5%, from Ps. 21.4 million during the fiscal year ended June 30, 2003 to Ps. 23.6 million during the fiscal year ended June 30, 2004, primarily due to increases in salary, bonuses, social security contributions, fees and payments for services and taxes.

Hotels. Administrative expenses of Hotels increased 17.2%, from Ps. 13.3 million for the fiscal year ended June 30, 2003 to Ps. 15.6 million during the fiscal year ended June 30, 2004, primarily due to the Ps. 1.2 million increase attributable to Hotel Llao Llao as a result of the increase in taxes, services and salaries, and the Ps. 0.9 million increase attributable to Sheraton Libertador hotels, as a result of the increase in fees and services. Administrative expenses of Hotels as a percentage of sales from hotel operations decreased from 23.1% during the fiscal year ended June 30, 2003 to 21.9% during the fiscal year ended June 30, 2004.

Gain on Purchasers Rescissions of Sales Contracts

This line showed a 100% decrease from Ps. 0.009 million during fiscal year 2003 to zero during fiscal year 2004. This decrease was due to the consolidation with Alto Palermo in fiscal year 2003 and the rescission of the Torres de Abasto sales contracts.

Gain (Loss) in Credit Card Trust

The results of Credit Card Trust increased, from a loss of Ps. 4.1 million during fiscal year 2003 to a profit of Ps. 0.3 million during fiscal year 2004 due to the interest held by Alto Palermo in the Tarjeta Shopping Credit Card Trust.

Gain from Operations and Holdings of Real Estate Assets, net

The Gain from Operations and Holdings of Real Estate Assets, net, showed a gain of Ps. 42.8 million, having increased from a gain of Ps. 21.5 million for the fiscal year ended June 30, 2003 to a gain of Ps. 64.3 million for the fiscal year ended June 30, 2004. The gain generated during fiscal year 2004 was mainly due to the net impact of (i) the Ps. 64.3 million gain attributed to the net recovery of the allowance for the impairment of real estate during fiscal year 2004 in comparison to the Ps. 11.4 million gain recorded in fiscal year 2003 and (ii) the lack of recurrence of the sale of stock in Valle de las Leñas for approximately Ps. 10.0.

Operating Income

As a result of the foregoing, total Operating Income increased from a profit of Ps. 25.5 million during the fiscal year ended June 30, 2003 to a profit of Ps. 104.7 million during fiscal year 2004.

Development and Sale of Properties. Operating results from Development and Sale of Properties decreased 70.9%, from a profit of Ps. 3.0 million during the fiscal year ended June 30, 2003 to a gain of Ps. 0.9 million for the fiscal year ended June 30, 2004.

Offices and Other. Operating results from Offices and Other increased from a profit of Ps. 2.3 million during the fiscal year ended June 30, 2003 to a profit of Ps. 30.3 million for fiscal year 2004.

Shopping Centers. Operating results from Shopping Centers increased from a profit of Ps. 14.1 million during fiscal year 2003 to a profit of Ps. 63.5 million during fiscal year 2004.

Hotels. Operating results from Hotels increased 64.2%, from a profit of Ps. 6.2 million during fiscal year 2003 to a profit of Ps. 10.1 during fiscal year 2004.

Amortization of Goodwill

The loss reported under this heading mainly includes (i) the amortization of goodwill due to the acquisition of Shopping Alto Palermo S.A. (SAPSA), Fibesa and Tarshop S.A., subsidiaries of Alto Palermo, and (ii) the amortization of our goodwill from the purchase of stock in Alto Palermo during the current fiscal year. The amortization of goodwill decreased 56.2%, from a loss of Ps. 6.6 million during fiscal year 2003 to a loss of Ps. 2.9 million during fiscal year 2004.

Financial Results, net

Total net gains/losses on the financing of assets showed a variation of Ps. 304.8 million, from a gain of Ps. 315.3 million during the fiscal year ended June 30, 2003 to a gain of Ps. 10.5 million during the fiscal year ended June 30, 2004. This variation was due to (i) the Ps. 201.7 million exchange difference loss with regard to the previous year, owing to the depreciation of the Peso against the U.S. Dollar from 2.80 in 2003 to 2.958 in 2004, (ii) the Ps. 39.1 million loss on the financing of assets compared to the previous year, mainly due to the drop in the results generated by Alto Palermo and as a result of exchange differences and derivatives as caused by the 5.6 % depreciation of the Peso with respect to the Dollar (in 2003 the value of the currency had a reverse behavior, appreciating by 26%). This depreciation negatively affected the value of the interest rate swap; (iii) the drop in the discounts obtained this year, which amounted to Ps. 7.2 million, on the purchase of loans with HSBC abroad, compared with the previous year in which the discounts obtained had amounted to Ps. 36.9 million through the prepayment of the debt to GSEM for approximately Ps. 26.0 million and from the accounting measurement as of June 30, 2004 of the debt to HSBC as compared with the amount settled subsequent to the financial closing date, which generated a discount of Ps. 10.7 million according to Argentine GAAP; (iv) the Ps. 32.1 million gain obtained during fiscal year 2003 as a result of the adjustment made to our liabilities to fair market value at the established

8% annual market rate, changing the value of these debts which previously had a book value calculated at the rate in force at the time of refinancing; and (v) a Ps. 5 million decrease in financing expenses resulting from the repurchase of the loans with HSBC banks in Argentina and abroad and the conversions made by holders of our negotiable obligations.

Equity (Loss) Gain from Related Parties

The net results derived from affiliated companies increased Ps. 41.4 million, from a loss of Ps. 14.7 million during the fiscal year ended June 30, 2003 to a gain of Ps. 26.7 million during the fiscal year ended June 30, 2004. This increase was mainly due to (i) the gain of Ps. 30.1 million recorded in the current year as a result of the change in the valuation criterion applied to Banco Hipotecario from net realization value

Table of Contents

to proportional equity value, and (ii) the non-recurrence of the loss of Ps. 11.0 million from our investment in Alto Palermo, Pérez Cuesta and E-Commerce Latina, which decreased from Ps. 12.1 million loss during fiscal year 2003 to Ps. 1.1 million loss during fiscal year 2004.

Other Income (Expenses), net

Other Income (Expenses), net line increased Ps. 11.7 million, from a loss of Ps. 0.9 million during the fiscal year ended June 30, 2003 to a loss of Ps. 12.6 million during the fiscal year ended June 30, 2004, primarily due to the net fluctuation generated by (i) the non-recurrence of the Ps. 13.0 million gain from the repurchase of Negotiable Obligations of Alto Palermo in the open market and (ii) the Ps. 2.3 million gain, as a result of a decrease in lawsuits.

Income (Loss) before Minority Interest and Taxes

As a result of the foregoing, Income before Minority Interest and Taxes decreased, from a Ps. 318.6 million gain during the fiscal year ended June 30, 2003 to a Ps. 126.4 million gain during fiscal year 2004.

Minority Interest

Minority Interest decreased 64%, from a Ps. 35.7 million loss during fiscal year 2003, a Ps. 12.8 million loss during fiscal year 2004, mainly due to (i) the reduction in our minority interest in Alto Palermo and the interests held by Alto Palermo in its subsidiaries, which decreased from a Ps. 35.2 million loss during the fiscal year ended June 30, 2003 to a Ps. 9.3 million loss during the year ended June 30, 2004 and (ii) the reduction in our minority interests in Palermo Invest, which decreased from a Ps. 3.7 million gain during the previous year to a Ps. 0.8 million loss during the current year.

Income Tax and Asset Tax

Income Tax decreased by Ps. 29.2 million, from a Ps. 3.5 million benefit during the fiscal year ended June 30, 2003, to a Ps. 25.7 million expense during the fiscal year ended June 30, 2004. The deferred tax allocation method was used to calculate the income tax corresponding to the two fiscal years, therefore recognizing the temporary differences in accounting and tax assets and liabilities. The Ps. 29.2 million change was mainly due to the net impact of (i) the difference in the income tax charge corresponding to IRSA which represented an expense of Ps. 52.6 million, compared to the Ps. 48.9 million benefit corresponding to the asset tax for the year 2003, which includes a Ps. 49.9 million benefit from deferred taxes and a Ps. 1.0 million expense from the asset tax, to a Ps. 3.7 million expense during fiscal year 2004 from asset tax, (ii) the Ps. 30.5 million variation in the income tax charge for Alto Palermo, from a Ps. 46.8 million expense during the fiscal year ended June 30, 2003 to a Ps. 16.3 million expense during the fiscal year ended June 30, 2004 and (iii) the Ps. 4.3 million (expense) variation in the income tax charge for Llao Llao Resort S.A. in both fiscal years.

Net income (loss) for the year

As a result of the foregoing, the net income for the year decreased from a profit of Ps. 286.4 million during the fiscal year ended June 30, 2003, to a profit of Ps. 87.9 million during the fiscal year ended June 30, 2004.

Results of Operations for the fiscal years ended June 30, 2003 and 2002

Revenues

Revenues increased 51.4%, from Ps. 156.2 million for the fiscal year ended June 30, 2002, to Ps. 236.5 million for the fiscal year ended June 30, 2003. This increase reflected the net impact of (i) an increase in income from the Shopping Center segment as a result of the consolidation of APSA in the 2003 fiscal year, and (ii) the decrease in income from the remaining segments, except for Hotels which increased slightly, as a result of the ongoing recession of the Argentine economy.

Development and Sale of Properties. Revenues from development and sale of properties decreased 13.1%, from Ps. 54.5 million for the fiscal year ended 30 June, 2002, to Ps. 47.2 million for the fiscal year ended June 30, 2003, despite the higher sales volume achieved in the 2003 fiscal year. This decrease in the development and sale of properties segment was attributable to: (i) the Ps. 10.5 million drop in sales of housing units principally of Alto Palermo Park owing to the completion of the sale of this project during the 2003 fiscal year and (ii) the Ps. 1.1 million decrease principally in sales from the residential communities of Abril. These decreases were partially offset by the Ps. 4.3 million increase in sales of other real estate stemming mainly from (i) the sale during the 2003 fiscal year of the Hotel Piscis for Ps. 9.9 million, (ii) the sale of office space in the buildings located at Madero 1020, Madero 940 and Libertador 498, for Ps. 9.6 million and (iii) the decrease in sales of other real estate, amounting to Ps. 15.2 million, among which it is worth highlighting the property at Rivadavia 2243 and Santa Fé 1588.

Offices and Other. Revenues from Offices and Other decreased 60.0%, from Ps. 44.5 million during the fiscal year ended June 30, 2002, to Ps. 17.8 million during the fiscal year ended June 30, 2003. This decrease is mainly due to a 58.2% decrease in revenues from office rents, from Ps. 38.8 million in the fiscal year ended June 30, 2002, to Ps. 16.2 million in the fiscal year ended June 30, 2003. This decrease in revenues was attributed to (i) a lower average occupancy rate during 2003; (ii) the fact that contractual prices did not evolve in the same way as inflation, which means that the increase in sales from the previous year due to inflation restatement was higher than the increase in the amount of sales during fiscal year 2003; and (iii) a 78.6% decrease in revenues from commercial property rents and other properties, from Ps. 4.4 million in the fiscal year ended June 30, 2002 to Ps. 0.9 million in the fiscal year ended June 30, 2003, mainly due to the sale of the real estate at Rivadavia 2243 and Santa Fe 1588.

Shopping Centers. During fiscal year 2003 we began consolidating Alto Palermo S.A., whose financial statements are allocated under this segment. Revenues decreased by 40.73 % from Ps. 192.0 million during fiscal year 2002 to Ps. 113.8 million during fiscal year 2003 due to a 39.2% reduction in leases and services revenues (from Ps. 146.1 million to Ps. 88.8 million) and a 45.6% reduction in sales from credit card opertation (from Ps. 45.8 million to Ps. 24.9 million). It is important to mention that leases and services revenues even if they have increased in nominal value, this increase is lower than the inflation index, therefore there was a reduction in real terms. We must highlight that the economic recovery that began last year is generating an increase in our tenant´s sales, being reflected in increments in the occupancy ratios, rental incomes and admission rights of our shopping centers. The occupancy ratio of our shopping centers increased from 92.4% for the year ended, 2002 to 95.8 % for the year ended 2003. The decrease in Credit Card operations is attributed to the streamlining of its portfolio throughout the year under review as a result of the severe financial crisis. Although the current portfolio is smaller, it is characterized by a better credit capacity.

Hotels. Revenues from hotels increased 0.5%, from Ps. 57.4 million for the fiscal year ended June 30, 2002 to Ps. 57.7 million for the fiscal year ended June 30, 2003, due to an increase in the average rates and the average occupancy level, from 47% in 2002 to 57% in 2003. Revenues from Hotel Llao Llao increased by Ps. 5.0 million, Hotel Sheraton Libertador decreased by Ps. 3.7 million and revenues from the Hotel Intercontinental decreased by Ps. 1.3 million. Furthermore, during fiscal year 2003 we recognized sales from the Hotel Piscis for Ps. 0.3 million.

International. Following the sale of the interest in Brazil Realty and FVI, no new investments were made in this segment.

Costs

Total costs increased 59.5%, from Ps. 97.0 million during the fiscal year ended June 30, 2002 to Ps. 154.7 million for the fiscal year ended June 30, 2003. This increase is mainly due to the net impact of (i) the consolidation of the results of APSA during fiscal year 2003; (ii) an increase in costs in the Development and sale segment; and (iii) a decrease in costs in the Hotels and Offices segment. Total costs as a percentage of revenues increased from 62.1% for the fiscal year ended June 30, 2002 to 65.4% for the fiscal year ended June 30, 2003.

Development and Sale of Properties. Costs related to Development and Sale increased 8.3%, from Ps. 43.5 million in the fiscal year ended June 30, 2002 to Ps. 47.1 million for the fiscal year ended June 30, 2003 primarily as a result of the sale during the present fiscal year of non-core properties with a low margin due to the fact that during fiscal year 2002 we sold almost all of our principal properties, specially Alto Palermo Park, with an important sale margin. Costs relating to Development and Sale as a percentage of revenues from the segment increased from 79.9% during the fiscal year ended June 30, 2002 to 99.7% during the fiscal year ended June 30, 2003.

Offices and Other. Costs of Offices and Other decreased 31.1%, from Ps 13.2 million during the fiscal year ended June 30, 2002 to Ps. 9.1 million during the fiscal year ended June 30, 2003 due to lower depreciation charges. Costs relating to Offices and Other as a percentage of revenues from the segment increased from 29.7% for the fiscal year ended June 30, 2002 to 51.2% for the fiscal year ended June 30, 2003 due to a decrease in the average occupancy rate. The main component of cost of offices is represented by the depreciation of leased properties and expenses related to available units.

Shopping Centers. During fiscal year 2003, we have begun to consolidate APSA, whose costs have been allocated to this segment. Costs generated were Ps. 67.1 million, and account for 43.4% of our total costs. Total costs registered a 19.9% decrease between both fiscal years due to (i) a sharp reduction in non-recoupable expenses owing to the reduction in vacant stores and improved collections for the year, (ii) a lower amortization charge stemming from the lower value of the assets as a result of the impairment recognized at the previous closing date and the failure to amortize launching expenses relating to Abasto Shopping; and (iii) a reduction in car park expenses. The main cost component of shopping centers is represented by depreciation and amortization charges of leased properties, including goodwill paid upon their acquisition.

Hotels. Costs from hotel operations decreased 22.1%, from Ps. 40.3 million during the fiscal year ended June 30, 2002 to Ps. 31.4 million during the fiscal year ended June 30, 2003, primarily due to the decrease in the constant value of the cost components of Hotels such as salaries, fees and services. Hotel operating costs as a percentage of revenues from hotels decreased from 70.2% for the fiscal year ended June 30, 2002 to 54.3% for the fiscal year ended June 30, 2003. Costs of hotels are primarily composed of rooms, depreciation, food and beverages, salaries and social security contributions.

International. Following the sale of the interest in Brazil Realty and FVI, no further investments were made in this segment.

Gross Profit

As a result of the foregoing, the gross profit increased 38.0%, from Ps. 59.3 million during the fiscal year ended June 30, 2002 to Ps 81.8 million during the fiscal year ended June 30, 2003.

Selling Expenses

Selling expenses increased 100.4%, from Ps. 14.2 million during the fiscal year ended June 30, 2002 to Ps. 28.6 million during the fiscal year ended June 30, 2003, primarily due to the increase in Shopping Centers selling expenses from the consolidation of APSA and partially offset by a 23.1% reduction in the selling expenses of the other segments. Selling expenses as a percentage of revenues increased from 9.1% during the fiscal year ended June 30, 2002, to 12.1% during the fiscal year ended June 30, 2003.

