IRSA INVESTMENTS & REPRESENTATIONS INC
Form 20-F
December 29, 2005

United States

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended: June 30, 2005

OR

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

For the transition period from ________ to ________

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

Date of event requiring this shell company report

Commission file number: 1-13542

IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANÓNIMA

(Exact name of Registrant as specified in its charter)

IRSA INVESTMENTS AND REPRESENTATIONS INC.

(Translation of Registrant s name into English)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Bolívar 108

(C1066AAB) Buenos Aires

Argentina

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
Global Depositary Shares, each representing ten shares of Common Stock	**New York Stock Exchange**
Common Stock, par value one Peso per share	**New York Stock Exchange***

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

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

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

The number of outstanding shares of the issuer s common stock as of June 30, 2005 was 357,266,448

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

Yes x No ¨

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

Item 17 ¨ Item 18 x

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

Yes ¨ No x

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DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

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

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

- changes in general economic, business or political or other conditions in Argentina or changes in general economic or business conditions in Latin America;
- changes in capital markets in general that may affect policies or attitudes toward lending to Argentina or Argentine companies;
- changes in exchange rates or regulations applicable to currency exchanges or transfers;
- unexpected developments in certain existing litigation;
- increased costs;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and
- the factors discussed under Risk Factors beginning on page 13.

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

CERTAIN MEASUREMENTS AND TERMS

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

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

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As used herein:

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

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

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

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

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

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

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

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

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

This annual report contains our audited Consolidated Financial Statements as of June 30, 2005 and 2004 and for the years ended June 30, 2005, 2004 and 2003 (the Consolidated Financial Statements). Our Consolidated Financial Statements have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein.

Except as discussed in the following paragraph, we prepare our Consolidated Financial Statements in thousands of Pesos and in accordance with Argentine GAAP and the regulations of the National Securities Commission (*Comisión Nacional de Valores*), which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the Consolidated Financial Statements, as well as additional disclosures required by U.S. GAAP and regulations of the SEC. See Note 23 to our Consolidated Financial Statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to us, and reconciliation to U.S. GAAP of net income and shareholders equity.

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

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

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

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

- we adjusted non-monetary items and consolidated statements of income amounts to reflect the then current general purchasing power;

- we did not adjust monetary items as such items were, by their nature, stated in terms of current general purchasing power in our Consolidated Financial Statements;

- we recognized monetary gains or losses in our consolidated statements of income, reflecting the effect of holding monetary items, and

- we included the gain or loss on exposure to inflation (monetary gain or loss) in our consolidated statements of income within financing results.

Also contained in this annual report are Banco Hipotecario S.A. s Consolidated Financial Statements as of June 30, 2005 and 2004 and for the years ended June 30, 2005, 2004 and 2003, which also have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. As a result of the purchase of additional shares and the exercise of warrants of Banco Hipotecario S.A. (Banco Hipotecario), effective June 30, 2004 we changed the method of accounting for our investment in Banco Hipotecario from market value to the equity method of accounting. We recognized the cumulative effect of the change in earnings during the year ended June 30, 2004. The independent auditors report on Banco Hipotecario´s Consolidated Financial Statements includes an explanatory paragraph describing that Banco Hipotecario s financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina and to the Argentine Government s ability to perform on its obligations to Banco Hipotecario and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and on its obligation to deliver government securities under various laws and regulations.

During the year ended June 30, 2004 we adopted Technical Resolution No. 21 and, as a result, we began consolidating Llao Llao Resort S.A. As required by the transition provisions this standard was retrospectively applied for comparative purposes to reflect such investment on a consolidated basis.

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

References to fiscal years 2001, 2002, 2003, 2004 and 2005 are to the fiscal years ended June 30 of each such year.

MARKET DATA

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

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PART I

ITEM 1. Identity of Directors, Senior Management and Advisers

This item is not applicable.

ITEM 2. Offer Statistics and Expected Timetable

This item is not applicable.

ITEM 3. Key Information

A. Selected Financial Data

The following selected consolidated financial data has been derived from our Consolidated Financial Statements as of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our Consolidated Financial Statements and the discussion in Operating and Financial Review and Prospects included elsewhere in this annual report. The selected consolidated statement of income data for the years ended June 30, 2005, 2004 and 2003 and the selected consolidated balance sheet data as of June 30, 2005 and 2004 have been derived from our Consolidated Financial Statements included in this annual report which have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors.

The Consolidated Statements of Income for the years ended June 30, 2002 and 2001 and the selected consolidated balance sheet data as of June 30, 2003, 2002 and 2001 have been derived from our audited Consolidated Financial Statements that are not included herein.

As discussed in Note 2.d. to our Consolidated Financial Statements, contained elsewhere in this annual report, during 2003 the Professional Council of Economic Science of the City of Buenos Aires (*Consejo de Profesionales de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* or CPCECABA) approved Technical Resolution No. 21 Equity Method of Accounting Consolidation of Financial Statements and Related Transactions , which became effective to us for the fiscal year ended June 30, 2004. The Comisión Nacional de Valores adopted this standard with certain amendments in March 2004. As a result of the adoption of RT No. 21, we started to consolidate Llao Llao Resort S.A. during fiscal year 2004. As required by the transition provisions, this standard was retrospectively applied for comparative purposes to reflect such investment on a consolidated basis.

Our Consolidated Financial Statements are presented in thousands of Pesos. Except as discussed in the following paragraph, our Consolidated Financial Statements are prepared in accordance with Argentine GAAP and the regulations of the *Comisión Nacional de Valores*, which differ in certain significant respects from U.S. GAAP. Note 23 to our Consolidated Financial Statements provides a description of the principal differences between Argentine GAAP and U.S. GAAP affecting our consolidated figures and a reconciliation to U.S. GAAP of net income reported under Argentine GAAP for the years ended June 30, 2005, 2004 and 2003, and of shareholders equity reported under Argentine GAAP as of June 30, 2005 and 2004. The differences involve methods of measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP and regulations of the SEC.

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

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

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

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As a result of this, our Consolidated Financial Statements were prepared on the basis of general price-level accounting which reflected changes in the purchasing power of the Peso until February 28, 2003 in our historical financial statements using changes in the Argentine wholesale price index, as published by the INDEC, as follows:

- we adjusted non-monetary items and consolidated statements of income amounts to reflect the then-current general purchasing power;

- we did not adjust monetary items, as such items were by their nature stated in terms of current general purchasing power in our Consolidated Financial Statements;

- we recognized monetary gains or losses in our consolidated statements of income, reflecting the effect of holding monetary items; and

- we included the gain or loss on exposure to inflation (monetary gain or loss) in our consolidated statements of income within Financing results, net .

Also contained elsewhere in this annual report are the Consolidated Financial Statements of Banco Hipotecario as of June 30, 2005 and 2004 and for the years ended June 30, 2005, 2004 and 2003, which also have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. As a result of the purchase of additional shares and the exercise of warrants of Banco Hipotecario, effective June 30, 2004 we changed the method of accounting for our investment in Banco Hipotecario from market value to the equity method of accounting. We recognized the cumulative effect of the change in earnings during the year ended June 30, 2004. The independent auditors report on Banco Hipotecario´s Consolidated Financial Statements includes an explanatory paragraph describing that Banco Hipotecario s financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina and to the Argentine Government s ability to perform on its obligations to Banco Hipotecario and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and on its obligation to deliver government securities under various laws and regulations.

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References to fiscal years 2001, 2002, 2003, 2004 and 2005 are to the fiscal years ended June 30 of each such year.

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	As of and for the year ended June 30,					
	2005	2005	2004	2003	2002	2001
	(US$ 000) (1)	*(Ps.000)* (2)	*(Ps.000)* (2)	*(Ps.000)* (2)	*(Ps.000)* (2)	*(Ps.000)* (2)
INCOME STATEMENT DATA						
Argentine GAAP						
Revenues	128,122	369,889	260,805	236,495	156,244	244,052
Costs	(57,778)	(166,805)	(147,416)	(154,667)	(96,962)	(140,226)
Gross profit	70,344	203,084	113,389	81,828	59,282	103,826
Gain from valuation of inventories at fair market value	5,998	17,317				
Selling expenses	(13,122)	(37,882)	(21,988)	(28,555)	(14,246)	(26,284)
Administrative expenses	(24,151)	(69,724)	(50,240)	(45,194)	(36,258)	(44,798)
Gain on purchasers rescissions of sales contracts				9		
Gain (loss) in credit card trust	147	423	261	(4,077)		
Gain (loss) from operations and holdings of real estate assets, net (3)	9,677	27,938	63,066	21,507	(46,840)	(7,127)
Operating income (loss)	48,893	141,156	104,488	25,518	(38,062)	25,617
Amortization of goodwill	(576)	(1,663)	(2,904)	(6,631)		
Equity gain (loss) from related parties	23,171	66,894	26,653	(14,701)	(4,571)	9,509
Financial results, net	(4,232)	(12,217)	11,823	315,301	(496,498)	(99,465)
Other expenses , net	(5,045)	(14,566)	(13,636)	(859)	(4,483)	(5,983)
Income (loss) before taxes and minority interest	62,211	179,604	126,424	318,628	(543,614)	(70,322)
Income and asset tax (expense) benefit	(18,430)	(53,207)	(25,720)	3,529	(1,086)	37,783
Minority interest	(8,019)	(23,152)	(12,842)	(35,712)	977	3,415
Ordinary net income (loss)	35,762	103,245	87,862	286,445	(543,723)	(29,124)
Extraordinary loss						(12,706)
Net income (loss)	35,762	103,245	87,862	286,445	(543,723)	(41,830)
Basic net income (loss) per share (4)	0.13	0.37	0.39	1.37	(2.62)	(0.20)
Basic net income (loss) per GDS (4)	1.27	3.68	3.90	13.65	(26.21)	(2.05)
Diluted net income (loss) per share (5)	0.08	0.23	0.23	0.57	(2.62)	(0.20)
Diluted net income (loss) per GDS (5)	0.80	2.31	2.26	5.65	(26.21)	(2.05)
Weighted - average number of shares outstanding	280,282	280,282	225,005	209,840	207,412	204,189
Adjusted weighted - average number of shares (5)	501,380	501,380	554,271	439,064	207,412	204,189
Capital Stock	357,267	357,267	248,803	212,013	207,412	207,412
Dividends declared per share						
U.S. GAAP						
Revenues	118,348	341,672	251,420	230,068	153,168	245,137
Operating Income (loss)	29,463	85,058	32,060	(35,206)	(45,957)	4,450
Net income (loss) (4)	44,821	129,398	2,825	235,126	(901,515)	19,420
Net income (loss) before extraordinary items and accounting changes	44,821	129,398	2,825	235,126	(901,515)	(4,479)
Basic net income (loss) per share (4)	0.16	0.46	0.01	1.12	(4.36)	0.10
Basic net income (loss) per GDS(4)	1.60	4.62	0.13	11.20	(43.46)	0.95
Basic net income (loss) before extraordinary items and accounting changes per share (4)	0.16	0.46	0.01	1.12	(4.35)	(0.022)
Diluted net income (loss) per share (4)	0.11	0.31	0.01	0.60	(4.35)	0.09
Diluted net income (loss) per GDS (5)	1.07	3.10	0.13	6.02	(43.46)	0.95

Diluted net (loss) income before extraordinary items and accounting changes per share (4)	0.11	0.31	0.01	0.60	(4.35)	(0.02)
Weighted - average common shares outstanding	280,282	280,282	225,005	209,840	207,412	204,189

Adjusted weighted - average number of shares [5]	475,489	475,489	225,005	338,416	207,412	204,189
BALANCE SHEET DATA						
Argentine GAAP						
Cash and banks and current investments	73,410	211,934	163,900	232,001	71,150	113,730
Inventories	41,249	119,086	45,125	23,854	79,733	104,004
Mortgages and leases receivable, net	25,371	73,246	37,267	39,181	18,164	117,761
Non-current investments	184,138	531,606	512,911	420,373	583,344	764,059
Fixed assets, net	497,620	1,436,628	1,265,666	1,227,639	409,469	501,245
Total current assets	134,997	389,735	261,651	297,476	157,969	260,823
Total assets	874,411	2,524,426	2,208,326	2,081,956	1,316,050	1,700,227
Short-term debt [6]	45,282	130,728	143,126	96,159	635,533	395,666
Total current liabilities	107,716	310,977	256,022	188,738	693,543	458,697
Long-term debt [7]	146,315	422,412	468,807	592,104	975	32,418
Total non-current liabilities	178,518	515,381	522,213	629,988	4,061	41,642
Minority interest	154,430	445,839	470,237	454,044	95,726	133,445
Shareholders equity	433,747	1,252,229	959,854	809,186	522,720	1,066,443
U.S. GAAP						
Total assets	804,176	2,321,656		1,811,156	1,019,426	1,616,709
Total shareholders equity	319,264	921,716		587,740	197,124	988,523
CASH FLOW DATA						
Argentine GAAP						
Net cash provided by operating activities	32,383	93,490	74,691	93,945	54,313	106,994
Net cash (used in) provided by investing activities	(43,880)	(126,682)	(97,186)	(40,603)	(21,084)	81,559
Net cash provided by (used in) financing activities	18,312	52,868	(47,649)	109,439	(41,427)	(184,244)
U.S. GAAP						
Net cash provided by operating activities	36,597	105,655	92,378	55,135	11,871	98,299
Net cash (used in) provided by investing activities	49,098	(141,746)	(105,061)	(52,260)	(21,049)	80,728
Net cash provided by (used in) financing activities	18,312	52,868	(47,649)	109,439	(41,427)	(173,958)
Effect of exchange rate changes on cash and cash equivalents	1,004	2,899	(8,081)	51,743	2,043	
Effect of inflation accounting				(1,472)	39,113	
OTHER FINANCIAL DATA						
Argentine GAAP						
Depreciation and amortization	25,799	74,961	68,519	80,547	26,297	28,281
Capital expenditures [8]	39,816	114,949	152,979	42,735	50,139	70,337
Ratio of current assets to current liabilities	1,253	1.253	1.022	1.576	0.228	0.569
Ratio of shareholders equity to total liabilities	1,515	1.515	1.233	0.988	0.749	2.131
Ratio of non-current assets to total assets	0.846	0.846	0.882	0.857	0.880	0.847
Profitability [9]	0.093	0.093	0.099	0.430	(0.684)	(0.037)

(1) Solely for the convenience of the reader, we have translated Argentine Peso amounts into U.S. Dollars at the exchange rate quoted by Banco de la Nación Argentina for June 30, 2005 which was Ps. 2.887 per US$1.0. We make no representation that the Argentine Peso or U.S. Dollar amounts actually represent, could have been or could be converted into Dollars at the rates indicated, at any particular rate or at all. See Exchange Rates . Sums may not total due to rounding.

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(2) In thousands of constant Pesos of June 30, 2005, except for ratios and share data. Includes adjustment by inflation as of February 28, 2003. Sums may not total due to rounding.

(3) Includes results from temporary investments in affiliated companies and gain (losses) from holding investment in real estate assets. See Note 7 to our Consolidated Financial Statements.

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

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

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

(7) Includes long-term debt, the non-current mortgages payable and the non-current portion of the seller financing.

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

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

Exchange Rates

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. Dollars expressed in nominal Pesos per U.S. Dollar. On November 30, 2005, the applicable Peso/U.S. Dollar exchange rate was Ps. 2.946 to US$ 1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Pesos.

Nominal Exchange Rates

	Exchange Rate [5]			
	High [1]	**Low [2]**	**Average [3]**	**Period End**
Fiscal Year 2001	1.0000	0.9990	0.9995	1.0000
Fiscal Year 2002 [4]	3.7400	0.9990	1.8206	3.7900
Fiscal Year 2003	3.7400	2.7120	3.2565	2.8000
Fiscal Year 2004	2.9510	2.7100	2.8649	2.9580
Fiscal Year 2005	3.0400	2.8460	2.9230	2.8670

Month Ended June 30, 2005	2.8760	2.8460	2.8640	2.8670
Month Ended July 31, 2005	2.8660	2.8410	2.8491	2.8410
Month Ended August 31, 2005	2.8930	2.8390	2.8682	2.8910
Month Ended September 30, 2005	2.9490	2.8840	2.8940	2.8950
Month Ended October 31, 2005	2.9980	2.8890	2.9475	2.9820
Month Ended November 30, 2005	2.9720	2.9190	2.9450	2.9460

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

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

(3) Average of month-end rates.

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

(5) All prices are mid market prices.

Source: Banco de la Nación Argentina. Bloomberg

Fluctuations in the exchange rate between the Peso and the U.S. Dollar may affect adversely our ability to service our Dollar-denominated debt and the U.S. Dollar value of our Global Depositary Shares. Since the repeal of the Convertibility Law in January 2002, the Peso has devaluated approximately 200 % vis-à-vis the U.S. Dollar. We cannot assure you that further devaluations will not take place in the future. Inflation and further devaluation of the Argentine currency could materially and adversely affect our operating results.

B. Capitalization and Indebtedness

This item is not applicable.

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C. Reasons for the Offer and Use of Proceeds

This item is not applicable.

D. Risk Factors

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

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

Risks Related to Argentina

We collect substantially all of our revenues in Argentina, thus the economic crisis suffered in this country has had and continues to have severe consequences in our financial condition.

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

During 2001 and 2002, Argentina underwent a period of severe political, economic and social instability that led to the early resignation of President De la Rúa, the default on substantially all of Argentina s sovereign debt and the devaluation of the Peso after a ten-year period of one-to-one parity with the U.S. Dollar. Following a succession of interim Presidents during the course of ten days, on January 1, 2002, at a joint session of the Argentine Congress, Eduardo Duhalde, a senator for the Justicialist Party, was selected to complete the term in office left vacant by President de la Rúa which was due to expire in December 2003.

During his term in office, President Duhalde adopted a number of measures, including, but not limited to the following:

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

ending the one-to-one Peso-U.S. Dollar parity that had been in place since April 1991;

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

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

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

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

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

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

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

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

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

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

- requiring the deposit in the Argentine financial system of foreign currency earned from exports, subject to certain exceptions; and

- enacting amendments to the Bankruptcy Law to protect debtors.

The measures set forth above resulted in a profound change to the Argentine monetary and foreign exchange regime and to the regulatory framework for all business sectors in Argentina. The impact of such measures on the Argentine economy was significant in the course of 2002 and throughout the first half of 2003. In accordance with data published by the INDEC, in 2002 Argentina s gross domestic product (GDP) decreased 10.9%, unemployment increased to unsustainable levels and the persistent devaluation of the Peso led to an escalation in retail and wholesale prices of 41.4% and 118.2%, respectively. This led to a reduction of wages in real terms and of disposable income and resulted in changes in consumer behavior across all sectors of the Argentine population adversely affecting our shopping center and real estate businesses.

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

The increase in the level of demonstrations and violence in June 2002 led then-President Duhalde to announce his resignation on May 25, 2003 and to call presidential elections prior to the expiration of his term. Néstor Kirchner was elected President in the second round and went into office inaugurated on May 25, 2003. His term in office will expire on December 10, 2007. Although the economic policies implemented by Kirchner s administration have succeeded in achieving the economic growth presented by Argentina in 2003 (estimated at 8.8% as compared to 2002) and 2004 (estimated at 9.0% as compared to 2003) and in the first six months of 2005 (estimated at 9.1% as compared to the first six months of 2004). There are still major issues pending resolution, such as the contracts with privatized public utility companies, the restructuring of the country s financial system and continuing default of the pre-existing sovereign debt that did not participate in the government s exchange offer. The Kirchner administration s main challenge is to generate confidence and create conditions that allow for a transition from the current short-term stabilization economic policies to long-term and sustainable growth. We cannot assure you that the Kirchner administration will be able to implement the required reforms to engender economic growth and reestablish political confidence. If it is unable to do so this would likely have an adverse effect on the economy and financial system.

On October 23, 2005 midterm elections for Senators and Representatives took place in Argentina. Cristina Fernandez de Kirchner, the President s wife, was elected as Senator for the Province of Buenos Aires by a wide difference among other candidates.

The government s actions concerning the economy, including the ones with respect to inflation, interest rates, price controls, foreign exchange controls and taxes, have had, and may continue to have, a material adverse effect on private entities, including us. Decisions with regards to those issues could paralyze investment and consumption decisions causing a reduction in retail sales, real estate sales and demand for office and commercial space. Consequently, we cannot provide any assurance that future economic, social and political developments in Argentina, over which we have no control, will not further impair our business, financial condition, or results of operations.

The Peso has been subject to major devaluations in the past and may suffer significant fluctuations in the future creating uncertainty as to Argentina s economic future.

The economic policies of the Argentine government as well as any future depreciation of the Peso against the U.S. Dollar might have an adverse impact on our financial condition and the results of our operations. The Peso has been subject to major devaluations in the past and may suffer significant fluctuations in the future.

Law No. 25,561, promulgated on January 6, 2002, called Public Emergency and Foreign Exchange Regime Reform Law (Public Emergency Law), put an end to over a decade of one-to-one parity between the U.S. Dollar and the Peso authorizing the Argentine government to set the exchange rate. Subsequent to the devaluation of the Peso in early 2002 and since the beginning of the economic crisis, there have been significant fluctuations in the value of the Peso causing repeated Argentine Central Bank interventions to stabilize the Peso through purchases and sales of U.S. Dollars. As of August 31, 2005, the exchange rate was Ps.2.911 per U.S. Dollar after a peak of Ps.3.90 per U.S. Dollar on June 25, 2002.

We collect substantially all of our revenues in Argentina, and as a result of the enactment of the Public Emergency Law, they are calculated and collected in Pesos. We cannot assure you that the policies to be implemented by the Argentine government in the future will stabilize the value of the Peso against foreign currencies. Therefore, the Peso may continue to be subject to significant fluctuations and further depreciations which might significantly and adversely affect our financial condition and the results of our operations.

Further depreciation of the Peso would have particular impact on:

- revenues collected for services provided in Argentina, such as lease agreements;
- our assets valuation; and

our Peso-denominated monetary assets and liabilities which could be affected by the introduction of different inflation adjustment indexes.

Argentina may not be able to attract foreign investment in the future.

