IRSA INVESTMENTS & REPRESENTATIONS INC
Form 6-K
September 18, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13a-16 OR 15b-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the month of September, 2003

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)

Form 20-F x **Form 40-F ¨**

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes ¨ No x

IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANÓNIMA

(THE COMPANY)

REPORT ON FORM 6-K

Attached is an English translation of the financial statements related to the fiscal year ended on June 30, 2003.

Inversiones y Representaciones

Sociedad Anónima

<u>Board Report and Financial Statements</u>

For the years ended June 30, 2003 and 2002.

INDEX | **Page**

CORPORATE PROFILE

Founded in 1943, IRSA Inversiones y Representaciones Sociedad Anónima (IRSA or the Company) is the largest Argentine real estate investment company and the only Argentine real estate company listed on the Buenos Aires stock exchange (the BCBA) and on the New York Stock Exchange.

IRSA is the best vehicle through which to gain access to the real estate market in Argentina because of its achievements to date, its significant and diversified portfolio of properties that ensure it is the leader in almost all those sectors in which it has participated and because of the capability and strength of its Management team in taking advantage of opportunities and maximizing the value of the Company and shareholder return.

LETTER TO THE SHAREHOLDERS

To the Shareholders:

At the end of the twelve months corresponding to the fiscal year ended June 30, 2003, we would like to inform you of the results obtained by our Company and comment on the development of our business.

There can be no doubt that fiscal 2003 will be looked back on as a watershed year that marked a major transformation in the history of the Company.

The efforts of shareholders, management and staff served to demonstrate that we were capable of turning the deepest crisis in Argentine history into an opportunity for restructuring and change.

The devaluation of the peso in January 2002 brought the whole Argentine economy to its knees. At a time when many companies stopped paying their debts, IRSA was able to negotiate with its creditors and refinance its entire debt at very convenient rates and terms. Our debt to financial entities was reduced to US$ 88.4 million, structured in the form of a syndicated loan with a final maturity in 2009 for US$ 51,0 million and the issue of Negotiable Obligations for US$ 37.4 million, also with a final maturity on 2009.

In addition, we were one of the first companies to return to international capital markets with the issue of US$100 million in Convertible Negotiable Obligations, which were successfully subscribed. These events contributed to consolidating our financial situation, allowing us to maintain a significant level of liquidity, reducing our financing costs and lengthening the terms to maturity of our debt, having obtained two years of grace until the first principal repayment.

The significant cash position we built up encouraged us to continue with our strategy for the reduction of our financial costs, so that on June 23, 2003, after having offered to repurchase our debt from the group of banks that held it, we repaid HSBC Bank Argentina S.A. US$16 million from the US$51 million syndicated loan agreement due 2009. The transaction was performed for the amount of US$10.9 million, 68% of the par value of the debt, obtaining a discount of US$5.1 million.

In the fiscal year just ended a profit of Ps.286.4 million was recorded, partly recovering the loss of Ps.539.1 million from the previous year. As in the previous year, this result has mainly been due to the fluctuation of the peso, which gained 26% in value in the period analyzed, generating a positive net result from exchange difference of Ps.188.7, disclosed on the income statement on the financial results generated by assets and by liabilities lines. These same lines disclose the result from financial operations, which was a gain of Ps120.0 million, interest earned and interest on discounts of assets and liabilities generated a profit of Ps.47.9 million, discounts received amounted to a profit of Ps.36.9 million, and financing costs were a loss of Ps.65.7 million. Lastly, we would point out that the operating result was positive in the amount of Ps.9.7 million compared to a loss of Ps.36.6 million in the previous year.

The devaluation of the peso generated a more positive environment for the launch of new projects by the sales unit and new developments, because of the sharp reduction in construction costs and the maintaining of prices for units intended for the high-income segment.

4

Shopping Centers

Alto Palermo S.A. (APSA)

Within this framework of incipient recovery, we decided to make the structural transformations necessary to be able to accompany the growth of the national economy. We began with the successful issue of Negotiable Obligations (ONC) for US$50.0 million that enabled us to significantly lower our borrowing costs (without segregating financial components), which fell from Ps.74.8 million in fiscal 2002 to Ps.36.1 million in fiscal 2003. During the worst of the crisis, in a context of widespread default, with an entrepreneurial spirit and a clear vision of the future, our main shareholders subscribed to the ONCs, betting both on the progress of the Company and of Argentina. After this transformation process, we have once again been in compliance with the financial ratios to which we had committed in our loan agreements, allowing us to once again gain access to debt markets in improved conditions should we need to do so.

Once we reorganized our financial structure, we concentrated on our core business. We adapted our proposals to new customers and generated new offers in our Shopping Malls. We were very successful in attracting to our Malls the growing flow of tourists visiting Argentina through actions in hotels, ports and airports. In addition, we carried out major novel advertising campaigns both locally and internationally.

This transformation generated a growing demand from potential tenants that enabled us to select an improved standard of client and a tenant mix in line with the nature of each Shopping Mall. Tenants also invested large sums in the development of new commercial proposals, improving the offer at each Mall. In addition, during the year we worked to assist in the development of our tenants by providing them with advice and training by means of conferences and seminars, as we consider that increased services will in the long term lead to an increased commitment of our tenants to the Company.

As a result, at June 30, 2003 we were able to record an average occupancy rate of 95.8 percent of the gross area of our Malls, an improvement even on the occupancy rates prior to the crisis. Likewise, sales by our tenants in nominal terms grew during the period by 40.8% to Ps.972.4 million, equivalent to an increase of 7.4% in values adjusted for inflation.

This excellent performance allowed us to further widen the efficiency gap with our market competitors. In the twelve months ended June 30, 2003 our tenants sold an average of Ps.6,485 per square meter, 87.3% more than those of the competition.

Following this recovery in occupancy and sales, we succeeded in adjusting our rental charges, widening the application of the CER reference stabilization index, increasing key-money for new tenants and raising charges in terms of percentages of tenant sales. In a similar manner, we continued with the process of reducing bad debts, which were cut from Ps.12.2 million and Ps.35.2 million in fiscal 2001 and 2002 respectively to only Ps.2.4 million in fiscal 2003 (excluding those generated by our subsidiary Tarshop S.A.).

Thanks to the greater revenue obtained, during these last twelve months we have succeeded in achieving a steady and growing monthly flow of operating funds, averaging Ps.5.5 million, and the trend remains positive. In addition, as a result of the drastic reduction in our financial burden, we are equipped with the necessary liquidity to carry out investments in new projects and developments.

As a result, we are consolidating our commercial success in the retail sales and entertainment area market locally. We continue to be one of the best possible channels for the positioning of leading brands and promotions with a major impact. During fiscal 2003 we maintained our leadership position in the Shopping Mall market with 56% of the gross space available for lease in the city of Buenos Aires.

Net income for fiscal 2003 has been a profit of Ps.77.4 million, compared to the loss of Ps.11.4 million recorded in fiscal 2002. Operating results were a profit of Ps.6.8 million for the twelve months ended June 30, 2003, compared to the profit of Ps.12.3 million obtained at June 30, 2002. This drop in operating results has mainly been due to higher amortization charges in relation to our income in the current period because the value of our Shopping Malls has been maintained in real terms, leading to higher charges under that heading.

We have the privilege of being an Argentine company with a solid long-term financing structure that allows us to plan forward. For this reason we are firmly intent on developing the first stage of Project Rosario, which will include the construction of the first Shopping Mall in that city. As a result, we will return to our expansion program, adding 20,000 square meters of gross area for lease to our existing portfolio of shopping Centers.

Offices and Others

During the year ended June 30, 2003, the income from rental property totaled Ps.17.8 million, compared to Ps.44.5 million in the same period of fiscal 2002. Average occupancy has remained at 60%, which represents no change compared to the year ended June 30, 2002, although in comparison to the last two quarters there has been a slight increase. The occupancy rate for our property is above average for the market. Following the severe economic crisis, several companies were obliged to reduce their costs and transfer their offices to surrounding areas where costs were lower, with a damaging impact on this segment. Nevertheless, in the last two months we have begun to detect a recovery, and it is evident that those companies with export-oriented businesses that have benefited from the high rate of exchange are starting to move back to occupy class A office space in the search for increased security, and to take advantage of the drop in prices.

Sales and Developments

Income for this segment was Ps.47.2 million in the twelve months ended June 30, 2003, compared to Ps.54.4 million recorded during the same period of fiscal 2002. The total for this year includes the sale of Hotel Piscis in March 2003, recorded in this segment. The sale of the shares in Valle de Las Leñas S.A. is disclosed net of the cost of the Result from Transactions and Holding of Real Estate Assets in this same segment.

The lack of financial asset investment alternatives because of their low yields and the uncertainty regarding the future evolution of the exchange rate has encouraged the public to invest in safe assets such as real estate. These factors have favored our sales in this sector, enabling us to complete the sale of various projects and plan the launch of new developments.

We consider that now is the time to take advantage of the gap that has arisen from the drop in construction prices that was not reflected in the price of apartments for sale intended for the ABC1 socio-economic sector. Given the current unavailability of credit for the purchase of housing, our next projects will be directed at the high-income segment.

Cruceros, Dique 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 high-income segment and all condominium areas have spectacular views of the river. Approximately 50 apartments will be built, with two swimming-pools, a gymnasium and other facilities.

Purchase of Land on San Martin de Tours. In March 2003 we signed a contract for the purchase of a site on Calle San Martin de Tours in the Barrio Parque district, the most exclusive residential zone in the city of Buenos Aires. An advance of US$80,000 was paid on the exchange of contracts, and when the deeds were

transferred a further US$230,000 were paid. In addition, at that moment a mortgage was set up in favor of Providence for US$750,000 in guarantee of 25% of the functional units that IRSA must deliver when the building is completed. IRSA plans to build a high-quality house-type residence complex unlike other property available.

The improved prospects we have begun to detect for the development of undertakings, added to our significant holdings of lands in unsurpassable locations, will enable us to evaluate and launch new projects in coming months.