Development and Sale of Properties. Selling expenses from Development and Sales decreased 41.2%, from Ps. 6.8 million during the fiscal year ended June 30, 2002 to Ps. 4.0 million during the fiscal year ended June 30, 2003, as a consequence of the decrease in sales operations during this fiscal year generating less direct selling expenses. Selling of Development and Sale of properties as a percentage of revenues from this segment decreased from 12.4% during the fiscal year ended June 30, 2002 to 8.5% for the fiscal year ended June 30, 2003. The main components of selling expenses of Development and Sale are commissions and expenses from sales and advertising.

Table of Contents

Offices and Other. Selling expenses relating to Offices and Other decreased 83.3%, from Ps. 0.6 million during the fiscal year ended June 30, 2002 to Ps. 0.1 million during the fiscal year ended June 30, 2003.

Shopping Centers. During fiscal year 2003 we began consolidating APSA whose selling expenses are allocated under this segment. Expenses generated during the fiscal year ended June 30, 2003 were Ps. 17.6 million, which accounted for 68.8% of our total selling expenses. The decrease of 72.2% in shopping centers selling expenses during both fiscal years was mainly due to: (i) a decrease in the allowance for doubtful accounts by 80.4%, from Ps. 52.8 million during fiscal year 2002 to Ps. 10.3 million during fiscal year 2003, out of which Ps. 35.2 million and Ps. 2.4 million are related to allowance for doubtful accounts from our shopping center operations during fiscal years 2002 and 2003 respectively and Ps. 17.6 million and Ps. 8.0 million related to allowance for doubtful accounts of Tarjeta Shopping during fiscal years 2002 and 2003 respectively; (ii) a decrease in advertising expenses by 59%, from Ps. 3.6 million in fiscal year 2002 to Ps. 1.5 million in fiscal year 2003; (iii) the 14.7% reduction in gross income charge, from Ps. 5.1. million during fiscal year 2002 to Ps. 4.4. million during fiscal year 2003, attributed to the fact that the increase in sales at nominal values did not match the wholesale inflation; and (iv) a reduction in the amortization charge relating to the launch of Shopping Abasto and advertising expenses connected with Torres de Abasto which were fully depreciated in the previous year. The main components of selling expenses of Shopping Centers are bad debts charges and advertising expenses.

Hotels. Selling expenses did not change with regard to the previous fiscal year and remained stable at Ps. 6.9 million. The main components of selling expenses are advertising expenses and salaries.

International. Following the sale of the interest in Brazil Realty and FVI, no further investments were made in this segment.

Administrative Expenses

Administrative expenses increased 24.5%, from Ps. 36.3 million during the fiscal year ended June 30, 2002 to Ps. 45.2 million during the fiscal year ended June 30, 2003, due to an increase in administrative expenses relating to Shopping Centers stemming from the consolidation with APSA, which was partially offset by a 31.6% reduction in the administrative expenses in the remaining segments. The main components of administrative expenses are salaries and social security, fees, and compensation for services and depreciation and amortization.

Development and Sale of Properties. Administrative expenses of Development and Sale of properties decreased 45.5%, from Ps. 11.2 million during the fiscal year ended June 30, 2002 to Ps. 6.1 million for the fiscal year ended June 30, 2003, primarily due to a decrease in constant values of expenses such as salaries, fees and services. Administrative expenses of Development and Sale of properties as a percentage of revenues from this segment decreased from 20.6% during the fiscal year ended June 30, 2002 to 13.0% during the fiscal year ended June 30, 2003.

Offices and Other. Administrative expenses of Offices and Other decreased 27.9%, from Ps. 6.1 million during the fiscal year ended June 30, 2002 to Ps. 4.4 million during the fiscal year ended June 30, 2003, primarily due to a decrease in constant values of expenses such as salaries, fees and services. Administrative expenses of Offices and Other as a percentage of revenues from this segment increased from 13.6% during the fiscal year ended June 30, 2002 to 24.7% during the fiscal year ended June 30, 2003 as a result of the sharp reduction in the income from the segment.

Shopping Centers. The fluctuation in administrative expenses under this segment is mainly due to the consolidation with the results of APSA. The expenses generated during fiscal year 2003 amount to Ps. 21.4 million, accounting for 51.3% of overall administrative expenses. The decrease of 28,2% between both fiscal years was basically due to the reduction in salary, bonuses, social security contributions, taxes, rates, contributions and services.

Hotels. Administrative expenses of Hotels decreased 18.4%, from Ps. 16.3 million for the fiscal year ended June 30, 2002 to Ps. 13.3 million during the fiscal year ended June 30, 2003, basically due to the decrease during fiscal year 2003 of all the administrative expenses for the Intercontinental and Sheraton

Table of Contents

Libertador hotels. Administrative expenses of Hotels as a percentage of revenues from hotel operations decreased from 28.5% during the fiscal year ended June 30, 2002 to 23.1% during the fiscal year ended June 30, 2003. The main components of administrative expenses of hotel operation are salaries, fees for services and depreciation and amortization.

International. Subsequent to the sale of the interest in Brazil Realty and FVI, no further investments were made in this segment, consequently, no charge has been recorded during fiscal year 2003.

Gain on Purchasers Rescissions of Sales Contracts

This result stems from APSA as a result of the consolidation with this company as from fiscal year 2003 and arises from the rescission of Torres de Abasto sales contracts, generating a profit for the fiscal year of Ps. 0.009 million.

Loss in Credit Card Trust

The loss reported under this heading amounting to Ps. 4.1 million during fiscal year 2003 stems from interest held by APSA in the Tarjeta Shopping Credit Card Trust and is incorporated to our statement of operations following the consolidation with APSA as from fiscal year 2003.

(Loss) Income from Operations and Holdings of Real Estate Assets, net

(Loss) Income from operations and holdings of real estate assets, net, varied from one year to another, showing a gain of Ps. 68.3 million, having recovered from a loss of Ps. 46.8 million for the fiscal year ended June 30, 2002 to a gain of Ps. 21.5 million for the fiscal year ended June 30, 2003. The gain generated during fiscal year 2003 is mainly attributed to (i) the gain of Ps. 10.9 million stemming from the sale of stock in Valle de las Leñas; and (ii) a gain of Ps. 11.4 million attributed to the net recovery of the allowance for the devaluation of real estate. Furthermore, the loss reported the previous year is mainly attributed to (i) the setting up of the allowance for the devaluation of real estate for Ps. 82.6 million; which was partially offset by (ii) a gain of Ps. 35.8 million from the sale of our equity interest in Brazil Realty.

Operating Income

As a result of the foregoing, the total operating income recovered from a loss of Ps. 38.1 million during the fiscal year ended June 30, 2002 to a profit of Ps. 25.5 million during fiscal year 2003.

Development and Sale of Properties. Operating results from Development and Sales of properties increased from a loss of Ps. 33.8 million during the fiscal year ended June 30, 2002 to a gain of Ps. 2.8 million for the fiscal year ended June 30, 2003.

Offices and Other. Operating results from Offices and Other recovered from a loss of Ps. 24.7 million during the fiscal year ended June 30, 2002 to a gain of Ps. 2.3 million for fiscal year 2003.

Shopping Centers. Operating results from Shopping Centers reported an increase of Ps. 14.1 million during the current year as a result of the consolidation with the results of APSA.

Hotels. Operating results from hotels recovered from a loss of Ps. 12.7 million during the fiscal year ended June 30, 2002 to a gain of Ps. 6.2 million for the fiscal year ended June 30, 2003.

International. As explained above, during fiscal year 2003 no results were recorded under this segment. The previous fiscal year closed with a gain of Ps. 34.6 million.

Amortization of Goodwill

The loss of Ps. 6.6 million recorded as of June 30, 2003 mainly includes (i) the amortization of goodwill stemming from the acquisition of APSA subsidiaries: Shopping Alto Palermo S.A. (SAPSA), Fibesa and Tarshop S.A.; and (ii) the amortization of our own goodwill from the purchase of stock in APSA during fiscal year 2003.

Table of Contents

Financial Results, net

Total net gains/losses on the financing of assets showed a recovery from a loss of Ps. 496.5 million during the fiscal year ended June 30, 2002 to a gain of Ps. 315.3 million during the fiscal year ended June 30, 2003. The main reasons for this recovery were (i) the exchange difference gain with regard to the previous year amounting to Ps. 506.8 million, owing to the appreciation of the Peso to the U.S. Dollar from 3.80 in 2002 to 2.80 in 2003, (ii) the Ps. 241.7 million gain on the financing of assets as compared with the previous year, among which it is worth highlighting the recognition of lower losses related to our equity interest mainly in Banco Hipotecario and Quantum, (iii) the discounts obtained during fiscal year 2003 amounting to Ps. 36.9 million through the prepayment of the debt with GSEM for approximately Ps. 26.0 million and from the accounting measurement as at June 30, 2003 of the debt with HSBC as compared with the amount settled subsequent to the financial closing date, which generated a discount of Ps. 10.7 million according to with Argentine GAAP, (iv) the Ps. 32.1 million gain obtained during fiscal year 2003 as a result of the adjustment made to our liabilities to fair market value at the established 8% annual market rate, changing the value of these debts which previously had a book value calculated at the rate in force at the time of refinancing, and (v) a reduction of Ps. 18.5 million with regard to the gains obtained in the previous year owing to the exposure to inflation of our monetary liabilities.

Equity (Loss) Gain from Related Parties

The net loss derived from affiliated companies changed, from a Ps. 4.6 million loss during the fiscal year ended June 30, 2002 to a Ps. 14.7 million loss during the fiscal year ended June 30, 2003. This decrease is mainly due to (i) the absence during fiscal year 2003 of the 2002 gain of approximately Ps. 2.1 million from our investment in Buenos Aires Trade & Finance Center due to the consolidation as from this year of this company s results, (ii) the net loss for the year of Ps. 12.1 million stemming from the subsidiaries of APSA, Perez Cuesta and E-Commerce Latina, and (iii) the reduction during fiscal year 2003 of the Ps. 3.4 million gain from IRSA Telecomunicaciones. These factors were, partially offset by (i) the absence during fiscal year 2003 of the year 2002 loss of Ps. 4.6 million from our investment in APSA due to the consolidation as from this year of this company s results and (ii) the absence during fiscal year 2003 of the 2002 loss of Ps. 3.6 from our investment in Brazil Realty due to the sale of our equity investment in this company.

Other (Expenses) Income, net

The Other expenses, net line showed a recovery of Ps. 3.6 million, from a loss of Ps. 4.5 million during the fiscal year ended June 30, 2002 to a loss of Ps. 0.9 million during the fiscal year ended June 30, 2003, primarily due to the net fluctuation generated by (i) the gain of Ps. 13.0 million obtained from the repurchase of Negotiable Obligations of APSA in the open market and (ii) the Ps. 4.2 million gain from the sale of fixed assets. These factors were partially offset by (i) the loss resulting from a contingency due to lawsuits amounting to Ps. 3.9 million, (ii) the higher charge for donations with regard to the previous year amounting to Ps. 5.6 million and (iii) the charge during the present fiscal year of Ps. 3.8 million in connection with the lawsuit between Llao Llao and Administración de Parques Nacionales.

Income (Loss) before Minority Interest and Taxes

As a result of the foregoing, the income (loss) before minority interest and taxes reflected an improvement with regard to the loss of Ps. 543.6 million during the fiscal year ended June 30, 2002, recording a gain of Ps. 318.6 million during fiscal year 2003.

Minority Interest

The minority interest decreased by Ps. 36.7 million, from a gain of Ps. 1.0 million during fiscal year 2002 to a loss of Ps. 35.7 million during fiscal year 2003, mainly due to the minority interest we recorded during fiscal year 2003 as a result of the consolidation of APSA, and stemming from our Ps. 35.2 million investment in this company recorded as a loss.

Table of Contents

Income Tax and Asset Tax

Income tax decreased from an expense of Ps. 1.1 million during the fiscal year ended June 30, 2002, to a benefit of Ps. 3.5 million during the fiscal year ended June 30, 2003. The deferred tax allocation method was used to calculate the income tax corresponding to the two fiscal years, thus recognizing the temporary differences in the accounting and tax assets and liabilities. The change of Ps. 4.6 million is mainly due to the net impact of (i) the difference in the income tax charge corresponding to IRSA which represented a benefit of Ps. 49.4 million, having moved from an expense of Ps. 0.5 million corresponding to the asset tax for the year 2002 to a benefit of Ps. 48.9 million during fiscal year 2003, which includes a benefit of Ps. 49.9 million from deferred taxes and an expense of Ps. 1.0 million from the asset tax, (ii) the income tax charge for APSA, which represented an expense of Ps. 46.8 million at June 30, 2003, when there had been no charge in the previous year because the Company began consolidating its financial statements with this company this year and (iii) the deferred income tax charge corresponding to Llao Llao Resort S.A., which represented a benefit of Ps. 1.1 million.

Net (loss) Income for the Year

As a result of the foregoing, the net ordinary income for the year showed an improvement from a loss of Ps. 543.7 million during the fiscal year ended June 30, 2002 to a profit of Ps. 286.4 million during the fiscal year ended June 30, 2003.

Banco Hipotecario S.A.´s Results of Operations

Overview

We do not consolidate the consolidated financial statements of our subsidiary BHSA. However, according to Rule 3-09 of Regulation S-X we are required to file separate financial statements of significant subsidiaries. This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read together with BHSA s consolidated financial statements contained in this annual report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. These forward-looking statements include, among others, those statements including the words expects , anticipates , intends , believes and similar language. The actual results may differ materially and adversely from those anticipated in these forward-looking statements as a result of many factors, including those set forth elsewhere in this prospectus.

BHSA maintains its financial books and records in Pesos and prepares its financial statements in conformity with the policies of Banco Central de la República Argentina (Argentine Central Bank or BCRA) which prescribes the reporting and disclosure requirements for banks and financial institutions in Argentina (Argentine Banking GAAP). These rules differ in certain respects from generally accepted accounting principles in Argentina (Argentine GAAP). A description of significant differences between Argentine Banking GAAP and Argentine GAAP are set forth in Note 6 to the consolidated financial statements. Argentine Banking GAAP and Argentine GAAP also differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and regulations of the SEC. See Note 37 to the consolidated financial statements of BHSA for a description of the principal differences between Argentine Banking GAAP and US GAAP as they relate to BHSA, and a reconciliation to US GAAP of net income (loss) and shareholder s equity.

Economic and social situation prevailing in Argentina.

During 2003 and 2004 the Argentine economy showed some signs of recovery after a four-year recession and one of the worst crises recorded in Argentina at the end of 2001. Interest rates have fallen and the foreign exchange market has stabilized. The financial system has gradually recovered its liquidity levels, recording an increase in deposits and in certain types of borrowing.

However, a situation characterized by high levels of unemployment and a major external public and private debt burden as well as country risk indicators far above normal average recorded by developing countries still persists. The National Government s ability to meet its obligations continues to be impaired.

Table of Contents

A favorable outcome of the restructuring negotiations of the public debt being carried out with creditors is deemed to be essential to reduce uncertainty as to the fiscal financial outlook over the next few years.

On January 6, 2002, after a political crisis that resulted in the resignation of two presidents, the Government enacted Law No. 25561 (Law on public emergency and exchange system reform) that changed the economic model and amended the Convertibility Law in force since March 1991. Subsequently, the Government announced new economic measures, which were implemented through various legal regulations that significantly affected the banking business and the exchange system.

Listed below are some of the measures adopted by the Government that have been enacted at the date of issue of BHSA s consolidated financial statements that affected or will affect BHSA s economic and financial position.

Currency valuation system

By Decree 260 (Exchange Regime) on February 11, 2002 a single free exchange market system was established, through which all transactions involving the exchange of currency are to be traded at a rate of exchange to be freely agreed, observing the requirements to be laid down by the Argentine Central Bank. Communication A 3471, complementary regulations and amendments established the necessary regulations for that market.

Loans in foreign currency

Under the terms of Law No 25561, Decree No 214 and complementary rules and amendments, loans in US Dollars or any other foreign currency granted by the Argentine financial system were converted into Pesos according to the following guidelines:

(i) loans to the non-financial private sector, at the exchange rate of Ps. 1.00 per US Dollar or its equivalent in any other foreign currency;

(ii) loans to the non-financial public sector, at the exchange rate of Ps. 1.40 per US Dollar or its equivalent in any other foreign currency; and

(iii) loans to the financial sector, at the exchange rate of Ps. 1.40 per US Dollar or its equivalent in any other foreign currency.

As from February 3, 2002, those measures contemplate the application of CER (an adjusting index that measures the daily rate of change derived from the monthly change in the Consumer Price Index), to the loans granted to the non-financial private sector and to the non-financial public sector plus a fixed interest rate, depending on the type of operation.

Decree No 762/02 (and additional Law No 25713) of the Executive Branch amended the regulations mentioned in the preceding paragraph excluding from the application of CER those loans granted to individuals, as follows:

(i) loan secured by mortgages on the primary dwelling of debtors, originally agreed in US Dollars up to Ps. 250,000,

(ii) consumer loans in original principal amount of up to Ps. 12,000 or up to US$12,000 thousand or the equivalent in any other foreign currency, whether secured by a mortgage or not, and

(iii) pledge consumer loans in original principal amount of up to Ps. 30,000 or US$30,000 thousand.