Argentina s recent social and economic instability, the Government s emergency measures to address the instability and security concerns relating to an increase in crime (including the recent activities of organized picketers, or *piqueteros*) have made many foreign investors unwilling to invest in Argentina. Foreign investment is conducive in many respects to our economic recovery and future economic growth.

Argentina s continuing inability to attract foreign investment may have an adverse effect on Argentina s economy and prospects.

Inflation may escalate and further undermine the economy which could adversely affect our financial condition and results of operations.

On January 24, 2002, the Argentine government amended the Argentine Central Bank s charter allowing it to print currency without having to maintain a fixed and direct ratio with the foreign currency and gold reserves. This amendment allows the Argentine Central Bank to make advances to the Argentine government to cover anticipated budget deficits and to provide financial assistance to financial institutions with liquidity problems. Furthermore, the devaluation of the Peso affected the domestic price system generating inflation in 2002. Through December 31, 2003, the CER and the wholesale price index exhibited increased by 3.7% and 4.3%, respectively, compared to 41.4% and 118.2%, respectively, for 2002. During 2004, the CER increased by 6.1% and the wholesale price index increased by 7.9%. Although in the course of 2003 and 2004 inflation has been relatively stable, there is great concern over the escalating levels of inflation by the end of 2005. After rising 0.8% and 1.5% in December 2004 and January 2005, respectively, prices increased by 1% in February, 1.5% in March 2005, 0.5% in April 2005, 0.6% in May 2005, 0.9% in June 2005, 1% in July 2005, 0.4% in August 2005, 1.2% in September 2005, 0.8% in October 2005 and 1.2% in November 2005, creating significant uncertainty regarding future inflation levels.

The devaluation of the Peso and related economic measures implemented by the Argentine government were intended primarily to remedy the effects of unemployment and to stimulate economic growth. To date, the objectives pursued have been achieved, but the sustainable success of such measures will depend on the ability of the Argentine government to generate confidence in the local and international financial markets. If current uncertainty regarding the government s policies persists, it is likely that inflation rates will increase significantly, investment and economic activity will contract, unemployment will increase beyond current levels, tax collection will drop and the current fiscal surplus will erode, leading to fiscal deficit. Therefore, we cannot assure you that the value of the Peso will continue to be stable or that inflation will remain at current levels. Any significant increase in inflation or additional volatility in the financial markets could have a material adverse effect on our financial condition and results of operations.

The 2001 economic and financial crisis produced significant social and political tensions, which could worsen in the event of another shock and have a material adverse effect on Argentina s economic growth.

During the height of its recent economic crisis, Argentina experienced significant social and political turmoil, evidenced by street demonstrations, strikes, increased rates of crime and the rapid succession of four interim administrations between President De la Rúa s resignation in December 2001 and President Duhalde s appointment in January 2002. Despite the beginning of an economic recovery, these increased social and political tensions continue and are exacerbated by high levels of poverty and unemployment. Picketers continue to employ street demonstrations and other disruptive tactics to oppose Government policies. In addition, the lack of any clear political consensus in favor of a particular set of economic policies has also given rise to, and may perpetuate, significant uncertainties about Argentina s economic and political future. There can be no assurance that the significant domestic instability evident during 2001 and 2002 will not reemerge in response to an internal or external shock. Such instability could have a material adverse effect on Argentina s economic growth. Furthermore, if unemployment rates do not decrease substantially, consumption of retail goods will be detrimentally affected which in turn will adversely affect the financial condition of our tenants, and consequently, our results of operations.

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Future governmental policies will likely significantly affect the economy as well as the operations of financial institutions.

The Argentine government has historically exercised significant influence over the economy, and financial institutions, in particular, have operated in a highly regulated environment. Due to the Argentine crisis, in the last few months the Argentine government has promulgated numerous, far-reaching and not always consistent laws and regulations affecting the economy as well as financial institutions in particular. We cannot assure you that laws and regulations currently governing the economy or the banking sector will not continue to change in the future, particularly in light of the continuing economic crisis, or that any changes will not adversely affect our business, financial condition or results of operations as well as our ability to honor our foreign-currency denominated debt obligations and that of Banco Hipotecario in which we have a significant investment.

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

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

Despite the apparent disappearance of the signs of economic and political crisis, the structural problems of the Argentine economy, which have recurrently caused or contributed to political crisis in the past, have not been resolved, and it cannot be assured whether the policies of the elected president will be finally successful.

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

Since early December 2001, the Argentine authorities implemented a number of monetary and currency exchange control measures that included restrictions on the withdrawal of funds deposited with banks and tight restrictions for making transfers abroad. Although most restrictions in connection with repayments to foreign creditors have been lifted, these regulations have been changing constantly since they were first enacted, and we cannot assure you that they will not be put in place again and, if they are, whether they will be stricter than before. Currently, the government, through the Argentine Central Bank holds control over capital inflows and outflows, enacting the applicable rules. Decree No. 616/2005, issued on June 10, 2005, established that inflows and outflows of foreign currency into the local exchange market, and indebtedness transactions incurred by local residents that may result in a foreign currency-denominated payment to non-residents, need to be registered with the Argentine Central Bank. Furthermore, as of May 26, 2005, the following situations have been subject to certain requirements and conditions: (a) inflows of funds derived from foreign loans by the private financial and non financial sector; and (b) inflows of foreign currency by non-residents for the purpose of: (i) holding a position in local currency, (ii) purchasing financial debt or assets and (iii) investing in government bonds in the secondary market. In these situations, the following requirements must be met: (i) inflows must remain in Argentina for 365 days to be computed as from the day they were negotiated in the local exchange market; (ii) the funds involved in the transactions covered by this decree must be deposited in a local bank account; (iii) a non-transferable deposit denominated in U.S. Dollars for an amount equal to 30% of the relevant transaction has to be made with the resulting proceeds. This deposit will only be reimbursed after the expiration of a 365 days term, cannot bear interest (nor yield any other type of profit) and may not be used as collateral in any credit transaction. Such requirements do not apply to: (a) foreign direct investment, (b) primary placement of publicly traded debt or equity securities listed in one or more exchange markets, and (c) foreign trade and export finance related transactions.

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Subsequently, Resolution No. 365/2005 from the Ministry of Economy and Production established that non-resident capital inflows used for the purchase of notes and income derived from the sale by residents of foreign assets for an amount greater than US$2 million per month, will also be subject to the aforementioned requirements. In addition, according to this resolution non-resident capital infows destined to the primary subscription of notes issued by the BCRA are also submitted to the non-transferable deposit requirement described above.

Moreover, said resolution provided certain exemptions to the non-transferable deposit requirement such as the following: (i) inflows derived from loans extended by multilateral and bilateral financial institutions and official credit agencies, and (ii) inflows derived from financial loans extended by foreign creditors, so long as they are devoted to investments in non-financial assets and the borrowed amounts are repaid at least 24 months after they were granted. However, neither Resolution No.365/2005 nor the relevant Argentine Central Bank Communications contain any definition or example as to what would constitute a non-financial asset that would fall under said exception. Therefore, inflows of foreign currency derived from loans extended by foreign creditors to residents destined to finance the acquisition or the construction of any real estate property are likely to be subject to the non-transferable deposit requirement even if such borrowings are to be repaid no earlier than 24 months after they were granted.

By contrast, according to Communication C 43075 dated September 26, 2005, inflows of foreign currency caused by a non-resident and devoted to the cancellation of payment obligations under a purchase agreement (including installment payments thereof) concerning a real estate property under construction may be registered as foreign direct investments provided that certain conditions are met.

Finally, Resolution No. 637/2005 from the Ministry of Economy and Production dated November 16, 2005 established that any inflow of foreign currency to the local exchange market used for the subscription of notes, bonds or participation certificates issued by the trustee of a trust, regardless of the channels in which they are traded (public or private offerings, or listings in self-regulated markets) is subject to the non-transferable deposit requirement established by Decree 616/2005 if such requirement would be deemed applicable to the acquisition of the underlying assets of the trust. See Exchange Controls.

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

Argentina s sovereign debt restructuring may create certain additional uncertainties regarding future litigation and economic development.

On December 23, 2001, interim President Rodríguez Saá announced the suspension of the payment of all of Argentina s sovereign indebtedness, which as of December 31, 2001 amounted to approximately US$144.5 billion. On January 2, 2002, then President Duhalde ratified this decision in relation to the portion of the debt corresponding to private-sector foreign debt holders. Subsequently, the leading international credit rating agencies downgraded Argentina s sovereign debt rank. In November 2002, Argentina failed to honor certain payments then outstanding and payable to the World Bank.

On September 21, 2003, the Executive Board of the International Monetary Fund (International Monetary Fund) approved the restructuring of US$12.5 billion of Argentina s sovereign debt outstanding with multilateral lenders. Pursuant to the terms of the agreement with the International Monetary Fund, the maturities of this debt were extended over the next three years. In addition, Argentina committed to achieving

certain targets including a primary fiscal surplus of 3% of GDP for 2004, and left the primary fiscal surplus target for the following two years open for negotiation. Prior to arriving at an agreement, the Argentine government defaulted in a payment due to the International Monetary Fund that was cured by execution of a new standby agreement.

On September 23, 2003, the Argentine government announced the guidelines proposed for a restructuring plan in connection with approximately US$95 billion of debt held by the private sector. These guidelines set forth that the government could require existing debt holders to accept, among other decisions, a 75% reduction in principal, honoring only 25% of the outstanding principal on such indebtedness.

In accordance with the agreement reached with the International Monetary Fund, Argentina is subject to quarterly reviews. The first reviews were approved in January 2004 and in March 2004, respectively. In August 2004, the International Monetary Fund s financial assistance program was suspended until the conclusion of the public debt restructuring process.

The Argentine debt exchange offer concluded on February 25, 2005. On March 18, 2005, the Argentine government announced the final results of the debt restructuring process, with a rate of participation by bondholders of approximately 76%. Despite the high levels of acceptance of the offer, the amounts not tendered for exchange totaled approximately US$20 billion which creates uncertainty as to the final resolution of the sovereign debt problem and its impact on the future performance of the Argentine economy. The settlement of the debt exchange was completed on June 2, 2005 due to a delay resulting from legal action commenced by certain bondholders who did not participate in the exchange offer in an attempt to attach the tendered bonds.

Following the settlement of Argentina s sovereign debt restructuring, on May 18, 2005, the International Monetary Fund agreed to a one-year extension of Argentina s rescheduled debt payment amounting to US$2.5 billion with maturities between May 20, 2005 and April 28, 2006. Additionally, certain companies have filed claims before the International Center for the Settlement of Investment Disputes. The claimants allege that the emergency measures are inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties to which Argentina is a party. Most of these claimants contend that the government s actions had the effect of expropriating their investments without adequate compensation. Their pleadings are still pending resolution. We can give no assurance that further litigation to be initiated by holdouts will not result in material judgments against the Argentine government.

After the exchange offer Argentina s sovereign debt exceeded US$120 billion. We cannot assure you that the Argentine government will honor its obligations either under the exchange offer or under the rescheduled agreement with the International Monetary Fund. Further defaults may result in additional litigation and affect Argentina s credibility towards multilateral lenders. This would adversely affect economic growth. Under these circumstances, we cannot assure you that the economy will not suffer additional shocks which may adversely affect our business and results of operations.

The Recent suspension of the Mayor of the City of Buenos Aires and the institution of an impeachment proceeding against him is generating political and institutional instability in the City.

On November 14, 2005, the legislative body of the City of Buenos Aires suspended Mayor Aníbal Ibarra and instituted an impeachment proceeding against him under the charge of breach of his duties arising out of an incident that caused the death of 193 people when a fire started on December 30, 2004 in a local night club which did not comply with minimum safety standards required for the issuance of a municipal permit. If Mayor Ibarra is found guilty of the charges he could be removed from office.

This impeachment proceeding is the first one of its kind that has taken place in the history of the City of Buenos Aires. The confrontation among political parties in the legislative body of the City and the trial are

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generating political and institutional instability in the City where IRSA and Alto Palermo S.A. (APSA) (APSA) are located.

Recent changes in Kirchner s cabinet of ministers produce uncertainty as of the future development of governmental policies

On November 28, 2005 President Kirchner announced the replacement of several Ministers of his cabinet. Felisa Josefina Miceli replaced Roberto Lavagna as head of the Ministry of Economy and Production, Jorge Enrique Taiana replaced Rafael Bielsa as head of the Ministry of Foreign Affairs, Nilda Garré replaced José Pampuro as head of the Ministry of Defense and Juan Carlos Nadalich replaced Alicia Kirchner as head of the Ministry of Social Development. After these announcements, some concerns have arisen, particularly with regards to the replacement of the Minister of Economy and Production. The most important concern is whether the new Minister will have the ability to continue the development of governmental policies favorable to the recovery of the local economy and effective in reducing the level of poverty in Argentina.

Risks Related to Our Business

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

We have had, and expect to have, substantial liquidity and capital resource requirements to finance our business. As of June 30, 2005, our consolidated financial debt amounted to Ps.483.7 million (including accrued and unpaid interests and deferred financing costs). The fact that we are highly leveraged may affect our ability to refinance existing debt or borrow additional funds to finance working capital, acquisitions and capital expenditures. This would require us to allocate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. Our high leverage could place us at a disadvantage compared to our competitors who are less leveraged and limit our ability to react to changes in market conditions, changes in the real estate industry and economic downturns. Although we have successfully restructured our debt we cannot assure you that we will not relapse and become unable to pay our obligations.

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

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

Our largest beneficial owner is Mr. Eduardo S. Elsztain. As of November 30, 2005, such beneficial ownership consisted of:

931,852 of our common shares owned by Inversiones Financieras del Sur S.A. (IFISA), a company where Mr. Eduardo S. Elsztain is the beneficial owner;

77,850,702 of our common shares owned by Cresud S.A.C.I.F. y A. (Cresud), for which Mr. Eduardo S. Elsztain by reason of his position with Cresud, may be deemed to own all of our common shares held for the account of Cresud.

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Conflicts of interest between our management, the Company and our affiliates may arise in the performance of our respective business activities. Mr. Elsztain also beneficially owns (i) approximately 20.2% of the common shares of Cresud, and (ii) approximately 61.6% of the common shares of our subsidiary APSA. We cannot assure you that our principal shareholders and their affiliates will not limit or cause us to forego business opportunities that their affiliates may pursue or that the pursuit of other opportunities will be in our interest.

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

While the Convertibility Law remained in effect, we had no exchange rate risk relating to our Peso-denominated revenues and our U.S. Dollar-denominated liabilities. However, with the repeal of the Convertibility Law on February 4, 2002, all U.S. Dollar-denominated obligations, which were within the Argentine banking sector and subject to Argentine Law, were mandatorily converted into Peso-denominated liabilities at an exchange rate of one Peso to one U.S. Dollar. The majority of our liabilities, such as the Unsecured Loan Agreement, the Series 03 Secured Notes due 2009 and the Hoteles Argentinos Loan are subject to New York law and thus have not been converted into Pesos. Moreover, our US$ 100 million Convertible Notes (US$ 57.0 million outstanding as of November 30, 2005) and APSA s US$ 50 million Convertible Notes (US$ 47.3 million outstanding as of November 30, 2005) are U.S. Dollar-denominated. See: Item 5.B. Liquidity and Capital Resources Our indebtedness .

We realize substantially all of our revenues in Pesos (such as lease contracts and seller financing) and, as a result, the devaluation of the Peso has adversely affected the U.S. Dollar value of our earnings and thus impaired our financial condition. Moreover, our Peso-denominated assets (which represent 91% of our total assets as of June 30, 2005) have depreciated against our indebtedness denominated in foreign currency. As of June 30, 2005, we had outstanding debt amounting to Ps. 483.7 million, of which 89% was denominated in U.S. Dollars. Any further depreciation of the Peso against the U.S. Dollar will correspondingly increase the amount of our debt in Pesos, with further adverse effects on our results of operation and financial condition, and may increase the collection risk of our leases and other receivables from our tenants and mortgage debtors, most of whom have Peso-denominated revenues.

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

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

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

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

We currently hold certain investments in Argentine government debt, corporate debt and equity securities. In particular, we hold a significant interest in Banco Hipotecario, an Argentine bank that has

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recently suffered material losses. Although the holding of these Argentine investments, with the exception of Banco Hipotecario, tends to be short term, investments in such securities involve certain risks, including:

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

- loss of principal.

Some of the issuers in which we have invested and may invest, including the Argentine government, have in the past experienced substantial difficulties in servicing their debt obligations, which led them to restructure their indebtedness. We cannot assure that the issuers in whom we have invested or may invest will not be subject to similar or other difficulties in the future which may adversely affect the value of our investments. In addition, such issuers and, therefore, such investments, are generally subject to many of the risks that are described in this section, which could also adversely affect the value of these investments.

Failure to sell planned properties will adversely affect our financial condition

We might have difficulty or fail to sell our futures developments. A failure or a delay in selling these properties would result in lower results of operations and have a material adverse effect on our financial condition.

Real estate investments are subject to many risks.

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

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

- oversupply of retail space or a reduction in demand for retail space, which could result in lower rent prices and lower revenues for us;

- increased competition from other real estate operators which might drive down our prices and profits;

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

- increases in operating expenses which could lower our profitability;

- the inability to collect rents due to bankruptcy or insolvency of tenants or otherwise;
- the need to periodically renovate, repair and release space and the higher costs thereof; and
- the exercise by our tenants of their legal right to early termination of their leases.

In addition, other factors may adversely affect the productivity and value of our properties, including law reforms and governmental regulations (such as those governing usage, zoning and real property taxes), changes in interest rates (including the risk that increased interest rates may result in decreased sales of lots in the residential development properties) and the availability of financing. Increases in operating costs due to

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inflation and other factors may result in the inability or unwillingness of tenants to pay rent or expense increases. Certain significant expenditures, such as debt service, real estate taxes, and operating and maintenance costs, are generally not reduced in such circumstances, resulting in a reduction in income from the investment. The foregoing and any other factor or event that would impede our ability to respond to adverse changes in the performance of our investments could have a material adverse effect on our financial condition and results of operations.

Our business is subject to extensive regulation.

The real estate business is subject to extensive building and zoning regulations at the national, provincial and municipal levels. We are required to obtain approval from various governmental authorities for our development activities, and new laws or regulations could be adopted, enforced or interpreted in a manner that could adversely affect our results of operations and the level of cash flow necessary or available to meet our obligations. Development activities are also subject to risks relating to the inability to obtain or delays in obtaining all necessary zoning, environmental, land-use, development, building, occupancy and other required governmental permits and authorizations. We and our affiliates operations are also subject to national, provincial and municipal environmental laws applicable in Argentina. We believe that such laws and regulations currently do not materially affect our business or results of operations. We cannot assure you, however, that those regulations will not change in a manner that could cause material adverse effects on our business.

Argentine Leasing Law No. 23,091 imposes restrictions that limit our flexibility.

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

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

- residential leases must comply with a mandatory minimum term of two years and retail leases must comply with a mandatory minimum term of three years except in the case of stands and/or spaces for special exhibitions;

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

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

Eviction proceedings in Argentina are difficult and time consuming.

Although Argentine law permits a summary proceeding to collect unpaid rent and a special proceeding to evict tenants, eviction proceedings in Argentina are difficult and time-consuming. Historically, the heavy workload of the courts and the numerous procedural steps required have generally delayed landlords efforts to evict tenants. Eviction proceedings generally last from six months to two years from the date of filing of the suit to the time of actual eviction. Historically, delinquency regarding office rental space has been very low, approximately 2%, and we have usually attempted to negotiate the termination of lease agreements with defaulting tenants after the first few months of non-payment in order to avoid legal proceedings. Delinquency may increase significantly in the future, and such negotiations with tenants may not be as successful as they have been in the past. Moreover, new Argentine laws and regulations may forbid or restrict eviction

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proceedings, and in such case, they would likely have a material and adverse effect on our financial condition and results of operation.

Our assets are concentrated in the Buenos Aires area.

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

For the fiscal year ended June 30, 2005, a substantial part of our sales were derived from properties in the City of Buenos Aires and the province of Buenos Aires area. Although we own properties and may acquire or develop additional properties outside Buenos Aires, we expect to continue to depend to a very large extent on economic conditions affecting those areas, and therefore, an economic downturn in those areas could have a material adverse effect on our financial condition.

If the court extends Inversora Dársena Norte S.A. s bankruptcy to Puerto Retiro, we will lose the significant investment we made to acquire a unique waterfront land reserve by the City of Buenos Aires where we plan to develop a financial center.

On November 18, 1997, through the acquisition of the capital stock of the old Alto Palermo (Alto Palermo S.A., currently Inversora Bolivar S.A.), Pérez Companc s real estate subsidiary, we indirectly acquired 35.2% capital stock of Puerto Retiro. The Old Alto Palermo had purchased such shares of Puerto Retiro from Redona Investments Ltd. N.V. in 1996. In addition, pursuant to the execution of several stock purchase agreements in May and June 1999, we -through Inversora Bolívar S.A.- increased our interest in Puerto Retiro up to 50% of its capital stock.

On April 18, 2000 Puerto Retiro received notice of a complaint filed by the Federal Government, through the Ministry of Defense, with the purpose of requiring the extension of the bankruptcy of Inversora Dársena Norte S.A. (Indarsa). Concurrently with the complaint, at the request of plaintiff, the bankruptcy court granted an order restraining the ability of Puerto Retiro to sell or dispose in any manner the real estate property purchased from Tandanor S.A. (Tandanor).

Indarsa had purchased 90% of the capital stock of Tandanor, a formerly government owned company privatized in 1991 engaged in the shipyard industry, which owned a large piece of land near Puerto Madero of approximately 8 hectares, divided into two spaces: Planta 1 and 2. Such property did not have (and still does not have) approved zoning established in the Urban Planning Code and therefore no project can be currently developed.

After the purchase of Tandanor by Indarsa, Tandanor sold Planta 1 to Puerto Retiro for a sum of US$ 18 million, pursuant to a valuation performed by J.L. Ramos, a well-known real estate brokerage firm in Argentina. The deed was executed in June, 1993.

Indarsa did not comply with the payment of the outstanding price for the purchase of the capital stock of Tandanor, and therefore the Ministry of Defense requested the bankruptcy of Indarsa. Since the only asset of Indarsa was the shareholdings in Tandanor, the Ministry of Defense is pursuing to extend the bankruptcy to other companies or individuals which, according to its view, acted as an economic group, and therefore, requested the extension of the bankruptcy to Puerto Retiro, which acquired Planta 1 from Tandanor.