Hotels

Income from the hotels segment was Ps.34.2 million during the twelve months ended June 30, 2003, compared to Ps.38.8 million recorded during the same period of fiscal 2002. This segment has without doubt been one of those that benefited most from the devaluation of the peso. Argentina is currently one of the cheapest countries in the world, and this can be seen from the growing influx of tourists. Given the favorable conditions, the Government is actively promoting tourism, generating a significant inflow of hard currency from this activity. The cumulative average occupancy rate for our hotels during the twelve-month period has recorded a moderate increase, rising to 55% compared to the modest 48% recorded last year. In a similar manner, average rates have risen by 55%, with an average rate per room of Ps.270, compared to Ps.174 in the previous year. The Llao Llao Hotel, which has one of the highest room rates in Argentina, has become renowned as a high-category resort unique in Argentina because of both its services and its location.

After this brief overview of our activities we can conclude that the Company is positioned within its business segments to spearhead the vital and indispensable process of growth required by the Argentine economy. It can be confidently stated that its assets, made up of its majority interest in the leading shopping mall operator in Argentina, Alto Palermo S.A., its extraordinary reserves of land available for future development, its portfolio of office buildings in privileged locations, which are beginning to gradually recover historical occupancy levels after remaining at a floor of 60% during the crisis, and its portfolio of high-level hotels, form an undoubted reserve of value for our current and future shareholders.

Based on these prospects for stabilization and growth, the coming fiscal year will find us committed to the launching of new proposals, in support of our optimistic view of the economic future of the country.

Our sound long-term financial structure and the strong confidence demonstrated by shareholders when they subscribed to the US$100 issue of Convertible Negotiable Obligations at the end of last year, will allow us to take advantage of the business opportunities that will arise in future. To these attributes we can also add our lengthy experience as real estate developers that will ensure we will once again lead this important sector of the Argentine economy.

To conclude, I would like to extend a special vote of thanks to our shareholders, tenants, clients and financial institutions for their continued support and trust year after year, and to our directors and employees for their efforts and dedication, as without them we would have been unable to emerge as a company with excellent growth potential, ready to accompany the economic development of Argentina.

M. Marcelo Mindlin

Vice-President

Economic overview

International Scene

During almost all 2002 and the first half of 2003 the rates of growth of the world s leading economies were below expected levels. This led the monetary authorities, the US Federal Reserve and the European Central Bank to intervene actively by lowering interest rates, in the case of the United States to 1%. This aggressive monetary policy, that began in the United States in 2001, accompanied by a severe increase in the fiscal deficit, has been designed to help the economy reach its growth potential, which needs to be no less than 3.5% p.a., whereas during the first quarter of 2003 it barely reached 1.4% p.a. In addition, the authorities of both the European Union and the United States were wary of a possible deflationary impact similar to that which has been affecting the Japanese economy for the last thirteen months and keeps it in it current weak state. The measures taken have begun to show some modest results in the United States, where the unemployment rate has stabilized at 6% and there has been a slight increase in consumer spending. The more optimistic forecasts foresee a GDP growth of 2.4% in 2003. In the European Union, doubts persist in relation to its largest economy, that of Germany. A recent IMF report and analysis by various consultants have concluded that there is a possibility that a lengthy deflationary process similar to that seen in Japan could also be experienced by Germany. If these forecasts are realized, there is a high probability of it affecting the European bloc as a whole.

In view of the circumstances affecting the developed world, emerging economies are confronting a scenario in which there is a risk of a reduction in commodity prices, the main component of their exports, caused by a decline in demand by the purchasing nations, although they can also be optimistic about the prospects for attracting idle capital because of the current levels of interest in the world s leading financial centers. In addition, those countries with a high level of debt, such as Argentina, will benefit when the time comes to renegotiate their debt, as they will be able to agree interest rates far lower than were in force at the time the debt was declared to be in default.

The Argentine economy

The year 2002 will be remembered as the period in which economic activity in Argentina suffered one of the largest drops in its history, similar to that which took place in 1914 and greater than that in 1931/32, the local version of the world crisis that took place in 1930. GDP in constant prices fell 10.9%, and this formidable destruction of wealth was crudely evident from the sharp deterioration in social indicators, with unemployment reaching 21.5% in May 2002 in urban areas. All macroeconomic indicators were negative, with consumption falling 12.9%, private consumption dropping 14.9%, investment and imports falling by an even larger 36.1% and 49.7% respectively, and only exports showing a slight rise of 3.2%.

In such economic conditions, most analysts predicted the possibility of a serious social upheaval with uncertain consequences. However, the introduction by the interim administration headed by Eduardo Duhalde of a major social program for Unemployed Heads of Household, which grants a monthly subsidy of 150 Lecops (provincial scrip) to the unemployed, created an effective tool that enabled the worst of the crisis to be overcome. Towards the end of the second quarter, contrary to the forecasts of most economic analysts, and even of most of the negative commentaries on the future of the Argentine economy made public by the leading authorities of international agencies such as the IMF and the World Bank, the economy halted its decline and began to show positive signs.

Source: Estudio Miguel Angel Broda y Asoc.

This incipient recovery began to develop in a highly unstable monetary and financial framework. Monetary aggregates recorded a significant increase, as the departure from convertibility and the breaking of existing contracts meant that savers sought to dispose of their assets in local currency within the financial system and switch to foreign currency assets outside the system. As a consequence of the disordered state of the financial system, the Argentine Central Bank intervened in the exchange market, responding to the demand for dollars by individuals in a manner that reduced international reserves to US$9.529 billion, some US$5 billion less than the stock at the end of 2001, while the exchange rate reached Ps.3.80 per dollar. July 2002 can be considered a watershed month for the start of a gradual return to normal by the financial system. The second half of 2002 began with a positive change in the attitude of savers, as not only did the deposit drain come to a halt, but the high interest rates offered by banks attracted new deposits and for the first time during the year there was an increase in the demand for pesos. Towards the end of the second six months of 2002 international reserves reached US$10.476 billion, even after having settled debt with international agencies for US$500 million, while at the same time the exchange rate for the dollar declined to Ps.3.30 per dollar.

The above situation, which persisted during the first half of 2003, became possible after the gradual lifting of the restrictions that had been imposed on the availability of deposits held by savers. At the end of 2002 all restrictions were lifted on sight deposits, and during the first quarter of 2003, by means of the signing of Decree 739/2003, it was established that the holders of rescheduled deposits for an amount of up to Ps.42,000 had the choice of requesting their return in part or in full, restated according to the Reference Stabilization Coefficient (CER) until the day the funds were released. Most savers decided to leave their funds in the banks, significantly improving the liquidity of the system. In addition, the monetary authority was required to remain active in the exchange market, as the important volume of hard currency offered, generated by the large trade surplus, did not encounter sustained demand. The Central Bank issued the pesos necessary to shore up the rate of exchange, and as a result, during the first six months of 2003 the financial entity became a net purchaser in the amount of US$3 billion.

Notwithstanding the accelerated remonetization of the economy and the rising level of economic activity, wholesale and consumer price indexes stabilized as from the end of 2002, so that as from February 28, 2003 the monetary authority decided to discontinue the application of inflation adjustment to company financial statements. The slowdown in inflation can be explained basically by the drop in the purchasing power of wages as from the devaluation that prevented any quick recovery of the domestic market. This effect is reflected in the uneven performance of the different areas of the economy, with those that have grown most being those linked to exports, such as the agricultural sector and businesses in the import substitution sector, such as the textile industry.

Source: Estudio M.A. Broda y Asoc.

At June 30, 2003 the dollar closed at Ps.2.80, an appreciation of the local currency over the last 12 months of 26.0% in relation to the dollar. Price indexes rose slightly, with retail prices increasing by 10.2% and wholesale prices up 8.3% for the 12-month period ended June 30, 2003. The first half year of 2003 took place without sudden shocks in the fiscal sector. A succession of record tax revenue figures, explained basically by the withholdings made on exports, helped to exceed the primary surplus targets agreed with the IMF in the short-term accord signed on January 16, 2003.

During May 2003 nationwide elections were held to choose a president to govern the country for the next four-and-a-half years. Although the elections were trouble-free, the suspension of the run-off mechanism to choose between the two most voted candidates in the first round because the formula led by Carlos Menem refused to stand, led to Néstor Kirchner becoming president with a mere 22% of the votes cast. Some analysts predicted that the weak consensus embodied by the new president could have a negative impact in economic activity, but this did not happen.

Source: Estudio M.A. Broda y Asoc.

The trade balance for the first five months of 2003 has been a surplus of US$6.956 billion, with the total expected to reach US$17 billion for the year. this positive performance by foreign trade can be explained by the effects of the devaluation on its components, with a drop in imports, which in the year to May 2003 were down 20.9%, and a growth in exports of 5.4% in the same period, underpinned by growth in international prices of commodities as from the second six months of 2002, with notable benefits for companies in the agroindustrial sector, such as the soy-bean growing complex.

The significant growth of the Argentine economy recorded during the first quarter of 2003, which reached 2.4% of GDP and could total 5% for the year as a whole, has not been reflected in any recovery of the labor market. The index for the demand for workers published by the Ministry of Labor shows a drop of 2.3% for the first five months of 2003, measured against the same period of 2002, and the result of the unemployment survey taken in May 2003 is estimated at 16.9% of the workforce.

In the twelve months to June 30, 2003 the Argentine capitals market has recorded a notable recovery, as during that period the Merval index in US dollars registered a rise of 177.6%, with a rise of 75.3% in the first six months of 2003. This brilliant return on the shares listed on the main board in terms of the dollar has been due to the mentioned appreciation of the peso and a recovery in the price of leading shares. Although sovereign debt bonds recorded a recovery in their values, their future evolution will depend on the reaching of a long-term agreement with the IMF for the renegotiation of the debt with international agencies, which will pave the way for negotiations with private holders of such bonds that it is expected will involve a reduction in their principal and interest amounts.