Those loans were adjusted as from October 1, 2002 by applying CVS.

Law 25796 established the elimination of the CVS as from April 2004.

Repayment of loans

On April 12, 2002, the Argentine Central Bank issued Communication A 3562 establishing that, based on Decree No. 469, the customers of financial institutions as of November 2, 2001 may repay their loans in national government securities in lieu of cash.

Furthermore, Decree No. 905 established that financial institutions must receive as payment for single-family mortgage loans, Argentine Government Bonds (BODEN) in payment from individuals who are holders of those securities.

Public-sector debt

Decree No. 1387/01 dated November 1, 2001 permitted financial institutions to exchange public-sector debt instruments and loans under the Promissory Note/Bond program for new loans called Secured Loans. Conversions were made at face value and at a one-to-one rate, in the same currency as that of the exchanged public-sector obligation.

Decree No. 471, dated March 8, 2002, established that the obligations of the national, provincial and municipal public sectors outstanding as of February 3, 2002, and denominated in US Dollars or any other currency, governed by Argentine law, were to be converted into Pesos at an exchange rate of Ps. 1.40 per US Dollar, or its equivalent in other foreign currency, with their principal adjusted by the CER.

The obligations of the national public sector converted into Pesos as explained above accrue interest at rates ranging from 2% to 5%, depending on the characteristics of the original debt.

Decrees Nos. 644/02 and 79/03 established the steps to be taken by financial institutions to accept the new terms and conditions for receiving principal and/or interest payments on the secured loans. If financial institutions reject those terms and conditions, their situation will revert to the moment prior to the exchange.

On August 27, 2002, Decree No. 1579/02, instructed the Fiduciary Fund for Provincial Development to assume provincial debt instruments (government securities, bonds, treasury bills or loans) that were to be voluntarily converted into bonds (BOGAR) or loans (promissory notes) secured by the federal tax collection, under the terms established by such Decree.

Through Resolutions Nos. 539/02 and 611/02 dated October 25 and November 12, 2002, respectively, the Ministry of Economy established the unified calculation method applicable to debts encompassed by the conversion regime laid down by Decree No. 1579/02, and set a time limit for financial institutions having made offers to convert provincial public debt within the framework of Decree No. 1387/01 and complementary rules to declare their intention to withdraw those offers.

On November 19, 2002, the ministry of Economy issued Resolution No. 624/02, establishing the provincial public debt eligible to be exchanged for secured bonds and loans issued by the Fiduciary Fund for Provincial Development.

Deposits in foreign currency

Law No. 25561 and Decree No. 214 of the Executive Branch established that all deposits in US Dollars or other foreign currencies in the financial system as of January 6, 2002, were to be converted to Pesos at the exchange rate of Ps. 1.4 per US$1 or its equivalent in such other currency. These regulations also require financial institutions to make available such deposits to their customers in Pesos. CER and a minimum interest rate will be applied to these deposits.

Executive Branch Decrees 905/02, 1836/02 and 2167/02 granted owners of deposits the possibility of opting to exchange those deposits for foreign and Peso denominated government securities and the Argentine Central Bank granting advances to financial institutions for them to be able to meet exchange costs.

Table of Contents

Lastly, by Decree 739/03 the Executive Branch authorized holders of deposits originally in US Dollars and subsequently pesified to request total or partial settlement of their deposits or certificates from financial entities based on a schedule established according to the original amount of the deposit.

Reorganization and bankruptcy proceedings

On February 14, 2002, Law 25563 on reorganization and bankruptcy proceedings was enacted, which declared a production and credit emergency generated by the crisis affecting Argentina, which was originally scheduled to last until December 10, 2003, and later extended until December 10, 2004.

On May 15, 2002, the National Congress passed Law 25589, which amended the Bankruptcy Law, the main points of which are as follows:

- Reinstatement of the mechanism established by Section 48 of Law 24522, which allows creditors to acquire the share package of the debtor company, setting the conditions for preventing assets from being undervalued.

- Other variables, such as the brand and the positioning on the market, have been established to determine the value of companies, in addition to the financial statements.

- The term for the foreclosure of guarantees has been suspended for 180 calendar days, from the effective date of the above-mentioned law.

- The exclusivity period for debtors to make creditors offers has been reduced from 180 days, under the previous law to 90-120 days.

- Judges may revoke approval of the reorganization plan if they consider it to be grossly unfair for any of the parties.

- Out-of-court reorganization plan: defaulting debtors or debtors undergoing general economic and financial difficulties may agree on an out-of-court reorganization plan with their creditors, subject to approval by the court. Upon approval of this reorganization plan all legal actions against the debtor will be suspended. The approved plan will have effects for all creditors.

Mortgage refinancing system

The following was established through Laws No. 25798 dated November 6, 2003 and regulated by Decree No. 1284/03:

- Creation of a refinancing system for mortgagors that envisages a state trust fund to take over the obligations of debtors granted amounts of up to Ps. 100,000 for all types of loans guarantee by a single, permanently-inhabited home, who have defaulted between January 1, 2001 and September 11, 2003.

Creation of a restructuring unit for the purpose of analyzing the loans that become eligible within the terms of the current law, with the exception of the default, and which were granted prior to the effectiveness of the convertibility of the Austral established by Law 23928.

Preventive measures

As a result of the measures adopted by the Argentine Government, a significant number of claims against the National State and financial institutions were filed before the courts, requesting that deposits be returned in the currency in which they were originally made, as the measures were in breach of constitutional rights. At the date of BHSA s financial statements, the final outcome and the amount of those claims were still unknown.

Table of Contents

Financial System Restructuring Unit

On May 22, 2003, the Executive Branch issued Decree No. 1262 creating the Financial System Restructuring Unit (Unidad de Reestructuración del Sistema Financiero), which has been designed to define the strategy for the restructuring of the financial system. At the date of these financial statements, BHSA has complied with the requirements of that Unit.

Financial Regulation and Oversight Coordination Cabinet

Executive Branch Decree 476 dated April 20, 2004 established the creation of the Financial Regulation and Oversight Coordination Cabinet, the purpose of which will be to preserve the financial system stability, enhance financial intermediation and protect the users of financial services.

The impact generated by these circumstances on BHSA s balance sheet and financial position as of June 30, 2004 was recognized in accordance with BCRA regulations and on the basis of estimates made by BHSA s Management. As of the date of issue of these financial statements we cannot predict the impact of future changes in the economy on BHSA s economic and financial position. Therefore, BHSA s financial statements should be read in the light of such circumstances.

Compensation granted by the National Government to financial institutions.

Asymmetric pesification

Through Decree 905, the Government established the issuance of National Government Compensating Bonds to compensate financial institutions for the negative effects on their assets of the conversion into Pesos at different exchange rates of receivables and obligations denominated in foreign currency, as provided for by Law 25561, Decree 214 and its amendments and complementary rules, and to cover the negative difference between assets and liabilities denominated in foreign currency arising from their conversion into Pesos, as established by the above-mentioned regulations.

BHSA complied with the reporting requirements established by Sections 28 and 29 of Decree 905 - Compensation to financial institutions, applying for such purpose the regulations in force and particular criteria, exercising the following options:

National Government Compensating Bond in US Dollars, due 2012 (Section 29, subsection b, c and d): compensating bond - difference between assets and liabilities converted into Pesos at Ps. 1.00, for the exchange rate difference of Ps. 0.40, converted into Pesos at the Ps. 1.40 =US$1 rate: US$394,914 (consolidated amount).

National Government Hedge Bond in US Dollars, due 2012 (Section 29, subsection e). Hedge Bond - difference between assets and liabilities in US Dollars, net of the compensating bond: US$825,533 (consolidated amount).

In September 2002 the Argentine Central Bank credited US$356,015 in BODEN 2012 (consolidated amount), no bonds having been issued for the difference in the compensation amount requested.

For purposes of BHSA s financial statements, i) BODEN 2012 bonds credited by the Argentine Central Bank have been recorded in Government and Corporate Securities - Holdings in investment accounts, ii) the amount in respect of the right to collect the compensating and coverage bonds has been recorded in Other Receivables for financial Transactions Receivable for Argentine Government Compensating and Hedge Bond - In foreign currency, iii) bonds delivered as collateral for Negotiable Obligations and secured facilities to banks, in Miscellaneous Receivables, and iv) the amount of the obligation to be assumed as a counterpart for the Hedge Bond, in Other liabilities for financial transactions - Argentine Central Bank.

As a result of the foreign currency denominated financial debt restructuring process and the fact that the Government has not yet concluded the compensation process for the asymmetric pesification established by Decree 905/02, BHSA s computation of the overall net foreign currency position is temporarily mismatched. This has already been communicated to the Central Bank.

Table of Contents

Asymmetric indexation

Law 25796, regulated by Decree 117/04, established a mechanism for compensating financial institutions for the effects generated by the application of the Salary Variation Index (CVS) to some of their assets, and the Reference Stabilization Index (CER), to some of their liabilities.

On March 12, 2004, BCRA Communication A 4114 established that financial institutions were to confirm their adherence to the compensation regime implemented by April 30, which included uncertain aspects regarding the compensation calculation method.

On April 29, 2004, the BCRA issued Communication A 4131 establishing an extension of the deadline for adhering to the regime laid down by Communication A 4114 for 15 calendar days as from the date on which the Ministry of Economy and Production answers the consultations made by the associations grouping financial institutions in the letter dated April 22, 2004.

Lastly, on May 3, 2004, Ministry of Economy and Production Resolution No. 302/04 was published in the Official Gazette, approving the method to be used by the Finance Secretariat for calculating the amount of Peso-denominated National Government Bonds accruing interest at variable rates and due 2013 to be delivered to financial institutions adhering to the Compensation regime created by Law 25796.

On May 18, 2004, BHSA submitted letter No. 194 informing the Central Bank that it will not adhere to this regime, and stating its wish to be compensated for the negative effects on its equity derived from application of the CVS to certain assets converted into pesos and from the unequal application of the CER to certain liabilities, and expressly reserving its right to seek relief.

BHSA has recorded the effects of the compensation for asymmetric pesification as a positive contingency in memorandum accounts, and reserved its rights to receive compensation for the losses generated by application of general regulations, as a result of which it has applied the Salary Variation index (CVS) to certain assets and the Reference Stabilization Index (CER) to certain liabilities, as well as any other compensation that may arise.

Rehabilitation and regularization plan

Through resolution No. 213/02, the Board of Directors of the Argentine Central Bank requested BHSA to submit a Rehabilitation and Regularization plan, pursuant to article 34 of Law 21526 on Financial Institutions, as amended. This plan should contemplate adopting the necessary measures to restore the liquidity position of BHSA.

On April 17, 2002, BHSA submitted that Rehabilitation and Regularization plan to the Argentine Central Bank.

On August 21, 2002, new financial projections and complementary information were submitted to the Argentine Central Bank, which contemplated changes in the economic context subsequent to April 17, 2002; the variation between actual balances and balances projected as of May 31, 2002; the status of the refinancing of the debts that fell due in 2002; the status of the liabilities renegotiation during the second semester of 2002 (debt restructuring), a summary of modified financial projections and the recovery of the amounts due to the Argentine Central Bank, as required by the whereas clause No. 9 of Resolution No. 213/02 issued by the Board of Directors of that Entity.

Through Resolution No. 227 dated May 29, 2003, the Board of Directors of the Argentine Central Bank requested from BHSA the reformulation of the current Rehabilitation and Regularization Plan in order for the latter to contemplate the adequacy of the liquidity projections and to take the necessary steps to safeguard its solvency.

On June 18, 2003, BHSA submitted to the Argentine Central Bank the reformulation requested by the latter, stating the following points: i) progress in the negotiations for the restructuring of the external debt, ii) petitions for authorization to repay the assistance through the delivery of BODEN 2012 received from mortgage debtors, iii) expense reduction plan, iv) adherence to the procedure established by Section 8 of Decree 739/03 for the repayment of that assistance, with the alternative foreseen in Section 3 of Decree 1262/03, and v) certain analyses of the financial statements at December 31, 2002.

Table of Contents

Treatment of assistance granted by the BCRA

Executive Branch Decree 739/03 and BCRA Communication A 3941 established that financial institutions which so request it shall repay the rediscount and advance balances in force at the date of that Decree and granted within the framework of Section 17 of Law 24144 and its amendments, in no more than 70 installments.

Subsequently, the Executive Branch issued Decree 1262/03 establishing that the conditions for the amortization of rediscounts may be modified, and extended the maximum number of installments up to one hundred and twenty (120) installments, each of which shall be equivalent to a percentage not lower than 0.40% of the adjusted principal amount.

On September 11, 2003, reformulated on February 4, 2004, BHSA submitted to the BCRA a schedule for the repayment of its debt for rediscounts received from the BCRA, as prescribed by Section 3 of Decree No. 1262/03, as well as a transformation and reorganization plan to strengthen BHSA s efficiency and profitability.

This schedule has been prepared on the basis of the balances of rediscounts and advances granted by the BCRA at March 28, 2003, which at that date amounted to Ps. 391,101, delivering as collateral for the assistance granted secured loans which, considered at their technical value, maintain a margin not lower than 125%. In that submission, BHSA contemplates the settlement of its debt over a maximum term of 89 months counted from March 31, 2004.

Through Resolution No. 3 dated February 5, 2004, the Unit for the Restructuring of the Financial System authorized the BCRA to modify the conditions for the amortization of the assistance established in Section 9, subsect. b) of Decree 739/03, which was adapted by BHSA according to the schedule mentioned in the preceding paragraph.

At the date of BHSA s financial statements, BHSA had repaid principal and interest, according to that schedule.

Situation of BHSA

The Public Emergency and Foreign Exchange reform Law No. 25561 had significant impact on BHSA. BHSA s assets that were originally denominated in foreign currency were pesofied Ps. 4,506.7 million (83.4% of total assets denominated in foreign currency), whereas only 20.2% (or Ps. 892.9 million) of its total liabilities were pesofied. The principal US Dollar or foreign currency equivalent assets including in the pesofied process were: i) post restructuring individual and construction mortgage loans, ii) public sector loans, iii) financial sector loans, iv) loans in trust pending securitization, v) certain Argentine government bonds, and vi) certificates of participation and bonds in mortgage trusts. The interest rates on virtually all BHSA s pesofied assets and liabilities were indexed to either CVS or CER.

This crisis has severely impacted BHSA s liquidity to the extent that cash from operations has proved to be insufficient to cover both its operating costs and its debt service. Given the effects of the Argentine economic conditions BHSA was unable to meet its foreign currency obligations as they became due.

The pesification of BHSA s assets created a substantial currency mismatch with its non pesofied foreign currency debt. The Hedge Bonds to be issued by the Argentine Government are designed to eliminate this currency mismatch. However, the Hedge Bonds yield approximately 2% whereas BHSA s foreign currency liabilities yield approximately 10%. In addition, the Hedge Bonds will be funded by Peso-denominated Argentine Central Bank debt bearing interest at CER plus 2%.

As a result, on August 15, 2002 the Board of Directors of BHSA resolved to start a debt restructuring plan comprising BHSA s obligation in Bonds and loans received from foreign banks and entities.

On January 14, 2004 BHSA concluded its debt restructuring process in which approximately US$ 1,208.4 million principal amount of bond and bank debt was restructured. Completion of the transaction was a significant step forward as it aligned BHSA s principal and interest payments with its cash flow and helped it attain a manageable debt profile.

Consummation of the debt restructuring has enabled BHSA to regain financial stability and has improved its financial condition, allowing it to reach favorable liquidity and solvency ratios in the Argentine financial system. BHSA also has fully hedged its foreign currency obligations and achieved a liability structure with an average life in excess of six years and adequate net financial income and profitability ratios.

In addition to the positive effects derived from BHSA s debt restructuring, the principal changes compared to the previous periods result from its loan portfolio due to the improvement in asset quality and the positive impact of the Coeficiente de Variación Salarial (CVS) index during the period.

Finally, BHSA made further progress in the implementation of its business diversification initiatives, including: i) an increase in loan products and lines of business and ii) development of new products, like credits cards (VISA) and pledge loans.