On April 18, 2001, the judicial procedure entered into trial stage. At the present time, a provisional measure prohibiting changes and disposition of this building is still in effect. We are currently awaiting the Court´s ruling on this matter.

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We cannot assure the success of the outcome of this judicial proceeding. If the plaintiff s claim is favored by the court or by the court of appeals, such decision may cause a material adverse effect on our financial situation, since all of the assets of Puerto Retiro will be used to pay the debts incurred by Indarsa.

The Company s investment in Puerto Retiro amounts to Ps. 45.5 million at June 30, 2005.

We face a potential economic loss with regards to a judicial proceeding involving the acquisition of Llao Llao Hotel.

Llao Llao Holding S.A. purchased Hotel Llao Llao on November, 1997, from National Parks Administration. Llao Llao Holding S.A. (in the process of dissolution due to merger with IRSA), predecessor of Llao Llao Resorts S.A. was sued in 1997 by National Parks Administration to obtain collection of the unpaid balance of the purchase price in Argentine sovereign debt securities amounting to US$ 2.87 million. The trial court ruled in favor of the plaintiff. The ruling was appealed, and the court of appeals confirmed the judgment ordering the payment of US$ 2.87 million in Argentine sovereign debt securities available at the date of the ruling, plus compensatory and punitive interest and attorneys fees. On March 2, 2004, the Company made a payment deposit of Ps. 7.19 million with Banco de la Ciudad de Buenos Aires in favor of the National Parks Administration and deposited Argentine sovereign debt securities class FRB - FRB L+13/16 2005 for a total nominal value of US$ 4.12 million. The total amount settled on that date was Ps. 9.15 million.

The court served notice of payment made on the plaintiff. On June 30, 2004 the plaintiff filed a brief rejecting said payment considering it partial and requested the court the determination of term for the deposit of funds until final payment of the total debt.

The trial court pesified the plaintiff s credit and the plaintiff appealed this decision. The court of appeal ruled in favor of the plaintiff mantaining their credit in U.S. Dollars. We have appealed this decision and the appellate court declared it inadmissible. We appealed before the Federal Supreme Court and the final decision is still pending.

A report of the legal advisors states that the balance remains unpaid and outlines that the Company has deposited with the court the debt instruments determined in the unpaid balance, and an amount in cash of Ps. 7.19 million, whereas the unpaid balance approved in the court records was US$ 3.78 million. Consequently, as of June 30, 2005 our management recorded a reserve in the amount of Ps. 3.77 million which was determined calculating the difference between the amount claimed for in concept of compensatory and punitive interest (US$ 3.8 million) and the amount deposited in payment (Ps 7.19 million).

In September 2001 Llao Llao Resorts S.A. entered into an agreement with six of the plaintiff s attorneys by which the company agreed to pay them the amount of US$ 1.2 million in concept of fees which would be paid in twelve equal monthly installments of US$ 100,000 each to be deposited with Banco de la Ciudad de Buenos Aires. The first three installments were paid before the devaluation of the Peso and the following nine installments were paid in Pesos after the devaluation.

One of the six attorneys never challenged these payments. The remaining five attorneys filed a motion alleging that that the amount agreed should have been paid in U.S. Dollars and not in Pesos and calculating the difference between the amounts paid in Pesos and the U.S. Dollar amount agreed in concept of fees which they understood amounted to US$ 384,000. In March 2005, at the request of two of the attorneys the court issued

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an order to attach the amount of Ps. 788,000 from the Company s checking accounts. As of June 30, 2005 the attachment amounted to Ps. 861,000.

Our legal advisors challenged the liquidation performed by these two plaintiffs for several reasons. Firstly, the first three installments paid prior to the pesification need not be readjusted because they were made when the Peso was at a 1 to 1 parity with the U.S. Dollar. Secondly, the interest claim made by the plaintiffs is unlawful and exorbitant. On December 2, 2005 the court resolved ordering the payment of the currency difference with regards to the last nine installments which would be calculated using the exchange rate in force at the time the deposits were made and rejecting the interest claim considering that the relief sought was already covered by the readjustment ordered. This court order may be appealed by the plaintiffs.

We are currently negotiating an out-of-court agreement with the remaining three attorneys. The liquidation presented by them includes the amount of US$ 288,112.35 in concept of capital applied to the currency difference between the payments made in Pesos and the original fee agreement and US$ 72,528.78 in concept of interest which results in a total amount of US$ 360,641.13. We understand that they are willing to arrive at an agreement which could include an installment payment plan.

In accordance with the probable contingency reported by the lawyers as of June 30, 2005, the Company management has reserved the amount of Ps. 2.3 million.

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

On July 6, 1999 APSA acquired 94.6% ownership of Shopping Neuquén S.A. for Ps. 4.2 million. APSA paid Ps. 0.9 million on September 1, 1999 and the remaining Ps. 3.3 million were originally scheduled to be paid on or before July 5, 2001 or at the completion of the construction of the shopping center, whichever happened first. We clarify that said amounts are in Pesos according to the emergency legislation in force. See Item 3.D. Risks Factors . However, Shopping Neuquén S.A. s former shareholders have challenged the constitutionality of such legislation, and no final decision has been issued. As of November 30, 2005 the purchase price balance remains unpaid.

Shopping Neuquén S.A. s sole asset is a plot of land of approximately 50,000 square meters on which a shopping center is proposed to be built. The proposed project contemplates the building of a shopping center, a hypermarket, a hotel and a housing complex none of which have been commenced.

Legal issues with Shopping Neuquén S.A s former shareholders

On August 15, 2003 APSA was informed that the former shareholders of Shopping Neuquén S.A., who had a 85.75% interest, filed a complaint against APSA seeking recovery of the purchase price balance, interest and legal costs. In September 2003, APSA answered the complaint opposing several defenses such as, plaintiffs non-compliance with their duties under the contract and the pesification of the purchase price balance according to the emergency legislation. Moreover, APSA filed a counterclaim alleging there should be a readjustment of the effects of the contract which became excessively burdensome for unforeseeable reasons given the 2001 economic, social and political crisis. In November 2003 the plaintiffs replied to APSA s counterclaim alleging that the payment under the purchase agreement was overdue before the economic and social crisis emerged and thus APSA s contract readjustment claim was inadmissible. As of November 30, 2005 the trial is under discovery stage.

Legal issues with the Municipality of Neuquén

In June 2001 Shopping Neuquén S.A. filed a request with the Municipality of Neuquén to extend the construction deadlines that had been originally scheduled. In addition, it requested authorization to convey certain plots of land to third parties so that each participant to the Neuquén project would be able to build on his own land. On December 20, 2002 the Municipality of Neuquén issued Decree 1437/02 denying both requests. In addition, it declared that the rights under Ordinance 5178 had lapsed and that the land purchase agreements would be terminated. As a result, the improvements already performed by Shopping Neuquén S.A. would be lost and accrued in favor of the Municipality of Neuquén, leaving Shopping Neuquén S.A. with no right to compensation.

On January 21, 2003 Shopping Neuquén S.A. submitted its response to the Decree 1437/02 requesting its revocation. It also requested permission to submit a new construction timetable, which would be prepared in accordance with the current situation of the project, including reasonable short and medium term projections. The Municipal Executive issued Decree 585/2003 rejecting this. On June 25, 2003 Shopping Neuquén S.A. filed an administrative action with the Supreme Court of Neuquén requesting the annulment of Decrees 1437/2002 and 585/2003. On December 21, 2004, the Supreme Court of Neuquén ruled in favor of the Municipality of Neuquén, declaring that the administrative action filed by Shopping Neuquén S.A. had expired. The decision, however, is not final. APSA filed an appeal but the Supreme Court of Neuquén has not yet issued a decision with regards to its admissibility. If the appeal is declared admissible the Federal Supreme Court will give a final decision, but if it is declared inadmissible APSA will file an appeal directly with the Federal Supreme Court.

Shopping Neuquén S.A. is currently seeking to negotiate with the Municipality of Neuquén the terms of an agreement that might permit reactivation of the proposed development. Nevertheless, we cannot give you any assurance that APSA will be able to achieve such an agreement on commercially reasonable terms, if at all, and if APSA cannot, the Municipality of Neuquén would be entitled to request the restitution of the property and APSA will likely lose all or substantially all of its investment which amounts to Ps. 10 million.

We maintain a provision of Ps. 2.3 million which represents our best estimate of the probable loss to be incurred in connection with these claims.

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

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

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

Development and construction activities are inherently risky.

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

- abandonment of development opportunities and renovation proposals;

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- construction costs of a project may exceed our original estimates, making a project unprofitable;
- occupancy rates and rents of a newly completed project may be insufficient to make such project profitable;
- pre-construction buyers may default on their purchase contracts, or units in new buildings may remain unsold upon completion of construction;
- we may be unable to obtain financing on favorable terms for the development of the project;
- sale prices for residential units may be insufficient to cover development costs;
- construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs; and
- we may be unable to obtain, or may face delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations.

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

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

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

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

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

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

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

Our future acquisitions may be unprofitable.

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

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

Our shopping center business is subject to competitive pressure.

All of our shopping centers are located in Argentina. There are other shopping centers and numerous smaller retail stores and residential properties within the market area of each of our properties. The number of competitive properties in a particular area could have a material adverse effect on our ability to lease retail space in our shopping centers or sell units in our residential complexes and on the rent price or the sale price that we are able to charge. To date, there have been relatively few companies competing with us for shopping center properties, and, as additional companies become active in the Argentine shopping center market in the future, such competition could have a material adverse effect on our results of operations.

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

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

- adverse changes in the Argentine economy;
- adverse changes in the regional economies;
- political instability;

increase of unemployment; and

salary depreciation.

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

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

In recent years, we have provided mortgage financing to purchasers of units in our residential development properties. Before January 2002, our mortgage loans were U.S. Dollar-denominated and accrued interest at a fixed interest rate ranging generally from 10% to 15% per year and for terms ranging generally from 1 to 15 years. However, on March 13, 2002, the Argentine Central Bank converted all U.S. Dollar denominated debts into Pesos at the exchange rate of Ps. 1.00 to U.S. Dollars 1.00 and imposed maximum interest rate on mortgage loans of 3% for residential mortgage loans granted to individuals and 6% for mortgage loans granted to business organizations. These modifications adversely affected the U.S. Dollar value of our outstanding mortgage loans which at June 30, 2005, aggregated approximately Ps. 1.4 million.

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

Law No. 25,798 enacted on November 5, 2003 and regulated by Decrees No. 1284/2003 and No. 352/2004, among others, sets forth a system to refinance delinquent mortgage loans in order to prevent foreclosures of the housing units constituting the only dwelling of debtors (the Mortgage Refinancing System). The system comprises both delinquent debtors in the financial system and those outside the financial system. Pursuant to Law No. 25,798, a trust is created whose assets are composed of financial resources to be contributed by the Argentine government and the income derived from the amortization installments of refinanced loans. *Banco de la Nación Argentina*, in its capacity as Trustee of the trust, enters into refinancing agreements with the debtors under the following terms: a grace period of one year and amortization in monthly installments not to exceed 30% of the aggregate income of the family living in such housing unit. Banco de la Nación Argentina will then issue bonds that shall be delivered in lieu of payment to the mortgagee and will subrogate the mortgagee s rights with regards to the debtors. The amounts to be refinanced may not exceed the appraisal value of the secured real property, after deduction of debts for taxes and maintenance expenses. The trust shall pay the mortgagee only the amount corresponding to overdue defaulted principal and, with regards to the outstanding debt, Banco de la Nación Argentina shall repay principal plus interest and adjustments according to the terms and conditions of the original mortgage loan agreement. The parties to secured loan agreements were given a period to express their decision to participate in the Mortgage Refinancing System. This term was extended twice first by Decree No. 352/2004 and then by Law No. 26,062, effective as of November 4, 2005. The latter not only extends the term 120 days from the day of its publication but also suspends foreclosure proceedings for the same period.

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

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

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

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

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

As of June 30, 2005, Classes A, B and C were completely amortized.

As of June 30, 2005, Class D s equity value amounted to Ps. 3,259 for IRSA, Ps. 519 for Inversora Bolívar S.A and Ps.133 for Baldovinos S.A.

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

We are subject to risks affecting the hotel industry.

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

In addition to the general risks associated with investments in Argentina and in real estate discussed elsewhere in this section, the profitability of our hotels depends on:

- our ability to form successful relationships with international operators to run our hotels;
- changes in travel patterns, including seasonal changes; and
- taxes and governmental regulations affecting wages, prices, interest rates, construction procedures and costs.

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

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

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

We have an investment in the banking sector, a different industry with different risks. As of June 30, 2005, we owned 11.76% of Banco Hipotecario, which represented 9% of our consolidated assets. Banco Hipotecario has been the leading mortgage lender, largest mortgage servicer and provider of mortgage-related insurance in Argentina. Substantially all of its operations, property and customers are located in Argentina. Accordingly, the quality of its loan portfolio, its financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina. The political and economic crisis in Argentina during 2002 and 2003, and the Argentine government s actions to address it, described below, have had and may continue to have a material adverse effect on Banco Hipotecario s business, financial condition and results of operations.

Banco Hipotecario strongly relies on mortgage lending and its ability to continue to develop its financial intermediation strategy depends in part on Banco Hipotecario_s ability to successfully implement a new business strategy.

Historically, Banco Hipotecario has been engaged exclusively in mortgage lending and related activities. As a result, factors having an adverse effect on the mortgage market have a greater adverse impact on Banco Hipotecario than on its more diversified competitors. Due to its historical concentration in this recession-sensitive sector, Banco Hipotecario is particularly vulnerable to adverse changes in economic and market conditions in Argentina due to their adverse effect on (i) demand for new mortgage loans and (ii) the asset quality of outstanding mortgage loans.

In light of the economic conditions in Argentina for the foreseeable future, Banco Hipotecario cannot rely exclusively on mortgage lending and related services. Accordingly, Banco Hipotecario has adapted its business strategy to confront the challenges of these new market conditions. Banco Hipotecario s ability to diversify its operation will depend on how successfully it diversifies product offerings and transforms itself into a financial institution that no longer relies solely on mortgage lending.

In the past two years Banco Hipotecario has made several investments designed to enable the development of retail banking activities. Banco Hipotecario must overcome significant challenges to achieve this goal including, among others, its lack of experience and client relationships outside the mortgage sector, the existence of large, well-positioned competitors, and significant political, regulatory and economic uncertainties in Argentina. As a result, Banco Hipotecario cannot give any assurance that it will be successful in developing significant retail banking activities in the foreseeable future, if at all. If Banco Hipotecario is unable to effectively transition to a new and viable operating model, it cannot assure that it will be able to comply with its debt obligations.

Banco Hipotecario cannot assure that its business or diversification strategy will be successfully achieved to the extent it requires concurrence or approval of the Argentine government, with whom it has recently disagreed.

Banco Hipotecario faces significant challenges in seeking to develop its business plan through internal growth and therefore continuously explores the possibility of acquiring other banks or financial institutions or a significant portion of their assets and liabilities. The fast pace of change in the Argentine financial system may require Banco Hipotecario to take advantage of opportunities and make decisions on an expedited basis, which may prove difficult to accomplish given applicable regulatory requirements and the requirement that the Argentine government, as one of its shareholders, approve certain transactions. These acquisition opportunities may require Banco Hipotecario to incur additional debt or other direct or contingent liabilities, and its ability to incur such liabilities is limited. In addition, any such acquisitions would likely divert a significant amount of its management s attention to the integration of these businesses into Banco Hipotecario s current operations.

The Argentine government, one of Banco Hipotecario s major shareholders, has a golden share , meaning that it has an effective veto in respect of transactions involving any merger Banco Hipotecario may contemplate in the future. The Argentine government has also disagreed with Banco Hipotecario over other issues, such as board compensation. If we, as shareholders, are not able to receive government support to successfully implement new business strategies, Banco Hipotecario s financial condition may be adversely affected.

The Argentine government may prevail in all matters to be decided at a general shareholders meeting.

According to the Privatization Law, there are no restrictions on the ability of the Argentine government to dispose of its Class A shares, and all but one of such shares could be sold to third parties in a public offering. Banco Hipotecario s bylaws provide that if at any time the Class A shares represent less than 42% of its aggregate voting stock, Class D shares will automatically lose their triple voting rights. If this were to occur and if the Argentine government retained a sufficient number of Class A shares, the government would prevail in general shareholder meetings (except for certain decisions that require qualified majorities) and exercise effective control over the decisions to be submitted to the consideration of such meetings.

Banco Hipotecario operates in a highly regulated environment and its operations are subject to regulations adopted, and measures taken, by the Argentine Central Bank, the Comisión Nacional de Valores and other regulatory agencies.

Financial institutions are subject to significant regulation historically entrusted to the Argentine Central Bank and other regulatory authorities. Measures adopted by the Argentine Central Bank have had and may continue to have a material adverse effects on Banco Hipotecario s financial condition and results of operations. On July 25, 2003, the Argentine Central Bank announced its intention to adopt new capital adequacy requirements, effective as of January 2004 that it will implement gradually through 2009. In addition, the International Monetary Fund and other multilateral agencies have been encouraging the Argentine government to impose minimum capital adequacy, solvency and liquidity requirements consistent with international standards, which could impose operating restrictions on Banco Hipotecario.

Similarly, the Comisión Nacional de Valores, which regulates the public markets in Argentina, has authority to impose sanctions on Banco Hipotecario and its board of directors for breaches of corporate governance and market regulatory standards.

Laws and decrees implemented during the outburst of the economic crisis in 2002 had substantially altered contractual obligations. Recently, various initiatives have been presented to Congress intended to reduce or eliminate a portion of its mortgage loan portfolio on the debt owed to Banco Hipotecario. Also, there were initiatives intended to review the terms pursuant to which Banco Hipotecario Nacional was privatized. As a result, we cannot assure you that the legislative branch will not enact new laws that will have a significant adverse effect on Banco Hipotecario s shareholders equity or that, if this were to occur, the Argentine government would compensate Banco Hipotecario for the resulting loss.

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

Banco Hipotecario s financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina. The political and economic crisis of late 2001 and early 2002 and the Argentine government s actions to address such crisis have had a significant adverse effect on Banco Hipotecario s business activity. Currently, Banco Hipotecario is highly dependent on the Argentine Government s ability to perform on its obligations owed to Banco Hipotecario and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and its obligation to approve and deliver government securities under various laws and regulations. As of June 30, 2005, we owned 11.76% of Banco Hipotecario, and 5.22% of such ownership is through our subsidiary Ritelco S.A. The future outcome of the uncertainties described above could have an adverse effect on the value of our investment in Banco Hipotecario.

Banco Hipotecario s mortgage loan portfolio is not adequately indexed for inflation and any significant increase in inflation could have a material adverse effect on its financial condition.

In accordance with Emergency Decree 214/02 and its implementing regulations, pesified assets and liabilities were adjusted for inflation as of February 3, 2002 by application of the CER. On May 6, 2002, the executive branch issued a decree providing that mortgages originally denominated in U.S. Dollars and converted into Pesos pursuant to Decree No. 214/2002 on property constituting a borrower s dwelling may be adjusted for inflation only pursuant to CVS index, which during 2002 was significantly less than inflation as measured by the wholesale price index. Through December 31, 2002, the wholesale price index and the CVS posted cumulative increases of 118.2% and 0.2%, respectively, and the CER increased 41.4%. During 2003, inflation rose by 4.3% as measured by the wholesale price index, 3.7% as measured by the CER and 15.8% as measured by the CVS. As a result, only 10% of Banco Hipotecario s mortgage loans were adjusted for inflation in accordance with the CER, 30% were adjusted in accordance with the CVS and 60% remain entirely unindexed. Additionally, Law No. 25,796 Section 1, effective April 1, 2004, eliminated the use of the CVS as an indexation mechanism, as applied to the relevant portion of Banco Hipotecario s mortgage loans. The CVS increased until its repeal by 5.3%, whereas the increase in CER was 5.5% as of December 31, 2004 and the wholesale price index increased by 7.9%. Argentina s history prior to the adoption of the Convertibility Law raises serious doubts as to the ability of the Argentine government to maintain a strict monetary policy and control inflation. As a result of the high inflation in Argentina in 2002 and 2003, Banco Hipotecario s mortgage loan portfolio experienced significant erosion in value. If inflation were to increase significantly once again, it might continue to materially erode value. Accordingly, an increase in Banco Hipotecario s funding and other costs due to inflation might not be offset by indexation which could adversely affect its liquidity and results of operations.

If Banco Hipotecario s ratio of non-performing loans increases significantly, Banco Hipotecario s operations results could be materially adversely affected.

Banco Hipotecario has traditionally been an active lender to individuals in the middle and lower-middle income segment of the population. The quality of Banco Hipotecario s loan portfolio to such individuals is highly dependent on household income. In 2000, Banco Hipotecario established a Ps.550.2 million provision for loan losses in an effort to rectify recurring asset quality problems in its pre-1991 loans (and in certain post-1991 loans). The overall asset quality of Banco Hipotecario s mortgage loan portfolio has been materially and adversely affected by the Argentine crisis of 2002 and 2003 and its aftermath. According to INDEC the official unemployment rate was 12.1% in the second quarter of 2005, and household disposable income decreased significantly as a result of continuing high inflation rates. As of June 30, 2005, Banco Hipotecario s non-performing mortgage loans represented 10.1% of its total loan portfolio compared to 11.3% as of December 31, 2004. Should political and macroeconomic uncertainties persist, including further high levels of inflation, such circumstances might lead to continuing increases in the level of Banco Hipotecario s non-performing loan portfolio, provisions for loan losses and charge-offs, all of which would have a substantial adverse effect on its financial condition and results of operations.

Banco Hipotecario s ability to foreclose on mortgaged collateral has been materially impaired.