Source: Estudio M.A. Broda y Asoc

The following macroeconomic indicators summarize the evolution of the Argentine economy during the last eight years:

Leading Indicators

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003 (P)**
PBI Crecimiento Real (en %)	5,53	8,11	3,85	-3,39	-0,79	-4,41	-10,90	5,30
Inflación (Precios Combinados) en % *	1,70	0,30	-1,10	-2,10	-1,50	-1,70	15,5	6,0
Resultado Fiscal (en % del PBI)	-2,22%	-1,47%	-1,39%	-2,59%	-2,44%	-3,22%	-1,5%	0,2%
Exportaciones FOB (Millones de U$S)	24,04	26,43	26,43	23,31	26,41	26,66	25,71	29,00
Importaciones CIF (Millones de U$S)	23,86	30,50	31,40	25,51	25,24	20,31	8,99	12,65
Cuenta Corriente del Balance de Pagos (MM U$S)**	-6,82	-12,29	-14,55	-11,95	-8,97	-4,43	9,59	8,29
Balanza Comercial (Millones de U$S)	0,18	-4,07	-4,97	-2,20	1,17	6,34	16,72	16,35

Tasa de Desocupación ***	17,20	14,9	12,9	14,30	15,10	17,35	19,70	16,17

(P) Projected*

Annual average**

Accrual basis***

Av.for country (as % of E.A.P)

Source: Estudio M.A. Broda y Asoc.

As on other occasions during the course of the economic history of Argentina, and after having overcome its worst crisis, the country has again shown its potential and its enormous capacity to react and recover from the worst possible moments. Much work still needs to be done on structural reforms and the recovery of international confidence before the country can once again participate fully on world markets.

DESCRIPTION OF OPERATIONS

We are one of the leading real estate companies in Argentina. We are active directly and indirectly through subsidiaries, joint ventures and strategic alliances in the Argentine property market. We perform a diversified range of activities, including: (i) purchase, development and operation of office buildings and other rental property; (ii) purchase, development and operation of shopping centers; (iii) purchase and development of housing property, mainly for sale; (iv) purchase and operation of luxury hotels; and (v) purchase of land stocks in strategic areas as a reserve for future development or sale. We are the only Argentine real estate company with shares listed on the Buenos Aires Stock Exchange and on the New York Stock Exchange.

Our headquarters are located at Bolívar 108, Buenos Aires (C1066AAB), Argentina. Our telephone number is +54 (11) 4323-7555, our fax number is +54 (11) 4323-7597 and our web site is www.irsa.com.

Commercial Strategy

As one of the few companies owning, developing and administrating real estate in Argentina, we consider that we hold certain competitive advantages that we expect will allow us to continue to gain an increasing share of the real estate property market in Argentina. These advantages include:

- our experience and that of our managers in the acquisition, development, sale, leasing and management of top quality property;
- our considerable reputation and positioning as developers of comprehensive real estate services in both Argentina and other Latin American real estate markets;
- the quality of our existing portfolio of properties and our land reserves;
- our access to sources of long-term capital;
- our strategy aimed at preserving a high level of liquidity, enabling better advantage to be taken of the real estate opportunities that arise in favorable terms; and
- the quality of our existing tenants and the high occupancy percentage of our rental property portfolio, which enables us to count on a significant stable source of liquidity for our cash flow.

Our strategy consists of increasing our flow of funds, income and the value of our assets by means of the steady growth of our diversified property and assets portfolio through the purchase, development and operation of property, either alone or with partners, in all segments of our commercial activity.

Offices. We aim to purchase, develop and operate class A office buildings in the main office property areas of the city of Buenos Aires and other strategically-located areas that offer attractive yields and potential for capital appreciation. We believe that once the economy recovers, leading

Argentine and multinational companies will increasingly demand class A office space, which will encourage the transfer from the traditional city center office zone to other more modern areas offering better access and more suitable spaces. We have succeeded in building up a high-quality tenant base.

Shopping Centers. Through our subsidiary APSA we intend to be the leading player in the shopping center industry in Argentina, by means of the consolidation of our operations and new developments in strategic areas of the city of Buenos Aires and other important locations in Argentina. The main growth drivers for the shopping mall industry are: (i) increased consumption of goods able to be sold in shopping malls; (ii) changing buying habits, with a move away from stores facing on to the street; and (iii) the relatively low level of market penetration by shopping malls in Argentina compared to many developed countries, providing considerable long-term growth potential. APSA has succeeded in improving its operating margins for its shopping malls by unifying administration to gain operating synergy, economies of scale and opportunities for sales and promotion.

Residential. In past years we benefited from the increased availability of financing for the purchase of housing and the improvement in transport infrastructure from city centers to suburban areas. In urban zones we have attempted to purchase under-exploited properties at strategic densely populated points in order to develop apartment complexes offering green spaces for recreation, sports facilities and security services. In suburban areas we have aimed to purchase undeveloped properties close to the city of Buenos Aires for the building of residential communities, to then sell land for housing construction once our basic infrastructure has been installed.

Hotels. We seek to acquire leading hotels when the opportunity arises, delegating their management to top-rank hotel operators so as to capitalize on their operating experience, international networks and sales agreements with the aim of taking advantage of the benefits derived from increasing tourist and commercial traffic.

Land Reserves. We will continue to acquire undeveloped land and strategically-located properties within and outside the city. In all cases, the aim is to purchase land with development potential or which will appreciate and can be sold. We consider that holding land stocks will allow us to count on a wide offer of land for the development of new projects and will create a barrier for potential competitors.

Real Estate Outlook

At June 30, 2003, either directly or through our subsidiaries and joint ventures, we held a significant share of 53 properties in Argentina, most of which are located in the City of Buenos Aires. The following table provides details on our operations and our real estate portfolio.

Consolidated Operating Results (1)

	Year ended June 30			
	2003	**2002**	**2001**	**2000**
	(Ps. 000)	**(Ps. 000)**	**(Ps. 000)**	**(Ps. 000)**
Offices and Other Rental Property	2,268	(24,656)	31,522	35,239
Shopping Malls	3,601	(1,393)	36,220	26,754
Sales and Developments	2,914	(33,832)	(4,639)	6,557
Hotels	879	(11,344)	(848)	3,223
International		34,594	24,283	37,775
Total	**9,662**	**(36,631)(2)**	**86,538**	**109,548**

(1) Fiscal 2000 and 2001 inclusive were prepared by the equity method of accounting; fiscal 2002 and 2003 were prepared as established by Technical Pronouncement No. 4 of the F.A.C.P.C.E.

(2) Includes Ps. 96.8 million booked in recognition of the loss of value of certain property .

Offices and Other Rental Property

The purchase, development and administration in Argentina of office buildings and other rental property is one of our main activities. At June 30, 2003 we held, either directly or indirectly, shares in 12 office buildings and other rental property totaling 122,757 square meters of gross rental space. Thirteen of these properties were office buildings making up 85,352 square meters of gross rental space. In fiscal 2003 we recorded rental income for Ps. 17.8 million.

All our office rental property in Argentina is located in the city of Buenos Aires. Four of these properties are currently leased to a single tenant, while the remainder are rented to various different tenants. At June 30, 2003 the average occupancy rate for all our properties in the Offices and Other segment was approximately 60%. Five different tenants accounted for approximately 51.1% of our monthly office rental income and less than 5.5% of our total income during fiscal 2003. Our five main office rental tenant are: Grupo Total Austral, Grupo Danone, Cisco Systems Argentina S.A., Vintage Oil Argentina and Allende y Brea.

Management and Administration. We generally act as administrators of the office buildings in which we have an interest, whether it is the whole building or a substantial number of floors. The buildings in which we own some floors are generally administered on the basis of the terms of a condominium contract that usually establishes control by the simple majority based on the area held in the building. As administrators of the operations, we are responsible for the running of services such as security, repairs and maintenance. These services are generally hired from third parties and their cost passed on to tenants, except in the case units not rented, in which case we absorb the cost- Our rental space is sold through authorized brokers, in the press and by the company directly.

Leases. In general we rent our offices and other properties on the basis of lease contracts running for terms of between three and five years, renewable for two or three additional years at the tenant s option. Contracts for the rental of property not located in shopping malls are generally stated in US dollars, and in accordance with Argentine law they are not subject to inflation adjustment. Rents for renewal periods are based on forecasts of US inflation or other usual factors.

The following table shows certain information on our direct and indirectly owned property and other Rental Property:

Offices and Other Rental Properties

	Date of acquisition	Leasable area m2 (1)	Occupancy Rate (2)	Monthly Rental income Ps./000 (3)	Total rental income for the fiscal year Ps,/000 (4) 2003	2002	2001	Book Value Ps./000 (5)
Offices								
Inter-Continental Plaza (6)	11/18/97	22,535	73%	415	5,648	12,749	15,919	63,728
Libertador 498	12/20/95	10,533	53%	180	2,359	5,212	7,046	35,444
Maipú 1300	9/28/95	10,325	70%	150	2,100	5,057	6,494	40,771
Laminar Plaza	3/25/99	6,521	90%	189	2,902	4,973	5,647	28,021
Madero 1020 (7)	12/21/95	2,503	100%	75	876	2,119	4,064	6,433
Reconquista 823/41	11/12/93	6,100	0%			2,326	3,386	17,075
Suipacha 652/64	11/22/91	11,453	45%	52	576	1,460	2,987	9,945
Edificios Costeros	3/20/97	6,389	63%	62	403	1,520	2,286	17,937
Costeros Dique IV	8/29/01	5,437	48%	49	695	1,924		17,566
Others (7)		3,556	45%	46	602	1,499	1,857	8,772
Subtotal		**85,352**	**60%**	**1,218**	**16,161**	**38,839**	**49,686**	**245,692**
Other Rental Properties								
Commercial Properties (8)		4,076	98%	12	191	2,354	4,828	1,888
Other properties (9)		33,329	100%	42	742	2,005	3,146	4,070
Subtotal		**37,405**	**100%**	**54**	**933**	**4,359**	**7,974**	**5,958**
Related Expenses Management Fees					676	1,274	1,451	
TOTAL OFFICES AND OTHER (10)		**122,757**	**72%**	**1,272**	**17,770**	**44,472**	**59,111**	**251,650**

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 06/30/03 were calculated.
(4) Total consolidated leases, according to the RT4 method, restated as of 02/28/03. Excludes gross income tax
(5) Cost of acquisition, plus improvements, less accumulated depreciation, plus adjustment for inflation as of 02/28/03.
(6) Through Inversora Bolívar S.A.
(7) Includes the following properties: Madero 942, Av. de Mayo 595/99, Av. Libertador 602 y Sarmiento 517 (through our Company). Cumulative revenues for fiscal years 2002 and 2001 additionally include revenues from Puerto Madero Dock 5 (fully sold). The revenues of fiscal year 2001 also include the revenues from Avenida de Mayo 701 and Puerto Madero Dock 6 (fully sold).