Exposure to the Public Sector

BHSA carries in its financial statements assets with the Public Sector amounting to Ps. 4,790,614, according to the following detail:

a) Government securities for Ps. 527,531, of which Ps. 487,889 correspond to new instruments not subject to restructuring issued by the National Government (BODEN 2012 Ps. 160,131, BOCON PRO 12 Ps. 3,358, BODEN 2007 Ps. 24,949, BODEN 2008 Ps. 12,060, BOGAR Ps. 163,066 and LEBAC Ps. 124,325).

b) Loans secured by the National Government for Ps. 608,216, which originated from the exchange of government securities established by Decree 1387/01, accepted in repayment of non-performing mortgage loans acquired on the market. These loans have been recognized under the Loans caption.

c) Loans to the provincial and municipal public sectors for Ps. 142,237.

d) Rights to receive BODEN 2012 (hedge and compensating bonds) for Ps. 2,654,717, pursuant to Sections 28 and 29 of Decree 905/02.

e) Miscellaneous receivables for Ps. 857,913, corresponding to assets transferred to the trust as collateral for the bonds and secured facilities derived from the debt exchange, of which 59,835 correspond to National Government Secured Loans and Ps. 759,843, to BODEN 2012, Guaranteed Loans and BODEN 2012 deposited as collateral for the currency swap transaction for Ps. 1,739 and Ps. 36,496, respectively.

Furthermore, liabilities with the BCRA recorded at June 30, 2004 amount to Ps. 2,208,179, the related items being: i) refinanced advances and rediscounts to cover lack of liquidity for Ps. 399,679, included in the matching laid down by Decree 1262/02, and advances for Ps. 1,808,500 to subscribe BODEN 2012, pursuant to Sections 28 and 29 of Decree 905/02.

As established by Decree 1262/03, the Unit for the Restructuring of the Financial System authorized the BCRA to modify the conditions for the amortization of assistance granted according to the schedule presented. Through the procedure described in the above-mentioned norms, BHSA has delivered its holding of secured loans as collateral for this obligation, and that assistance will be amortized with the proceeds of those assets. The average duration of the secured loans provided as collateral is longer than the term requested to refinance those advances.

In addition, Decree 905/02 sets forth in Section 17 that in the event of default by the National State on the payment of principal or interest on the bonds envisaged in Chapter II (BODEN) or the securities indicated in section 15, subsect. b) and c) (secured loans and BOGAR), for more than 30 days following the respective due dates, each financial institution will be entitled to repay in advance either fully or partially the advances received for the subscription of bonds, using for that purpose all or the equivalent portion of the assets provided as collateral, taken at the value in which they were recorded at the time the advances were granted, plus interest accrued until the repayment date, less the amount actually repaid.

Through Communication A 4084 dated January 30, 2004, the BCRA resolved that the assets delivered as collateral for the advances granted for the subscription of the bonds foreseen by Decree 905/02, ratified by Section 71 of Law 25827, may be excluded from the accounting valuation at present, technical or theoretical values at the discretion of the institutions, for a total or partial amount of the advances, pursuant to the provisions of Section 17 of that Decree, in which case they are to be recorded at the value admitted for purposes of providing of collateral.

In view of the above, BHSA s high exposure to the National Public Sector must be considered in the light of the liabilities assumed with the BCRA.

Comprehensive financial debt restructuring.

Due to the economical and social situation described and its impact on the financial system, on August 15, 2002 the Board of Directors of BHSA resolved to start a debt restructuring plan comprising BHSA s obligations on approximately Ps. 2,849,254 and on approximately Ps. 889,551 of loans received from foreign banks and other entities, both balances at December 31, 2003.

As of August 16, 2002, following the Board s resolution BHSA postponed the servicing of the debt until a successful restructuring is completed. BHSA reported the event to the Argentine Central Bank, the CNV and the Buenos Aires Stock Exchange on August 16, 2002.

On August 14, 2003, BHSA presented its restructuring proposal which consisted of the following:

Existing Dollar- or Euro-denominated noteholders were offered to exchange their notes for new notes at par due 2013 (At-par Offering). Creditors who select the At-par Offering will receive new notes for 90% of the face value of the notes surrendered plus new notes for 10% of the face value of the notes surrendered, if elections are made prior to September 15, 2003; and a cash payout for unpaid interest between August 16, 2002 and September 15, 2003. Creditors who select the At-par Offering are also entitled to participate in an additional second offering which will be concurrently done.

Under the second offering, noteholders may select a cash payment option (Offering in cash) or an option to receive new secured notes with a shorter maturity date (Offering of secured negotiable obligations).

Creditors who select the Offering in cash will receive a cash payment equal to 45% of the face value of the notes surrendered plus an additional cash payment for unpaid interest.

Creditors who select the Offering of secured negotiable obligations will receive new secured notes for a face value equivalent to 70% of the face value of the notes surrendered plus a cash payment for unpaid interest. The new notes are secured by a trust comprised of BODEN securities and other secured loans for at least 110% of the face value of the new notes. Creditors will also be entitled to receive a contingent payment based on the appreciation in the value of the shares of BHSA (StARS). The StARS may be paid in cash, in Class D shares or a combination of both. The StARS will be paid only on the due date of the new secured notes based on the valuation method described in the offering documents. The StARS are not detachable from the new secured notes.

By means of the restructuring proposal, BHSA invited creditors to execute an out-of-court restructuring agreement provided that the restructuring plan is successful, consents to execute the plan are received for more than 75% of BHSA´s creditors and the plan is approved by at least 66.6% of each class of creditor affected by the plan. The plan will also require judicial approval.

Table of Contents

The restructuring was subject to certain limitations and conditions, including the amounts available for ¨Offerings in cash¨ and the amounts of the new secured obligations to be issued. BHSA will earmark up to US$ 60,000 to the ¨Offering in cash¨ and issue new secured negotiable obligations for up to US$ 300,000. Bank creditors may also participate in the ¨Offering in cash¨ and the ¨Offering of secured negotiable obligations¨.

The Offering was also subject to the restructuring of the bank debt (with a participation of at least 90%) and to the obtaining of a participation of at least 90% of the existing negotiable obligations.

The new notes would not be registered in the United States of America.

Finally, on December 29, 2003 the term for receiving exchange offers expired and BHSA accepted all existing validly offered securities in compliance with the conditions for BHSA s exchange offers and the simultaneous restructuring of all its outstanding debt with bank creditors. On January 14, 2004, this debt was settled.

The total final principal on validly offered securities existing as of December 29, 2003 was Ps. 2,662,242, representing approximately 93% of the total principal on the outstanding securities existing at that date. Of the final amounts validly offered, approximately 77% (Ps. 2,060,861) opted to receive long-term securities, approximately 7% (Ps. 168,054), cash and approximately 16% (Ps. 433,325) guaranteed securities.

Of a total principal amount of Ps. 889,551 on the bank debt existing at December 29, 2003, 100% participated in its simultaneous restructuring. Of the participating amounts, approximately 20% (Ps. 187,403) opted to receive long-term loans, approximately 10% (Ps. 98,354), cash and approximately 70% (Ps. 607,956), secured loans.

The following table shows the amounts and percentages of the existing securities offered for exchange by series (the amounts shown in foreign currency are expressed in thousands of US Dollars or Euros).

Existing US Dollar-denominated securities

Series	**Description**	**Total outstanding principal amount**	**Total principal amount offered**	**Percentage of outstanding amount offered**
Series I	Securities at 10% due April 17, 2003	US$ 297,460	US$ 282,459	95.0%
Series III	Securities at 10,625% due August 7, 2006	US$ 13,108	US$ 12,371	94.4%
Series IV	Securities at 13% due December 3, 2008	US$ 4,810	US$ 3,900	81.1%
Series VI	Securities at 12,25% due March 15, 2002	US$ 7,598	US$ 6,756	88.9%
Series XVI	Securities at 12,625% due February 17, 2003	US$ 125,000	US$ 113,729	91.0%
Series XXIV	Securities at 9% due March 15, 2005	US$ 114,312	US$ 105,745	92.5%

Total	**US$ 562,288**	**US$ 524,960**	**93.4%**

Table of Contents

Existing Euro-denominated securities

Series	Description	Total outstanding principal amount	Total principal amount offered	Percentage of outstanding amount offered
Series XVII	Securities at 9% due March 27, 2002	1,815	1,079	59.4%
Series XXII	Securities at 8,75% due October 18, 2002	3,713	3,471	93.5%
Series XXIII	Securities at 10,75% due February 6, 2004	150,000	137,702	91.8%
Series XXV	Securities at 8% due June 15, 2005	170,829	163,021	95.4%
	Total	**326,357**	**305,273**	**93.5%**

The amounts in the preceding tables include US$ 29,342, equivalent to Ps. 86,061, corresponding to total principal on existing securities held by the Bank.

US Dollar-denominated bank debt

Facility	Total outstanding principal amount	Total principal amount offered	Percentage of outstanding amount offered
IFC loan	US$ 25,000	US$ 25,000	100%
USCP loan	US$ 102,500	US$ 102,500	100%
OPIC loan	US$ 81,736	US$ 81,736	100%
Derivatives	US$ 10,106	US$ 10,106	100%
Total	**US$ 219,342**	**US$ 219,342**	**100%**

Peso-denominated bank debt

Facility	Total outstanding principal amount	Total principal amount offered	Percentage of outstanding amount offered
Syndicated loan	Ps. 105,000	Ps. 105,000	100%
Citibank facility plan	120,029	120,029	100%
Derivatives	21,191	21,191	100%
Total	**Ps. 246,220**	**Ps. 246,220**	**100%**

On January 14, 2004, the following amounts in new notes and cash were exchanged to existing noteholders.

New notes

Description	CUSIP	ISIN	Principal amount
US Dollar-denominated securities due 2013	P1330H AZ 7	USP1330HAZ75	US$ 410,904
Euro denominated securities due 2013		XS0175068971	256,218
Secured securities due 2010	P1330H BA 1	USP1330HBA 16	US$ 107,941

Table of Contents

New bank debt

Description	Due date	Principal amount
Secured facility in Pesos	2010	Ps. 214,174
Secured facility in US Dollars	2010	US$ 86,333
Long-term facility in US Dollars at a fixed rate	2013	US$ 50,316
Long-term facility in US Dollars at floating rates	2013	US$ 13,579

Payments in cash

Description	Amounts in US Dollars	Amounts in Euros
Payments for offering in cash	US$ 30,936	8,746
Payments for accrued and unpaid interest [a]	US$ 34,183	11,497

[a] Includes (i) payment to existing noteholders for accrued interest from August 16, 2002 to September 15, 2003 at an annual rate of 3% and (ii) interest payment on the new notes as if those notes would have been issued on September 15, 2003; such interest calculated at rates applicable to the new notes as described in the offering document issued on December 8, 2003.

Based on the final validly offered amounts, and on the simultaneous restructuring of the Bank s existing bank debt, no proration factor has been applied to the cash or secured debt options.

As of June 30, 2004, BHSA recognized the effects of the restructuring as follows (i) a gain of Ps. 231,998 and Ps. 254,404 for restructuring of notes and financial loans, respectively, due to the reduction in principal amounts (under the Gain on restructuring of notes and Gain on restructuring of financial loans line items in the statement of income); (ii) a gain of Ps. 209,280 for lower interest accrued in 2003 (recorded as an adjustment to financial expenses); (iii) a gain of Ps. 88,016 for lower interest accrued in 2002 (recorded as an adjustment to other profits line item in the statement of income) and (iv) the establishment of a reserve for Ps. 59,271 for the StARS.

As discussed in the previous paragraphs, the new notes are secured by the establishment of a Trust under Argentine law. In December 2003, BHSA, as trustor, and ABN AMRO Bank N.V., as trustee, entered into a Trust Agreement, pursuant to which BHSA transferred government securities (BODEN 2012) and secured loans to the Trust. The Trust will maintain these assets for the benefit of the new secured noteholders. The Trust was established to secure principal and interest payments on the new notes. The Trust´s assets consist only of the securities and loans transferred by BHSA and their respective proceeds.

After January 14, 2004, the exchange transaction settlement date, BHSA continued to exchange negotiable obligations with holders adhering to the offering late. At June 30, 2004, the face value of the obligations exchanged amounted to US$ 5,250 and Euro 8,126.

In August 2004 BHSA paid the first debt amortization installment.

Exposure to the Public Sector

As of the date of BHSA s consolidated financial statements, BHSA has Ps. 4,790,614, in government-related assets:

a) Government securities for Ps. 527,531, of which Ps. 487,889 corresponding to securities not subject to sovereign-debt restructuring (BODEN 2012 Ps. 160,131, BOCON PRO 12 Ps. 3,358, BODEN 2007 Ps. 24,949, BODEN 2008 Ps. 12,060, BOGAR Ps. 163,066 and LEBAC Ps. 124,325).

b) Government-secured loans by the National Government for Ps. 608,216, which originated from the exchange of government securities established by Decree 1387/01, accepted in repayment of non-performing mortgage loans acquired on the market.

c) Loans to the provincial and municipal governments for Ps. 142,237.

d) Rights to receive BODEN 2012 (hedge and compensating bonds) for Ps. 2,654,717 pursuant to Sections 28 and 29 of Decree 905/02.

e) Miscellaneous receivables for Ps. 857,913 corresponding to assets transferred to the trust as collateral for the bonds and secured facilities derived from the debt exchange, of which 59,835 correspond to Government-secured loans and Ps. 759,843, to BODEN 2012, Guaranteed Loans and BODEN 2012 deposited as collateral for the currency swap transaction for Ps. 1,739 and Ps. 36,496, respectively.

As of the date of these financial statements, BHSA has Ps. 2,208,179 in government related liabilities refinanced advances and rediscounts to cover lack of liquidity for Ps. 399,679, included in the matching laid down by Decree 1262/02, and advances for Ps. 1,808,500 to subscribe BODEN 2012, pursuant to Sections 28 and 29 of Decree 905/02.

As established by Decree 1262/03, the Unit for the Restructuring of the Financial System authorized the BCRA to modify the conditions for the amortization of assistance granted according to the schedule presented. Through the procedure described above, BHSA has delivered its holding of secured loans as collateral for this obligation, and that assistance will be amortized with the proceeds of those assets. The average duration of the secured loans provided as collateral is longer than the term requested to refinance those advances.

In addition, Decree 905/02 envisages in its Section 17 that in the event of default by the National Government on the payment of principal or interest on the bonds envisaged in Chapter II (BODEN) or the securities indicated in section 15, subsect. b) and c) (secured loans and BOGAR), for more than 30 days following the respective due dates, each financial institution will be entitled to repay in advance either fully or partially the advances received for the subscription of bonds, using for that purpose all or the equivalent portion of the assets provided as collateral, taken at the value in which they were recorded at the time the advances were granted, plus interest accrued until the repayment date, less the amount actually repaid.

Through Communication A 4084 dated January 30, 2004, the BCRA resolved that the assets delivered as collateral for the advances granted for the subscription of the bonds foreseen by Decree 905/02, ratified by Section 71 of Law 25827, may be excluded from the accounting valuation at present, technical or theoretical values at the discretion of the institutions, for a total or partial amount of the advances, pursuant to the provisions of Section 17 of that Decree, in which case they are to be recorded at the value admitted for purposes of the providing of collateral.

In view of the above, BHSA s high exposure to the National Public Sector must be considered in the light of the liabilities assumed with the BCRA.

Table of Contents

Twelve month periods ended June 30, 2004 and 2003

General

The following table sets forth the principal components of our net income for the period ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos except for percentages)		
Financial income	Ps. 1,177.8	Ps. 512.6	129.8%
Financial expenses	(208.5)	(1,241.7)	(83.2)
Net financial income	969.3	(729.1)	233.0
Provision for losses on loans		(122.0)	(100.0)
Net contribution from insurance	39.0	36.9	5.7
Other income from services	24.7	37.7	(34.2)
Other expenses on services	(25.1)	(31.3)	(19.8)
Administrative expenses	(133.3)	(119.9)	11.2
Miscellaneous income (loss), net	3.2	(132.9)	(102.4)
Monetary adjustment		(218.0)	(100.0)
Minority interest	(7.8)	7.9	(198.7)
Income tax	(3.6)		100.0
Net income (loss)	**Ps. 866.6**	**Ps. (1,270.7)**	**(168.2)%**

Net Income (Loss)

BHSA s net income increased to Ps.866.6 million for the period ended June 30, 2004 from a net loss of Ps. (1,270.7) million for the period ended June 30, 2003. This increase was primarily as a result of:

a higher financial income as a result of the cut off in the principal amounts of bonds and financial debt with financial entities and the positive effect of the prepayment of financial debt, and as a result of the CVS index application in the individual loan portfolio previously pesified,

lower financial expenses due to the lower interest rate offered to creditors in BHSA s debt restructuring process, and as a result of lower interest rates and CER on Argentine Central Bank loans and advances,

higher net miscellaneous income, as a result of lower interest rates offered to creditors corresponding to prior years, according to the effective date of restructuring debt, partially offset by higher miscellaneous expenses as a result of provisions related to taxes and expenses due to BHSA s debt restructuring process and the recording of the Stock Appreciation Right granted to creditors under the medium term guaranteed debt,

no provision for losses on loans due to an improvement in BHSA s individuals loan portfolio and no significant additional impairment of the individual loan portfolio,

there were no monetary adjustments due to the suspension of the inflation adjustment application effective as of March 1, 2003, and

higher minority interest due to the improvement in the income from the activity of BHSA s consolidated subsidiaries.