Like other mortgage lenders, the ability to foreclose on mortgaged collateral to recover delinquent mortgage loans is very important in conducting a business. In February 2002, the Argentine government amended Argentina s Bankruptcy Law, suspending bankruptcies and foreclosures on real estate that constitutes the debtor s primary residence, initially for a six-month period and subsequently extended until November 14, 2002. By agreement reached between the Argentine Banking Association and the Argentine government, Banco Hipotecario and other large financial institutions voluntarily agreed to continue the suspension of

bankruptcy and foreclosure proceedings due to the likelihood of significant social and political resistance to any collection efforts, particularly in light of social protests at the time directed at commercial banks. Moreover, on June 2, 2003, the Congress passed a law formally suspending Banco Hipotecario s ability to foreclose on mortgaged properties for a term of ninety days (ending on November 14, 2003), reinstating the earlier formal suspension on foreclosures.

Moreover, on January 17, 2005, the Province of Buenos Aires enacted Law No. 13,302 suspending foreclosures on real estate that constitutes the debtor s primary dwelling within the territory of such province for a period of 180 days, provided that the current tax value of such real estate does not exceed Ps.90,000. This limitation of Law No. 13,302 has expired. Furthermore, this provincial law establishes that the above mentioned foreclosure suspension on the debtor s primary dwelling will be extended to one year for unemployed borrowers, as of the date of enactment of that law.

Law No. 25,798 enacted on November 5, 2003 and regulated by Decrees No. 1284/2003 and No. 352/2004, among others, sets forth a system to refinance delinquent mortgage loans in order to prevent foreclosures of the housing units constituting the only dwelling of debtors (the Mortgage Refinancing System). The system comprises both delinquent debtors in the financial system and those outside the financial system. Financial institutions are free to participate in the system, and should they decide to do so, they may refinance their mortgage loan portfolio eligible for foreclosure either in whole or in part. Pursuant to Law No. 25,798, a trust is created whose assets are composed of financial resources to be contributed by the Argentine government and the income derived from the amortization installments of refinanced loans. Banco de la Nación Argentina, in its capacity as Trustee of the trust, enters into refinancing agreements with the debtors under the following terms: a grace period of one year and amortization in monthly installments not to exceed 30% of the aggregate income of the family living in such housing unit. Banco de la Nación Argentina will then issue bonds that shall be delivered in lieu of payment to mortgagees and will subrogate the mortgagees rights with regards to the debtors. The amounts to be refinanced may not exceed the appraisal value of the secured real property, after deduction of debts for taxes and maintenance expenses. The trust shall pay the mortgagee institutions only the amount corresponding to overdue defaulted principal and with regards to the outstanding debt, Banco de la Nación Argentina shall repay principal plus interest and adjustments according to the terms and conditions of the original mortgage loan agreement. Financial institutions were given a period that expired on June 22, 2004 to express their decision to participate in the this Mortgage Refinancing System. This period was extended twice first by Decree No. 352/2004 and then by Law No. 26,062 effective as of November 4, 2005. The latter not only extends the term 120 days as from the day of its publication but also suspends foreclosure proceedings for the same period.

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

Banco Hipotecario s mortgage loan portfolio was materially and adversely affected by the devaluation of the Peso and may be further impacted by future fluctuations in exchange rates.

While the one-to-one Peso-U.S. Dollar parity was in effect, Banco Hipotecario had no exchange rate risk with respect to its Peso-denominated revenues. However, its repeal on January 7, 2002 and the subsequent devaluation of the Peso have had the effect of significantly reducing its shareholders equity and Banco Hipotecario s net income. This is also a consequence of the mismatch between Banco Hipotecario s Peso-denominated revenues and its significant U.S. Dollar obligations, particularly in light of the pesification of its U.S. Dollar-denominated mortgage loans described below. On January 11, 2002, the Peso began to float freely for the first time in eleven years trading at Ps.1.40 = US$1.00; however, the Peso has devalued significantly, trading as low as Ps.3.90 = US$1.00 in June 2002, as reported by Banco de la Nación Argentina. Since then, the value of the Peso has begun to recover and on November 30, 2005, the exchange rate as reported by Banco de la Nación Argentina was approximately Ps.2.96 = US$1.00.

Beginning on February 3, 2002, the Argentine government converted (i) certain foreign currency-denominated debts into Peso-denominated debts at a one-to-one exchange rate, (ii) certain foreign currency-denominated public sector debts into Peso-denominated assets at an exchange rate of Ps.1.40 per US$1.00 and (iii) foreign currency-denominated bank deposits into Peso-denominated bank deposits at an exchange rate of Ps.1.40 per US$1.00. As a result, 100% of Banco Hipotecario s mortgage loans denominated in foreign currency were converted to Pesos at a one-to-one exchange rate and 100% of the Argentine government securities Banco Hipotecario held, including federal, provincial and municipal bonds, were converted to Pesos at an exchange rate of Ps.1.40 per US$1.00. On the other hand, less than 8% of its liabilities denominated in foreign currency were converted to Pesos at an exchange rate of Ps.1.40 per US$1.00, and the remainder of its liabilities remained denominated in foreign currency.

Due to the fact that Banco Hipotecario s loan portfolio now generates interest income only in Pesos, any further devaluation of the Peso against the U.S. Dollar or the Euro will further impair its ability to make payments on its liabilities denominated in such currencies. Moreover, although the Argentine government has issued National Government Compensating Bonds (BODEN), notes that are intended to compensate Banco Hipotecario in part for its losses resulting from pesification, Banco Hipotecario cannot assure us that the Argentine government will honor its obligations to deliver the additional BODEN to which Banco Hipotecario is entitled, or that any BODEN it may receive will be sufficient to compensate adequately for the harm caused by the asymmetric pesification of its assets and liabilities. Additionally, Banco Hipotecario cannot assure us that future exchange rate policies to be implemented by the Argentine government will not further affect its financial condition and the results of its operations; and if such were the case, Banco Hipotecario cannot ensure that the Argentine government will compensate such differences nor up to which amount.

Due to interest rate and currency mismatches of Banco Hipotecario s assets and liabilities, Banco Hipotecario has significant currency exposure.

The asymmetric pesification of Banco Hipotecario s assets and liabilities created a significant currency inconsistency between Banco Hipotecario s pesified loans and non-pesified debt denominated in foreign currencies. On September 16, 2002, Banco Hipotecario requested the Argentine government to deliver US$418.5 million U.S. Dollar-denominated BODEN issued as compensation for the negative effects of pesification. Further, Banco Hipotecario has elected to acquire US$ 812.2 million additional BODEN to eliminate this currency inconsistency. In April 2005, Banco Hipotecario made a new filing of the calculation of compensations in response to the Argentine Central Bank s objections and requested amendments to its original request, requiring US$ 374.7 million of BODEN as compensation for the pesification and an additional US$ 845.7 million of BODEN to eliminate the currency inconsistency. To the extent domestic inflation exceeds the rate of devaluation of the Peso against the U.S. Dollar, the value of Banco Hipotecario s BODEN holdings will erode. Moreover, the BODEN are long-term bonds denominated in U.S. Dollars that currently bear interest at a rate equal to six-month LIBOR, while their plan to purchase additional BODEN with Central Bank advances adjusted by CER that bear interest at a rate of 2%.

As of June 30, 2005 and at December 31, 2004, Banco Hipotecario s foreign currency-denominated assets exceeded its foreign currency denominated liabilities by US$ 350.4 million and US$ 350 million, respectively. Substantially all of Banco Hipotecario s foreign currency assets consist of dollar-denominated BODEN, but Banco Hipotecario s liabilities in foreign currencies are denominated in both U.S. Dollars and Euros. This currency gap exposes Banco Hipotecario to risk of exchange rate volatility which would negatively affect Banco Hipotecario s financial results if the U.S. Dollar were to depreciate against the Peso and/or the Euro. We cannot assure you that the U.S. Dollar will not depreciate against the Peso or that we will not be adversely affected by Banco Hipotecario s exposure to risks of exchange rate fluctuations.

Because of Banco Hipotecario s large holdings of BODEN and guaranteed government loans, Banco Hipotecario has significant exposure to the Argentine public sector.

On June 1, 2002, the Argentine government announced that it would issue BODEN to compensate financial institutions for the adverse effects of pesification. Accordingly, on September 16, 2002, Banco Hipotecario notified the Argentine Central Bank its option to (i) receive US$418.5 million in U.S. Dollar-denominated BODEN, as compensation for the pesification of certain of its assets and liabilities at different exchange rates, and (ii) purchase US$812.2 million in additional U.S. Dollar-denominated BODEN, as compensation for the currency inconsistency between Banco Hipotecario s non-pesified liabilities and pesified assets. [In April 2005, Banco Hipotecario filed a recalculation of compensation in response to the Argentine Central Bank s objections and requests for amendments to Banco Hipotecario s original calculation, requiring US$ 374.7 million of BODEN in U.S. Dollars issued as compensation for the pesification and an additional US$ 845.7 million of BODEN designed to eliminate the currency mismatch]. On June 30, 2005, Banco Hipotecario had received approximately US$356.0 million of BODEN issued as compensation for the pesification, but no BODEN was issued to eliminate the currency asymetry. As a result, including the additional BODEN that Banco Hipotecario expects to acquire (recorded at nominal value), as of June 30, 2005 Banco Hipotecario s holdings of Argentine government securities and loans to the Argentine government represented approximately 53.8% of Banco Hipotecario s total assets.

On December 23, 2001, the Argentine government declared the suspension of payments on most of its sovereign debt, which as of December 31, 2001 totaled approximately US$144.5 billion a substantial portion of which was restructured by the issuance of new bonds in mid-2005. Additionally, the Argentine government has incurred, and is expected to continue to incur, significant new debt obligations, including the issuance of compensatory bonds to financial institutions. Given Banco Hipotecario s BODEN holdings, Banco Hipotecario has a significant exposure to the Argentine government s solvency. Further, defaults by the Argentine government on its debt obligations, including the BODEN and other government securities (such as the guaranteed government loans) held by Banco Hipotecario, would materially and adversely affect its financial condition which would in turn affect our investment.

Banco Hipotecario faces potential material litigation which could adversely affect its financial condition and results of operations.

On May 31, 2005, approximately 3,894 borrowers of pre-1991 loans had initiated legal proceedings against Banco Hipotecario, alleging that the write-downs performed on the balance of such loans have been insufficient and did not complying wih the Privatization Law. As of that date those loans had an aggregate outstanding balance of approximately Ps.87 million. If Banco Hipotecario does not prevail in these proceedings or settles the claims, or if more borrowers bring similar claims against them, Banco Hipotecario may need to effect substantial write-downs on the affected loans. The majority of the borrowers involved in this litigation have obtained a preliminary injunction ordering Banco Hipotecario to charge a lower service of capital and interest with respect to the amount previously determined. Banco Hipotecario can not assure you that additional borrowers will not bring similar lawsuits against them, objecting to the adequacy of the write-down on balances under the Privatization law, nor that the courts will not issue other decisions against Banco Hipotecario such lawsuits. In the event that Banco Hipotecario loses this litigation, is unable to settle claims or more borrowers bring similar claims against it, they may be required to write-down significant amounts that they had previously capitalized. Any one or more of these events may materially and adversely affect Banco Hipotecario s business, financial condition or results of operations.

In May 2003, an Argentine court entered a judgment directing Banco Hipotecario to pay an amount that, at the date of the judgment, was approximately Ps.40 million in connection with a proceeding initiated by a private developer who received financing for the construction of certain projects. The developer alleged that Banco Hipotecario breached certain of the original conditions of the loan agreement, including failure to make funds available. Banco Hipotecario currently faces other similar claims by other private developers or construction companies that involve approximately Ps.300 million in the aggregate. Although Banco

Hipotecario has appealed the May 2003 judgment and believes that its appeal may be successful, the possible confirmation of the judgment and/or eventual extension of the ruling to other proceedings could materially adversely impact Banco Hipotecario s financial condition and results of operations.

In addition, an Argentine social security agency has filed suit seeking summary judgment against Banco Hipotecario alleging that it owes Ps.335 million in employer contributions to the pension plan that were not made by Banco Hipotecario s predecessor, Banco Hipotecario. This claim has been dismissed in a judgment entered by the lower court. Although the plaintiff has filed an appeal, Banco Hipotecario considers that the Privatization Law under which it was privatized clearly precludes them from being liable for these payments and establishes that this is an exclusive obligation of the Argentine government. Nonetheless, a court may rule against Banco Hipotecario and this may have a material adverse effect on its financial condition and results of operations.

A number of lawsuits filed against Banco Hipotecario by certain holders of their bonds could adversely affect Banco Hipotecario s liquidity.

In the course of the last two years Banco Hipotecario has been sued in Argentine courts by individual bondholders seeking summary judgments (*juicios ejecutivos*) based on Banco Hipotecario s defaulted payment of amounts due on their notes issued prior to their debt restructuring. In each of these lawsuits, the lower courts had rendered a decision favorable to holders of Banco Hipotecario s existing notes. At the closing of Banco Hipotecario s exchange offer, existing bondholders, representing 5% of the principal amount subject to restructuring did not participate in the offering. Currently, approximately 3% of this debt remains outstanding. To the extent such bondholders initiate other lawsuits against Banco Hipotecario, Banco Hipotecario may be required to make additional payments to settle or satisfy possible adverse judgments which may adversely affect its liquidity.

Risks Related to the Global Depositary Shares and the Shares

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

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

The Global Depositary Shares are freely transferable under U.S. securities laws, including shares sold to our affiliates. Cresud, which as of November 30, 2005 owns approximately 21.4% of our common shares (or approximately 77,850,702 common shares which may be exchanged for an aggregate of 7,785,070.2 Global Depositary Shares), are free to dispose of any or all of its common shares or Global Depositary Shares at any time in its discretion. Sales of a large number of our common shares and/or Global Depositary Shares would likely have an adverse effect on the market price of our common shares and the Global Depositary Shares. Different Corporate Disclosure and Accounting Standards.

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

There is less publicly available information about the issuers of securities listed on the Bolsa de Comercio de Buenos Aires than information publicly available about domestic issuers of listed securities in the United States and certain other countries. In addition, all listed Argentine companies must prepare their financial statements in accordance with Argentine GAAP which differs in certain significant respects from U.S. GAAP. For this and other reasons, the presentation of Argentine financial statements and reported earnings may differ from that of companies in other countries in this and other respects.

We are exempted from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempted from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

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

If we are considered to be a passive foreign investment company for United States federal income tax purposes, United States holders of our equity securities would suffer negative consequences.

The Company has not made a determination as to whether it is, or may be, a passive foreign investment company (PFIC), for United States federal income tax purposes for the fiscal year ending June 30, 2005. Because the determination of whether we are a PFIC is an annual determination based upon the composition of our assets and income, it is possible that we may be a PFIC in the current year or that we may become a PFIC in the future. The volatility and instability of Argentina s economic and financial system may substantially affect the composition of our income and assets. If we are or become a PFIC, United States holders of our shares or Global Depositary Shares will be subject to certain United States federal income tax rules which will have negative consequences on them such as additional tax and an interest charge upon certain distributions or upon sales or other disposition of our shares or Global Depositary Shares at a gain, as well as reporting requirements. See Item 10.E United States Taxation Passive Foreign Investment Company Rules for a more detailed discussion of the consequences of the Company being deemed a PFIC. Investors are urged to consult their tax advisors regarding the application of the PFIC rules to them.

ITEM 4. Information on the Company

A. History and Development of the Company

General Information

Our legal name is IRSA Inversiones y Representaciones Sociedad Anónima. We were incorporated and organized on April 30, 1943 under Argentine law as a sociedad anónima (stock corporation), and we were registered with the Public Registry of Commerce of the City of Buenos Aires (*Inspección General de Justicia* or IGJ) on June 23, 1943 under number 284, on page 291, book 46 of volume A. Pursuant to our bylaws, our term of duration expires on April 5, 2043. Our shares are listed and traded on the Bolsa de Comercio de Buenos Aires and Global Depositary Shares representing our shares are listed on the New York Stock Exchange. Our principal executive offices are located at Bolívar 108, Buenos Aires (C1066AAD), Argentina. Our headquarters are located at Moreno 877, (C1091AAQ), Buenos Aires, Argentina. Our telephone is +54 (11) 4323-7400, and our website is www.irsa.com. Our Depositary Agent for the Global Depositary Shares in the United States is The Bank of New York whose address is P.O. Box 11258 Church Street Station, New York, New York 10286, and whose telephone is +1-610-312-5315.

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History

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

Since 1996, through our subsidiary APSA, we expanded our real estate activities into the shopping center segment. As of June, 30, 2005, we had a controlling interest in a portfolio of nine shopping centers: Paseo Alcorta, Alto Palermo Shopping, Buenos Aires Design, Alto Avellaneda, Alto Noa Shopping, Abasto, Patio Bullrich, Mendoza Plaza Shopping and Alto Rosario Shopping. Since 1996, we also entered into the residential real estate market through the development and construction of multi-tower apartment complexes in the City of Buenos Aires and through the development of private residential communities in greater Buenos Aires.

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

In September 2002, we acquired the Piscis Hotel located in Valle de Las Leñas, an important ski resort in Argentina, for US$ 1.4 million. During that month, we also acquired 30.9% of the share ownership of Valle de Las Leñas S.A. and US$ 3.7 million convertible notes due October 31, 2005, issued by that company, for US$ 2.4 million. Valle de Las Leñas S.A. is the operator of the ski resort. In March 2003, we sold the Piscis Hotel and our stake in Valle de Las Leñas S.A. for a total consideration of US$ 7.7 million.

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

During fiscal years 2003, 2004 and 2005, certain holders of our Convertible Notes, for a total amount of US$ 41.5 million, exercised their conversion rights and, as a result, we issued 12,531 shares, 23,734,388 shares and 52,448,952 shares of common stock, respectively. At June 30, 2005 the outstanding balance of our Convertible Notes amounted to US$ 58.5 million. Subsequent to 2005 fiscal year-end, we issued 2,738,039 shares as a result of the conversion of US$ 1,492,234 of our Convertible Notes. As of November 30, 2005 the outstanding balance of our Convertible Notes amounts to US$ 57.0 million.

In addition, during fiscal years 2004 and 2005, we issued 13.1 million shares and 56.0 million shares of common stock in exchange for US$ 8.5 million and US$ 36.6 million in cash, respectively, as a result of the exercise of warrants. At November 30, 2005 the number of outstanding warrants amounts to 57.8 million.

During fiscal year 2004 we increased our ownership interest in Banco Hipotecario. For details, see Note 2.f. to our Consolidated Financial Statements. As a result of this transaction and considering the exercise of significant influence and the intention to maintain the participation in Banco Hipotecario as a long-term

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investment, during fiscal year 2004 we changed the accounting method for our investment in Banco Hipotecario from fair market value to the equity method. For details on the accounting for this accounting change under Argentine GAAP and US GAAP see Notes 3.c. and 23.I (a) to our Consolidated Financial Statements, respectively.

On September 29, 2004 we entered, through our subsidiary APSA, into a purchase agreement pursuant to which we acquired an additional 49.9% ownership interest in Mendoza Plaza Shopping S.A. (formerly Pérez Cuesta S.A.C.I.) for US$ 5.3 million. Through this acquisition, we became holders of 68.8% of the capital stock of Mendoza Plaza Shopping S.A., the main activity of which is the exploitation of the Mendoza Plaza Shopping S.A. center in the City of Mendoza. In addition, in May 2005 our ownership interest in Mendoza Plaza Shopping S.A. increased to 85.4% as a result of a capital increase made by Mendoza Plaza Shopping S.A. through the conversion of debt owed to APSA. For details, see Note 2.f to our Consolidated Financial Statements. As a result of gaining control, the results of operations of Mendoza Plaza Shopping S.A. were included in the consolidated statement of income from October 1, 2004.

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

On November 30, 2004, we purchased from GSEM/AP Holdings LP (GSEM/AP), a wholly-owned subsidiary of Goldman Sachs, 3,061,450 units of APSA s Convertible Notes with a nominal value of US$ 1 per note and 4,458,080 shares of APSA, for a total consideration of US$ 15.3 million. At the same time, in accordance with the shareholders agreement entered into with Parque Arauco S.A., we sold to Parque Arauco S.A. 1,004,866 units of APSA s Convertible Notes and 1,463,284 shares at the same price paid to GSEM/AP, totaling US$ 5.1 million. As a result of this transaction, our ownership interest in APSA increased from 53.81% to 60.69%.

During fiscal year 2005 our offices continued showing an important recovery both in respect of rooms occupied and rental prices. The excellent prospects of this business have pushed us to make an important investment in this segment by acquiring Bouchard 710, covering 15,014 square meters of rentable premium surface, for a total purchase price of US$ 24.6 million plus acquisition cost of US$ 0.5 million. We intend to construct a building at Dock IV of Puerto Madero, which will have approximately 14,100 square meters of rentable surface.

Capital Expenditures

During the fiscal year ended June 30, 2005, we had capital expenditures of Ps. 114.9 million. We made investments in fixed assets of Ps. 79.3 million, primarily in shopping centers totaling Ps. 50.9 million and in the acquisition of Bouchard 710 for Ps. 20.4 million. We also made investments in our subsidiaries of Ps. 4.2 million for the acquisition of the additional ownership in Mendoza Plaza Shopping and Ps. 30.8 million for the increase in our ownership interest in APSA. We also invested Ps. 0.7 million in undeveloped parcels of land.

During the fiscal year ended June 30, 2004 we had capital expenditures of Ps. 97.2 million. We made a net investment in our equity investee Banco Hipotecario of Ps. 70.3 million. We also made investments in fixed assets of Ps. 26.4 million primarily in shopping centers of Ps. 21.7 million and in the Llao Llao Hotel of Ps. 3.3 million. We also invested Ps. 0.6 million in undeveloped parcels of land.

During the fiscal year ended June 30, 2003 we had capital expenditures of Ps. 42.7 million. We made investments in our subsidiaries of Ps. 31.7 million primarily in APSA. We also made investments in fixed assets of Ps. 10.8 million, primarily in the segments of shopping centers and hotels. In addition, we made investments in undeveloped parcels of land of Ps. 0.2 million.

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We believe our assets have potential for growth. Our level of indebtedness, most of which is long-term, and the cash proceeds from the exercise of warrants attached to our convertible debt, places us in a good position to finance new projects and seek expansion opportunities.

B. Business Overview

Operations and Principal Activities

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

Our principal activities consist of:

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

Overview of properties

As of June 30, 2005, we, either directly or through our subsidiaries and joint ventures, owned significant interests in a portfolio of 53 properties in Argentina, located principally in Buenos Aires. The following table sets forth certain information concerning our operation and property portfolio.