(8) Includes the following properties: Constitución 1111 and Alsina 934/44 (through our Company). Cumulative revenues also include: In fiscal years 2002 and 2001, the revenues from Santa Fe 1588 and Rivadavia 2243 (fully sold). In fiscal year 2001 the revenues from Sarmiento 580 and Montevideo 1975 (fully sold).
(9) Includes the following properties: the Santa Maria del Plata facilities (former Ciudad Deportiva de Boca Juniors, through the Company only rents are included since book value is reflected on the Developments table) Thames, units in Alto Palermo Park

(through Inversora Bolívar S.A). Cumulative revenues include: In fiscal years 2001, the revenues from Serrano 250 (fully sold).

(10) Corresponds to the Offices and Other Rental Properties business unit mentioned in Note 4 to the Consolidated Financial Statements. Excludes gross income tax deduction.

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, 2003, 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 (1)	Percentage of total rental income under expiring leases
		(m^2)	(%)	(Ps.)	(%)
2004	36	20,787	38	5,352,905	39
2005	6	4,359	8	1,523,374	11
2006	25	17,503	32	4,260,898	31
2007+	6	12,643	22	2,535,797	19
Total	**73**	**55,292**	**100%**	**13,672,974**	**100%**

(1) Excludes Thames and Serrano rental properties. Not proportional to our actual holding in each property.

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. It has 324 parking spaces. The principal tenants currently include Total Austral S.A., Danone Argentina S.A., Vintage Oil Argentina Inc. Sucursal Argentina and Pharmacia Argentina S.A

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 and 281 parking spaces. 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., and Farmanet S.A. Chrysler Argentina S.A. leases the billboard for an annual rent of Ps. 120,000 through June 30, 2003.

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 averaging 440 square meters and 53 parking spaces. The building s principal tenants currently include Allende & Brea, Totalfinaelf Gas Transmission Argentina S.A., Uunet Argentina S.R.L. and MCI International 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. We own of the last 5 floors and 66 parking spaces. The main tenants, among others, are as follows: Cisco Systems, Movicom Bellsouth, Chubb Argentina de Seguros S.A., La Plata Cereal 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. We own 5 non-contiguous floors with the floor plates averaging 512 square meters and 63 parking spaces. The building s principal tenants currently include Abeledo Gottheil Abogados S.C.

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 and 70 parking spaces. 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. and APSA s subsidiary, Tarshop.

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 is currently fully leased to Aguas Argentinas. The office building is comprised of three basement levels with 52 parking spaces, a ground floor and 15 additional floors of office space. The floor plates average 540 square meters. As of May 2002, the property was leased to Aguas Argentinas, who decided not to continue the lease contract.

Edificios Costeros, Dock 2, 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 6,399 square meters and 147 parking spaces. In September 1999 we completed their construction and in April 2000 began to market the office spaces. The main tenants of these properties are as follows: Leo Burnett Worldwide Invest. Inc., APSA s subsidiary, Altocity.Com, Red Alternativa S.A. and Alternativa Gratis S.A. We currently intend to develop two additional buildings on the adjacent land but have not yet established a date to begin construction.

Edificios Costeros, Dock 4, City of Buenos Aires. On August 29, 2001, we signed the deed of sale of Section C of the office complex known as Puerto del Centro that includes buildings 5 and 6 . This property is located in Pierina Daelessi street N° 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 lots. The building s principal tenants currently include Nextel Argentina S.A., Patagon Internacional S.A. and Petroenergy S.A.

Other office properties. We also have interests in four 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. 1.0 million in annual rental income for fiscal year 2003. These properties include Madero 942 and Libertador 602.

Retail and other properties. Our portfolio of rental properties includes six rental properties that are leased as street retail, supermarkets, a warehouse and various other uses. Most of these properties are located in the city of Buenos Aires, although some are located in other cities in Argentina. These properties include Constitución 1111 and Alsina 934.

Shopping centers

We are also engaged in purchasing, developing and managing shopping centers, through our subsidiary APSA. As of June 30, 2003, 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 greater Buenos Aires area and another is in the city of Salta. APSA also owns indirectly an 18.9% non-controlling interest in Mendoza Plaza in the city of Mendoza. In addition to purchasing, developing and managing shopping centers, APSA owns an 80% interest in Tarshop, a limited purpose credit card company which originates credit card accounts to promote sales from APSA s tenants and other selected retailers.

APSA s shopping centers comprised a total of 145,253 square meters of gross leasable area (excluding certain space occupied by hypermarkets which are not APSA s tenants), aproximately the 60% of Ciudad de Buenos Aires gross leasable area and the 30% of the Argentine gross leasable area. As of June 30, 2003, the average occupancy rate of the shopping center portfolio was approximately 95,7%. During the year ended June 30, 2003, net sales from shopping centers amounted to Ps. 88.8 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, except Mendoza Plaza, are managed by APSA. As manager, APSA is responsible for providing common area electrical power, a main telephone switchboard and central air conditioning and other basic common area services.

We currently own 54.79% of APSA. On June 30, 2003, 27.8% of APSA s shares were held by Parque Arauco S.A. and 6.4% by GSEM/AP Holdings L.P. The remaining shares are held by the public and traded on the Bolsa de Comercio de Buenos Aires and on the Nasdaq Stock Market in the form of American Depositary Shares (NASDAQ symbol: APSA).

Leases. APSA enters into commercial leases with tenants for terms ranging from three to ten years, with most leases having terms of no more than five years. Lease agreements are generally denominated in U.S. dollars and subject to rent escalation clauses. Shopping center leases generally do not contain renewal options. 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 between approximately 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 a key money which is an admission fee that tenants pay upon entering into a lease and upon lease renewal. Key money 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. In the event of termination, a tenant will not be refunded its key money.

The following table shows certain information concerning our shopping centers:

Shopping center properties

	Date of acquisition	Gross leaseable area m2 (1)	Percentaje leased (2)	Monthly income Ps./000	Total rental income for the fiscal year Ps./000 (3) 2003	2002	2001	Book value Ps./000 (4)
Shopping Centers (5)								
Alto Palermo	12/23/97	18,278	94%	N/A	26,150	38,499	53,259	247,477
Abasto	7/17/94	40,562	99%	N/A	20,531	34,601	48,450	221,314
Alto Avellaneda	12/23/97	26,701	99%	N/A	10,038	23,871	34,899	105,133
Paseo Alcorta	6/6/97	14,870	92%	N/A	12,216	18,528	26,114	72,690
Patio Bullrich	10/1/98	11,623	92%	N/A	10,610	14,339	17,399	127,803
Alto NOA Shopping	3/29/95	18,876	90%	N/A	2,087	4,450	5,448	23,810
Buenos Aires Design	11/18/97	14,343	94%	N/A	3,656	7,333	10,572	25,840
Fibesa and others (6)				N/A	3,861	5,184	8,744	
Revenues Tarjeta Shopping				N/A	24,607	45,158	46,132	

TOTAL SHOPPING CENTERS (7)	**145,253**	**92%**	**N/A**	**113,756**	**199,963**	**251,017**	**824,067**

Notes:

(1) Total leasable 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 RT4 method, reexpressed as of 02/28/03. Excludes gross income tax deduction.
(4) Cost of acquisition plus improvements, less accumulated depreciation, plus adjustment for inflation as of 02/28/03.
(5) Through Alto Palermo S.A.
(6) Includes revenues from Fibesa S.A. and Alto Invest.
(7) Corresponds to the Shopping Centers business unit mentioned in Note 4 to the Consolidated Financial Statements. Excludes gross income tax deduction

The following table shows a schedule of lease expirations for our shopping center properties in place (except Mendoza Plaza) as of June 30, 2003, assuming that none of the tenants exercise renewal options or terminate their lease early.

Fiscal year of lease expiration	Number of leases expiring	Square meters subject to expiring leases	Percentage of total square meters subject to expiration	Annual rent under expiring leases (1)	Percentage of total rent under expiring leases
		(m^2)	*(%)*	*(Ps.)*	*(%)*
2003(2)	184	17,081	11.8	8,744,052	15.7
2004	221	29,724	20.5	15,767,376	28.3
2005	173	19,081	13.1	10,878,780	19.5
2006	198	31,578	21.7	11,411,016	20.5
2007	40	11,141	7.7	3,355,404	6.0
2008+	31	36,648	25.2	5,609,436	10.0
Total	**847**	**145,253**	**100.0**	**55,766,064**	**100.00**

(1) Includes only the basic rental income amount. Does not give effect to our ownership interest.
(2) Includes vacant stores at June 30, 2003.

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

Alto Palermo Shopping, City of Buenos Aires. Alto Palermo Shopping is a 153-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 Bulnes subway station. Alto Palermo Shopping has a total constructed area of 64,672 square meters that consists of 18,278 square meters of gross leasable area. The shopping center has a two-screen movie theatre, an entertainment center and a food court with 20 restaurants. Alto Palermo Shopping is spread out over four levels and has a 741-car pay parking. Tenants in this shopping center generated average estimated monthly retail sales of approximately Ps. 986.0 per square meter for the year ended June 30, 2003. Principal tenants currently include Frávega, Mc Donald s, Musimundo, Garbarino and Zara.

Alto Avellaneda, Avellaneda, Greater Buenos Aires. Alto Avellaneda is a 153-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 95,722 square meters that includes 26,701 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 19-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. 398.0 per square meter for the year ended June 30, 2003. Principal tenants currently include Mc Donald s, Frávega, El Bingo, Rodo and Garbarino.

Paseo Alcorta, City of Buenos Aires. Paseo Alcorta is a 121-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 total constructed area of approximately 78,000 square meters that consists of 14,870 square meters of gross leasable area. The three-level shopping center includes a four-screen multiplex movie theatre, a 24-restaurant food court, a Carrefour hypermarket, and a free parking lot with approximately 1,500 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. 711.0 per square meter for the year ended June 30, 2003. Principal tenants currently include Cristobal Colón, McDonald s, Kartum, Musimundo and Frávega.

Abasto Shopping, City of Buenos Aires. Abasto Shopping is a 180-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 111,200 square meter shopping center, with approximately 40,562 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 2,500-car parking lot. Tenants in Abasto have generated estimated average monthly sales of Ps. 411.0 per square meter for the year ended June 30, 2003. Principal tenants currently include Musimundo, McDonald s, Zara, Rodo and Hoyts Cinemas.