Table of Contents

Financial Income

The following table sets forth the principal components of our financial income, for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos except for percentages and basis points)		
Financial Income:			
Interest on loans and other receivables	Ps. 226.4	Ps. 262.1	(13.6)%
Income from restructuring of bonds	232.0		100.0
Income from restructuring of financial loans	254.4		100.0
Income from Guaranteed loans	54.9	35.9	52.9
CVS index on pesified loans	121.3	11.8	927.9
CER index on pesified loans	40.0	156.8	(74.5)
Prepayment bonds and other financial loans restructured at discount	66.2		100.0
Government securities and other investment	130.7		100.0
Compensatory and hedge bonds	29.2	21.6	35.2
Others	22.6	24.4	(7.4)
Total	**Ps. 1,177.8**	**Ps. 512.6**	**129.8%**

BHSA s financial income increased 129.8 % to Ps. 1,177.8 million for the period ended June 30, 2004 as compared to Ps. 512.6 million for the period ended June 30, 2003 primarily as a result of:

- a cut off in the principal amount of bonds and financial debt with financial entities, as a result of BHSA s financial debt restructuring,
- the positive effect of the prepayment of financial debt,
- application of the CVS index on BHSA s mortgage loan portfolio to individuals previously pesified,
- higher income from government securities and other investments due to the appreciation of certificates of participation in financial trust and the appreciation of marketable securities held by BHSA,
- higher income from guaranteed loans, as a result of higher average balance,
- higher income from Compensatory Bonds and Hedge Bonds as a result of accrued interest,

These factors were partially offset by:

Lower income from pesified loans due to a decrease in the CER index,

lower income from loan portfolio as a result of lower average balances, partially offset by an improvement in our asset quality.

Table of Contents

Financial Expenses

The following table sets forth information regarding our financial expenses, for the periods ended June 30, 2004 and 2003.

	Period ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, except for percentages and basis points)		
Financial Expenses:			
Bonds and similar obligations	Ps. (44.1)	Ps. 121.5	(136.3)%
Borrowings from Argentine Central Bank	127.4	316.1	(59.7)
Borrowings from banks	27.3	509.0	(94.6)
Effects of changes in exchange rates.	70.5	287.5	(75.5)
Other	17.3	4.1	321.9
Contributions and taxes on financial income	10.1	3.5	188.6
Total	**Ps. 208.5**	**Ps. 1,241.7**	**(83.2)%**

BHSA s financial expenses for the period ended June 30, 2004 decreased 83.2% over BHSA s financial expenses for the period ended June 30, 2003 primarily as a result of:

the impact of a decrease in interest rates on bonds and interbank loans which were restructured, from an average annual interest rate of 10% to approximately 3% during the twelve month period ended June 30, 2004;

a decrease in interest rates and CER on Argentine Central Bank borrowings and borrowing from banks; and

lower effects of changes in exchange rates as a result of the stabilization of the Argentine Economy.

Provision for Losses on Loans

The following table sets forth our provision for loan losses for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, except for percentages)		

Provision for loan losses	Ps.	Ps. 122	(100.0)%
Total	**Ps.**	**Ps. 122**	(100.0)%
Charge-offs	Ps. 177.8	Ps. 155.7	14.2.0 %

During the period ended June 30, 2004, BHSA did not record any provision for loan losses as a result of the increase on the asset quality. During the period ended June 30, 2003, BHSA recorded Ps. 122.0 million provision related to BHSA s post 1991 loans portfolio due to the increase in non-performing construction loans and related to BHSA s pre-1991 and post-1991 loans to individuals to reflect our policy adopted in 2002 to maintain loan loss reserves in an amount of approximately 70% of all non-performing loans to individuals.

Table of Contents

Net Contribution from Insurance

The following table sets forth the principal components of BHSA s net contribution from insurance for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	**2003**	**2004/2003**
	(in millions of Pesos except for percentages)		
Insurance premiums earned:			
Life	Ps. 28.0	Ps. 29.4	(4.8)%
Property damage	14.5	13.9	4.3
Unemployment	1.8	1.9	(5.3)
Other	2.0	1.4	42.9
Total premiums earned	Ps. 46.3	Ps. 46.8	(1.0)%
Insurance claims expensed:			
Life	Ps. 6.6	Ps. 8.0	(17.5)%
Property damage	0.2	1.0	(80.0)
Unemployment	0.3	0.7	(57.1)
Other	0.2		100.0
Total claims expensed	Ps. 7.3	Ps. 9.9	(26.3)%
Net contribution from insurance	**Ps. 39.0**	**Ps. 36.9**	**5.7%**

BHSA s net contribution from insurance increased 5.7% for the period ended June 30, 2004 compared to the period ended June 30, 2003, primarily due to a 26.3% decrease in insurance claims paid (life and property damage), partially offset by lower premiums earned due to lower average loan balances.

Other Income from Services

The following table includes the principal components of BHSA s other income from services for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	**2003**	**2004/2003**
	(in millions of Pesos except for percentages)		

Loan servicing fees from third parties	Ps. 18.6	Ps. 21.9	(15.1)%
FONAVI commissions	2.9	2.9	
Other	3.3	12.9	(74.4)
Total	**Ps. 24.7**	**Ps. 37.7**	**(34.2%)**

BHSA s other income from services decreased 34.2% for the period ended June 30, 2004 compared to the period ended June 30, 2003 principally due to lower average loan balances.

Table of Contents

Other Expenses on Services

The following table includes the principal components of BHSA s other expenses on services for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, except for percentages)		
Structuring and underwriting fees	Ps. 14.2	Ps. 23.3	(39.1)%
Commissions on third party originations	0.4	0.6	(33.3)
Collections	2.2	2.4	(8.3)
Banking services	4.2	2.0	110.0
Other	3.0	2.3	(30.4)
Total	**Ps. 24.0**	**Ps. 30.6**	**(21.6)%**
Contributions and taxes on income from services	1.1	0.7	57.1
Total	**Ps. 25.1**	**Ps. 31.3**	**(19.8)%**

BHSA s other expenses on services decreased 19.8% from Ps.31.3 million in the period ended June 30, 2003 to Ps. 25.1 million for the period ended June 30, 2004, primarily due to lower commissions paid in connection with structuring and underwriting fees. This decrease in other expenses on services was partially offset by an increase in banking services as a result of higher expenses on services incurred by BHSA in connection with its new financial products.

Administrative Expenses

The following table sets forth the principal components of BHSA s administrative expenses for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, except for percentages)		
Salaries and social security contributions	Ps. 72.6	Ps. 69.1	5.1%
Fees and external administrative services	13.3	9.0	47.8
Maintenance and repair	31.6	30.9	2.6
Advertising expenses	2.7	0.5	440.0
Value added tax and other taxes	9.5	8.3	14.5
Other	3.6	2.1	66.7

Total	**Ps. 133.3**	**Ps. 119.9**	**11.2 %**

BHSA s administrative expenses increased 11.2 % from Ps. 119.9 million for the period ended June 30, 2003 to Ps. 133.3 million for the period ended June 30, 2004 primarily as a result of:

- an increase in advertising expenses related to BHSA s efforts to develop its strategy of becoming a diversified financial institution,
- higher fees for administrative services as a result of BHSA s financial debt restructuring advisory services,
- an increase in taxes related to higher advertising expenses, and
- an increase in salaries and social contributions due to higher salaries in BHSA s subsidiaries.

Table of Contents

Miscellaneous Income

The following table sets forth BHSA s miscellaneous income for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, except for percentages)		
Penalty interest	Ps. 11.5	Ps. 14.5	(20.69)%
Loan loss recoveries	53.3	50.1	6.39
Gain on restructuring debt	88.0		100.0
Recovery provisions of loan losses	30.0		100.0
Other	21.1	6	251.6
Total	**Ps. 203.9**	**Ps. 70.6**	**188.81 %**

BHSA s miscellaneous income increased to Ps. 203.9 million for the period ended June 30, 2004 from Ps. 70.6 million for the period ended June 30, 2003, primarily as a result of:

- the reduction in interest rates corresponding to prior years as a result of the debt restructuring process;
- higher income from subsidiaries included in Other Miscellaneous Income, and
- recovery of provision for loan losses on Public Sector.

Miscellaneous Expenses

The following table sets forth the principal components of BHSA s miscellaneous expenses for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, except for percentages)		
Provision for lawsuits contingencies	Ps. 37.8	Ps. 36.0	(5.0)%
Provision for other contingencies and miscellaneous receivables	4.5	7.5	(40.0)
Provision StAR granted creditors under guaranteed debt	59.3		100.0
Miscellaneous assets loss	9.7		100.0

Prepayment mortgage loans at discount	8.2	51.6	(84.1)
Provision for taxes	32.0		100.0
Provision for administrative organization	3.9	48.0	(91.9)
Difference in compensatory and hedge bonds	4.7	49.3	(84.1)
Provision for restructuring expenses	36.5		100.0
Other	4.1	11.2	(40.3)
Total	**Ps 200.7**	**Ps. 203.6**	**(1.4)%**

BHSA s miscellaneous expenses decrease to Ps. 200.7 million for the period ended June 30, 2004 from Ps 203.6 million for the period ended June 30, 2003, primarily as a result of :

- lower provisions for administrative organization related to severance payments and early retirement plan implemented during late 2002;
- lower provisions for certain differences under discussion with Argentine Central Bank related to the asymmetric pesification compensation; and
- lower expenses attributable to the campaign during 2002 which promoted the early prepayments of pre-1991 and post-1991 loans at a discount.

Table of Contents

This decrease was partially offset by :

- provisions due to the recording of the stock appreciation rights granted to creditors under the guaranteed debt;
- expenses and taxes related to expenses paid on BHSA s financial debt restructuring process; and
- loss on sales of miscellaneous assets.

Income Tax

Prior to January 1, 1996, BHSA was exempt from payment of income tax. Beginning January 1, 1996, BHSA was only exempt from payment of income tax on income attributable to its residential mortgage lending activities. Effective October 1997, as a result of its conversion to a sociedad anónima , BHSA became subject to payment of income tax in Argentina except on its income attributable to mortgage loan commitments made prior to that date.

As a general rule, Argentine tax law allows the deduction of expenses related to a business activity if profits from that activity are taxable. If an enterprise engages in both taxable and non-taxable businesses activities, as BHSA does, the portion of its business expenses related to the taxable business may be determined by direct allocation of expenses to particular business activities or by the apportionment method. The Argentine tax code gives preference to the direct allocation method of accounting over the apportionment method in determining deductible expenses, providing that the apportionment method may only be used in circumstances where it is not possible to make direct allocation of expenses to taxable income.

Until December 31, 1998, BHSA determined its income tax based on the expense apportionment method, treating as deductible the portion of expenses arising from applying to the total expenses incurred the ratio of taxable income to total income. Since the year ended December 31, 1999, income tax has been calculated taking account of the direct relationship between expenses and the taxable or non-taxable income to which those expenses relate. The apportionment method has only been used for those expenses that are not directly allocable to the income producing sources.

BHSA has filed income tax returns for each of 2002, 2003 and 2004, which were prepared in compliance with the aforementioned methodologies. As a result, BHSA has recorded tax loss carry forwards for each of 2002, 2003 and 2004 of Ps. 162.7 million, Ps. 3,131.6 million, and Ps. 2,086.5 million, respectively. We expect to have no income tax payable for 2005. Currently, the application of such methodologies for tax deductions is subject to review by the *Administración Federal de Ingresos Públicos Dirección General Impositiva,* the Federal Public Income Administration or AFIP , and as of the date hereof the AFIP has not rendered a ruling in connection with this matter either upholding or rejecting the methodology described above.

Twelve month periods ended June 30, 2003 and 2002

General

The following table sets forth the principal components of BHSA s net income for the periods ended June 30, 2003 and 2002:

	Periods ended June 30,		% Change
	2003	2002	2003/2002
	(in millions of Pesos, except for percentages)		
Financial income	Ps. 512.6	Ps. 1,119.7	(54.2)%
Financial expenses	(1,241.7)	(972.6)	27.7
Net financial (expense) income	(729.1)	147.1	(595.6)
Provision for losses on loans	(122.0)	(438.6)	(72.2)
Net contribution from insurance	36.9	79.9	(53.8)
Other income from services	37.7	60.8	(38.0)
Other expenses on services	(31.3)	(63.2)	(50.4)
Administrative expenses	(119.9)	(234.4)	(48.8)
Miscellaneous (loss) income, net	(132.9)	77.6	(271.3)
Monetary adjustment	(218.0)	(2,166.6)	(89.9)
Minority interest	7.9	19.3	(59.1)
Absorption of the compensation bond effect		359.2	(100.0)
Income tax		(2.6)	(100.0)
Net loss	**Ps. (1,270.7)**	**Ps. (2,161.6)**	**(41.2)%**

Table of Contents

Net Income (Loss)

BHSA s net loss for the period ended June 30, 2003 of Ps. 1,270.7 was Ps. 890.9 lower than the Ps. 2,161.6 million loss recorded in the period ended June 30, 2002, principally due to :

- a significant decrease in the effect of inflation on net monetary assets as a result of a lower increase in the WPI and the suspension of inflation accounting effective as of March 1, 2003;
- lower provisions for loan losses as a result of a significant improvement in the portfolio of performing loans compared to the significant deterioration experienced on BHSA s mortgage loan portfolio during the period ended June 30, 2002;
- higher financial expenses as result of an increase of additional charges due to the suspension of Bonds and similar obligation repayment, partially offset by lower expenses on Argentine Central Bank borrowings reflecting lower average interest rates and a reduction in the CER; and
- lower administrative expenses resulting from BHSA s ongoing internal restructuring and work force reductions.

These effects were partially offset by:

- a decrease in financial income from mortgage loans as a result of the continued suspension of new loan originations, prepayments and scheduled amortization of principal on BHSA s outstanding loan portfolio, partially offset by the impact of the CVS to its portfolio of loans that were previously pesified;
- lower other income from services due to the suspension of new loan originations,
- lower insurance activity resulting from the suspension of new loan originations, partially offset by new insurance product offerings;
- the impact of the appreciation of the Peso with respect to the US Dollar and other foreign currencies on BHSA s net positive position in foreign currency during the twelve month period ended June 30, 2003, and
- the absorption of the difference caused by the asymmetric pesification.

Table of Contents

Financial Income

The following table sets forth the principal components of BHSA s financial income, average interest-earning assets and average rates earned for the periods ended June 30, 2003 and 2002.

	Periods ended June 30,		% Change
	2003	2002	2003/2002
	(in millions of Pesos, except for percentages and basis points)		
Financial Income:			
Interest on loans and other receivables	Ps. 262.1	Ps. 592.7	(55.8)%
Guaranteed loans	35.9	26.0	38.3
CVS index on pesified loans	11.8		100.0
CER index on pesified loans	156.8	203.8	(23.1)
Compensatory and hedge bonds	21.6	38.8	(44.2)
Effects of changes in exchange rates		181.4	(100.0)
Others	24.4	77.0	(68.3)
Total	**Ps. 512.6**	**Ps. 1,119.7**	**(54.2)%**

BHSA s financial income for the period ended June 30, 2003 totaled Ps.512.6 million, a decrease of 54.2% from our financial income of Ps. 1,119.7 million for the period ended June 30, 2002. This decrease was mainly due to:

a decrease in income on loans and other receivables as a result of prepayments, scheduled amortization of BHSA s loan portfolio and suspension in origination of new loans;

lower effects on changes in exchange rates, as a result of the appreciation of the Argentine Peso;

lower income from loans and other financial income due to a decrease in the CER index;

lower income from compensatory and hedge bonds as a result of adjustments according to Central Bank requirements, and

these factors were partially offset by the application of the CVS index on BHSA s mortgage loan portfolio to individuals previously pesified.

Financial Expenses

The following table sets forth information regarding BHSA s financial expenses, average interest-bearing liabilities and average interest rates paid for the periods ended June 30, 2003 and 2002.

	Period ended June 30, 2003	2002	% Change 2003/2002
	(in millions of Pesos, except for percentages)		
Financial Expenses:			
Bonds, borrowings from Banks and similar obligations	Ps. 634.6	509.3	24.6%
Borrowings from Central Bank	316.1	444.3	(28.8)
Effects of changes in exchange rates	287.5		100.0
Contributions and taxes on financial income	3.5	19.0	(81.6)
Total	**Ps. 1,241.7**	**972.6**	**27.7%**

BHSA s financial expenses for the period ended June 30, 2003 were Ps. 1,241.7 million, 27.7% higher of Ps. 972.6 million recorded in the period ended June 30, 2002. This increase was mainly due to:

The appreciation of the Peso against the US Dollar and other foreign currencies which had an adverse effect on BHSA s external liabilities denominated in foreign currency, and

116

Table of Contents

higher interest in bonds, borrowings from banks an similar obligations, as a result of the decision of the board of directors of BHSA to start restructuring its debt.