Consolidated Operating Income

Years ended June 30, [(1)]

	2005	2004	2003
	(in thousands of Pesos)		
Offices and other non-shopping center rental properties	13,768	30,229	2,297
Shopping centers	95,229	63,261	14,093
Development and sale of properties	21,132	799	2,913
Hotels operations	11,066	10,138	6,176
Financial operations and others	(39)	61	39
Total Operating Income	**141,156**	**104,488**	**25,518**

(1) At June 30, 2005, 2004 and 2003 includes Ps. 27.9 million, Ps. 63.1 million and Ps. 21.5 million gain (loss) from operations and holdings of real estate assets, net distributed as follows: Offices and other non-shopping center rental properties Ps. 12.2 million, Ps. 27.7 million and Ps. (1.9) million, Shopping centers Ps. 13.1 million, Ps. 25.6 million and Ps. 10.5 million. Development and Sale of properties Ps. 0.5 million, Ps. 7.0 million and Ps. 12.9 million and Hotels operations Ps. 2.1 million, Ps. 2.7 million and Ps. nil. At June 30, 2005 Development and sale of properties includes Ps. 17.3 million from gain from valuation of inventories at fair market value.

Consolidated Revenues by Geographic Area

	Total revenues for the fiscal years Ps./000		
	2005	2004	2003
Offices and other non-shopping center leased properties			
City of Buenos Aires	19,402	15,144	17,770
Province of Buenos Aires	29		
Shopping Centers			
City of Buenos Aires	192,400	125,747	101,629
Province of Buenos Aires	19,149	14,734	10,038
Province of Salta	3,829	2,769	2,087
Province of Santa Fé	5,497		
Province of Mendoza	9,212		
Development and sale of properties			
City of Buenos Aires	27,278	11,035	22,515
Province of Buenos Aires	5,033	19,222	14,189
Province of Mendoza			9,912
Hotels operations			
City of Buenos Aires	53,784	41,729	33,826
Province of Rio Negro	33,336	29,566	23,560
Province of Mendoza			344
Total City of Buenos Aires	292,864	193,655	175,740
Total Province of Buenos Aires	24,211	33,956	24,227
Total Province of Rio Negro	33,336	29,566	23,560
Total Province of Santa Fé	5,497		
Total Province of Salta	3,829	2,769	2,087
Total Province of Mendoza	9,212		10,256
TOTAL	**368,949**	**259,946**	**235,870**

Offices and other non-shopping center leased properties

We are engaged in the acquisition, development and management of offices and other non-shopping center leased properties in Argentina. As of June 30, 2005, we, directly and indirectly owned interests in 22 office and other non-shopping center rental properties in Argentina that comprised 177,800 square meters of gross leasable area. Of these properties, 15 were office properties that comprised 98,199 square meters of gross leasable area. For the fiscal year 2005, we had net revenues from office and other non-shopping center rental properties of Ps.19.4 million.

Most of our office rental properties in Argentina are located in the City of Buenos Aires. All of these properties are rented to various different premium tenants. For the year ended June 30, 2005, the average occupancy rate for all our properties in the Offices and other non-shopping center rental property segment was approximately 94 %. Seven different tenants accounted for approximately 31.84 % of our monthly office rental and 24.20 % of our total revenues for the fiscal year 2005. Our seven main office rental tenants are: Grupo Total Austral, Unilever

Argentina S.A., Procter & Gamble S.C., Finterbusch Pickenhayn Sibille S.C. (KPMG), Microsoft Argentina S.A., Grupo Danone and Vintage Oil Argentina.

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

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Leases. We lease our offices and other properties pursuant to contracts with terms of three years, with the exception of a few contracts with terms of five years. These contracts are renewable for two or three additional years at the tenant s option. Contracts for the rental of property not located in shopping malls are generally stated in U.S. Dollars, and in accordance with Argentine law they are not subject to inflation adjustment. Rental rates for renewed periods are negotiated at market value.

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

Offices and other non-shopping center leased properties

	Date of Acquisition	Leasable area m2 (1)	Occupancy rate (2)	IRSA s effective interest	Monthly rental income Ps./000 (3)	Total revenues for the fiscal years Ps./000 2005	2004	2003	Book Value Ps./000 (4)
Offices									
Intercontinental Plaza (5)	11/18/97	22,535	96%	67%	489	5,289	4,108	5,648	67,741
Bouchard 710	06/01/05	15,014	100%	100%	412	412			72,222
Libertador 498	12/20/95	10,533	94%	100%	284	3,061	2,524	2,359	43,307
Maipú 1300	09/28/95	10,325	96%	100%	244	2,797	2,040	2,100	44,581
Laminar Plaza	03/25/99	6,521	95%	100%	193	2,346	2,288	2,902	30,577
Madero 1020	12/21/95	215	100%	100%	4	47	104	876	1,665
Reconquista 823/41	11/12/93	6,100		100%					19,355
Suipacha 652/64	11/22/91	11,453	80%	100%	91	621	530	576	11,749
Edificios Costeros	03/20/97	6,389	100%	100%	113	1,242	820	403	19,358
Costeros Dock IV	08/29/01	5,437	100%	100%	133	1,378	744	695	21,849
Others (6)	N/A	3,678	100%	N/A	78	804	628	602	10,208
Subtotal		**98,200**	**89%**		**2,041**	**17,997**	**13,786**	**16,161**	**342,612**
Other rental properties									
Commercial properties (7)	N/A	4,200	97%	N/A	17	139	153	191	3,107
Other properties (8)	N/A	75,400	100%	N/A	107	761	623	742	16,966
Subtotal	**N/A**	**79,600**	**100%**	**N/A**	**124**	**900**	**776**	**933**	**20,073**
Related expenses									
Management fees	N/A	N/A	N/A	N/A	N/A	534	582	676	N/A
TOTAL	**N/A**	**177,800**	**94%**	**N/A**	**2,165**	**19,431**	**15,144**	**17,770**	**362,685**

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

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

(3) Pursuant to agreements in force as of 06/30/05.

(4) Cost of acquisition, plus improvements (adjusted for inflation until 02/28/03), less accumulated depreciation and impairment allowances.

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

(6) Includes the following properties: Madero 942, Av. de Mayo 595, Av. Libertador 602, Rivadavia 2768 and Sarmiento 517 (through IRSA).

(7) Includes the following properties: Constitución 1111, Alsina 934 and commercial stores Abril (through IRSA and IBSA)

(8) Includes the following properties: Thames, one unit in Alto Palermo Park (through IBSA), Santa Maria del Plata and Constitución 1159 (through IRSA). Cumulative revenues include in fiscal year 2003, the revenues from Alto Palermo Plaza (fully sold).

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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, 2005, assuming that the tenants neither exercise renewal options nor terminate their leases early. Most of these leases contain renewal clauses.

Fiscal year of lease expiration	Number of leases expiring	Square meters subject to expiring leases (m^2)	Percentage of total square meters subject to expiration (%)	Annual rental income under expiring leases (Ps.)	Percentage of total rental income under expiring leases (%)
2006 [1]	24	42,407	25.44	1,568,712	6.09
2007	28	54,310	32.58	4,891,296	19.00
2008	54	51,595	30.96	8,488,440	32.97
2009	34	13,127	7.88	8,179,698	31.77
2010	9	5,100	3.06	2,563,275	9.96
2011	1	136	0.08	55,430	0.21
Total	**150**	**166,675**	**100**	**25,746,851**	**100**

(1) Includes Offices which have contracts that have not been renewed and vacant stores as of June 30, 2005

The following table shows the average occupancy rate for our offices during the last three fiscal years ended June 30, 2005, 2004 and 2003.

	Occupancy Rate Fiscal year ended June 30 [1],		
	2005	2004	2003
	(%)	(%)	(%)
Offices			
Intercontinental Plaza	96	84	73
Bouchard 710 [2]	100	N/A	N/A
Libertador 498	94	88	53
Maipú 1300	96	92	70
Laminar Plaza	95	95	90
Madero 1020	100	16	100
Reconquista 823/41	0	0	0
Suipacha 652/64	80	45	45
Edificios Costeros	100	98	63
Costeros Dock IV [3]	100	87	48
Others [4]	100	100	45

(1) Calculated by dividing square meters leased under leases in effect as of June 30, 2005, 2004 and 2003 by the total gross leasable area of offices in the same periods.

(2) Lease commenced on the fourth quarter of fiscal year 2005.

(3) Lease commenced on first quarter fiscal year 2002.

(4) Fiscal years 2005, 2004 and 2003 include the following properties: Madero 942, Av. de Mayo 595, Av. Libertador 602, Sarmiento 517 and Rivadavia 2768.

The following table shows the average annual rent per square meter for our offices for the last three fiscal years ended June 30, 2005, 2004 and 2003.

	Average Annual rent Per Square Meter Fiscal year ended June 30 (1),		
	2005	**2004**	**2003**
	(Ps./m²)	*(Ps./m²)*	*(Ps./m²)*
Offices			
Intercontinental Plaza	293	262	251
Bouchard 710 (2)	27	N/A	N/A
Libertador 498	330	323	224
Maipú 1300	286	235	203
Laminar Plaza	379	381	445
Madero 1020	219	281	350
Suipacha 652/64	95	104	50
Reconquista 823/41	0		
Edificios Costeros	196	154	63
Costeros Dock IV (3)	265	226	128
Others (4)	219	307	169

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

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(2) Lease commenced during the forth quarter of fiscal year 2005.

(3) Leases commenced during first quarter fiscal year 2002.

(4) Fiscal years 2005, 2004 and 2003 includes the following properties: Madero 942, Av. de Mayo 595, Av. Libertador 602, Sarmiento 517 and Rivadavia 2768.

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.

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

Bouchard 710, City of Buenos Aires. Bouchard 710 is an office building located in the Retiro area, close to the intersection of avenues Leandro Alem and Córdoba. The building is a 12 story tower, with an average surface per floor of 1,251 square meters, with 180 units for car parking. Tenants are Unilever de Argentina S.A., Finterbusch Pickenhayn Sibille S.C. (KPMG), FST S.A. and Microsoft de Argentina S.A, which, in addition, rents the building billboard for an annual amount of US$ 120,000.

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 plans averaging 620 square meters. The building has a singular cylindrical design and a highly visible circular neon billboard that makes it a landmark in the Buenos Aires skyline. The principal tenants in this building currently include Voridiam Argentina S.R.L., MTV Networks Argentina S.R.L., Epson Argentina S.A., Cervecería y Maltería Quilmes, Yara Argentina S.A., Farmanet S.A., Alfaro Abogados S.C. and Daimler Chrysler Argentina S.A., which leased the billboard for an annual rent of Ps. 120,000 through June 30, 2005.

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 plans measuring 440 square meters on most floors. The building s principal tenants currently include Allende & Brea, Carlson Wagonlint Travel Argentina S.A. and PPD Argentina S.A.

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

Madero 1020, City of Buenos Aires. Madero 1020 is a 25-story office tower located in the center of the Catalinas area, a prime office zone, with spectacular views of the Port of Buenos Aires, the Río de la Plata and down town Buenos Aires. As of June 30, 2004 we owned 2 non-contiguous floors averaging 572 square meters and 8 parking spaces. As of June 30, 2005 both floors were sold.

Suipacha 652/64, City of Buenos Aires. Suipacha 652/64 is a 7-floor office building located in the office district of the City of Buenos Aires. We own the entire building which has floor plans that are unusually large, measuring 1,580 square meters on most floors. This property underwent substantial renovations shortly after we acquired the deed in 1991 to prepare the building for rental. The building s principal tenants currently include Procter & Gamble Interaméricas Inc., Monitor de Medios Publicitarios S.A., Organización de Servicios Director Empresarios (OSDE) and APSA s subsidiary, Tarshop S.A.

***Reconquista 823/41, City of Buenos Aires*.** Reconquista 823/41 is a 15-story office tower located in the Catalina*s* area. We own the entire building which consists of 3 basements, 52 parking spaces and 15 floors of office space. The building has floors averaging 540 square meters each. This building is currently vacant.

Edificios Costeros Dock II, City of Buenos Aires. Costeros A and B are two 4-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. In September 1999 we completed their construction and in April 2000 began to market the office spaces and 147 parking spaces. The main tenants of these properties are Leo Burnett Worldwide Invest. Inc., Reckitt Benckiser Argentina S.A., Red Alternativa S.A., Martina Di Trento, Loyalty Marketing Group S.A., Italcred S.A. and Somos Tres S.R.L.

Costeros Dock IV, City of Buenos Aires. On August 29, 2001 we purchased Section C of the office complex known as Puerto del Centro that includes buildings 5 and 6 . The property is located at Pierina Daelessi street No. 340, over the East Side of Dock 4 of Puerto Madero and has approximately 5,500 square meters of gross leasable area and 50 parking spaces. The building s principal tenants currently include Nextel Argentina S.A., Consultora de Estudios Bonaerenses S.R.L., LG Electronics Argentina S.A., London Suply S.A.C.I.F.I., Deportes Peña S.A. and Petroenergy S.A.

***Other office properties*.** We also have interests in three other office properties, all of which are located in the City of Buenos Aires. These properties are either entire buildings or portions of buildings none of which contributed more than Ps. 0.8 million in annual rental income for fiscal year 2005. Among these properties are Madero 942, Libertador 602, Av. De Mayo 595/599, Rivadavia 2768 and Sarmiento 517.

***Retail and other properties*.** Our portfolio of rental properties includes nine rental properties that are leased as street retail, a warehouse and various other uses. Most of these properties are located in the City of Buenos Aires. These properties include Constitución 1111, Alsina 934, and Abril commercial stores

Shopping centers

We are also engaged in purchasing, developing and managing shopping centers through our subsidiary APSA. As of June 30, 2005, APSA operated and owned majority interests in nine shopping centers, five of which are located in the City of Buenos Aires, one shopping center in greater Buenos Aires and the rest in the cities of Salta, Rosario and Mendoza. During fiscal year 2005 APSA increased its ownership interest in Mendoza Plaza Shopping from 18.9% to 85.4%. 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 214,487 square meters of gross leasable area (including Mendoza Plaza Shopping and excluding space occupied by hypermarkets which are not APSA s tenants) which accounts for approximately 52.27% of the gross leasable area in the City of Buenos Aires and 10.49% of the gross leasable area in greater Buenos Aires area. For the year ended June 30, 2005, the average occupancy rate of the shopping center portfolio was approximately 98.4%. For the fiscal year 2005, we had revenues from shopping centers of Ps. 165.5 million (excluding revenues from credit card operations).

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. As manager, APSA is responsible for providing common area electrical power, a main telephone switchboard, central air conditioning and other basic common area services.

As of June 30, 2005 we owned 60.69% of APSA. As of June 30, 2005, 29.6% of APSA s shares were held by Parque Arauco S.A. 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 lease contracts for terms between three to ten years, with most leases having terms no longer than five years. APSA charges tenants a rent which consists of a specified percentage of the tenant s monthly gross sales in the store (the Percentage Rent) (which generally ranges between 4% and 8% of tenant s gross sales) with a minimum monthly base rent (the Base Rent). 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 expenses of their units, such as electricity, water, telephone and air conditioning, as well as their proportional common area expenses. These leases do not generally include renewal clauses.

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

The following table shows certain information concerning our shopping centers:

Shopping center properties

	Date of Acquisition	Leasable Area m2 (1)	APSA s Effective interest (6)	Occupancy rate (2)	Total revenues for the fiscal years Ps./000 2005	2004	2003	Book Value Ps./000(3)
Shopping Centers (4)								
Alto Palermo	11/18//97	18,055	99.9%	100.0%	37,888	28,341	24,598	210,822
Abasto	07/17/94	39,329	100.0%	100.0%	34,583	26,478	20,531	202,776
Alto Avellaneda	11/18/97	27,313	100.0%	99.1%	19,149	14,734	10,038	98,750
Paseo Alcorta	06/06/97	14,821	100.0%	99.7%	19,734	15,434	12,216	65,816
Patio Bullrich	10/01/98	10,780	100.0%	98.6%	17,819	12,744	10,610	115,602
Nuevo NOA Shopping	03/29/95	18,880	100.0%	99.5%	3,829	2,769	2,087	30,883
Buenos Aires Design	11/18/97	14,598	51.0%	96.8%	7,082	5,936	3,801	20,935
Alto Rosario	11/09/04	30,579	100%	98.0%	5,497	N/A	N/A	79,117
Mendoza Plaza Shopping	12/02/04	40,132	85.4%	95.5%	9,212	N/A	N/A	83,706
Fibesa and others (5)		N/A	99.0%	N/A	10,736	6,780	4,910	N/A
Revenues Tarjeta Shopping		N/A	80.0%	N/A	64,558	30,034	24,935	N/A

TOTAL	**214,487**	**N/A**	**99.1%**	**230,087**	**143,250**	**113,754**	**908,407**

Notes:

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

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

(3) Cost of acquisition or development plus improvements (adjusted for inflation until 02/28/03), less accumulated depreciation and impairment allowances.

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

(5) Includes revenues from Fibesa S.A. and Alto Invest S.A.

(6) Effective participation of APSA in each one of its business units. IRSA has a 60.69% participation in APSA.

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The following table shows a schedule of lease expirations for our shopping centers as of June 30, 2005, assuming that none of the tenants exercises renewal options nor terminates its lease early.

Lease expirations, as of June 30, 2005

Lease Expiration as of June 30,	Number of Leases Expiring [2]	Square Meters Subject to Expiring Leases	Percentage of Total Square Meters Subject to Expiration	Annual Base Rent Under Expiring Leases [1]	Percentage of Total Base Rent Under Expiring Leases
		(m^2)	*(%)*	*(Ps.)*	*(%)*
2006	462	87,008	41	31,790,080	37
2007	283	27,899	13	21,057,882	25
2008	184	26,321	12	17,688,671	21
2009+	189	73,259	34	15,139,852	18
Total	**1,118**	**214,487**	**100**	**85,676,485**	**100**

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

(2) Includes contracts that have not yet been renewed and vacant stores as of June 30, 2005.

The following table shows the average occupancy rate expressed as a percentage of the Gross Leasable Area for the fiscal years ended June 30, 2005, 2004 and 2003:

Average occupancy rates

	Fiscal Years Ended June 30,		
	2005	**2004**	**2003**
		%	
Abasto de Buenos Aires	100.0	98.9	99.4
Alto Palermo Shopping	100.0	100.0	94.1
Alto Avellaneda	99.1	99.2	99.5
Paseo Alcorta	99.7	99.4	91.9
Patio Bullrich	98.6	99.6	91.7
Alto Noa	99.5	96.8	90.3
Buenos Aires Design	96.8	97.9	94.3
Alto Rosario	98.0	N/A	N/A
Mendoza Plaza Shopping	95.5	96.3	96.2
Total Average	99.1	98.3	95.8

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The following table shows the annual average revenues per square meter for the last three fiscal years ended June 30, 2005, 2004 and 2003:

Annual average revenues per square meter

	Fiscal Year Ended June 30, [1]		
	2005	**2004**	**2003**
	(Ps./m2)	*(Ps./m2)*	*(Ps./m2)*
Abasto de Buenos Aires	706	591	436
Alto Palermo Shopping	1,667	1,456	1,151
Alto Avellaneda	788	516	352
Buenos Aires Design	425	340	196
Paseo Alcorta	1,196	1,023	799
Patio Bullrich	1,309	1,009	750
Alto Noa	334	141	108
Mendoza Plaza	463	N/A	N/A
Alto Rosario	329	N/A	N/A

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

Properties**.** Set forth below is information regarding our main shopping centers.

Alto Palermo Shopping, City of Buenos Aires. Alto Palermo Shopping is a 150-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 64,574 square meters that consists of 18,055 square meters of gross leasable area. The shopping center has a food court with 21 restaurants. Alto Palermo Shopping Center is spread out over four levels and has 647 parking spaces. Tenants in this shopping center generated average estimated monthly retail sales of approximately Ps. 1,667 per square meter for the fiscal year ended June 30, 2005. Principal tenants currently include Zara, Frávega, Garbarino, Just For Sport and Librerías Yenny.

Alto Avellaneda, Avellaneda, greater Buenos Aires area. Alto Avellaneda is a 152-store shopping center that opened in October 1995 and is located in the highly populated neighborhood known as Avellaneda, on the southern border of the City of Buenos Aires. Alto Avellaneda has a total constructed area of 97,655 square meters that includes 27,313 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 16 -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. 788 per square meter for the fiscal year ended June 30, 2005. Principal tenants currently include Rodo, Bingo Avellaneda, Musimundo, Red Megatone and Compumundo.

Paseo Alcorta, City of Buenos Aires. Paseo Alcorta is a 116-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 54,728 square meters that consists of 14,821 square meters of gross leasable area. The three-level shopping center includes a four-screen multiplex movie theatre, a 16-restaurant food court, a Carrefour hypermarket, and a free parking lot with approximately 1,300 parking 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.1,196 per square meter for the fiscal year ended June 30, 2005. Principal tenants currently include Frávega, Rapsodia, Musimundo, Kartun and Prune.

Abasto Shopping, City of Buenos Aires. Abasto Shopping is a 175-store shopping center located in the City of Buenos Aires. Abasto Shopping is directly accessible from the Carlos Gardel subway station and is located six blocks from the Once railway terminal and a few blocks from the highway to Ezeiza International Airport. Abasto Shopping opened in November 1998. The principal building is a landmark building which during the period 1889 to 1984 operated as the primary fresh produce market for City of Buenos Aires. The property was converted into a 115,905 square meter shopping center, with approximately 39,329 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 23 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 retail sales of Ps. 706 per square meter for the fiscal year ended June 30, 2005. Principal tenants currently include Rodo, Zara, Hoyts Cinemas, Frávega and Musimundo.

Patio Bullrich, City of Buenos Aires. Patio Bullrich is a 87-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 28,211 square meters that consists of 10,780 square meters of gross leasable area. The four-story shopping center includes a 17-restaurant food court, an entertainment area, a six-screen multiplex movie theatre and a parking lot with 228 spaces. Tenants in Patio Bullrich have generated estimated average monthly retail sales of Ps. 1,309 per square meter for the fiscal year ended June 30, 2005. Principal tenants currently include Etiqueta Negra, Rapsodia, Christian Dior, Casa Lopez and Cacharel Damas.