Patio Bullrich, City of Buenos Aires. Patio Bullrich is a 89-store shopping center located in Recoleta, a popular tourist zone in the city of Buenos Aires a short distance from the Caesar Park and Hyatt hotels. Patio Bullrich has a total constructed area of 27,811 square meters that consists of 11,623 square meters of gross leasable area. The four-story shopping center includes a 22-restaurant food court, an entertainment area, a six-screen multiplex movie theatre and a parking lot with 228 spaces. Patio Bullrich is currently one of the most successful malls in Argentina in terms of sales per square meter, producing for tenants average estimated monthly retail sales of Ps. 805,0 per square meter for the year ended June 30, 2003. Principal tenants currently include Paula Cahen D´anvers, Cipriani Dolce, Buquebus, Cacharel Damas and Beauty Shop.

Alto Noa, Salta, Province of Salta. Alto Noa is a 92-store shopping center located in the city of Salta, the capital of the province of Salta. The shopping center consists of 31,836 square meters of total constructed area that consists of 18,876 square meters of gross leasable area and includes a 13-restaurant food court, a children s amusement center, a supermarket, an eight-screen movie theatre and parking facilities for 551 cars. Tenants have generated estimated average monthly sales of Ps. 153.0 per square meter for the year ended June 30, 2003. Principal tenants currently include Frávega, Mc Donald s, Hoyts General Cinema, Repsol Y.P.F. and Casa Lozano S.A.

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. Buenos Aires Design has a total constructed area of 22,790 square meters that consists of 14,343 square meters of gross leasable area. The shopping center has 11 restaurants, is divided into two floors and has a 178-car parking lot. Tenants in this shopping have generated estimated average monthly sales of Ps. 212.0 per square meter for the year ended June 30, 2003. Principal tenants currently include Vivendi, Bazar Geo, Iluminación Agüero, Hard Rock Café and Morph.

Mendoza Plaza, Mendoza, Province of Mendoza. Mendoza Plaza is a 139-store shopping center located in the city of Mendoza in the province of Mendoza. It consists of 37,152 square meters of gross leasable area. Mendoza Plaza has a multiplex movie theatre covering an area of approximately 3,515 square meters with ten screens, the Chilean department store Falabella, a food court with 15 restaurants, an entertainment center and a supermarket which is also a tenant. The monthly rental average of the leaser is estimated in Ps. 248.0 by square meters for the year ended June 30, 2003. It is owned through APSA s 18.9% interest in Pérez Cuesta.

Tarjeta Shopping. Tarjeta Shopping is a non-banking credit card issued by Tarshop, a limited purpose credit-card company not affiliated to any financial entity. Tarshop generates credit card accounts to encourage customers to purchase goods and services at our shopping malls. Tarjeta Shopping is currently accepted at five shopping malls and an extensive network of supermarkets and stores.

At June 30, 2003 Tarshop recorded total assets of approximately Ps.34.6 million and a net worth of Ps.4.1 million. During the year ended June 30, 2003 total net sales of Tarshop amounted to Ps.24.9 million, representing approximately 21.08% of APSA s net sales for the period and recorded a net loss of Ps. 4.3 million. At June 30, 2003 Tarshop had approximately Ps.46.4 million in credit card accounts receivable, including the securitized portfolio, compared to Ps.70.0 million at June 30, 2001.

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 2003 net sales from the sales and developments sector fell to Ps.47.2 million, compared to Ps.54.4 million in fiscal 2002. The fall of the dollar during 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. This reduction has mainly been due to the reduced stock of units available for sale at present as a result of the halting of new development launches several quarters back, a decision that was based on the sharp fall in aggregate demand.

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.

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) 03 (Ps. 000)	02 (Ps. 000)	01 (Ps. 000)	Book Value (7) (Proportionalvalue) (Ps. 000)
Appartment Complexes											
Torres Jardín	7/18/96	56,579	32,244	490	100%	98%	70.028	161	2,064	5,259	245
Torres de Abasto (8)	7/17/94	74,810	35,630	545	100%	99%	109,245	462			555
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%	11,617	100	363	3,754	42
Alto Palermo Park (9)	11/18/97	35,956	10,488	73	100%	100%	47,467	5,305	14,713	(1,790)	
Other (10)		50,196	23,900	184	100%	99%	56,976	3,989	2,756	2,843	306
Subtotal		**308,421**	**134,730**	**1,553**	**N/A**	**N/A**	**371,915**	**10,017**	**20,503**	**10,066**	**1,148**
Reseidential Communities											
Abril/Baldovinos (11)	1/3/95	130,955	1,408,905	1,273	100%	92%	202,185	14,161	15,086	40,769	11,219
Villa Celina I, II y III	5/26/92	4,742	75,970	219	100%	99%	13,952	28	(52)	7	43
Villa Celina IV y V	12/17/97	2,450	58,480	181	100%	99%	9,482		136	2,902	10
Subtotal		**138,147**	**1,543,355**	**1,673**	**N/A**	**N/A**	**225,619**	**14,189**	**15,170**	**43,678**	**11,272**
Land Reserves											
Dique 3 (12)	9/9/99		10,474		0%	0%					25,973
Puerto Retiro (9)	5/18/97		82,051		0%	0%					46,257
Caballito	11/3/97		20,968		0%	0%					13,616
Santa María del Plata	7/10/97		715,952		0%	0%					124,594
Pereiraola (11)	12/16/96		1,299,630		0%	0%					21,875
Monserrat (9)	11/18/97		3,400		0%	100%	5,518			1,803	
Dique 4 (ex Soc del Dique)	12/2/97		4,653		0%	50%	12,310			12,310	6,160
Other (13)			4,439,447		0%						131,306
Subtotal			**6,576,575**		**N/A**	**N/A**	**17,828**			**14,113**	**369,781**
Other											
Hotel Piscis	9/30/02	5,231		1	100%	100%	9,912	9,912			
Sarmiento 580	1/12/94	11,691	2,635	14	100%	100%	10,837			10,837	
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	9,896	3,340	5	100%	100%	8,154	5,626		2,528	1,373
Madero 940	8/31/94	2,867	772	1	100%	100%	1,649	1,649			
Other Properties (14)		82,866	45,556	264	N/A	88%	102,446	922	2,226	6,277	8,991
Subtotal		**138,824**	**61,707**	**313**	**N/A**	**N/A**	**152,743**	**22,410**	**17,670**	**19,642**	**10,364**
Subtotal		**585,392**	**8,316,367**	**3,539**	**N/A**	**N/A**	**768,105**	**46,616**	**53,343**	**87,499**	**392,565**
Interest for financing											

property sales											
Management fees								**625**	**1,033**	**3,295**	
TOTAL (15)		**585,392**	**8,316,367**	**3,539**	**N/A**	**N/A**	**768,105**	**47,241**	**54,376**	**90,794**	**392,565**

Notes:

(1) Cost of acquisition plus total investment made and/or planned if the project has not been completed, adjusted for inflation as of 02/28/03.
(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 cumulative sales consolidated by the RT4 method, adjusted for inflation as of 02/28/03.
(6) Corresponds to the Company s sales consolidated by the RT4 method, adjusted for inflation as of 02/28/03. Excludes gross income tax deduction.
(7) Cost of acquisition plus improvement plus activated interest, adjusted for inflation as of 2/28/03.
(8) Through APSA S.A.
(9) Through Inversora Bolívar S.A. (IBSA).
(10) Includes the following properties: Dorrego 1916 (fully sold through our Company), República de la India 2785, Fco. Lacroze 1732, Pampa 2966 and J.M. Moreno (fully sold), Arcos 2343, Yerbal 855 through Baldovinos and Alto Palermo Plaza (fully sold) through IBSA.
(11) Directly through our Company and indirectly through Inversora Bolívar S.A.
(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 our Company), and Pontevedra, Mariano Acosta, Merlo, Intercontinental Plaza II, Benavidez plots (through Inversora Bolívar S.A.) and Alcorta plots, Neuquén, Rosario, Caballito and the Coto project (through APSA S.A.).
(14) Includes the following properties: Sarmiento 517 (through our Company), Puerto Madero Dock 13, Puerto Madero Dock 5, Puerto Madero Dock 6, Av. De Mayo 701, Rivadavia 2768, Serrano 250; Montevideo 1975 (Rosario) (fully sold through our Company).
(15) Corresponds to the Sales and Developments business unit mentioned in Note 4 in the Consolidated Financial Statements. Excludes gross income tax deduction.

Apartment 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 had decided not to construct Torres Jardín IV and sell the rights to do so. 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. During fiscal 2003 we successfully completed the sale of 100% of the units.

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 complex 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, four retail stores on the ground floor of one of the buildings and 331 underground parking spaces. During fiscal 2003 we completed the sale of this complex.

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 seven retail units and 165 parking spaces.

Concepción Arenal 3000, City of Buenos Aires. Concepción Arenal 3000 is 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. At June 30, 2003 100% of Alto Palermo Plaza had been 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 have been the improvements and additions to the highways Autopista Panamericana, Avenida General Paz and Acceso Oeste and the improvement in public train, subway and bus transportation since their privatization which have greatly reduced commuting time and facilitated access.

As of June 30, 2003, our residential communities for the construction of single-family homes for sale in Argentina had a total of 138,603 square meters of gross salable area in the Abril and Villa Celina IV and V, residential communities 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 Aires. Abril is being developed into a private residential community for the construction of single-family homes directed towards the upper-middle-income market. The property plan 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 bilingual school, horse stables and sports centers that were completed by the end of 1998. There is also a community shopping center that was finished in 1999. The neighborhoods have been completed and as of June 30, 2003, 90% was sold, 89 homes were under construction and 566 homes had been completed.

In March 2003 the sale took place of the 40 lots pending with Pulte for Ps.3.2 million. The payment by Pulte was made by means of the return of 27 lots for Ps.2.8 million purchased previously, the balance of Ps.0.5 million being paid in cash.

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 representing 219 lots, each measuring 347 square meters on average have been completely sold and the two last stages representing 181 lots are 99.5% sold.