This decrease was partially offset by:

lower expenses from Argentine Central Bank advances that resulted from lower average interest rates payable on Argentine Central Bank borrowings, including short term liquidity advances and additional advances expected to be incurred in the future in order to acquire additional BODEN and a reduction in the CER.

Provision for Loans Losses

The following table sets forth BHSA s provision for loan losses for the periods ended June 30, 2003 and 2002.

	Periods ended June 30,		% Change
	2003	**2002**	**2003/2002**
	(in millions of Pesos, except for percentages)		
Provision for loan losses	Ps. 122	Ps. 438.6	(72.2%)
Inflation adjustment			
Total	**Ps. 122**	**Ps. 438.6**	**(72.2%)**
Charge-offs	Ps. 155.7	Ps. 174.9	(10.9%)

BHSA s provisions for losses on loans decreased to Ps.122 million in the period ended June 30, 2003, from Ps. 438.6 million for the year ended June 30, 2002, principally as a result of improvement in BHSA s portfolio of performing loans compared to the significant deterioration experienced on its mortgage loans during 2002.

Net Contribution from Insurance

The following table sets forth the principal components of BHSA s net contribution from insurance for the periods ended June 30, 2003 and 2002.

	Periods ended June 30,		% Change
	2003	2002	2003/2002
	(in millions of Pesos, except for percentages)		
Insurance premiums earned:			
Life	Ps. 29.4	Ps. 65.6	(55.2)%
Property damage	13.9	30.5	(54.4)
Unemployment	1.9	4.6	(58.7)
Other	1.6		
Total premiums earned	Ps. 46.8	Ps. 100.7	(53.5)%
Insurance claims expensed:			
Life	Ps. 8.0	Ps. 16.5	(51.5)%
Property damage	1.0	1.4	(28.6)
Unemployment	0.9	2.9	(68.9)
Total claims expensed	Ps. 9.9	20.8	(52.4)%
Net contribution from insurance	**Ps. 36.9**	**Ps. 79.9**	**(53.8)%**

Net contribution from insurance activities of Ps. 36.9 million during the period ended June 30, 2003 decreased by Ps.43.0 million compared to the year ended June 30, 2002. This decrease was mainly due to lower premiums charged during the period ended June 30, 2003, that resulted from decrease in the number of loans with respect to which we provide insurance coverage during the period ended June 30, 2002, partially offset by a decrease in non-performing loans and insurance paid.

Other Income from Services

The following table includes the principal components of BHSA s other income from services for the periods ended June 30, 2003 and 2002.

	Periods ended June 30,		% Change
	2003	2002	2003/2002
	(in millions of Pesos, except for percentages)		
Loan servicing fees from third parties	Ps. 21.9	Ps. 31.4	(30.2)%

FONAVI commissions	2.9	3.9	(25.6)
Other	12.9	25.5	(49.4)
Total	**Ps. 37.7**	**Ps. 60.8**	**(38.0)%**

BHSA s other income from services decreased 38.0 % for the period ended June 30, 2003 primarily due to prepayments and scheduled amortizations of its mortgage loan portfolio and the continued suspension in originations of mortgage loans which was partially offset by a decrease in the percentage of non-performing loans.

Table of Contents

Other Expenses on Services

The following table includes the principal components of BHSA s other expenses on services for the periods ended June 30, 2003 and 2002.

	Periods ended June 30, 2003	Periods ended June 30, 2002	% Change 2003/2002
	(in millions of Pesos, except for percentages)		
Structuring and underwriting fees	Ps. 23.2	Ps. 39.1	(40.7)%
Commissions on third party originations	0.6	2.4	(73.0)
Collections	0.5	0.4	47.2
Banking services	6.1	15.2	(59.5)
Other	0.1	2.4	(97.3)
Total	**Ps. 30.6**	**Ps. 59.4**	**(48.6)%**
Contributions and taxes on income from services	0.7	3.9	(82.1)
Total	**Ps. 31.3**	**Ps. 63.2**	**(50.4)%**

BHSA s other expenses on services decreased 50.4% to Ps.31.3 million for the period ended June 30, 2003, from Ps. 63.2 million for the period ended June 30, 2002, primarily due to lower commissions paid in connection with structuring and underwriting fees, related to the restructuring of BHSA s debt in March 2002 and its decision to accelerate scheduling of such fees in 2002 upon (i) the pesification of certain assets which reduced the value of our equity interest therein and thereby reducing the likelihood of BHSA s ability to recover the amount of such fees in the future and (ii) the resolution of BHSA s board of directors providing for the restructuring of its outstanding debt on August 15, 2003.

Administrative Expenses

The following table sets forth the principal components of BHSA s administrative expenses for the periods ended June 30, 2003 and 2002.

	Periods ended June 30, 2003	Periods ended June 30, 2002	% Change 2003/2002
	(in millions of Pesos, except for percentages)		
Salaries and social security contributions	Ps. 69.1	Ps. 138.5	(50.1)%
Fees and external administrative services	9.0	23.7	(62.0)
Maintenance and repair	30.9	46.8	(34.0)
Advertising expenses	0.5	3.4	(85.3)
Nonrecoverable VAT and other taxes	8.3	17.3	(52.0)

Other	2.1	4.7	(55.3)
Total	**Ps. 119.9**	**Ps. 234.4**	**(48.8)%**

Administrative expenses for the period ended June 30, 2003 decreased 48.8% to Ps.119.9 million from Ps. 234.4 million for the period ended June 30, 2002, primarily as a result of (i) a 50.1% reduction in salaries and social security contributions reflecting BHSA s implementation of a voluntary retirement plan, and (ii) the effects of lower inflation adjustments on salaries and social contributions. Some of BHSA s employees have elected to participate in BHSA s voluntary retirement plan and therefore the salaries and social security contributions have been reduced.

Table of Contents

Miscellaneous Income

The following table sets forth BHSA s miscellaneous income for the periods ended June 30, 2003 and 2002.

	Periods ended June 30,		% Change
	2003	2002	2003/2002
	(in millions of Pesos, except for percentages)		
Penalty interest	Ps. 14.5	Ps. 11.6	25%
Loan loss recoveries	50.1	82.7	(39.4)
Other	6.0	14.8	(59.5)
Total	**Ps. 70.6**	**Ps. 109.1**	**(35.3)%**

BHSA s miscellaneous income decreased 35.3% to Ps. 70.6 million for the period ended June 30, 2003 from Ps. 109.1 million for the period ended June 30, 2002, principally as a result of lower other incomes partially offset by higher loan loss recoveries from written-off loans and higher penalty interest in connection with the recovery of nonperforming loans.

Miscellaneous Expenses

The following table sets forth the principal components of BHSA s miscellaneous expenses for the periods ended June 30, 2003 and 2002.

	Periods ended June 30,		% Change
	2003	2002	2003/2002
	(in millions of Pesos, except for percentages)		
Provision for lawsuits contingencies	Ps. 36.0	Ps. 4.2	757.1%
Difference in compensatory and hedge bonds	49.3		100.0
Provision for administrative organization	48.0		100.0
Provision for other contingencies and miscellaneous receivables	7.5	1.0	650.0
Intangible Assets loss		7.8	(100.0)
Provision for taxes		2.6	(100.0)
Prepayment mortgage loans at discount	51.6	1.5	3340.0
Other	11.2	14.4	126.4
Total	**Ps. 203.6**	**Ps. 31.5**	**546.3%**

BHSA s miscellaneous expenses increased to Ps. 203.6 million for the year ended June 30, 2003 from Ps. 31.6 million for the year ended June 30, 2002 as a result of (i) a provision established to cover contingencies related to certain communications issued by the Central Bank regarding compensatory BODEN, and (ii) an increase in provisions for lawsuit contingencies due to an increase in the amount of lawsuits, primarily relating to the payment of BHSA s defaulted debt obligations.

Monetary Adjustment

The following table sets forth the principal components of the effects of the inflation adjustments for the twelve months ended June 30, 2003 and 2002:

	Periods ended June 30,		**% Change**
	2003	**2002**	**2003/2002**
	(in millions of Pesos, except for percentages)		
Monetary loss from financial transactions	Ps. (224.0)	Ps. (2.229.6)	(90.0)%
Monetary (loss) gain related to operating transactions	(1.0)	13.8	107.0
Monetary gain on other transactions	7.0	49.2	(85.8)
Total	**Ps. (218.0)**	**Ps. (2,166.6)**	**(89.9)%**

By Communication A 3921 the Central Bank, as required by Decree No. 664/03, suspended the applicability of the inflation adjustment effective as of March 1, 2003. In the year ended June 30, 2003, the

120

effect of inflation recorded on BHSA s net monetary assets decreased significantly compared to the corresponding period of 2002, principally as a result of the decrease in the WPI.

As of June 30, 2003, BHSA s net position in monetary assets and liabilities was similar to the amount recorded as of June 30, 2002. Changes in the monetary loss between periods was attributable to the variation in the WPI as mentioned above.

B. Liquidity and Capital Resources

Our liquidity and capital resources include our cash and cash equivalents, proceeds from bank borrowing and long-term debt, capital financing and sales of real estate investments.

As of June 30, 2004, we had working capital of Ps. 5.6 million. At the same date, we had cash and cash equivalents totaling Ps. 122.9 million, a decrease of 36.35 % from Ps. 193.1 million of cash and cash equivalents held as of June 30, 2003.

Our operating activities resulted in net cash inflows of Ps. 73.4 million, Ps. 93.9 million and Ps. 54.3 million for fiscal years 2004, 2003 and 2002, respectively. The operating cash inflows for fiscal year 2004 primarily resulted from operating gains of Ps. 89.4 million, partially offset by an increase in non-current investments for Ps. 10.7 million. Net cash inflows for fiscal year 2003 primarily resulted from operating gains of Ps. 16.4 million and increases in accrued interest and exchange gain of Ps. 56.5 million. The operating cash inflows for fiscal year 2002 primarily resulted from the increase in financial results of Ps. 331.0 million, a decrease in investments for Ps. 18.1 million and in a decrease of receivables for Ps. 41.2 million.

Our investing activities resulted in net cash outflows of Ps. 95.9 million, Ps. 40.6 and Ps. 21.1 million for fiscal years 2004, 2003 and 2002, respectively. In fiscal year 2004 we made investments in our subsidiaries and equity investees of Ps. 70.2 million through the purchase and sale of shares and options of Banco Hipotecario. In fiscal year 2003 we made investments in our subsidiaries and equity investees for Ps. 31.7 million primarily in APSA. In February 2002 we sold our investment in Brazil Realty for US$ 44.2 million. In fiscal years 2004, 2003 and 2002, we repurchased and/or invested in existing properties for Ps. 25.7 million, Ps. 11.0 million and Ps. 28.4 million, respectively. In fiscal year 2002, we also granted loans to related parties for Ps. 105.7 million.

Our net cash used in financing activities of Ps. 47.6 million was primarily due to the proceeds from short-term and long-term debt of Ps. 66.4 million and the issuance of common stock of Ps. 24.7 million. Our net cash provided by financing activities of Ps. 109.4 million for fiscal year 2003 was primarily due to the proceeds from short-term and long-term debt of Ps. 397.3 millions partially offset by the payment of short-term and long-term debt of Ps. 271.0 million. Our net cash used in financing activities of Ps. 41.4 million for fiscal year 2002 was primarily due to the payment of short-term debt partially offset by the income for new loans for Ps. 170.0 million.

We believe our assets have potential for growth. Our low level of indebtedness, most of which is long-term, and the cash proceeds from the exercise of warrants attached to our convertible debt, place us in a good position to finance new projects and seek expansion opportunities.

Our indebtedness

Our total outstanding debt as of June 30, 2004, amounted to Ps. 603.9 million, as compared to the Ps. 679.5 million as of June 30, 2003. This decrease is attributed to the conversion of IRSA s and APSA s Convertible Notes for US$ 12.9 million and US$ 0.9 million respectively and to several debt buybacks and reductions conducted during the year, as described below.

Pursuant to Decree No. 214/02, part of our indebtedness was pesified, although a large portion, governed by foreign laws continued to be Dollar-denominated. Pesified indebtedness is to be adjusted by the CER index.

Table of Contents

On May 24, 2000, we entered into a US$ 80.0 million Syndicated Loan Agreement (the Syndicated Loan Agreement) arranged by Bank Boston N.A. Loans under this Syndicated Loan Agreement bear interest at three-month LIBOR plus a margin of 500 basis points.

Amounts owing under the Syndicated Loan Agreement were payable in U.S. Dollars. Although final maturity on the loan agreement was on August 30, 2002, due to the continuing effects of economic recession, the unavailability of financing sources and the succession of recent governmental measures adversely affecting the normal operations of the banking and payments system, we could not make the scheduled payment on that date. As explained below we renegotiated this Syndicated Loan Agreement under new conditions.

On December 18, 2000, we issued US$ 43.5 million unsecured Class 2 Floating Rate Notes due December 24, 2001 (the Class 2 Floating Rate Notes). Proceeds from this issuance were used to repay certain outstanding short-term indebtedness. Our Class 2 Floating Rate Notes matured in December 2001, and we were unable to pay the principal then due. As a result of such non-payment, in December 2001, we entered into negotiations with the holders of our Class 2 Floating Rate Notes and to date have been able to obtain short-term deferrals of our obligation to pay such matured notes. On February 8, 2002, we agreed with our holders to replace the Class 2 floating interest rate for an annual fixed interest rate of 12%. Pursuant to the most recent deferral, granted on October 31, 2002, the principal of and interest on our Class 2 Floating Rate Notes were due in full on November 14, 2002 and were further renegotiated as explained below. We also agreed with our holders on a capitalization of the interest due on October 31, 2002. On May 15, 2002, we repurchased from Banco Sudameris its participation in the mentioned Class 2 Floating Rate Notes of US$ 6.8 million.

On November 15, 2002, we signed a Framework Refinancing Agreement (the Framework Refinancing Agreement) to refinance the Syndicated Loan Agreement of US$ 80.0 million and the Class 2 Floating Rate Notes amounting, at that time, to US$ 37.0 million through the following schedule:

US$ 13.6 million were paid in cash, reducing the principal;

US$ 15.0 million were swapped for Convertible Notes at a rate of 8% and maturing in the year 2007;

US$ 37.4 million in Secured Class 3 Floating Rates Notes (the Class 3 Floating Rate Notes) with a 90-day LIBOR plus 200 base points and maturing in the year 2009. These notes are secured by a first mortgage drawn out on some of our properties for an amount equivalent to 50% of the debt; and

US$ 51.0 million Unsecured Loan Agreement (the Unsecured Loan Agreement) expiring in the year 2009. 69% of this loan accrues interest at a ninety-day LIBOR plus 200 base points, whereas the remainder accrues interest at a phased fixed rate starting at 5.5% and reaching 6.5%.

The offer of Convertible Notes into our ordinary shares was successfully completed on November 21, 2002, for a total amount of US$ 100 million. These notes are accompanied by a warrant that offers the option to purchase additional shares. The subscription price was 100% of the face value of the Convertible Notes, which accrue interest at an annual 8% payable semiannually and maturing in November 2007. The conversion price is US$ 0.5450 per ordinary share, in other words each note may be swapped for 1.8349 ordinary shares. The funds generated by the issue were mainly allocated to the settlement and restructuring of the liabilities existent at the date, and to finance our working capital and for other general corporate purposes.

Due to the distribution of 4,587,285 treasury shares, we have adjusted the conversion price of its Convertible Notes according to the subscription clauses. The conversion price of the Convertible Notes decreased from US$ 0.5571 to US$ 0.5450 and the warrants price went from US$ 0.6686 to US$ 0.6541. Such adjustment was effective as from December 20, 2002.

As of November 30, 2004, certain holders of our Convertible Notes had exercised their conversion rights. The total number of notes converted amounted to 13,468,670 units with a face value of US$ 1 each, whereas the ordinary stock delivered under this heading amounted to 24,713,137 with a face value of Ps.1 each.

During the same period 12,265,962 warrants were exercised resulting in a cash inflow of US$ 14.7 million and the issuance of 22,506,341 shares with a face value of Ps. 1 each.

As of November 30, 2004, the number of Convertible Notes outstanding amounted to US$ 86,531,330, the number of warrants outstanding amounted to 87,734,038, while 259,218,751 of our shares were outstanding.

On December 4, 2002, we paid off our debt with GSEM/AP Holdings, L.P. (Goldman Sachs) which amounted to US$ 16.3 million including the principal and accrued interest, with a total payment of US$ 11.1 million.