Alto Noa, Salta, Province of Salta. Alto Noa is a 84-store shopping center located in the city of Salta, the capital of the province of Salta. The shopping center consists of 41,700 square meters of total constructed area that consists of 18,880 square meters of gross leasable area and includes a 13-restaurant food court, a large entertainment center, a supermarket, an eight-screen movie theatre and parking facilities for 551 cars. Tenants have generated estimated average monthly retail sales of Ps. 334 per square meter for the fiscal year ended June 30, 2005. Principal tenants currently include Supermercado Norte, Frávega, Slots, Repsol Y.P.F. and Hoyts General Cinema.

Buenos Aires Design, City of Buenos Aires. Buenos Aires Design Center is a 59-store shopping center intended for specialty interior, home decorating and restaurants that opened in 1993. APSA owns Buenos Aires Design through a 51% interest in Emprendimientos Recoleta, which owns the concession to operate the shopping center. Buenos Aires Design is located in Recoleta, one of the most popular neighborhoods in Buenos Aires for tourists. Buenos Aires Design has a total constructed area of 31,645 square meters that consists of 14,598 square meters of gross leasable area. The shopping center has 6 restaurants, is divided into two floors and has a 174-car parking lot. Tenants in this shopping have generated estimated average monthly retail sales of Ps. 425 per square meter for the fiscal year ended June 30, 2005. Principal tenants currently include Morph, Barugel Azulay, Hard Rock Café, Kalpakian and OKKO.

Alto Rosario, City of Rosario, Santa Fe. Alto Rosario is a shopping center of 144 stores, located in the City of Rosario, Province of Santa Fe. The shopping center has 105,809 square meters of fully covered surface, and 30,579 square meters of gross leasable area. It is a modern shopping inaugurated in November 2004 that targets the greater metropolitan area surrounding Rosario. This shopping center is devoted to clothing and entertainments. It includes a food patio with 20 stores, a children entertainment area, 14 movie theaters and a parking lot for 1,800 vehicles. The monthly average retail sale by tenants was Ps. 329 per square meter for fiscal year ended June 30, 2005. Its principal tenants are Frávega, C&A, Sport 78, Compumundo and Red Megatone.

Mendoza Plaza, City of Mendoza, Province of Mendoza. Mendoza Plaza is a 151-store shopping center located in the City of Mendoza in the Province of Mendoza. It consists of 40,133 square meters of gross leasable area. Mendoza Plaza has a multiplex movie theatre covering an area of approximately 3,515 square meters, the Chilean department store Falabella, a food court, an entertainment center and a supermarket.

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Tenants in this shopping center have generated estimated average monthly retail sales of Ps. 463 per square meter for the fiscal year 2005. During fiscal year 2005 we increased our indirect ownership in Mendoza Plaza Shopping S.A. from 18.9% to 85.4%. Its principal tenants currently include Falabella, Super Vea Plaza, Frávega, Garbarino and Village Cinemas.

Credit cards.

Tarshop S.A. On June 4, 1998, our subsidiary APSA acquired an 80% equity interest in Tarshop S.A. (Tarshop), for US$ 7.3 million. Tarshop is a limited purpose credit card company engaged in credit card operations and is not affiliated to any bank and bears all of the credit and collection risk inherent in extending credit to its customers. APSA believes that the acquisition of Tarshop helps to improve the expansion range of our services not only to tenants but also to customers who are used to visiting our shopping centers. APSA certainly expects that said acquisition will be useful as a marketing and promotional tool to attract customers to our shopping centers.

As the Argentine economy is strengthening the upward economic trend, APSA faced increased competition from the banking sector, and recorded significant growth in our portfolio, our sales and our number of cardholders, while at the same time maintaining low delinquency rates. The improvement in credit quality of loans led to a notable drop in bad debt charges, which fell from Ps. 0.2 million at June 30, 2004 to just Ps. 1.3 million in the year ended June 30, 2005. Tarshop sales rose 115%, from Ps. 30 million in fiscal year 2004 to Ps. 64.6 million in fiscal year 2005. The increase in bad debt charges from Ps. 0.2 million in fiscal year 2004 to Ps. 1.3 million in fiscal year 2005 was due the sales expansion.

Our portfolio (including securitized receivables) has shown high growth. As of June 30, 2005 our portfolio amounted to Ps. 204.0 million as compared to Ps. 92.0 million as of June 30, 2004. This growth is also reflected in the increase in the number of monthly credit card statements delivered to customers, which rose 90% in the fiscal year ended June 30, 2005 as compared to the fiscal year ended June 30, 2004. In addition, during this fiscal year there was a strong improvement in the number of participating stores, which totaled 16,800 as of June 2005.

During fiscal year 2005, six new branches were inaugurated and an alliance with Metronec S.A. was accomplished. The issuance of Metroshop Shopping Card as an outcome of this alliance allowed Tarjeta Shopping access to the subway s network and all the other facilities.

Given the strength of this business unit and the future prospects for growth, APSA were able to place seven new issues under our Securitization Program for a total aggregate principal amount of Ps. 135.0 million in senior notes. As of June 30, 2005, our securitized portfolio amounted to Ps. 167.4 million aggregate principal amount. See Item 5.A. Operating and Financial Review and Prospects Loan Securitization Program

Net income rose sharply from 2.8 million for the fiscal year 2004 to 7.4 million for the fiscal year 2005 following the trend of the last years.

For the fiscal year ended June 30, 2005, Tarshop s total net revenues were Ps. 64.5 million, representing approximately 28.0% of our consolidated net revenues for such year.

Development and sale of 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 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 shopping areas within residential developments.

In fiscal year 2005 revenues from the sales and developments segment reached the sum of Ps. 32.3 million, compared to Ps. 30.3 million in fiscal year 2004. The local currency was stable during fiscal year 2005, there was a little appreciation taking the beginning and closing of 2005 as the baseline. The real estate business was bolstered by the increase in overall demand for real estate, whether office buildings, households, commercial stores and other. The current context provides incentives for the development of projects related to our real estate activity. Therefore, during fiscal year 2006 we purport to finish not only the projects but also to analyze new developments.

Construction and renovation works on our residential development properties are 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.

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The following table provides an overview of our sales and development properties:

Development Properties

	Date of acquisition	Estimated Actual Cost (Ps. 000) (1)	Area destinated for sale (2)	Total units or lots (3)	IRSA s Effective Interest	Percentage constructed	Percentage sold	Accumulated Sales (Ps. 000) (5)	Revenues for fiscal years ended June 30 (6) 2005 (Ps. 000)	2004 (Ps. 000)	2003 (Ps. 000)	Book value as of June 30, 2005 (Ps. 000)(7)
Residential apartments												
Torres Jardín	07/18/96	56,579	32,339	490	100%	100%	97%	70,049	21		161	468
Torres de Abasto (8)	07/17/94	74,810	35,630	545	61%	100%	100%	109,266	21		462	518
Edificios Cruceros (17)	07/22/03	5,740	3,633	40	100%	84%						8,141
San Martín de Tours	03/2003	12,171	2,891	1	100%	85%						11,743
Concepción Arenal	12/20/96	15,069	6,913	70	100%	100%	99%	11,626		9	100	65
Alto Palermo Park (9)	11/18/97	35,956	10,488	72	67%	100%	100%	47,467			5,305	
Others (10)	N/A	50,196	23,900	184	N/A	N/A	99%	57,325		349	3,989	13
Subtotal		**250,521**	**115,794**	**1,402**	**N/A**	**N/A**	**N/A**	**295,733**	**42**	**358**	**10,017**	**20,948**
Residential communities												
Abril/Baldovinos (11)	01/03/95	130,955	1,408,905	1,273	83%	100%	95%	213,374	3,820	7,369	14,161	10,453
Villa Celina I, II y III	05/26/92	4,742	75,970	219	100%	100%	99%	13,952			28	43
Villa Celina IV y V	12/17/97	2,450	58,373	181	100%	100%	100%	9,505		23		
Subtotal		**138,147**	**1,543,248**	**1,673**	**N/A**	**N/A**	**N/A**	**236,831**	**3,820**	**7,392**	**14,189**	**10,496**
Parcels of undeveloped land												
Puerto Retiro (9)	05/18/97		82,051		33%	0%						46,493
Caballito	11/03/97		20,968		100%	0%						19,898
Santa María del Plata	07/10/97		675,952		100%	0%						112,771
Pereiraola (11)	12/16/96		1,299,630		83%	0%						21,875
Dock 4 (ex Soc del Dock)	12/02/97		4,653		100%	0%	50%	12,310				6,490
Benavídez	11/18/97		989,423		67%	0%	100%	11,830		11,830		8,542
Others (13)	N/A		3,599,629		N/A							100,180

Subtotal			**6,672,306**		**N/A**	**N/A**	**N/A**	**24,140**		**11,830**		**316,249**
Others												
Hotel Piscis	09/30/02	5,231		1	100%	100%	100%	9,912			9,912	
Santa Fe 1588	11/02/94	8,341	2,713	20	100%	100%	100%	8,166				
Rivadavia 2243/65	05/02/94	8,166	2,070	4	100%	100%	100%	3,660				
Libertador 498	12/20/95	7,452	2,191	3	100%	100%	100%	5,931			2,313	
Constitución 1159	06/16/94	2,314	2,430	1	100%	100%	100%	1,988			1,988	
Madero 1020	12/21/95	16,008	5,056	8	100%	100%	100%	16,471	3,543	4,774	5,626	
Madero 940	08/31/94	2,867	772	1	100%	100%	100%	1,649			1,649	
Dock III (12)	09/09/99	25,836	10,474	3	100%	0%	30%	23,624	23,624			56,560
Other properties (14)	N/A	75,125	38,115	269	N/A	100%	92%	103,709	1,282	5,903	922	1,605
Subtotal	**N/A**	**151,340**	**63,821**	**310**	**N/A**	**N/A**	**N/A**	**175,110**	**28,449**	**10,677**	**22,410**	**58,165**
TOTAL (16)	**N/A**	**540,008**	**8,395,169**	**3,385**	**N/A**	**N/A**	**N/A**	**731,814**	**32,311**	**30,257**	**46,616**	**405,858**

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Notes:

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

(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 salable square meters.

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

(6) Corresponds to the company s consolidated revenues. Excludes turnover tax deduction.

(7) Cost of acquisition plus improvement, plus capitalized interest of properties consolidated in portfolio as of June 30, 2005, adjusted for inflation at 02/28/03, less allowance for impairment in value, plus recovery of allowances if corresponded.

(8) Through APSA.

(9) Through IBSA

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

(11) Directly through IRSA and indirectly through IBSA.

(12) Through Buenos Aires Trade & Finance Center S.A.

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

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

(15) Through APSA.

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

(17) Represents a change in the exposure criteria, which takes as inventories certain receivables for exchange.

Residential apartments

In the apartment building market, we acquire undeveloped properties strategically located in densely populated areas of the City of Buenos Aires, particularly properties located next to shopping centers and hypermarkets or those to be constructed. We then develop multi-building high-rise complexes targeted towards the middle-income market. These 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 no longer in use 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 according 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 targeted to the middle-income market, however, we decided not to construct Torres Jardín IV. Torres Jardín I, II and III have been completed and consist of 490 one, two and three bedroom residential apartments. The complex also includes 295 spaces of underground parking. As of June 30, 2005 there are only one apartment and 37 parking spaces remain available for sale.

Torres de Abasto, City of Buenos Aires. Torres de Abasto is a 545-apartment high-rise residential apartment complex developed through APSA, located one block from Abasto Shopping. The project consists of three 28-story buildings and one 10-story building targeted to 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 310 underground parking spaces. As of June 30, 2005, nearly all units in the complex were sold.

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Cruceros, Dock 2. This is a unique project in Puerto Madero. This residential block of 6,400 square meters is built alongside the Edificios Costeros office buildings. It is aimed at the upper-income segment and most condominium areas have spectacular views of the river. During fiscal year 2004 we sold the parcel of land in exchange for housing units of the building being constructed. The project has a progress level of 84% and we started the pre-sale of the units by means of money advances for fixing the price.

San Martin de Tours. In March 2003 we purchased a plot located on San Martin de Tours Street in the Barrio Parque district, the most exclusive residential zone in the City of Buenos Aires. With the signature of the sales contract, a prepayment of US$ 80,000 was made and at the time of the transfer of the title deed in June 2003, US$ 230,000 were paid. At that time, a mortgage was set up in favor of Providence for US$ 750,000 as a guarantee of 25% of the functional units that IRSA must hand over when the building is completed. IRSA financed with its own working capital the construction of the high-quality house-type residence complex unlike any other property available aimed at the high-income segment. As of June 30, 2005 the project was in its final stage.

Concepción Arenal 3000, City of Buenos Aires. Concepción Arenal 3000 is a 70-loft residential property located in the north-central area of the City of Buenos Aires. Each loft unit has a salable area of 86 square meters and a parking space. Lofts in this building are targeted to at 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 center in the exclusive neighborhood of Palermo. Apartments in the building are targeted the upper-income market. The building is also located next to its twin, Alto Palermo Plaza. The building is composed of 3 and 4-room apartments with an average area of 158 square meters. This building was included in the assets we acquired from Pérez Companc S.A. As of June 30, 2005 there is only one apartment available for sale in Alto Palermo Park, and it is currently rented.

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 of the suburbanization trend has been the improvements and additions to the Autopista Panamericana, Avenida General Paz and Acceso Oeste highways which significantly reduce traveling time, encouraging a large number of families to move to the new residential neighborhoods. Also, the improvement in public train, subway and bus transportation since their privatization further influences the trend to adopt this lifestyle.

Abril, Hudson, greater Buenos Aires area. Abril is one of our private residential communities. It is a 312-hectare property located near Hudson town, approximately 34 kilometers south of the City of Buenos Aires. Abril is a private residential community for the construction of single family homes targeted to the upper-middle-income market. As of June 30, 2005, this residential community had a total of 77,686 square meters of gross salable area. The property includes 20 neighborhoods subdivided into 1,273 lots consisting of approximately 1,107 square meters each. Abril also includes an 18-hole golf course, 130 hectares of woodland,

a 4,000 square meter shopping and entertainment facility, a trilingual school, horse stables, and sports centers. Construction of the shopping and entertainment center, which was concluded in 1999.

In March 2003, we sold 40 lots to Pulte S.R.L. for Ps. 3.2 million. Pulte S.R.L. completed the payment by returning 27 previously purchased lots, amounting to Ps. 2.8 million, and paying the balance of Ps. 0.5 million in cash.

The neighborhoods have been completed and as of June 30, 2005, 95% of the property had been sold.

Villa Celina, Greater Buenos Aires. Villa Celina is a 400-lot residential community of single family homes located in the neighborhood of Villa Celina, on the southeastern edge of the City of Buenos Aires, a short distance from the intersection of the Ricchieri highway and the Avenida General Paz beltway. We have been developing this property in several stages since 1994. The first three stages represent 219 lots, each measuring 347 square meters on average and the two last stages represent 181 lots. As of June 30, 2005 100% of the residential community was sold.

Undeveloped parcels of land

We have acquired large undeveloped properties as land reserves located in strategic areas for the future development of office and apartment buildings, shopping centers and single family housing. We have acquired what we believe to be two of the largest and most important undeveloped river front parcels in Buenos Aires, Puerto Retiro and Santa María del Plata, for the future development of residential and office spaces. In addition, we have benefited from the improvement of land values during periods of economic growth. As of June 30, 2005, our land reserve totaled 14 properties consisting of approximately 652 hectares (excluding Rosario, Neuquén, Caballito and COTO air space owned by APSA).

City of Buenos Aires

Puerto Madero Dock III. Plot 5M , located in Dock 3, eastern side of Puerto Madero, comprises 10,474 square meters and is subdivided in three plots.

On September 7, 2004, we, through our wholly-owned subsidiary Buenos Aires Trade & Finance Center S.A. (Trade) and Desarrollos y Proyectos Sociedad Anónima (DYPSA) signed a barter and option contract whereby DYPSA proposed to acquire from us plots 1c) and 1e) of Dock III (undeveloped land) at a price of US$ 8.0 million and US$ 10.8 million, respectively, for the construction, at its own expense and under its own responsibility, of two buildings of 37 and 40 floors, parking lots and individual storage spaces. As consideration for the exchange of plot 1c), DYPSA agreed to deliver to us, within a maximum term of 36 months, housing units, parking lots and storage spaces representing in the aggregate 28.50% of the housing unit area to be built in the first building. Furthermore, DYPSA has an option to acquire plot 1e), mentioned above, within a maximum term of 548 days counted from the signing of the deed of conveyance of plot 1c) and subject to the work progress in the first building. In this case, DYPSA agreed to deliver to us in exchange, within a maximum term of 36 months, housing units, individual storage spaces and parking lots representing in the aggregate 31.50% of the housing unit area to be built in the second building. On November 25, 2004 we signed the deed of conveyance of title of the plot 1c) in favor of DYPSA and the option of DYPSA to acquire plot 1e) as explained before. As a guarantee of this transaction, DYPSA set up a first degree mortgage on plot 1c) for US$ 8.0 million in favor of the Company. The option to exchange plot 1e) is subject to the construction of the 13th floor of the building to be built on lot 1c). These barter transactions were ultimately approved by *Corporación Antiguo Puerto Madero* during the second quarter of fiscal year ended June 30, 2005. In addition, on May 18, 2005 we entered into a preliminary agreement with DYPSA pursuant to which we will sell to DYPSA plot 1d) for a total consideration of US$ 8.5 million. We received an advance payment of US$ 2.2 million and the balance of US$ 6.3 million will be paid by DYPSA at the time of signing the pertinent deed and subsequent transfer of property, which is scheduled for January 2006. For details on the accounting for these inventories at June 30, 2005, see Note 4.e. to our Consolidated Financial Statements.

Puerto Retiro. Puerto Retiro is an 8.3-hectare undeveloped riverside property bounded by Catalinas and Puerto Madero office areas to the west, Retiro, a major transit hub, to the north and Río de la Plata to the south and east. It is 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 to rezone the area. Our plan is to develop a 360,000 square meter financial center. The launch date has not been settled and consequently, the estimated cost and financing method have not been decided yet. We own 67% of our subsidiary IBSA, which owns a 50% interest in Puerto Retiro.

Santa María del Plata. Santa María del Plata is an undeveloped waterfront property located at the southern end of Puerto Madero, adjacent to the City of Buenos Aires nature reserve. The development will be targeted at the high-income market and will include different residential projects, taking advantage of the river and related nautical activities. 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 propose to look for a partner for the development of this project or to provide assistance through the advance sale of land to finance the cost of the infrastructure. We plan to seek a partner to provide development skills and capital for the development of this project. The framework plan is still pending final approval by the authorities. The public forum on environmental matters has already taken place and we forecast its approval shortly. Currently awaiting the necessary municipal permits to start the project, there is a surface of 40,000 Sqm rented to Terminales Río de La Plata S.A. for US$ 17,000 monthly.

Dock IV. This is a new office class AAA undertaking having a total surface of approximately 14,100 square meters that will be devoted to rent and will also offer large office surface and plant versatility. The division alternative of the stories will allow them to be occupied both by companies requiring areas of 200 square meters and corporations that need a full floor. The first stage of the work is currently undergoing a bidding process for the underground and lobby, and the work documentation allowing bidding of the second stage is pending.

Caballito. This is a property of 2.1 hectares, located at the North of the residential neighborhood of Caballito. This property has two different plots close to each other having public plazas at each corner. The intention is to develop a household complex offering a variety of types. The total area is estimated at approximately 18,000 square meters.

Caballito, Ferro Project. This is a property of approximately 25,539 square meters in the neighborhood of Caballito, one of the most densely populated in the City of Buenos Aires. APSA purchased this property in October 1998. This plot will host a shopping center, a hypermarket, a movie theatre complex, and several recreational and entertainment activity areas. We are currently working to define the commercial project. A proper authorization from the relevant municipal authorities of the City of Buenos Aires is needed for the development of the project.

Alcorta Plaza. With respect to the plot located on the Figueroa Alcorta Avenue, in front of Paseo Alcorta, we are working on a commercial project that may involve an office building and/or apartment complex.

Province of Buenos Aires

Pereiraola, Hudson. We own an 83% interest in Pereiraola S.A., a company whose main asset is a 130 hectare undeveloped property adjacent to our Abril community. We intend to use this property to develop a private community where single family homes will be constructed, which targets the middle-income market. We have not yet established the costs and financing method for this proposed project.

Benavídez, Tigre. Benavídez is a 98.9 hectare undeveloped land reserve property located in Tigre, 35 kilometers to the north of downtown of the city of Buenos Aires. On May 21, 2004 the title deed was executed through which Desarrolladora El Encuentro S.A. (DEESA) undertook to pay our subsidiary Inversora Bolívar S.A. US$ 3,980,000, of which US$ 979,537 were paid during the current quarter and the balance of US$ 3,000,463 will be settled with the barter of 110 residential plots that have already been chosen and established in the purchase option contract for Benavídez, included in the contract dated December 3, 2003. On that occasion, DEESA set up a senior mortgage in favor of Inversora Bolívar S.A. on the property in the amount of US$ 3,000,463, in guarantee of compliance of the transaction and handed Inversora Bolívar S.A. US$ 500,000 in guarantee deposit and surety of compliance with each and every obligation assumed. This amount will not accrue interest for DEESA and will be returned as follows: 50% of the balance with the certification of 50% completion, and the remaining 50% with the certification of 90% of completion.

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 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 is and, therefore, we currently do not have a cost estimate nor a financing plan.

Other undeveloped parcels of land in the City of Buenos Aires

Our land reserve 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.

Other provinces

Torres Rosario, City of Rosario. We own a plot of land spanning a surface of approximately 50,000 square meter in the city of Rosario in the same place where our local Shopping Center, Alto Rosario, is located.

In this land we are planning to construct a residential complex center and during the fiscal year, 2005 we entered into a preliminary agreement with Villa Hermosa S.A. (VHSA) to sell VHSA a plot of this land, for a total consideration of Euros 3.0 million according to the conditions expressly established in the contract. VHSA plans to construct a luxury hotel on this land. VHSA has given us an advance payment amounting to Euros 0.3 million.