Undeveloped parcels of land

We have acquired large undeveloped properties as land reserves 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, 2003, our land reserve totaled 17 properties consisting of approximately 658 hectares (excluding Rosario, Neuquén and Caballito land properties, 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 are owned by three different companies: Buenos Trade & Finance Center S.A. (BATFCSA), Buenos Aires Realty S.A. (BARSA) and Argentine Realty S.A. (ARSA). We own 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 the Company signed an agreement with RAGHSA for the redistribution of the 5M site. As a result of this distribution the Company now owns 100% of the capital stock of BAT&FCSA, while our 50% holding in ARSA and BARSA was transferred to RAGHSA. The redistribution of this city block has implied the division and distribution of the costs and construction commitments for the sites that had been assumed 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.

Puerto Retiro. Puerto Retiro is an 8.3 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 66% of our subsidiary 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. Approval has been granted for the construction of 715,000 square meters. 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. The plan includes three different housing concepts: high-rise apartment buildings, smaller condominiums and neighborhoods of single-family homes. Common areas for recreation, offices, and a hotel are also included. We plan to seek a partner for the development of this project. The master plan is pending final authorities approval. We currently hope to launch this project for sale at the end of fiscal year 2003.

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 neighborhood of Caballito, in the city of Buenos Aires, which was acquired by APSA in October 1998. APSA currently plans to utilize the property to build a shopping center similar to Alto Palermo Shopping but at present, municipal

zoning regulations do not permit the construction of shopping centers in the said property. APSA is analysing the way to get authorization to develop a shopping center. There can be no assurance that APSA will actually be able to develop this project.

Alcorta Plaza. On June 29, 2001, APSA acquired a plot of land located in Figueroa Alcorta avenue, in front of Paseo Alcorta Shopping for US$ 4.7 million. This land is located in the neighborhood of Palermo Chico in the city of Buenos Aires. We are in the process of defining the commercial project to be carried out, which could consist of an office and/or residential property.

Cruceros, Dique 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 high-income segment and all condominium areas have spectacular views of the river. It will be partially financed by means of the advance sale of apartments. the project is at an advanced stage, and sales are expected to start in the next few months.

San Martin de Tours. In March 2003 we signed a contract for the purchase of a site on Calle San Martin de Tours in the Barrio Parque district, the most exclusive residential zone in the city of Buenos Aires. An advance of US$80,000 was paid on the exchange of contracts, and when the deeds were transferred a further US$230,000 were paid. In addition, at that moment a mortgage was set up in favor of Providence for US$750,000 in guarantee of 25% of the functional units that IRSA must deliver when the building is completed. IRSA plans to build a high-quality house-type residence complex unlike other property available. It will be financed out of working capital and is aimed at the high-income segment.

Greater 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 obtained the pertinent municipal building permits. We have not yet established the costs and financing method for this proposed project.

Benavídez, Tigre. Benavídez is a 99.8 hectare undeveloped land reserve property located in Tigre, 35 kilometers to the north of downtown of the city of Buenos Aires. The property is easily accessible due to its proximity to Panamericana Highway. 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.

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

Rosario Project, city of Rosario, Province of Santa Fe. On August 25, 1998, together with 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.

On December 17 we acquired title to our part of the property, on which we propose to build the residential complex. On the rest of the site, which is owned 56% by us and 44% by Coto, we propose to build the shopping mall.

The proposed project is composed of two parts. The first part involves the construction of a shopping center with approximately 20,000 square meters of gross leasable area and an entertainment complex, consisting of approximately 21,000 square meters, that is currently expected to include a science museum, a railroad museum, a convention center, a restaurant area and an outside entertainment area. The second part involves the construction of a high-rise 1,200 apartment residential complex consisting of nine towers. APSA paid US$ 17,5 million (net of expenses at the end) for the 66,67% of the property.

At present, the estimated cost of the first part of the project is approximately Ps. 15.0 million.

Ownership of the land acquired is subject to compliance with a construction schedule that lays down that ground should be broken on the shopping mall complex in March 2004. The Company plans to bring this date forward to the end of 2003, however.

Neuquén Project, Province of Neuquén. On July 6, 1999, our subsidiary APSA acquired a 94.6% interest in Shopping Neuquén S.A. for Ps. 4.2 million. Shopping Neuquén is owner of a plot of land of aproximately 50,000 square meters in Neuquén City, which have the pre-aproved for the construction of a shoppng center. APSA paid Ps. 0.9 million on September 1, 1999, the remaining Ps. 3.3 was scheduled to be payable on the earlier of the opening of the shopping center and July 5, 2001.

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 135 stores, a hypermarket, a multiplex movie theater and a hotel. The total cost for APSA is currently estimated to be approximately Ps. 20.0 million and will be financed with working capital and additional bank loans.

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 they 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 should be approved by the City Council of the Province 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 S.A. requested the revocation of this administrative act, however, the revocation was rejected by the Municipal Mayor on 9 May 2003 through decree 585/03.

Subsequently, in June 2003, Shopping Neuquén S.A. lodged a remedy before the Higher Court of the Province of Neuquén, requesting the annulment of the above resolutions issued by the Mayor. At the date of this report, the Neuquén Higher 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.

Furthermore, on 15 August 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 of US$ 3.0 million plus interest and legal costs. At the date of this report, the Company is filing a formal plea to this complaint.

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 50% 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:

Consolidated Hotels

Hotel	Date of acquisition	Number of rooms	Average occupancy % (1)	Avg. Price per room Ps. (2)	Accumulated sales as of June 30, (Ps. 000) (3) 2003	2002	2001	Book value as of June 30, 2003 (Ps. 000)
Inter-Continental	11/97	312	54	235	22,297	23,558	36,894	57,177
Sheraton Libertador	3/98	200	52	204	11,529	15,237	22,592	39,890
Hotel Piscis (4)	9/02				334			
Total		**512**	**51**	**223**	**34,160**	**38,795**	**59,486**	**97,067**

Non Consolidated Hotels

Hotel	Date of Acquisition	Number of rooms	Average occupancy % (1)	Avg. Price per room Ps. (2)	Accumulated sales as of June 30, (Ps. 000) (5) 2003	2002	2001	Book value as of June 30, 2003 (6) (Ps. 000)
Llao Llao	6/97	158	64	424	23,000	18,398	18,998	13,387
Total (7)		**670**	**55**	**270**	**57,160**	**57,193**	**78,484**	**110,454**

Notes:

(1) Accumulated average in the Fiscal Year.
(2) Accumulated average in the Fiscal Year.

(3) Corresponds to our total sales consolidated under the traditional method adjusted by inflation as of 02/28/03.
(4) The Piscis Hotel was sold on March 19, 2003. See table Sales and Developments .
(5) Although Llao Llao Hotel s sales are no longer consolidated, we consider it is relevant to include them. It does not represent IRSA s effective participation.
(6) The book value represents the value of our investment.
(7) It includes the total consolidated hotels plus Llao Llao, which is no longer consolidated.

Hotel Llao Llao, San Carlos de Bariloche, Province of Río 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, 147 rooms and 14 suites. 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 facilities with swimming pool. The hotel was completed in December 1994 and has 314 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.

Hotel Piscis and Valle de Las Leñas. On 18 March 2003 we sold Hotel Piscis and 31% of the share capital and convertible negotiable bonds of Valle de Las Leñas S.A., which had been purchased eight months previously. Valle de Las Leñas is the operator of one of the leading Argentine ski resorts and Hotel Piscis is a five-star hotel located in this tourist resort. The stock was sold for US$ 6.5 million and the hotel was sold for US$ 3.2 million. This transaction represents an extraordinary profit of US$ 5.9 million.

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 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.

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 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

Altocity.Com, 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.Com, 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 of them have a 50% interest. Previously, APSA s partner in the venture was Telinver S.A., 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.

Altocity.Com s goal is to make the shopping experience informed, quick, interactive and personalized. Altocity.Com primarily derives its revenues from sales of products on its website and to a lesser extent from sales of advertising and sponsorships and a fixed amount charged to retailers.

Altocity.Com began operating its web site on June 1, 2000, and by June 30, 2002, had more than 30,000 registered users. The site offers a product supply of approximately 320,000 items from over 66 retailers that are classified into 16 categories such as apparel, books, music and home appliances. The site s url address www.altocity.com, is visited monthly by approximately 139.809 visitors on average.

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 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. APSA and Telinver made additional capital contributions of US$ 5 million each, during April 2001, and agreed to 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.

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:

- our obligation to remain as APSA s 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.

Policies with respect to certain activities

The following is a discussion of our investment objectives and policies, financing policies and policies with respect to certain other activities. These policies may be amended or revised from time to time at the discretion of our board of directors without the approval of our stockholders.

Investment objectives and policies

We intend to achieve our objectives by means of:

the acquisition and development of residential property, mainly for sale ;

the purchase, development and exploitation of office buildings and retailing premises not constituting shopping centers, mainly for rental purposes;

the purchase, development and exploitation of shopping centers;

the purchase and exploitation of luxury hotels; and

the purchase of undeveloped land stocks for their future development or sale.

Our strategy consists of increasing the flow of funds and revenue and the value of the Company s assets by constantly expanding our diversified property and asset portfolio through the purchase, development and operation of property, alone or with partners, in all segments of our commercial activity.

We are able to alter our current policy in any of these areas without requiring shareholder approval.

Over the course of the last three years, office and retail store rental have been our main activities, with the acquisition and development of residential properties for sale and the exploitation of luxury hotels being secondary activities, in view of the economic recession. We have not acquired undeveloped land reserves during this period.

In future we expect to continue to concentrate on office and retail store rental as our main activities, while we estimate that we will not continue with the development of residential property for sale until there are clear signs of a recovery in the Argentine economy.

Historically, the purchase of undeveloped land reserves has been the only activity in which the principal objective was to obtain capital gains, while the remaining segments of our Company have been income-generating activities. However, in the past we have sold, and expect to continue to sell, properties belonging to other segments of the Company, with the aim of realizing capital gains.

We grant mortgage loans to stimulate the sale of units belonging to our development. Most of this mortgage portfolio was sold in December 2001, but we have granted a small number of new loans subsequent to that date.

We are able to purchase rental property as long-term investments, or sell such property, in part or in full, when the circumstances advise it.. We are also able to purchase property for development or sell such property, in part or in full, when the circumstances advise it. We do not have a specific policy regarding the terms for holding our properties, and may dispose of them entirely or in part at the most appropriate moment. We have participated -and may continue to do so- in the real estate business through subsidiaries or with other Argentine or foreign entities in the ownership of properties, through strategic alliances or other shared ownership companies that we may or may not control. At present we are contemplating the possibility of acquiring additional properties within Argentina.