On July 19, 2002, APSA issued US$ 50.0 million Series I Convertible Notes (the Series I Convertible Notes), according to the resolution of the Ordinary and Extraordinary APSA Shareholders Meeting held on December 4, 2001. The terms of the issue included a conversion price that consists of the maximum between the face value of APSA common shares divided by the exchange rate and US$ 0.0324, which means that each Series I Convertible Note may be converted into approximately 30.8642 shares with a face value of Ps. 0.1 each, accruing an annual 10% interest payable semiannually and with a subscription price of 100% of the principal of the notes. The issue of this instrument enabled APSA to prepay a significant portion of its debt, thus considerably improving its financial structure and schedule of payments.

On August 23, 2002, APSA successfully completed the placement of Series I Convertible Notes for US$ 50.0 million of which we have subscribed a total of US$ 27.2 million. In January 2003 we purchased an additional 3.4 million APSA shares, increasing our current equity interest to 54.9%. We also acquired 2.6 million Series I Convertible Notes which increased our interest to a total of 59.9% of the notes issued by our subsidiary.

On July 23, 2003, we made a prepayment to HSBC Bank Argentina S.A. of US$ 16 million under the US$ 51.0 million Unsecured Loan Agreement whose final expiration is in November 2009. This transaction involved a payment of US$ 10.9 million, representing 68% of the face value of the debt and a discount of US$ 5.1 million.

On March 17, 2004 we repurchased from HSBC Bank London Plc. US$ 12 million under the US$ 51 million Unsecured Loan Agreement, maturing in November 2009. The transaction value totaled US$ 8.6 million, was at a discount of 28%, and resulted in a US$ 3.4 million discount.

In January 2001, our subsidiary Hoteles Argentinos S.A., holder of 100% of the Hotel Sheraton Libertador, obtained a loan of US$ 12.0 million from BankBoston N.A. Subsequently, Bank Boston sold this loan to Marathon Master Fund Ltd.This loan expires in January 2006 and accrues a quarterly interest at the LIBOR plus a markup ranging between 401 and 476 basis points, according to the value of certain financial indicators. This loan was not converted to Pesos and is stated in U.S. Dollars because it is governed by the laws of the State of New York. There are currently installments of the principal and interest that are overdue and unpaid. This loan is with no recourse to us. On December 16, 2004, our wholly-owned subsidiary Ritelco S.A. acquired 100% of the debt Hoteles Argentinos had with Marathon Master Fund, Ltd. Ritelco S.A. paid a total amount of US$ 8.0 million.

As of June 30, 2004, we had outstanding Collateralized Loans for a total amount of Ps.137.4 million, including accrued interests. The Collateralized Loans include several loans at fixed/variable rates ranging from 3.34% to 6.10%, with different maturities through November 2009. A total amount of Ps. 32.8 million debt is collateralized with a mortgage over the Sheraton Libertador Hotel. A total amount of US$ 37.4

million, which matures on November 20, 2009 and accrues quarterly interest payments at three-month LIBOR plus 200 basis points, is secured by several assets. As of June 30, 2004, we recorded a total balance of US$ 32.9 million, which corresponds to US$ 37.4 million discounted at a market rate equivalent to 8% p.a., accruing an annual interest rate of 1.12% at LIBOR.

Table of Contents

The following table sets forth our outstanding debt as of June 30, 2004 (excluding APSA):

IRSA Debt	Principal (US$ MM) [(1)]	Interest Rate	Maturity
Unsecured Loan Agreement	23.0	LIBOR + 200 bps	November 2009
Class 3 Floating Rate Notes	37.4	LIBOR + 200 bps	November 2009
Hoteles Argentinos Loan	12.0	LIBOR + 500 bps	January 2006
Total Debt	72.4		
Convertible Notes	87.1	8%	November 2007

(1) Accrued interest is not included.

APSA s indebtedness

On January 18, 2001, APSA issued US$ 120.0 million of secured Senior Notes (the Senior Notes) due on January 13, 2005 in three classes: (i) US$ 40.0 million of Class A-2 notes due January 13, 2005, at a corrected Badlar interest rate plus 395 basis points; (ii) US$ 5.0 million of Class B-1 notes, which APSA issued together with its wholly-owned subsidiary SAPSA, and which are due on January 13, 2005, at a 90-day LIBOR plus 475 basis points, and (iii) US$ 75.0 million of Class B-2 notes, which APSA issued together with SAPSA, maturing at various dates through January 13, 2005, at a corrected Badlar rate plus 395 basis points. The proceeds from this issuance were used to repay financial indebtedness, including outstanding mortgage-collateralized borrowings and other short-term debts.

Additionally, during the third quarter of the fiscal year 2001, APSA redeemed US$ 2.5 million of the Class A-2 notes at 100% of par value. The payment of the total amount of the Senior Notes is guaranteed by a trust agreement pursuant to which all of the shares of SAPSA were transferred to a trust. The Trust Agreement was entered into on January 16, 2001 among APSA and Ritelco, as shareholders of SAPSA and as Trustors, RioTrust S.A., as trustee, and the holders of the Senior Notes as beneficiaries.

Interest on both classes are paid on a quarterly basis as from April 18, 2001.

On April 7, 2000, APSA issued the Ps. 85.0 million Notes (the Ps. 85.0 million Notes) due April 7, 2005 at a 14.875% annual rate, payable semiannually. Proceeds from this issuance were used to repay certain outstanding syndicated loan and other short-term financial debt. In March 2001, June 2003 and August, 2004, APSA redeemed Ps. 36.6 million historical pesos, at different prices below par. After subtracting our holding, the aggregate outstanding amount for such notes as of November 23, 2004 was Ps. 48.4 million.

On March 30, 2000, in connection with the issuance of Ps. 85 million Notes, APSA entered into a swap agreement with Morgan Guaranty Trust in order to reduce the related financing cost. This swap agreement initially allowed APSA to reduce the net cost of its debt. However, due to the Argentine economic crisis, the political instability, and the depreciation of the Argentine public debt, there was a substantial negative deviation of the performance of the swap agreement that required the modification of the original terms. Under the terms of the revised agreement, APSA agreed to pay US$ 69.1 million on March 30, 2005 and receive Ps. 69.1 million on such date. As collateral for its payment obligations under the modified agreement, APSA was required to make a deposit of US$ 50 million with the counterparty. APSA is not required to make additional deposits until maturity. An additional payment at maturity could be required depending on the prevailing exchange rate between the Peso and the U.S. Dollar. Thus, a continued devaluation of the Peso against the US Dollar and/or an increase in interest rates would increase its loss which could be material. As of June 30, 2004 this modified swap agreement was accounted for at its fair market value resulting in a recognition of a liability of US$ 45.4 million. The line item Interest rate swap receivable included within Other receivables and prepaid expenses, net represents the net amount of the US$ 50 million deposited as collateral and the US$ 45.4 million payable under the swap agreement.

In order to finance the US$ 50 million collateral deposit and the subsequent transactions related to the swap, APSA entered into loan agreements with us and Parque Arauco S.A. As of June 30, 2002 its debt with us and Parque Arauco S.A. under those loan agreements amounted to Ps. 45.6 million and Ps. 22.9 million respectively.

In addition, between May and July 2002, our company and Parque Arauco S.A. granted to APSA loans for US$ 10.1 million and US$ 4.9 million respectively. The annual interest rate for such loans was

Table of Contents

10%. The funds obtained under these loans have been used to fully cancel APSA short-term bank debt for the total amount of Ps. 43.8 million plus the accrued CER adjustment.

The amounts APSA owed under the loans which were granted to APSA from us and Parque Arauco, were used by us and Parque Arauco to subscribe APSA offering of US$ 50.0 million Series I Convertible Notes on August 20, 2002 (the Series I Convertible Notes). We and Parque Arauco subscribed for US$ 27.2 million and US$ 15.2 million respectively of APSA´s Series I Convertible Notes.

As of September 30, 2001, APSA begun to be in non compliance with certain financial covenants with respect to the US$ 120 million Senior Notes due in 2005 and the Ps. 85.0 million Notes due in 2005. Nevertheless, during fiscal year 2004, APSA complied with all of its financial covenants.

In addition, non compliance with certain financial covenants mentioned above, APSA has not made certain payments for an aggregate amount of Ps. 21.7 million under APSA Class A and B-2 Senior Notes which where scheduled to be paid on January 14, 2002. However, on January 16, 2002 and March 15, 2002, the holders of Senior Notes unanimously approved certain waivers and deferrals of accrued interests and scheduled principal payments until July 17, 2002. On June 24, 2002, APSA agreed with the holders of its Class A and B-2 Senior Notes, that APSA would pay all interest owed and the amortization coupon which originally matured in January 2002, prior to July 17, 2002. Such payment would receive a discount of approximately 20%. As of July 17, 2002, all interest owed and the amortization coupon under APSA Class A and B-2 Senior Notes that matured in January 2002, had been fully paid. The Public Emergency Law, enacted on January 6, 2002 and Decree No. 214/02 of the National Executive Branch established the conversion to Pesos of all loans and agreements in effect that had been agreed in U.S. Dollars or any other foreign currency at the exchange rate of Ps. 1.00 = 1.00 U.S. Dollar (US$ 1.00). The pesification of debts affected APSA s Senior Notes (US$ 117.5 million), short-term bank debt (US$ 44.6 million) and the loans with its majority shareholders. Such agreements and loans have been adjusted as from February 3, 2002 by the CER. Thus if there were a severe inflationary process, APSA s debt would be significantly increased.

With respect to interest rates, Argentine Central Bank Communication A 3507 dated March 13, 2002 established a fixed interest rate between 6% and 8% to debts issued by companies under Argentine law. This resolution affected APSA´s Senior Notes (Ps. 132.0 million) and its short-term bank debt (Ps. 50.11 million).

On June 9, 2003 APSA signed a Compensation Agreement with the only holder of Class B1 Senior Notes, reducing the negative impact that the pesification of contracts had on this holder. APSA extended the original schedule of payments. On January 13, 2004 APSA paid US$ 1.25 million and on January 13, 2005 APSA will pay US$ 3.75 million.

On July 19, 2002 APSA issued US$ 50 million of Series I Convertible Notes which are convertible into shares of its common stock at the holder s option. The offer was subscribed in full.

The terms of these Series I Convertible Notes include (i) a conversion price that consists of the maximum between the face value of APSA common stock (Ps. 0.10) divided by the exchange rate and US$ 0.0324, which means that every Series I Convertible Note is potentially convertible into approximately 30.8642 shares of APSA´s common stock with a face value of Ps. 0.10 each (ii) an accrual of a 10% annual interest rate payable semi-annually and (iii) a subscription price of 100% of the principal amount of the Convertible Note. The Series I Convertible Notes, mature on July 19, 2006. Raymond James Argentina Sociedad de Bolsa S.A. acted as subscription and placement agent.

In the event that all the bondholders were to convert their Series I Convertible Notes, APSA´s share capital would increase from 779,827,330 shares as of November 30, 2004 to approximately 2,239,741,836 shares. Also, as of such date the number of Series I Convertible Notes outstanding amounted to US$ 47,301,230.

The issuance of APSA´s Series I Convertible Notes has allowed APSA to repay an important portion of its existing debt. The proceeds of this offering have been allocated to fully repay (i) loans from its major shareholders for approximately US$ 33.1 million, and (ii) US$ 16.8 million (plus the accrued CER adjustment) which APSA owed under its Senior Notes and under which they obtained discounts for up to 25%.

On February 17, 2003, APSA entered into a repurchase agreement (the Repurchase Agreement) with us and Parque Arauco Argentina S.A. in which each company granted to APSA loans for Ps. 4.2 million and Ps. 2.1 million, respectively. According to the Repurchase Agreement, APSA made a collateral deposit of Ps. 5.5 million nominal value of Class A-2 Senior Notes and Ps. 10.0 million nominal value of Class B-2 Notes with us and other of Ps. 2.8 million nominal value of Class A-2 Senior Notes and Ps. 5.0 million nominal value of Class B-2 Senior Notes with Parque Arauco Argentina S.A. As of November 5, 2004, APSA agreed to repurchase on January 7 the securities at a price of Ps. 5.1 million and Ps. 2.6 million to us and Parque Arauco Argentina S.A., respectively.

In connection with the Ps. 120 million notes, Ps. 1 face value, due January 2005 after the fiscal year-end, on August 6, 2004 APSA and Shopping Alto Palermo S.A. bought back at Ps. 1.51656 per unit, 6,666,667 and 7,083,333 notes, respectively. This transaction allowed APSA to reduce its financial cost, as such notes accrued interest at a rate of 8% plus CER restatement. Retirement resulted in a disbursement of Ps. 10.1 million by APSA and Ps. 10.7 million by Shopping Alto Palermo. This buyback resulted in the full retirement of Class A-2 and B-2 of these notes.

Furthermore, during the year ended June 30, 2004, APSA met all its financial commitments relating to its outstanding notes.

During the year ended June 30, 2004 APSA was in compliance with the financial covenants under the indentures of the APSA Senior Notes and the Ps. 85.0 million Notes.

Due to compliance with its financial covenants, APSA can again raise additional funds without the prior approval of the outstanding bondholders.

The following table shows APSA´s outstanding debt as of June 30, 2004 (accrued interest not included):

	Ps. (million)	US$[1] (million)	Interest Rate	Maturity
Senior Notes Class A-2 and B-2	20.6[2]	7.0	8% + CER	January 2005
Senior Notes Class B-1	11.09	3.75	Libor + 475 Bps.	January 2005
Ps. 85.0 million Notes	49.62	16.78	14.875%	April 2005
Shareholders loans	7.21	2.44	8%	January 2005
Subtotal	88.52	29.97		
Series I Convertible Notes	145.14	49.07	10%	January 2006
Total Debt	**233.66**	**79.04**		

(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, 2004 which was Ps. 2.958 per US$1.0. 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. See Exchange Rates .

(2) Fully paid on August 6, 2004.

On September 29, 2004, APSA entered into an agreement for the purchase of 49.9% of the capital stock of Pérez Cuesta S.A.C.I. The transaction was consummated on December 2, 2004, after APSA obtained approval from the Antitrust Authorities. As a result, APSA currently owns a 68.8% interest in this shopping center.

As of June 30, 2004, Pérez Cuesta had Ps. 40.3 million of financial indebtedness (including accrued interests and CER), Ps. 23.1 million of which was overdue and was in default. Although pursuant to Decree No. 214/02, Pérez Cuesta s U.S. Dollar-denominated financial indebtedness has been converted into Pesos, since its indebtedness includes outstanding mortgage commercial leases and collateralized contracts borrowings, the default on several expired payments raises substantial doubt as to its ability to continue as a going concern. Currently,

Table of Contents

Pérez Cuesta and APSA are negotiating the restructuring of the debt terms with Pérez Cuesta s creditors. However, we cannot assure you that they will achieve a successful restructuring of its financial indebtedness.

On December 3, 2004, Alto Palermo signed an option agreement, exercisable until March 31, 2005, which entitles the company to purchase the debt that Perez Cuesta S.A.C.I. owes to HSBC Bank Argentina S.A. As of June 30, 2004, such indebtedness amounted to Ps. 9.5 million. As of the date of this filing, such amount is overdue and unpaid. Alto Palermo S.A. paid an option premium of Ps. 0.7 million. The loan bears an interest rate of 8% plus CER adjustment.

Capital expenditures

During the fiscal year ended June 30, 2004 we had capital expenditures of. Ps. 153.0 million. We made investments in our subsidiaries and equity investees of Ps. 127.4 million through the purchase of shares and options of Banco Hipotecario. We also made investments of Ps. 25.1 million in fixed assets primarily in APSA of Ps. 20.4 million and in the Llao Llao Hotel of Ps. 3.3 million. We also invested Ps. 0.6 million in undeveloped parcels of land.

During the fiscal year ended June 30, 2003 we had capital expenditures of Ps. 42.7 million. We made investments in our subsidiaries and equity investees of Ps. 31.7 million primarily in APSA. We also made investments in fixed assets of Ps. 10.8 million among which we can highlight fixed assets belonging to the shopping center and hotel segment. In addition we made investments in undeveloped parcels of land of Ps. 0.2 million.

During the fiscal year ended June 30, 2002 we had capital expenditures of Ps. 50.1 million. We made investments in fixed assets of Ps. 25.1 million primarily to the acquisition of Costeros Dique IV in the office segment of Ps. 20.6 million and Ps. 3.1 in the Llao Llao Hotel. We also made investments in undeveloped parcels of land of Ps. 3.3 million primarily in Dique III of Ps. 2.5 million and in our subsidiaries and equity investees of Ps. 21.7 million.

We believe our assets have potential for growth. Our low level of indebtedness, most of which is long-term, and the cash proceeds from the exercise of warrants attached to our convertible debt, place us in a good position to finance new projects and seek expansion opportunities.

U.S. GAAP Reconciliation

The accounting principles applied in Argentina vary in certain significant respects from accounting principles applied in the United States. Application of accounting principles generally accepted in the United States (U.S. GAAP) would have affected the determination of amounts shown as net income (loss) for each of the three years in the period ended June 30, 2004, and the amounts of total shareholders equity as of June 30, 2004 and 2003 , to the extent summarized in Note 20 to our Consolidated Financial Statements.