Neuquén Project, Province of Neuquén. On July 6, 1999 APSA acquired 94.6% ownership of Shopping Neuquén S.A. for Ps. 4.2 million. APSA paid Ps. 0.9 million on September 1, 1999 and the remaining Ps. 3.3 million were originally scheduled to be paid on or before July 5, 2001 or at the completion of the construction of the shopping center, whichever happened first. We clarify that said amounts are in Pesos according to the emergency legislation in force. See Item 3.D.   Risks

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Factors . However, Shopping Neuquén S.A. s former shareholders have challenged the constitutionality of such legislation, and no final decision has been issued. As of November 30, 2005 the purchase price balance remains unpaid.

Shopping Neuquén S.A. s sole asset is a plot of land of approximately 50,000 square meters on which a shopping center is proposed to be built. The proposed project contemplates the building of a shopping center, a hypermarket, a hotel and a housing complex none of which have been commenced.

Legal issues with Shopping Neuquén S.A s former shareholders

On August 15, 2003 APSA was informed that the former shareholders of Shopping Neuquén S.A., who had a 85.75% interest, filed a complaint against APSA seeking recovery of the purchase price balance, interest and legal costs. In September 2003, APSA answered the complaint opposing several defenses such as, plaintiffs non-compliance with their duties under the contract and the pesification of the purchase price balance according to the emergency legislation. Moreover, APSA filed a counterclaim alleging there should be a readjustment of the effects of the contract which became excessively burdensome for unforeseeable reasons given the 2001 economic, social and political crisis. In November 2003 the plaintiffs replied to APSA s counterclaim alleging that the payment under the purchase agreement was overdue before the economic and social crisis emerged and thus APSA s contract readjustment claim was inadmissible. As of November 30, 2005 the trial is under discovery stage.

Legal issues with the Municipality of Neuquén

In June 2001 Shopping Neuquén S.A. filed a request with the Municipality of Neuquén to extend the construction deadlines that had been originally scheduled. In addition, it requested authorization to convey certain plots of land to third parties so that each participant to the Neuquén project would be able to build on his own land. On December 20, 2002 the Municipality of Neuquén issued Decree 1437/02 denying both requests. In addition, it declared that the rights under Ordinance 5178 had lapsed and that the land purchase agreements would be terminated. As a result, the improvements already performed by Shopping Neuquén S.A. would be lost and accrued in favor of the Municipality of Neuquén, leaving Shopping Neuquén S.A. with no right to compensation.

On January 21, 2003 Shopping Neuquén S.A. submitted its response to the Decree 1437/02 requesting its revocation. It also requested permission to submit a new construction timetable, which would be prepared in accordance with the current situation of the project, including reasonable short and medium term projections. The Municipal Executive issued Decree 585/2003 rejecting this. On June 25, 2003 Shopping Neuquén S.A. filed an administrative action with the Supreme Court of Neuquén requesting the annulment of Decrees 1437/2002 and 585/2003. On December 21, 2004, the Supreme Court of Neuquén ruled in favor of the Municipality of Neuquén, declaring that the administrative action filed by Shopping Neuquén S.A. had expired. The decision, however, is not final. APSA filed an appeal but the Supreme Court of Neuquén has not yet issued a decision with regards to its admissibility. If the appeal is declared admissible the Federal Supreme Court will give a final decision, but if it is declared inadmissible APSA will file an appeal directly with the Federal Supreme Court.

Shopping Neuquén S.A. is currently seeking to negotiate with the Municipality of Neuquén the terms of an agreement that might permit reactivation of the proposed development. Nevertheless, we cannot give you any assurance that APSA will be able to achieve such an agreement on commercially reasonable terms, if at all, and if APSA cannot, the Municipality of Neuquén would be entitled to request the restitution of the property and APSA will likely lose all or substantially all of its investment which amounts to Ps. 10 million.

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We maintain a provision of Ps. 2.3 million which represents our best estimate of the probable loss to be incurred in connection with these claims.

Laguna Azul Project, Province of Córdoba. In July 2005 we acquired a 38.4% ownership interest in Canteras Natal Crespo S.A. (CNC) for a total consideration of US$ 1.3 million. In addition, we have the obligation to buy an additional 11.5% ownership interest if the remaining shareholders decide to sell their shareholdings for a total consideration of US$ 0.4 million. CNC is a company located in the Province of Córdoba that will be engaged in the sale and development of land, buildings and other real estate activities. ECIPSA S.A., an unrelated party, is our partner in this project.

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 Intercontinental in Buenos Aires which we own through our subsidiary Inversora Bolívar. In March 1998, we acquired the Hotel Libertador. During fiscal year 1999, we sold a 20% interest in the Hotel Libertador to Hoteles Sheraton de Argentina S.A.C. (Hoteles Sheraton de Argentina) and during the fiscal year 2000, we sold 50% of our interest in the Hotel Llao Llao to the Sutton group.

The following chart shows certain information regarding our luxury hotels:

Hotel properties

Hotel	Date of acquisition	IRSA s Effective interest %	Number of Rooms	Average occupancy % (1)	Avg. price per room Ps.(2)	Revenues for fiscal years ended June 30, (Ps.000) 2005	2004	2003	Book value as of June 30, 2005 (Ps. 000)
Intercontinental [3]	11/97	51	309	71.5	275	33,228	26,079	22,297	57,073
Sheraton Libertador [4]	03/98	80	200	85.2	231	20,556	15,650	11,529	36,700
Llao Llao [5]	06/97	50	158	70.8	547	33,336	29,566	23,560	33,097
Hotel Piscis [6]	09/02							344	
Total Hotels		**N/A**	**667**	**75.4**	**320**	**87,120**	**71,295**	**57,730**	**126,870**

Notes:

(1) Accumulated average during fiscal year 2005.

(2) Accumulated average during fiscal year 2005.

(3) Through Nuevas Fronteras S.A. (Subsidiary of IBSA)

(4) Through Hoteles Argentinos. S.A.

(5) Through Llao Llao Resorts S.A.

(6) The Piscis Hotel was sold on March 19, 2003.

***Hotel Llao Llao, San Carlos de Bariloche, Province of Rio Negro*.** Hotel Llao Llao is located on the Llao Llao península, 25 kilometers from the City of San Carlos de Bariloche, and is one of the most important tourist hotels in Argentina. Surrounded by mountains and lakes, this hotel was designed and built by the famous architect Bustillo in a traditional alpine style and first opened in 1938. The hotel was renovated between 1990 and 1993. The building has a total constructed surface

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area of 15,000 square meters and 158 rooms. The hotel-resort also includes an 18-hole golf course, tennis courts, health club, spa, game room and swimming pool. The hotel is a member of The Leading Hotels of the World and is currently being managed by Compañía de Servicios Hoteleros S.A. which manages the Hotel Alvear, a luxury hotel located in the Recoleta neighborhood of the City of Buenos Aires.

Currently, the hotel is under an expansion construction. The number of suites of the hotel is being extended to 200 rooms, increasing its capacity by 25%. The total amount of the expantion investment is approximately US$ 7 million, including improvements in the kitchen and laundry-room, and the construction of a high technology water purifying plant. The first stage of the earthmoving is in the final process, and the second stage of the construction, which includes reinforced concrete, masonry and facilities, started in December 2005. Completion is scheduled for December 2006.

Hotel Intercontinental, City of Buenos Aires. Hotel Intercontinental is located in the downtown City of Buenos Aires neighborhood of Monserrat, adjacent to the Intercontinental 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 facility with swimming pool. The hotel was completed in December 1994 and has 309 rooms. The hotel is managed by the Intercontinental Hotels Corporation, a United States corporation.

Hotel Sheraton Libertador, City of Buenos Aires. Hotel Sheraton Libertador is located in downtown City of Buenos Aires at the corner of the streets Córdoba and Maipú, one block from Galerías Pacífico. The hotel contains 193 rooms and 7 suites, eight meeting rooms, a restaurant, a business center, a spa and fitness facilities with a swimming pool. In March 1999, we sold 20% of our interest in the Sheraton Libertador Hotel for US$ 4.7 million to Hoteles Sheraton de Argentina. The hotel is managed by Sheraton Overseas Management Corporation, a United States corporation.

The hotel is under renovation construction involving the the upgrade of its guest rooms and meeting rooms, and the improvement of elevators is undergoing a bidding process. Also, new wall to wall carpets are being placed in different hotel sectors (lobby bar, saloons, circulating corridor). The estimated total amount of the renovation investment is US$ 2.5 million and is scheduled to end in November 2006

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

Financial operations and others

E-Commerce

Altocity.com S.A. Altocity.com S.A. is a retail e-commerce company, and a company rendering services to large and medium size companies that allow electronic sales of their products both country and world-wide.

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Altocity.com S.A. (Altocity) is a company resulting from our partnership with Telefónica de Argentina S.A. (Telefónica). Altocity enables us to expand our physical business to include a new sales channels through the Internet, and at the same time allows Telefónica to enter in the e-retailing business and sale of e-commerce services. Telefónica is a telecommunications leader in all Spanish and Portuguese speaking countries. Also, Telefónica is the largest Spanish multinational company and in Argentina is one of the media leaders, having a significant share in the two most important TV broadcasters in the country, and also has radio and other companies related to media.

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

Monthly average sales increased from Ps. 299,674 to Ps.396,673 between fiscal years 2004 and 2005 respectively, representing a positive variation of 32%. Also, in respect of traffic, clients´ portfolio and transactions, all these items show an improvement in comparison with the previous period.

	June 30, 2004	June 30, 2005
Unique visitors per month	300,000	352,000
Daily average	13,000	16,000
Registered citizens to date	55,000	82,000
Transactions to date	52,000	76,000

Altocity has devoted resources towards developing the following areas:

Marketing of the portal through loyalty building activities and to new customers;

e-commerce services;

Barter and reward program.

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Investments in Banco Hipotecario S.A.

We have a significant investment in Banco Hipotecario which represents 9% of our consolidated assets as of June 30, 2005. Established in 1886 by the Argentine government, Banco Hipotecario has historically been the leading mortgage lender in Argentina, the largest mortgage servicer and largest provider of mortgage-related insurance. Substantially all of Banco Hipotecario s operations, property and customers are located in Argentina.

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

Banco Hipotecario has historically engaged in three main business activities:

- lending to individuals and developers for the purchase, construction and improvement of housing units;
- underwriting credit life, property damage and unemployment insurance related to its mortgage lending activities; and
- servicing its own and third-party mortgage loan portfolios.

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

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

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

The Argentine financial system as a whole has been harmed by the 2001 crisis, and the following governmental measures have had an adverse effect on Banco Hipotecario in particular:

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

Inadequate Adjustment of its Loans for Inflation. Notwithstanding the devaluation of the Peso and the significant inflation in Argentina, Banco Hipotecario was not permitted to make any inflation adjustment to approximately 60% of its mortgage loans. Moreover, it was permitted to adjust an additional 30% of its loans only pursuant to CVS which during 2002 was significantly less than inflation as measured by the WPI. Lastly, approximately 10% of its loan portfolio was adjusted by the

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CER, which in 2002 was substantially lower than the WPI. As a result, during 2002 Banco Hipotecario s mortgage loan portfolio and related revenues suffered, and may continue to suffer, a very significant erosion in value.

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

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

Rescheduling of the mortgage debts. On November 5, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule the mortgage debts financed by a Trust (paid by the Argentine Government) which buys the portfolio mortgage debts and reschedules the maturity dates. Financial institutions were given a period to accept this mortgage refinancing system that expired on June 22, 2004. This term was extended twice first by Decree No. 352/2004 and then by Law No. 26,062 effective as of November 4, 2005. The latter not only extends the term 120 days as from the day of its publication but also suspends foreclosure proceedings for the same period.

Banco Hipotecario s restructuring plan: The Exchange Offers

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

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

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

Of the US$302.4 million aggregate principal amount of existing bank indebtedness outstanding as of December 29, 2003 (including the Dollar equivalent of Peso-denominated bank debt), 100% participated in the concurrent restructuring of Banco Hipotecario s existing debt. Of the amount

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that participated, approximately 20% (US$60 million) elected to receive long-term loans, approximately 10% (US$31 million) elected to receive cash and approximately 70% (US$211 million) elected to receive guaranteed loans.

Competition

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

Offices and Others

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

Hotels

We own three five-star hotels in Argentina which are managed through strategic alliances by international operators such as Sheraton Overseas Management Corporation, Intercontinental Hotels Corporation and the local operator Compañía de Servicios Hoteleros S.A., which also manages the Hotel Alvear. The Hotel Llao Llao is unique for its landscape and beauty and is well known around the world. Our other two hotels, that is, Hotel Intercontinental and Hotel Sheraton Libertador, are located in the City of Buenos Aires and account for 24% of the total available rooms for this five-star hotel category. The following table shows the breakdown of five-star hotels in the City of Buenos Aires as of June 30, 2005:

Hotel	Number of rooms	Occupancy rate [2]	Revenue generation index [1]	Average daily rate in US$
Crowne Plaza	388	76%	0.88	85.11
Hilton	421	81%	1.29	124.75
Sheraton (Main)	742	71%	0.93	89.48
Marriott Plaza	325	74%	1.04	100.33
Intercontinental	309	69%	1.02	97.99
Sofitel Madero	193	71%	1.00	96.64
Sheraton Libertador	200	85%	0.83	80.24
Total/average	2578	74%	1.00	96.36

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

(2) Occupancy rate as of June 30, 2005

Source: Companies related in the table above have exchanged their information with IRSA

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Shopping Centers

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

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

Main owners and operators of Argentine shopping centers

Companies	Location (1)	Gross Leasable Area	Stores	% of national gross leasable area (2)	% Stores (2)
APSA					
Alto Avellaneda (5)	GBA	58,267	152	4.64	3.49
Abasto de Buenos Aires	CBA	39,329	175	3.13	4.01
Mendoza Plaza Shopping (5)	Mendoza	40,133	151	3.20	3.46
Paseo Alcorta (5)	CBA	53,471	116	4.26	2.66
Alto Palermo Shopping	CBA	18,055	150	1.44	3.44
Buenos Aires Design (4)	CBA	14,598	59	1.16	1.35
Patio Bullrich	CBA	10,780	87	0.86	2.00
Alto Noa (5)	Salta	18,880	84	1.50	1.93
Alto Rosario (5)	Rosario	41,579	144	3.31	3.30
Subtotal		**295,092**	**1,118**	**23.50**	**25.64**
Cencosud					
Unicenter Shopping (5)	GBA	90,869	287	7.24	6.58
Plaza Oeste Shopping (5)	GBA	38,720	138	3.09	3.17
Quilmes Factory (5)	GBA	31,373	47	2.50	1.08
Lomas center Shopping (5)	GBA	24,271	50	1.93	1.15
San Martin Factory (5)	GBA	24,388	31	1.94	0.71
Parque Brown Factory (5)	GBA	23,553	41	1.88	0.94
Las Palmas del Pilar Shopping (5)	GBA	37,662	102	3.00	2.34
Jumbo Palermo Centro Comercial (5)	CBA	22,763	46	1.81	1.06
El Portal de la Patagonia (5)	Neuquén	21,700	45	1.73	1.03
El Portal de Escobar (5)	GBA	18,886	24	1.50	0.55
El Portal de los Andes (5)	Mendoza	22,962	40	1.83	0.92

El Portal de Rosario [5]	Rosario	57,419	182	4.58	4.17
Subtotal		**414,566**	**1,033**	**33.03**	**23.70**
Other Operators					
Subtotal		**545,295**	**2,209**	**43.45**	**50.67**
Totals		**1,254,952**	**4,360**	**100**	**100**

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

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

(3) APSA directly owns an 85.4% interest in Mendoza Plaza Shopping.

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

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

Sources: Argentine Chamber of Shopping Centers and APSA.

Regulation and Government Supervision

The laws and regulations governing the acquisition and transfer of real estate, as well as municipal zoning ordinances, are applicable to the development and operation of our properties.

Currently, Argentine law does not specifically regulate shopping center lease agreements. Since our shopping center leases generally differ from ordinary commercial leases, we have created model provisions that govern the relationship with our shopping center tenants. In compliance with applicable laws and our own policies, we have established specific provisions regarding store hours, fines and other penalties, tenants sales information duties, centralized administration, control and supervision.

Leases

Argentine Law imposes certain restrictions on landlords, including:

- a prohibition to include price adjustment clauses based on inflation increases in lease agreements; and
- the imposition of a three-year minimum lease term for retail property, except in the case of stands and/or space for special exhibitions.

Although our lease agreements were U.S. Dollar-denominated, Decree N° 214, Decree N° 762 and Law N° 25,820 that amended the Public Emergency Law, provided that monetary obligations in force as of January 7, 2002 arising from agreements governed by private law and which provided for payments in U.S. Dollars were subject to the following rules:

- the obligations were to be paid in Pesos at the exchange rate of Ps. 1.00 = US$ 1.00 plus the CER for commercial leases;

from October 1, 2002 and until March 31, 2004 for residential leases, the obligations are to be paid in Pesos at the exchange rate of Ps. 1.00 = US$ 1.00 plus the CVS;

if because of the application of these provisions, the amount of the installment were higher or lower than the amount at the moment of the payment, any of the parties could require an equitable adjustment of the price. If the parties did not reach an agreement, the judicial courts could decide about the difference in each particular case and

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

In addition, there are currently conflicting policy pronouncements and judicial decisions as to whether rent may be increased during the term of a lease. For example, section 10 of the Public Emergency Law prohibited lease agreements that adjusted rents for inflation based on an official index such as the Argentine Consumer Price Index or Wholesale Price Index. Most of our lease agreements contain rent escalation clauses, but they are not based on an official index. To date, no tenant has filed a judicial action or used in court an argument against us based on the existence of escalation clauses, but no assurance can be given that such actions will not be taken in the future, which if they prevail could materially and adversely affect us.

Under the Argentine Civil Code and the Lease Law No. 23,091, lease terms may not exceed ten years, except for leases regulated by Law No. 25,248 (which provides that real estate leases containing purchase options *leasing inmobiliario-* are not subject to term limitations). Generally, terms in our lease agreements go from 3 to 10 years.

Law No. 23,091, as amended by Law No. 24,808 provides that tenants may rescind commercial lease agreements after the first six months by sending a written notice at least 60 days before the termination of the contract. Such rescission is subject to penalties which range from one to one and a half months of rent. If the tenant rescinds during the first year of the lease the penalty is one and a half month s rent and if the rescission occurs after the first year of lease the penalty is one month s rent.

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

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

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

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

The Public Emergency Law, as amended by Law No. 25,640, suspended for the term of 270 days from the enactment of that law (ended on November 15, 2002) the auction of the debtor s property or the property used by the debtor for production, service rendering or trade activities and the enforcement of precautionary measures resulting in the divestiture of property used by the debtor. On February 4, 2003, the Executive Branch enacted Decree 204/2003 establishing a mediation procedure for a limited period of 90 days. On May 2003, the Argentine Congress enacted Law No. 25,737 which suspends foreclosures for an additional period of 90 days, ended on August 2003. On September 2003, several financial institutions voluntarily agreed not to foreclose on their mortgage loans. On November 2005, the Argentine Congress enacted a new Law (No. 26,062) that extended the foreclosures suspension for an additional 120 days period.

On November 6, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule debts resulting from unpaid mortgages, by creating a trust (paid by the Argentine Government) which would purchase the mortgage debts and reschedule the maturity date. Financial institutions were given until June 22, 2004 to accept said terms. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included various conditions referring to the incorporation into this system of the mortgage loans that were in judicial or private execution proceedings. This term was extended twice first by Decree No. 352/2004 and then by Law No. 26,062 effective as of November 4, 2005. The latter not only extends the term 120 days as from the day of its publication but also suspends foreclosure proceedings for the same period. The parties to secured loan agreements were given a term to express their adhesion System. This term was however extended twice first by Decree No. 352/2004 and then by Law No. 26,062 effective as of November 4, 2005. The latter not only extends the term 120 days as from the day of its publication but also suspends foreclosure proceedings for an additional 120 days period.

Development and Land Use

Buenos Aires Urban Planning Code. Our real estate activities are subject to several municipal zoning, building and environmental regulations. In the city of Buenos Aires, where the vast majority of our real estate properties are located, the Buenos Aires Urban Planning Code (*Código de Planeamiento Urbano de la Ciudad de Buenos Aires*) generally restricts the density and use of property and controls physical features of improvements on property, such as height, design, set-back and overhang, consistent with the city s urban landscape policy. The administrative agency in charge of the Urban Planning Code is the Secretary of Urban Planning of the City of Buenos Aires.

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

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

Sales and Ownership

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

- the registration of the sale in the Real Estate Registry (Registro de la Propiedad Inmueble) corresponding to the jurisdiction of the property; such Registry provides crucial information such as the liens and encumbrances which the property is subject to; and

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

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

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

After payment of 25% of the purchase price or the construction of improvements on the property equal to at least 50% of the property value, the Real Estate Installment Sales Act prohibits the rescission of the sales contract for failure by the purchaser to pay the balance of the purchase price. However, in such event the seller may take action under any mortgage on the property. As of September 2005, the House of Representatives passed a bill aimed at suspending foreclosure proceeding for a period of 120 days. Such act is currently being reviewed by the Senate.

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

The Consumer Protection Act purports to prevent potential abuses deriving from the strong bargaining position of sellers of goods and services in a mass-market economy where standard form contracts are widespread.

For said reason, the Consumer Protection Act deems void and unenforceable certain contractual provisions in consumer contracts, including:

- warranty and liability disclaimers;

waiver of rights, and

changes of the burden of proof.

In addition, the Consumer Protection Act imposes fines to induce compliance from sellers.

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

- the acquisition or hiring of personal property things;
- the supply of services; and
- the acquisition of new real estate intended for housing, including plots of land acquired with the same intent, when the offer is public and directed to undetermined persons.

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

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

The following are excluded from the application of the Consumer Protection Act:

- services supplied by professionals that require a registration in officially recognized professional organizations or by a governmental authority and
- the contracts involving second-hand assets, executed between consumers.

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

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

On June 2005, Resolution No. 104/05, which complements the Consumer Protection Law, adopted MERCOSUR s Resolution on which requires that those who engage in commerce over the Internet (E-Business) to disclose in a precise and clear manner not only the products and/or services offered but also the sale terms.