In the past we have not invested in mortgage portfolios or sold or transferred to third parties the mortgage loans under the financing programs for purchasers of units in our developments. However, as a result of the recent development of the legal framework for the secondary mortgage market in Argentina, we cannot assure that we will not participate in such operations in future.

We have in the past, and may in future, securitize loans to third parties in relation to their real estate transactions.

Financing Policies

In the past we have obtained financing by means of share offerings, the use of fixed and variable rate debt instruments and short-term credit lines. We may in future incur additional indebtedness whenever the Board considers it appropriate. Management expects that additional financing could be necessary, and will be obtained through a combination of the methods listed above or through other types of financing, such as mortgages and the issue of debt instruments backed by assets. See Operating and Financial Review and Outlook - Liquidity and Capital Resources .

Other Policies

We have issued and may issue in future senior debt securities. See Operating and Financial Review and Outlook - Liquidity and Capital Resources . We may also invest in debt securities or shares in other entities not involved in real estate. In the last four years we have not issued securities in exchange for property. Between the months of January and March 1999, we purchased 2,432,932 of the Company s outstanding shares, and between May and October 2000 we acquired 20,729,472 of our own shares. Shareholders meetings held on October 28, 199 and October 30, 2000 approved the distribution of these shares. On addition, between November 2000 and January 2001 we acquired 4,587,285 Company shares, which were distributed as decided by the shareholders meeting held on November 5, 2002. Currently we have no plans to repurchase own shares, unless it is determined to be beneficial to our shareholders, and as long as the market conditions guarantee such an action in the context of that allowed by by-laws, legislation and applicable regulations.

Dividend Policy

Under Argentine legislation, the distribution and payment of dividends to shareholders is valid only if they arise from liquid realized results of the company as determined from annual financial statements approved by the shareholders. The Board of Directors may declare interim dividends, in which case each Board member and member of the Surveillance Committee will be severally responsible for the return of such dividends if at the end of the fiscal year in which such interim dividends were paid the realized liquid profits were to be insufficient to allow the payment of such dividends. The approval, amount and payment of dividends are subject to the approval of our shareholders at our annual general meeting. Dividend approval requires the affirmative vote of most of the shares with voting rights at the annual general meeting. In view of their ability to exercise significant influence over the selection of Board members, our principal shareholders have the power to control the declaration, amount and payment of dividends, subject to Argentine legislation and Company by-laws.

The Board submits the annual report and balance sheet of the Company for the previous fiscal year together with the reports from the Surveillance Committee for the approval of the annual general meeting of shareholders. The annual ordinary shareholders meeting called to approve the annual report and financial statements and to determine the distribution of the Company s net income for the year must be held prior to October 30 each year. In accordance with Argentine law and our bylaws, liquidated and realized profits for

33

each fiscal year are distributed as follows:

- 5% of such net profits are allocated to our legal reserve, until such reserve amounts to 20% of our capital stock;

- a certain amount determined at a shareholders meeting is allocated to the compensation of our directors and the members of our supervisory committee; and

- dividends, additional dividends to preferred shares if any, or to optional reserve funds or contingency reserves or to a new account, or for whatever purpose the shareholders meeting determines are distributed.

According rules issued by the Argentine *Comisión Nacional de Valores*, cash dividends must be paid to shareholders within 30 days of the resolution approving their distribution. In the case of stock dividends, the shares must be delivered within three months of the holding of the annual general meeting that were to have approved them.

If and when our Company declares and pays dividends on its ordinary shares, the holders of global share certificates in the Company, each representing the right to receive 10 ordinary shares (the GDS) at the corresponding registration date shall have the right to receive the dividends due on the ordinary shares underlying the GDS subject to the term of the Modified and Ordered Deposit Contract dated December 12, 1994 signed between our Company, The Bank of New York and the eventual holders of the GDSs. Cash dividends are to be paid in pesos, and except in certain circumstances they will be converted by the Depository into dollars at the rate of exchange in force at the date of conversion and shall be paid to the holders of the GDSs net of any commission on the distribution of dividends, costs and conversion charges, taxes and official dues.

In the past, we paid dividends in cash and stock that averaged Ps. 0.11 per share. At our shareholders meeting which was held on October 30, 2000, our shareholders approved the distribution of 20,729,472 treasury shares to be distributed pro rata among our shareholders.

During the fiscal year ended June 30, 2001, we suffered a loss of Ps. 59.9 millions. Consequently, in order to maintain adequate liquidity levels, to reduce our outstanding debt and our financial burden, we did not pay any cash dividends.

The following table sets forth the dividend payout ratio and the amounts of total dividends paid on each fully paid share common stock in respect of the year indicated. Amounts in Pesos are presented in historical Pesos of the respective payment dates. See Exchange Rates .

During fiscal year 2002 the Company reported a loss of Ps. 539.1 million. Consequently, we maintain our policy not to distribute cash dividends. However, the shareholders meeting held on 5 November 2002 resolved the distribution of a total of 4,587,285 treasury shares (purchased at an average approximate price of Ps. 2.15 per share) prorated and in proportion to the corresponding shareholdings.

During fiscal year 2003 the Company reported a profit of Ps. 286.4 million, although owing to the restrictions arising from our debt instruments we are prevented from distributing dividends.

The table that follows presents the dividend payment ratio and the total amount of dividends paid for each fully paid-in common share during the year under review. Figures in Pesos are stated in historical Pesos at the corresponding. See Exchange Rate .

	Payments (1)		
Year declared	**Cash dividends**	**Stock dividends**	**Total per share**
	(Pesos)	*(Pesos)*	*(Pesos)*
1995	0.094	0.06	0.154
1996	0.092		0.092
1997	0.110		0.110
1998	0.060	0.05	0.110
1999	0.076	0.04	0.116
2000		0.20	0.204
2001			
2002			

(1) Corresponds to per share payments. To calculate the dividends paid per GDS, the payment per share should be multiplied by ten.

In accordance with certain obligations assumed by our Company, there are limitations on the dividends that we can distribute. Under the syndicated loan contract for US$51 million, neither our Company nor its subsidiaries shall be able to pay dividends or make any distribution or repurchase of debt or shares except for restricted payments from our subsidiaries to our Company. Restricted payments shall be able to be made as long as no event of default were to have taken place and none were to take place as a consequence thereof, and as long as no financial covenants were to have been violated in the immediately preceding calculation period.

The supplementary Fourth Trust Fund Agreement that governs the terms of the issue of the Negotiable Bonds for US$ 37.4 million contains the same restrictions on the payment of dividends, although limited to the existence of outstanding negotiable bonds.

All though we expect to distribute cash dividends in future, we cannot assure that we will be in a position to do so.

SUBSEQUENT EVENTS

The following events have taken place subsequent to June 30, 2003, the year-end closing date:

Sale of 3 floors at Madero 1020. The deed of sale of the three floors in the office building at Madero 1020 was signed on 22 August 2003. This sale involved a total surface area of 2,018 m2 and fetched US$ 1,650,000, at an average price of US$ 818 per m2.

Substitution of Real Estate Guarantee. In August 2003 the mortgage that had been provided as security for the Secured Negotiable Bonds worth US$ 37.4 million at a floating rate and maturing in 2009 was replaced with other mortgages. These Negotiable Bonds are secured by a first mortgage equivalent to 50% of the debt initially backed with some of our real estate, and in August 2003 it was replaced by first mortgages drawn out on the following properties: Puerto del Centro (Cossentini 340), Prourban (Avda. Del Libertador 450, 18th floor) and Laminar Plaza;

Prepayment of US$ 16 million on debt held. On 23 July 2003 we prepaid US$ 16 million of our Syndicated Loan from HSBC Bank Argentina S.A. (Loan Agreement US$ 51,000,000) expiring in November 2009. This transaction involved a total of US$ 10.9 million, which represents 68% of the nominal value of the debt, and the granting of a discount of US$ 5.1 million. This buy-back was carried out in accordance with the procedure established in the Syndicated Loan Agreement.

Selected Consolidated Financial and Operating Information

The following selected consolidated financial data has been derived from our consolidated financial statements as of the dates and for each of the years indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements.

	As of and for the year ended June 30, (1)	
	2003	2002
	$	$
Sales	212,935	137,640
Costs	(142,950)	(84,093)
Gross profit	69,985	53,547
Selling expenses	(25,583)	(11,281)
Administrative expenses	(41,725)	(32,057)
Loss on purchasers rescissions of sales contracts	9	
(Loss) in credit card trust	(4,077)	
(Loss) gain from operations and holdings of real estate assets, net	11,053	(46,840)
Operating income	9,662	(36,631)
Goodwill depreciation	(6,631)	
Financial results, net	325,899	(497,560)
Net loss in equity investments	(12,877)	102
Other income (expenses), net	2,875	(4,857)
Minority interest	(33,889)	4,931
Income tax and asset tax	1,406	(5,099)
Net (loss) income	286,445	(539,114)
Net (loss) income per share	1,37	(2,60)
Net (loss) income per GDS	0,137	(0,26)
Net (loss) income per share diluted	0,57	(2,60)
Net (loss) income per GDS diluted	0,057	(0,26)
BALANCE SHEET DATA		
Cash and current investments	226,287	69,251
Inventories	23,342	79,432
Mortgages and leases receivable, net	38,371	17,012
Total current assets	288,603	153,170
Non-current investments	433,760	594,865
Fixed assets, net	1,197,521	380,703
Total assets	2,052,964	1,292,704
Short-term debt (2)	96,159	635,533
Total current liabilities	172,458	681,029
Long-term debt (3)	592,104	975
Total non-current liabilities	629,988	4,061
Shareholders equity	809,186	522,720
OTHER FINANCIAL DATA		
EBITDA(4)	93,006	62,801
Depreciation and amortization	78,784	23,635
Capital expenditures(5)	52,329	86,077
Net cash provided by (used in):		
Operating activities	87,058	53,178
Investing activities	(37,479)	(19,637)
Financing activities	109,386	(42,551)

37

(1) In thousands of constant Argentine Pesos of June 30, 2003, except for ratios and weighted average number of shares outstanding. Sums may not total due to rounding.
(2) Includes short-term loans, the current mortgages payable and the current portion of the seller financing.
(3) Includes long-term loans, non-current mortgages payable and the non-current portion of the seller financing.
(4) EBITDA is net income plus, when previously deducted, expenses for consolidated interest, consolidated income tax, consolidated depreciation, consolidated amortization of intangibles and losses derived from operations and holdings of real estate and other non-monetary items that reduce or increase net income, plus cash dividends received from non-consolidated subsidiaries less any income derived from the valuation of investments in affiliated companies using the equity method of accounting and minority interests. EBITDA should not be considered as an alternative to (i) net income as an indicator of the Company s operating return, or (ii) the flow of funds of the operating activities of our Company, as an indicator of liquidity. Does not include income from subsidiaries.
(5) Includes the purchase of inventories, fixed assets and long-term investments.