The principal differences, other than inflation accounting, between Argentine GAAP and U.S. GAAP are related to the following:

(i) the impact of certain U.S. GAAP adjustments on equity investees;

(ii) the accounting for marketable securities;

(iii) the accounting for derivatives and hedging activities;

(iv) the accounting for the non-contributory management stock ownership plan;

(v) the application of different useful lives for depreciation purposes;

(vi) the deferral of certain preoperating and organization expenses under Argentine GAAP which are expensed as incurred under U.S. GAAP;

Table of Contents

(vii) the accounting for a mortgage payable with no stated interest;

(viii) the accounting for securitization programs;

(ix) the application of certain U.S. GAAP adjustments to the estimation of the fair value of net assets acquired;

(x) the present-value accounting;

(xi) the restoration of previously recognized impairment losses accounting;

(xii) the accounting for convertible notes;

(xiii) the accounting for troubled debt restructuring;

(xiv) the accounting for real estate barter transactions;

(xv) the accounting for the appraisal revaluation of fixed assets;

(xvi) the accounting for deferred charges;

(xvii) the amortization of fees related to the Senior Notes;

(xviii) the accounting for software obtained for internal use;

(xix) the accounting for changes in interest in consolidated affiliated companies;

(xx) the capitalization of interest costs;

(xxi) the differences between the price-level restated amounts of assets and liabilities and their historical basis, that under Argentine GAAP, are treated as permanent differences in accounting for deferred income tax calculation purposes while under US GAAP are treated as temporary differences;

(xxii) the effects on deferred income tax of the foregoing taxes of the above-mentioned reconciling items, as appropriate; and

(xxiii) the effect on minority interest of the above-mentioned reconciling items, as appropriate.

In addition, certain other disclosures required under U.S. GAAP have been included in the U.S. GAAP reconciliation. See Note 20 to our Consolidated Financial Statements, included elsewhere in this annual report for details.

Net income (loss) under Argentine GAAP for the years ended June 30, 2004, 2003 and 2002 was Ps. 87.9 million, Ps. 286.4 million, and Ps. (543.7) million, respectively, as compared to Ps. 2.8 million, Ps. 235.1 million and Ps. (901.5) million, respectively, under U.S. GAAP. Shareholders equity under Argentine GAAP as of June 30, 2004 and 2003, was Ps. 959.9 million and Ps.809.2 million, respectively, as compared to Ps. 587.7 million and Ps. 502.8 million, respectively, under U.S. GAAP.

C. Research and Development, Patents and Licenses, etc.

This item is not applicable.

D. Trend Information

During fiscal year 2004, the Argentine economy experienced a significant recovery. As a consequence of the currency policy and price stabilization, internal consumption became one of the principal engines for economic growth. We experienced a significant increase in operating income which rose 311% to Ps. 104.7 million in fiscal year 2004 from Ps. 25.5 million in fiscal 2003. The increase was mainly due to a year-on-year 10% increase in sales, 5% reduction in operating costs and 199% increase in results from operations and holding of real estate assets due to the significant recovery in the value of our assets. There was a considerable improvement in the performance of our shopping center and hotel segments, which recorded increases in revenues of 26% and 23%, respectively, compared to the previous fiscal year, while the sales and development and office segments decreased by 34% and 15%, respectively. This decrease was mainly due to non-recurrent revenues from the sale of the Piscis Hotel in Valle de Las Leñas, Province of Mendoza, recorded in fiscal year 2003.

In the end of 2004, the real estate business regained strength in all of its segments. Construction has increased and the retail market is improving, mainly in the shopping center segment, driven by the increase in consumption in the highest purchasing power sectors and the increased inflow of tourists. These conditions also favored the hotel segment, which took advantage of Dollar revenues versus Peso costs. Moreover, those companies which after the devaluation had been forced to move their offices to cheaper peripheral areas as part of their cost cut down strategy, have now returned to premium areas encouraged by rising, but still low, prices.

Although we expect the positive economic trends to continue, we cannot assure this will occur. Our business is largely affected by economic downturns. Any decrease in investment and consumption decisions could cause a reduction in retail sales, sales of real state and demand for office and commercial space.

We have an asset portfolio of Ps. 2,203 million book value, in attractive locations and with top-level lessees. Cash flow generation from our business is growing at different paces according to each segment. The shopping center segment experienced the greatest recovery, reaching high occupancy and low default rates that surpassed historical records. Hotels have also shown a notable improvement in both tariffs and occupancy levels. Offices recorded sustained increases in occupancy rates and prices, the sales value of property in the locations where our developments are established has been escalating, and there has been considerable increase in the demand for such properties. This activity, however, has not been fully reflected in terms of value, yet. We believe our assets have a great intrinsic value that makes them attractive due to their potential for growth. Our low level of indebtedness, most of which is long-term, and the cash proceeds from the exercise of warrants attached to our convertible debt, will enable us to finance new projects and continue our expansion efforts.

Development and sale of properties

In fiscal year 2004, the sales and developments segment recorded revenues of Ps. 31.1 million, compared to Ps. 47.2 million in fiscal year 2003. This decrease was mainly due to non-recurrent revenues from the sale of the Piscis Hotel in Valle de Las Leñas, Province of Mendoza, recorded in fiscal year 2003.

We are focusing on projects in the high income segment. Low interest rates, investors investing in safer assets, an international environment of low returns, high volatility and insecurity have caused the demand for real estate assets to increase, as these assets offer an attractive risk/return combination. We are developing, marketing and evaluating various projects in Buenos Aires, in particular in exclusive areas such as Barrio Parque and Puerto Madero. We believe that Puerto Madero is the growth engine for the residential premium market and will be pivotal for its dynamics over the next years. In Puerto Madero, a high percentage of units is sold upon launching, and sales prices, which range from US$ 1,500 to US$ 2,300 per square meter, have almost fully recovered to the values that prevailed during the nineties. We are also evaluating other projects in the interior of the country.

Edificios Cruceros 1 and 2: In December 2003, we executed a swap agreement with Residencial Dique S.A. whereby we exchanged Edificios Cruceros 1 and 2, located in Puerto Madero, for 40% of the total square meters to be constructed, i.e., a total 2,800 square meters and 40% of the already existing parking spaces for a maximum term of 24 months. The transaction is secured by a mortgage for US$ 2.0 million. The concrete structure of the two buildings has already been completed, and we expect to launch sales in March 2005.

Benavidez Option: In March 2004, DEESA (Desarrolladora El Encuentro S.A.) decided to exercise its option to acquire the plot in Benavidez that had been granted to it by our controlled company Inversora Bolívar S.A. (IBSA). DEESA agreed to pay IBSA a total price of US$ 4.0 million. On May 21, 2004, the title deed was executed, and US$ 0.7 million was paid by DEESA. The cash balance of US$ 0.3 million was paid on June 22, 2004. The remaining US$ 3.0 million will be collected in kind, with IRSA receiving 110 residential lots in the projected complex. We are planning the pre-sale for the first quarter of 2005.

San Martín de Tours: This project, in the Barrio Parque area, is currently being developed. We plan to build a top-quality home style residential complex, which differs from most existing complexes. We estimate construction will be completed by April 2005, and the homes will be launched for sale in the first quarter of 2005.

Santa María del Plata: The chief of government of the City of Buenos Aires is expected to sign the authorization for the development of Santa María del Plata in fiscal year 2005. We plan to start the infrastructure construction required for its development by the end of 2005.

Edificios Dique III: On September 7, 2004, after the release of our annual financial statements, we executed a swap agreement with Desarollos y Proyectos Sociedad Aanónima (DYPSA) whereby we exchanged one of the three parcels in which Edificios Dique III is divided, located in Puerto Madero, for 28.5% of the total square meters to be constructed, i.e., a total of 4,911 square meters and 28.5% of the parking spaces and storage rooms. The transaction is secured by a mortgage on the land for US$ 8.0 million. The building will have 37 floors devoted to housing.

In addition, we granted an option to purchase a second parcel of the same land in exchange for 31.5% of the total square meters to be built, i.e., a total of 6,421 square meters and 31.5% of the parking spaces and storage rooms. If the option is exercised, the transaction will be secured by a mortgage on the land for US$ 10.8 million. Exercise of the option is conditioned, inter alia, to meeting the deadlines established in the work schedule for the first tower. The building will have 40 floors devoted to housing.

On November 2004, we signed the exchange deed for the first parcel of land whereby DYPSA agreed to pay US$ 8.0 millions through the exchange of 28.5% of the total meters to be constructed.

New projects: We are also engaged in other projects, such as the development of the Rosario land reserve adjoining the shopping center. We are deciding whether to sell this property for the construction of towers and a hotel, totaling 100.00 square meters.

Offices and other non-shopping center rental properties

During the fiscal year ended June 30, 2004, income from rental properties totaled Ps.15.1 million as compared to Ps.17.8 million during fiscal year 2003. This decrease was partly due to the sale of rental space at the beginning of fiscal year 2004.

The rental property segment was among those most affected by the economic crisis. The devaluation of the peso against the Dollar had a strong impact on the value of leases of class A offices, which fell more than 70% and remained at those levels until the end of 2004, when demand and prices began to increase.

During fiscal year 2004, our offices showed a significant recovery in occupancy rates, with rising rental prices, although still much lower than those reached when the convertibility law was in effect. While in 2000 our premium offices were rented at US$ 28.0 per square meter, during the crisis these values plummeted to US$ 7.0 per square meter. Currently we are entering into three-year contracts at a final rate of US$ 12 per square meter. Average occupancy in our class A buildings recovered during the fiscal year, reaching 87% compared to 68% during the previous fiscal year. Increased occupancy have reduced common expenses payable with respect to vacant properties.

The occupancy level of our offices continues to recover and is above market average. This improvement in demand has enabled us to obtain more favorable lease terms. We estimate that in the short term our portfolio will reach full occupancy at increased prices per square meter, backed by three-year leases denominated in Dollars with higher prices agreed upon for the second and third year.

Table of Contents

Shopping centers

As of June 30, 2004, we had a 53.8% interest in Alto Palermo S.A., the company that operates our shopping centers.

Our performance enabled us to distinguish ourselves from our competitors in the shopping center market in the City of Buenos Aires and the greater Buenos Aires area, while maintaining the efficiency gap obtained over the past fiscal year. For the twelve-month period ended June 30, 2004 our tenants sold an average of Ps. 8,782 per square meter, 82.3% more than our competitors, in the City of Buenos Aires and the greater Buenos Aires area. Our competitors sales per square meter are determined by calculating the difference between total square meters of gross leasable area, in the City of Buenos Aires and greater Buenos Aires area, and the square meters of our gross leasable area. Our tenants sales increased 33.5% to Ps. 1,096.6 million during this period (including Alto Palermo, Alto Avellaneda, Paseo Alcorta, Abasto, Patio Bullrich and Bs. As. Design), whereas total sales (including Alto Noa) increased to Ps. 1,148.4 million in comparison with the Ps. 855.9 million reached during fiscal year 2003.

Due to increased activity in the retail sector, we have been able to negotiate more favorable leasing conditions with our new tenants and existing tenants upon renewal. We also reduced our bad debt allowance by 100%, from Ps. 10.3 million in fiscal year 2003 to zero in fiscal year 2004, and recovered an additional Ps. 1.0 million allowance. Due to our strong financial structure and excellent cash flow we possess adequate liquidity to invest in new projects and developments.

Favorable macroeconomic conditions, allowed us to focus on our core business and to execute some of our projects. In November 2004, we inaugurated the first stage of Alto Rosario Shopping with a 99.1% occupancy rate. The shopping center offers top quality entertainment areas and services.

We plan to remodel Alto Avellaneda. We intend to change its image with a new façade, larger floor area, new cinema screens, new entrances and a renovated parking area.

As part of our business strategy we will continue making changes to attract new customers, including new offerings in our shopping centers. We have created several exclusive products and marketing strategies to attract tourists from abroad, including publicity at hotels, harbors and airports. We have implemented advertising campaigns at the national and international level, and our customer service centers are available to respond to questions and confirm the receipt of orders.

These factors have caused the demand for our space to increase, allowing us to choose a higher quality of customers and tenant mix appropriate for each shopping center. Our tenants also invested significantly in the development of new commercial offerings, improving the conditions offered by each shopping center. We continued to provide our tenants with training, advice, conferences and seminars, thus promoting a stronger relationship with the Company.

Hotels

During fiscal 2004, the hotel market continued to improve due to an increase in tourism, mainly foreign, which increased demand and the recovery of prices.

Our accumulated average occupancy rates for the twelve month period ended June 30, 2004 was 68% as compared to 57% in fiscal year 2003. Average rates remained stable, at Ps. 270.

We plan to expand our hotel segment, through development of our own land reserves and the purchase of new assets, taking advantage of our cash flow and creating the most favorable financing mix. We are already working on the expansion of the Llao Llao hotel, a first-class resort, unique in Argentina both for its services and location.

E. Off-Balance Sheet Arrangements

There are no transactions, agreements or other contractual agreements to which an entity unconsolidated with us is a party that is not currently reflected on our consolidated balance sheet.

However, we have ongoing revolving period securitization programs through which our consolidated subsidiary Tarshop transfers a portion of its customer credit card receivable balances to a master trust (the Trust) that issues certificates to public and private investors. To the extent the certificates are sold to third parties, the receivables transferred qualify as sales for financial statement purposes and are removed from the Company s balance sheet. The remaining receivables in the Trust which have not been sold to third parties are reflected on the Company s balance sheet as a retained interest in transferred credit card receivables. These retained interests are treated in a manner similar to an investment and accounted for under the equity method. Under the securitization programs, the Trust issues two types of certificates representing undivided interests in the Trust *Títulos de Deuda Fiduciaria* (TDF) and *Certificados de Participación (CP),* which represent debt, and equity certificates, respectively. Interest and principal services are paid periodically to the TDF holders throughout the life of the security. CPs are subordinated securities which entitle the CP holders to share pro rata in the cash flows of the securitized credit card receivables, after principal and interest on the TDFs and other fees and expenses have been paid. At June 30, 2004 we had eight securitization programs outstanding, pursuant to which our subsidiary Tarshop had sold an aggregate amount of Ps. 108.2 million of its customer credit card receivable balances to Trusts in exchange for Ps. 90.7 million in cash proceeds, Ps. 1.4 million variable rate interest TDFs, and Ps. 16.1 million nominal value subordinated CPs. Under the securitization programs, the Trusts issued Ps. 33.1 million 9% fixed-rate interest TDFs, Ps. 11.1 million 10% fixed-rate interest TDFs, Ps. 4.1 million 13% fixed-rate interest TDFs, Ps. 11.0 million 14% fixed-rate interest TDFs, Ps. 0.9 million 15% fixed-rate interest TDFs, Ps. 20.0 million 18% fixed-rate interest TDFs, and Ps. 11.9 million variable rate interest TDFs. Except for certain TDFs acquired by Tarshop as mentioned above, the TDFs were sold to other investors through a public offering in Argentina. As a credit protection for investors, we have established cash reserves for losses amounting to Ps. 0.8 million. Our credit risk exposure is contractually limited to the subordinated CPs held by us representing Ps. 18.7 million (equity value), TDFs held by us representing Ps. 1.4 million and Ps. 0.8 million escrow reserves for losses.

During fiscal year 2002, we also entered into a securitization program with Banco Sudameris (BS), under which we sold an aggregate amount of US$ 26.6 million mortgages receivable to a trust in exchange for US$ 10.0 million in cash, US$ 3.3 million senior debt certificates (Class A), US$ 2.6 million subordinated debt certificates (Classes B and C) and a US$ 10.7 million equity interest (Class D). Mortgages receivables sold under this program were excluded from accounts receivable in the consolidated balance sheet. Our retained interests in Class A, B and C debt securities were valued at cost plus accrued interest. As of June 30, 2004 debt certificates had been fully amortized. Our retained interest in Class D securities is accounted for under the equity method amounting to Ps. 5.9 million at June 30, 2004. Our credit risk exposure is contractually limited to the subordinated Class D securities. However, we do not expect losses since the receivables are collateralized by mortgages having a fair value in excess of their carrying value.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth the Company s contractual obligations as of June 30, 2004:

Detail	Less than 1 year	1-3 year	3-5 year	More than 5 years	Total
Long-term debt	134,121	98,229	345,225	25,353	602,928
Purchase obligation	7,131	1,897	968		9,996
Other long term obligation	630	3,476	553	1,477	6,136
	141,882	**103,602**	**346,746**	**26,830**	**619,060**

G. Safe Harbor

This section is not applicable.

132

Table of Contents

ITEM 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Composition of the Board of Directors

We are managed by a board of directors which is composed of eleven directors and three alternate directors. Our directors and alternate directors are elected for three-year terms by our shareholders by a majority vot