Management s Discussion and Analysis

of Financial Condition and Results of Operations

The following analysis should be read together with the Company s consolidated financial statements and their notes. For the purposes of the following analysis we have considered Audited Consolidated Financial statements to be our audited consolidated financial statements and notes corresponding to the fiscal years ended June 30, 2003 and 2002.

Fluctuation of results

Income from the rental of offices and retail stores and the sale of development property constitute our two main sources of income. Past results from the operations of our Company have varied in different periods as a result of the opportunities existing at the time for the sale of property. It cannot be assured that our results will not continue to be influenced by the occasional sale of property.

Consolidation

The consolidated financial statements were prepared in accordance with the procedure established in Technical Resolution No. 4 of the Argentine Federation of Professional Councils in Economic Sciences (F.A.C.P.C.E.), which calls for the consolidation of every line in the Balance Sheet as at 30 June 2003 and 2002 of IRSA Inversiones y Representaciones Sociedad Anónima, the Statement of Income and Statement of Changes in Financial Position for the twelve-month periods ending on those dates, with the financial statements of the companies in which it possesses direct or indirect decisive voting power.

Balances and significant transactions with controlled companies have been eliminated in the consolidation.

As a result of the consolidation with the related company Alto Palermo S.A. referred to earlier, as from the beginning of the present financial year the Company has ceased to apply the proportional consolidation method in the preparation of its financial statements. Consequently, the pertinent modifications have been made to the figures originally presented as at 30 June 2002, in order to present them comparatively with the figures as at June 30 2003.

The financial statements have been stated in constant currency, taking into account the full impact of inflation up until 31 August 1995. As from that date and in accordance with prevailing professional accounting standards and the requirements of the pertinent control bodies, financial statements are no longer restated up until 31 December 2001. As from 1 January 2002 and in accordance with professional accounting standards, inflation adjustments have been resumed, taking into account that accounting measurements restated considering the changes in currency purchasing power up until 31 August 1995, and those originating between that date and 31 December 2001, have been restated in the currency prevailing at this last date.

On 25 March 2003, the National Executive issued Decree N° 664 which establishes that financial statements corresponding to financial years ending after that date must be stated in nominal currency. As a result, and pursuant to Resolution N° 441 issued by the National Securities Commission, the Company ceased to restate its financial statements as from 1 March 2003. This criterion is not in line with prevailing professional accounting standards. However, at 30 June 2003, this deviation has not had a significant impact on the financial statements.

Accounting items contained in the current financial statements have been restated according to the Domestic Wholesale Price Index published by the National Statistics and Census Institute (INDEC).

Revenue recognition

We primarily derive our revenues from domestic and international office and shopping center leases and services operations, the development and sale of properties, hotel operations and to a lesser extent, from e-commerce activities. The proportionate consolidation method has not been used for balance sheet and cash flows purposes. This section reflects our revenue recognition policies and those of our controlled and jointlycontrolled subsidiaries. All revenues are stated net of taxes levied on sales.

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 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, subject to customary exceptions.

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

- the sale has been consummated;

- we have determined that the buyer s initial and continuing investments are adequate to demonstrate a 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.

Leases and services from office and other buildings. Leases with tenants are accounted for as operating leases. Tenants are charged a base rent on a monthly basis. Rental income is recognized on a straight-line basis over the term of the lease and unpaid rents are included in accounts receivable in the consolidated balance sheets.

Leases and services from shopping center operations. Leases with tenants are accounted for as operating leases. Tenants are generally charged a rent which consists of the higher of (i) a monthly base rent and (ii) a specified percentage of the tenant s monthly gross retail sales which generally ranges between 4% and 8% of tenant s gross 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. Minimum rental income is recognized on a straight-line basis over the term of the lease and unpaid rents are included in accounts receivable in the consolidated balance sheets.

Certain lease agreements contain provisions which provide for rents based on a percentage of sales or based on a percentage of sales volume above a specified threshold. We determine the compliance with specific targets and calculate the additional rent on a monthly basis as provided for in the contracts. Thus, these contingent rents are not recognized until the required thresholds are exceeded.

Generally, our lease agreements vary from 36 to 120 months. 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.

We also charge our tenants a monthly administration fee, prorated among the tenants according to their leases, which varies from shopping center to shopping center, relating to the administration and maintenance of the common area and the administration of contributions made by tenants to finance promotional efforts for the overall shopping centers operations. Administration fees are recognized monthly when earned. In addition to rent, tenants are generally charged admission rights , a non-refundable admission fee that tenants may be required to pay 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. Admission rights are recognized using the straight-line method over the life of the respective lease agreements. Furthermore, the lease agreements generally provide for the reimbursement of real estate taxes, insurance, advertising and certain common area maintenance costs. These additional rents and tenant reimbursements are accounted for on the accrual basis.

Credit card operations. Revenues derived from credit card transactions consist of commissions and financing income. Commissions are recognized at the time the merchants transactions are processed, while financing income is recognized when earned.

Hotel operations. We recognize revenues from our rooms, catering, and restaurant facilities as earned on the close of business each day.

International operations. On February 28, 2002, we sold all of our 49.3% interest in Brazil Realty, a company operating in Brazil, whose business primarily comprises the same type of operations conducted by us in Argentina.

All revenues are state net of taxes levied on sales.

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.

Effect on Us of Recent Devaluation and Economic Crisis

All 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 a four-year-old recession, the Argentine economy has deteriorated sharply.

The rate of gross domestic product growth of Argentina dropped to a negative 5.0% during the first two quarters of 2001 and dropped to a negative 16% during the first quarter of 2001. In May 2002, unemployment rate rose to 22.0%. Other relevant economic indicators have not been showing signs of recovery. In conclusion, the economic crisis, the lower level of activity in the Argentine economy and the increase in the unemployment rate during all the fiscal year have detrimentally affected our profitability.

On December 23, 2001, President Adolfo Rodríguez Saá declared the suspension of the payment of foreign debt and later Eduardo Duhalde ratified this decision. On January 7, 2002, the National 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 with 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 new legislation is expected to have a material adverse impact on our financial position and the results of our operations. Our board of directors is currently analyzing the impact of the new legislation and has begun conversations with our creditors for renegotiations of existing agreements. Additionally, we will initiate negotiations with tenants regarding the terms of our lease agreements as called for in the new legislation.

As described above, the economic and political factors affecting Argentina, together with the changes in interest rates and the rate of exchange have a significant impact on our financial performance. We have been adversely affected by the continued deterioration of the Argentine economy, the adoption by the Government of economic measures as indicated above and the devaluation of the Argentine peso. In the fiscal year ended June 30, 2002, we have recorded a net loss of Ps. 539.1 million and at June 30, 2002 we show a working capital shortfall of Ps. 527.9 million. In addition, we are not in compliance with certain restrictive commitments derived from our syndicated loan contract and our floating rate negotiable obligations, a situation that represents an event of default and enables the holders of such negotiable obligations to accelerate their maturity. In view of the continued effect of the economic recession, the lack of availability of financial loans and the succession of recent economic measures that adversely affect the normal operation of the banking system and payment mechanisms, we have not been able to make the payments at July 15, 2002 and July 31, 2002 corresponding to the maturity of our floating rate negotiable obligations and our syndicated loan contract. Our Board has successfully negotiated agreements with the holders of the negotiable obligations and creditor banks under the syndicated loan agreement that set new due dates for compliance with such obligations on September 9 and September 30 of 2002, respectively.

The successful re-negotiation of our debt referred to above, combined with the stabilization of the macroeconomic variables, have generated a new scenario, enabling us to fulfill all the requirements contained in our debt contracts, achieving a considerable reduction of the financial costs.

Effects of inflation

From 1997 until the end of year 2001, policies adopted by Argentine government have substantially reduced the level of inflation. Therefore, inflation has not affected 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	-1.4%	-5.3%
2000	-1.2%	4.4%
2001	-0.3%	-1.6%
2002	30,5%	95,6%
2003	10,2%	8,3%

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.

Effects of interest rate fluctuations

We are highly leveraged and are materially affected by interest rate fluctuations. An increase in interest rates may significantly increase our financial costs and materially affect our financial condition and our results of operations.

Effects of foreign currency fluctuations

From April 1, 1991, until the beginning of 2002, the Convertibility Law No. 23,928 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. Accordingly, the foreign currency fluctuations were reduced to a minimum level during the fiscal year 2001 and the subsequent interim period.

The primarily economic change announced by the current Argentine government in January 2002 was the devaluation of the Peso. Most of our lease contracts and a significant portion of our liabilities are denominated in U.S. dollars. Foreign currency exchange rate fluctuations significantly increase the risk of default on our mortgage receivables, leases and services and other receivables, because many of our customers have Peso-denominated revenue streams and will therefore experience a relative increase in their U.S. dollar-denominated liabilities compared to their Peso-denominated revenues. 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 Bolsa de Comercio de Buenos Aires, and as a result, are likely to affect the market price of our GDSs in the United States.

Suspension of the application of section 206 of the Commercial Companies Law

At June 30, 2002, the negative results recorded by our Company absorbed more than 50% of capital and reserves. Section 206 of the Commercial Companies Law establishes mandatory capital reduction when such a situation exists. However, in view of the crisis that Argentina is undergoing, Executive Branch Decree 1269 suspended the application of this section until December 10, 2003.

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 towers.

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

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

This allocation of profits stems from the partnership interest of Alto Palermo 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 depre