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

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The sale of these units are subject to subdivision approval and in orden to be included in the title regime must be registered with the Real Estate Registry.

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

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

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

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

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

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

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

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

On February 4, 2003, the Executive Branch enacted Decree No. 204/2003 creating a mediation proceeding, for a limited period of 90 days, to be conducted through the Emergency Legal Units (*Unidades de Emergencias Legales*) depending from the Ministry of Labor, Employment and

Social Security and the Ministry of Production. Such Emergency Legal Units shall intervene at the request of debtors or creditors in foreclosure cases.

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

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

On May 8, 2003 the Congress enacted Law No. 25,737 which suspended foreclosures for a period of 90 days more. Afterwards, private and financial entities have voluntarily decided to suspend foreclosures. On November 2005, the Argentine Congress enacted a new Law (No. 26,062) which extended the foreclosures suspension for an additional 120 days.

On November 5, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule the mortgage debts by creating a Trust (paid by the Argentine Government) which will purchase the portfolio of mortgage debts and reschedule them in a more profitable way. Financial institutions were given until June 22, 2004 to accept this mortgage reschedule system. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included various conditions for the incorporation of mortgage loans that were under to judicial or private execution proceedings to this mortgage refinancing system. The period for financial institutions to participate in this mortgage reschedule system was extended twice, first by Decree No. 352/2004 and then by Law No. 26,062 effective as of November 4, 2005. The latter not only extends the term 120 days as of the day of its publication but also suspends foreclosure proceedings for the same period.

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

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

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

- the obligations are to be paid in Pesos at the exchange rate of Ps. 1.00 = US$ 1.00 plus the CER for loans granted for the acquisition of commercial properties guaranteed by mortgages, or

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

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

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

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

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

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

Credit Cards Law. Law No. 25,065 regulates different aspects of the business known as credit card system . The regulations impose minimum contractual contents and the approval thereof by the Argentine Secretariat of Antitrust, Deregulation and Consumer Protection, as well as the limitations on the interest to be collected by users and the commissions to the stores adhering to the system.

The Credit Card Law applies to banking and non-banking cards, such as Tarjeta Shopping , issued by Tarshop S.A.

Antitrust Law. Law No. 25,156 prevents trust practices and requires administrative authorization for transactions that according to the Antitrust Law constitute an economic concentration. According to this law, mergers, transfers of goodwill, acquisitions of property or rights over shares, capital or other convertible securities, or similar operations by which the acquirer controls a company are considered as an economic concentration. Whenever an economic concentration involves a company or companies (i) which hold 25% or more of the relevant market or (ii) which exceed the accumulated sales volume by approximately Ps. 200 million in Argentina or Ps. 2,500 million worldwide; then the respective concentration should be submitted for approval to the National Antitrust Commission. The request for approval may be filed, either prior to the transaction or within a week after its completion.

The antitrust Law provides that economic concentrations in which the transaction amount and the value of the assets absorbed, acquired, transferred or controlled in Argentina, do not exceed Ps. 20.0 million are exempted from the administrative authorization. Notwithstanding the foregoing, when the transactions effected during the prior 12-month period exceed in total Ps. 20.0 million or Ps. 60.0 million in the last 36 months. As the consolidated annual sales volume of APSA and IRSA exceed Ps. 200.0 million, we should give notice to the National Antitrust Commission of any concentration provided for by the Antitrust Law. Currently, there is no transaction that must be notified. Antitrust Law does not affect our ongoing business.

C. Organizational Structure

The following table presents information relating to our ownership interest and the percentage of our consolidated total net revenues represented by our subsidiaries as of June 30, 2005.

Subsidiary	Activity	Country of incorporation	Percentage ownership (1)	Percentage of voting power (1)	Percentage of our total net revenues
Palermo Invest	Investment	Argentina	66.7	66.7	0.0
Inversora Bolívar	Real Estate	Argentina	66.7	66.7	1.9
Ritelco	Investment	Uruguay	100.0	100.0	0.0
Nuevas Fronteras S.A.	Hotel	Argentina	50.9	50.9	9.0
Pereiraola S.A.	Real Estate	Argentina	83.3	83.3	0.0
Abril S.A.	Real Estate	Argentina	83.3	83.3	0.0
Baldovinos S.A.	Real Estate	Argentina	83.3	83.3	0.8
Buenos Aires Trade & Finance Center S.A.	Real Estate	Argentina	100.0	100.0	6.4
Hoteles Argentinos S.A.	Hotel	Argentina	80.0	80.0	5.6
APSA (2)	Shopping Centers	Argentina	60.69	60.69	62.2
Llao Llao Resorts S.A.	Hotel	Argentina	50.0	50.0	9.0

(1) It does not contemplate irrevocable contributions.

(2) APSA s Consolidated Information

We have a significant interest in Banco Hipotecario S.A. (Banco Hipotecario), an Argentine company organized under Argentine Law engaged in banking activity. As of June 30, 2005, we owned 11.76% of Banco Hipotecario, and 5.22% of such ownership was through our subsidiary Ritelco S.A. Also, as of June 30, 2005, the voting power held by IRSA and Ritelco S.A. in Banco Hipotecario were 10.20% and 8.15%, respectively.

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The following is our organizational chart and our principal subsidiaries as of June 30, 2005:

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D. Property, Plant and Equipment

As of June 30, 2005, all of our property, consisting of rental properties in the office and retail real estate sectors, development properties primarily in the residential real estate sector and Shoppings Centers through our subsidiary APSA, was located in Argentina. We lease our headquarters, located at Bolívar 108, C1066AAD and Moreno 877, piso 22, C1091AAQ Buenos Aires, Argentina, pursuant to two lease agreements that expire on February 28, 2014 and November 30, 2008, respectively

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

	Date Of Acquisition	Leaseable/ Saleable Area m2 (1)	Location	Book Value Ps./ 000 (2)	Encumbrance	Outstanding principal amount Ps./000	Maturity date	Balance due at maturity	Rate	
al Plaza (3)	11/18/97	22,535	City of Buenos Aires	67,741						Offi
	06/01/05	15,014	City of Buenos Aires	72,222	Mortgage (16)	39.3	May-08	1.3	Fixed Rate 8.5%	Offi
8	12/20/95	10,533	City of Buenos Aires	43,307	Mortgage (4)	102.5	Nov-09	10.8	Libor 3M + 200 bps	Offi
	09/28/95	10,325	City of Buenos Aires	44,581						Offi
a	03/25/99	6,521	City of Buenos Aires	30,577	Mortgage (4)	102.5	Nov-09	10.8	Libor 3M + 200 bps	Offi
	12/21/95	215	City of Buenos Aires	1,665						Offi
323/41	11/12/93	6,100	City of Buenos Aires	19,355						Offi
764	11/22/91	11,453	City of Buenos Aires	11,749						Offi
teros	03/20/97	6,389	City of Buenos Aires	19,358						Offi
k IV	08/29/01	5,437	City of Buenos Aires	21,849	Mortgage (4)	102.5	Nov-09	10.8	Libor 3M + 200 bps	Offi
	08/31/94	768	City of Buenos Aires	2,401						Offi
595/99	08/19/92	1,958	City of Buenos Aires	4,574						Offi
r 602	01/05/96	638	City of Buenos Aires	2,985						Offi
74	09/19/91	274	City of Buenos Aires	164						Offi
7	01/12/94	39	City of Buenos Aires	84						Offi
1111	06/16/94	312	City of Buenos Aires	545						Com
	01/08/91	3,750	City of Buenos Aires	1,429						Com
el Plata	07/10/97	40,000	City of Buenos Aires	12,109						Othe
1159	06/16/94	2,072	City of Buenos Aires	1,324						Othe
ies (5)		33,468	City and Province of Buenos Aires	4,666						Offi
Shopping Center (6) (7)	11/18/97	18,055	City of Buenos Aires	210,822						Shop
	07/17/94	39,329	City of Buenos Aires	202,776						Shop
da (6)	11/18/97	27,313	City of Avellaneda	98,750						Shop
(6)	06/06/97	14,821	City of Buenos Aires	65,816						Shop
(6)	10/01/98	10,780	City of Buenos Aires	115,602						Shop
)	03/29/95	18,880	City of Salta	30,883						Shop
Desing (6)	11/18/97	14,598	City of Buenos Aires	20,935						Shop
	11/09/04	30,579	City of Rosario	79,117						Shop
za	12/01/94	40,132	City of Mendoza	83,706						Shop
	09/09/99	10,474	City of Buenos Aires	56,560						Land
(3)	05/18/97	82,051	City of Buenos Aires	46,493						Land
	11/03/97	20,968	City of Buenos Aires	19,898						Land
el Plata	07/10/97	675,952	City of Buenos Aires	112,771						Land
	12/16/96	1,299,630	Province of Buenos Aires	21,875						Land
	12/02/97	4,653	City of Buenos Aires	6,490						Land
f Buenos Aires (10)		62,973	City of Buenos Aires	76,161						Land
ce of Buenos Aires (11)		3,564,220	Province of Buenos Aires	43,884						Land
n (12)		52,286	City of Neuquén	9,983	Mortgage (13)					Land
al	11/01/97	37,742	City of Buenos Aires	45,269						Hote
rtador (14)	03/01/98	17,463	City of Buenos Aires	32,051	Mortgage	32.0	Jan-06	18.2	Libor 3M + 401/476 bps	Hote
	06/01/97	15,000	City of Bariloche	27,652						Hote
Tours	06/26/03	2,891	City of Buenos Aires	11,743	Mortgage (15)	2.2	End of construction	2.2		Dev

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

(2) Cost of acquisition or development, plus improvements, (adjusted for inflation until 02/28/03) less accumulated depreciation and impairment allowances.

(3) Through IBSA.

(4) We have mortgaged certain real estate properties (13 functional units at Libertador 498, 71 complementary units in Laminar Plaza and 19 complementary units in Dock IV) in connection with the issuance of the Collateralized Notes. On June 30, 2005 mortgaged properties had a net book value of Ps. 85.5 million and an outstanding principal amount of Ps. 102.5 million. The balance due at maturity is Ps. 10.8 million.

(5) Includes Thames, one unit in Alto Palermo Park (through IBSA) and Commercial places Abril (through IRSA and IBSA).

(6) Through APSA. We own a 51% interest in ERSA. Currently our shares of Emprendimiento Recoleta S.A. are pledged.

(7) Shopping Alto Palermo (SAPSA) is owned by APSA. On January 18, 2001, (i) APSA issued Series A Senior Notes for US$ 40 million and (ii) APSA and SAPSA co-issued Series B Senior Notes for US$ 80 million that will be severally paid by APSA and SAPSA. The Series A and B Senior Notes are due in 2005. The payment of the total amount of the Senior Notes is guaranteed by a Trust Agreement pursuant to which all of APSA s shares of SAPSA were transferred to a trust. The Trust Agreement was entered into on January 16, 2001 between APSA and Ritelco, as shareholders of SAPSA and as Trustors, Río Trust S.A., as Trustee, and the holders of the Senior Notes as Beneficiaries. At June 30, 2005, we fully cancelled the Senior Notes outstanding.

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

(9) Directly through IRSA and indirectly through IBSA.

(10) Includes the following land reserves: Torres Jardín IV, Edificios Cruceros, Concepción Arenales, Dorrego 1916, Padilla 902 and Puerto Madero Dock 13 (through IRSA), Intercontinental Plaza II (through IBSA) and Terrenos Alcorta, Caballito Torres Abasto and the Coto project (through APSA).

(11) Includes the following land reserves: Terrenos Pilar and Villa Celina (through IRSA), Pontevedra, Merlo and Benavídez (thorough IBSA), Terrenos Rosario (through APSA); lots Abril (through IRSA, IBSA and Baldovinos S.A.)

(12) Included Terrenos Neuquén (through APSA).

(13) At June 30, 2005, Shopping Neuquén S.A. included a Ps. 41,792 loan secured by a mortgage on the land.

(14) In January 2001 our subsidiary Hoteles Argentinos, owner of 100% of the Sheraton Libertador, obtained a loan from Bank Boston N.A. for US$ 12.0 million. Subsequently, Bank Boston sold this loan to Marathon Master Fund Ltd. This loan is due in January 2006 with interest being payable quarterly at Libor plus a spread ranging between 401 and 476 basis points, depending on the value of certain financial ratios. This loan was not converted into Pesos and it is stated in U.S. Dollars because it is governed by the laws of the State of New York. There are currently installments of the principal and interest that are overdue and unpaid. This loan is with no recourse to us. On December 16,

2004, our wholly-owned subsidiary Ritelco S.A. acquired 100% of the debt Hoteles Argentinos had with Marathon Master Fund, Ltd. Ritelco S.A. paid a total amount of US$ 8.0 million. In March 2005 Credit Suisse First Boston International (CSFB) purchased the credit on the HASA debt and we entered into an agreement with CSFB pursuant to which, among other things, we guarantee the payment of the debt owed by HASA and in the event of non-compliance we shall repurchase the loan agreement for US$ 8.0 million. As guarantee for this transaction, we made a payment of US$ 2.0 million. HASA must present a restructuring plan of the loan prior to March 15, 2006. The loan is collateralized by a mortgage on this property.

(15) In connection with the purchase of the plot of land where we are currently constructing San Martin de Tours project, we have assumed a mortgage payable which will be settled at the end of the construction through the delivery of certain apartments. This debt is valued at the higher of the purchase price or the estimated cost of construction and subsequent transfer of the units to be delivered.

(16) The Company has a first mortgage on this property as guarantee of the amount owed for its purchase which totaled US$ 17.3 million at June 30, 2005. On July 1, 2005 we paid US$ 0.4 million related to the first installment of the mortgage and on July 26, 2005 we signed an amendment to the mortgage pursuant to which we made a partial prepayment of US$ 3.2 million and agreed to settle the balance of US$ 13.6 million in 34 monthly equal and consecutive installments of US$ 0.5 million each (including interest at a rate of 8.5%).

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

Insurance

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

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ITEM 5. Operating and Financial Review and Prospects

A. Operating Results

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

For purposes of the following discussion, unless otherwise specified, references to fiscal years 2005, 2004 and 2003 relate to the fiscal years ended June 30, 2005, 2004 and 2003 respectively.

Our financial statements are presented in thousands of Pesos. Except as discussed in the following paragraph, our financial statements are prepared in accordance with Argentine GAAP and the *Comisión Nacional de Valores* regulations, which differ in certain significant respects from U.S. GAAP. Note 23 to our Consolidated Financial Statements provides a description of the principal differences between Argentine GAAP and U.S. GAAP affecting our consolidated figures and a reconciliation to U.S. GAAP of net income reported under Argentine GAAP for the years ended June 30, 2005, 2004 and 2003, and of shareholders equity reported under Argentine GAAP as of June 30, 2005 and 2004. The differences involve methods of measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP and regulations of the SEC.

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

Critical Accounting Policies and Estimates

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

- provision for allowances and contingencies;

impairment of long-lived assets;

debt restructuring;

deferred income tax;

asset tax credits

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

Provision for allowances and contingencies

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

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

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Impairment of long-lived assets

We periodically evaluate the carrying value of our long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We consider the carrying value of a long-lived asset to be impaired when the expected cash flows, undiscounted and without interest, from such asset are separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. We determine the fair market value primarily using independent appraisal valuations and utilizing anticipated cash flows discounted at a rate commensurate to the risk involved.

Under Argentine GAAP a previously recognized impairment loss is reversed when there is a subsequent change in estimates used to compute the fair market value of the asset. In that event, the new carrying value of the asset is the lower of its fair market value or the net carrying value the asset would have had if no impairment would have been recognized. Both the impairment charge and the impairment reversal are recognized in earnings. US GAAP prohibits the reversal of a previously recognized impairment charge.

We believe that the accounting policy related to the impairment of long-lived assets is a critical accounting policy because:

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

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

As of June 30, 2002 we reviewed our assets related to Development and sales of properties, Office and others, Hotels and Shopping Centers segments for impairments due to the continued deterioration of the Argentine economy. As a result, as of June 30, 2002 we had recognized an impairment of Ps. 140.6 million. During the years ended June 30, 2003 and 2005 we also recognized impairment losses totaling Ps. 14.0 million and Ps. 0.2 million, respectively. As a result of increases in their fair market values, during the years ended June, 30, 2003, 2004 and 2005 we partially reversed the impairment losses, recognizing gains of Ps. 25.4 million, Ps. 63.1 million and Ps. 28.2 million, respectively. Assets related to those four segments represent approximately 92% of our total long-lived assets as of June 30, 2005 and 2004.

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The fair market value of our office and retail buildings was determined following the rent value method, considering each property s future cash flow, competition and historical vacancy rates. The price per square meter of our properties varies based on the category and the type of building. For Class A buildings the average price per square meter used was Ps. 45 while for Class A/B buildings the average was Ps. 32.5 and for Class B/C buildings was Ps. 17.5. The average vacancy rates were calculated taking into account the last ten years. The performance of a sensitivity analysis, which reduced the fair market value of these properties by 5%, would have resulted in a smaller reversal of impairment losses as of June 30, 2005 of Ps. 3.7 million.

Valuation of shopping centers was performed according to the rent value method. We calculated discount rates considering each property s location, competition in its market, its historical vacancy rates and cash flow. The average discount rates we used were between 12.5% and 15.5%, the average price per leasable square meter was Ps. 6,904 and the average vacancy rate was calculated taking into consideration the actual vacancy. The performance of a sensitivity analysis, which reduced prices per square meter by 5%, would have resulted in a smaller reversal of impairment losses as of June 30, 2005 of Ps. 0.6 million.

We used the open market method for determining the fair market value of our land reserve and inventories. The performance of a sensitivity analysis, which reduced the fair market value of these properties by 5%, would have resulted in a smaller reversal of impairment losses as of June 30, 2005 of Ps. 2.7 million.

Debt restructuring

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

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

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

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

Interest Rates	Gain in millions Ps.	Impact on Net Income	Impact on Shareholder s equity

11%	16	5.59%	1.98%
16%	47	16.40%	5.81%
23%	73	25.49%	9.02%

Deferred income tax

We recognize income tax using the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement

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carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Technical Resolution No. 17 requires companies to record a valuation allowance for that component of net deferred tax assets which is not recoverable.

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

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

Reversals of existing taxable temporary differences

Business projections

As a result of the evaluation of this evidence, we accounted for a valuation allowance of approximately 46% of our deferred tax assets, amounting to Ps. 42 million. Net deferred tax assets as of June 30, 2005 were to Ps. 92.2 million.

A decrease and an increase of 10%, 20% and 30% in the net result of our projections utilized in determining the valuation allowance of our deferred tax assets would have had the following impact:

Premises fluctuation	Valuation allowance in million	Additional (loss) /gain in million of Ps.	Impact on Net income	Impact on Shareholder s equity
-10%	47	-5	-4.8%	-0.4%
-20%	52	-10	-9.7%	-0.8%
-30%	57	-15	-14.5%	-1.2%
10%	37	5	4.8%	0.4%
20%	32	10	9.7%	0.8%
30%	27	15	14.5%	1.2%

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

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

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

Asset tax credits

We calculate the asset tax provision by applying the current 1% rate on computable assets at the end of the year. This tax complements income tax. Our tax obligation in each year will coincide with the higher of the two taxes. However, if asset tax provision exceeds income tax in a given year, that amount in excess can be offset against income tax arising in any of the following ten years.

We have recognized the asset tax provision paid in previous years as a credit as we estimate that it will offset future years income tax.

We believe that the accounting policy related to asset tax provision is a critical accounting policy because it requires management to make estimates and assumptions with respect to our future results that are highly susceptible to change from period to period, and as such the impact on our financial position and results of operations could be material.

Overview

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

Effect on us of devaluation and economic crisis

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. However, during year 2003 certain signals of recovery appeared in the economy, which continued strengthening during 2004 and 2005.

In the fourth quarter of 1998, the Argentine economy entered into a recession that caused the gross domestic product to decrease by 3.4% in 1999, 0.8% in 2000 and 4.4% in 2001, during the second half of 2001. Argentina s recession worsened significantly, precipitating a serious political and economic crisis. During 2002, the gross domestic product decreased 10.9% as compared to 2001. In 2003, the economy began to recover, closing the year with year-on-year growth of 11.7%. Exceeding growth expectations, in 2004 the GDP increased 9.0% in comparison with 2003. Estimates are that during 2005 the GDP will increase 7.5% in comparison with 2004, consolidating the economy expansion.

On December 23, 2001, President Adolfo Rodriguez Saá declared the suspension of the payment of foreign debt and later Eduardo Duhalde ratified his decision. On January 6, 2002, the Congress enacted the Public Emergency Law which repeals several provisions of the Convertibility Law which prevailed in Argentina for 10 years, and the executive branch announced the devaluation of the Peso are settled in the Domestic Exchange Market (*Mercado Unico y Libre de Cambios*) at a floating market rate depending on supply and demand. This new legislation had a material adverse impact on our financial position and the results of our operations in fiscal year 2002, which was mostly offset during fiscal year 2003, 2004 and 2005.

During fiscal year 2005, the Government of President Néstor Kirchner submitted a proposal to creditors to continue the payments of the external debt. We would mention that the official offer of the sovereign debt exchange obtained very good results and was 76.07% supported by creditors. The Government was able to record a partial remission of the debt of 65.2% in terms of current value, which exceeds any remission recorded in any other debt restructuring process in other countries. This significant advancement represented an opportunity for the country to recover international market confidence and permitted the formation of a more feasible economic environment, which in turn will encourage the confirmation of future investments.

Effects of inflation

The devaluation of the Argentine Peso by the Executive Power encompasses the risk of a significant inflation increase.

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The Argentine Ministry of Economy has published the following inflation indexes which reflect variations with respect to the same month of the previous year.

Year ended June 30,	Consumer Price Index	Wholesale Price Index
2001	-0.3%	-1.6%
2002	28.4%	95.6%
2003	10.2%	8.3%
2004	4.9%	0.1%
2005	9.0%	7.7%

In 2005, inflation was one of the main topics of the economy. Retail prices accumulated an important increase during the first part of the year, generating concern about the future retail prices, as it is difficult to estimate an inflation rate for year-end which would be lower than the high level of 10.5% estimated by the Ministry of Economy and Production at the beginning of 2005. Such an increase of the inflation risk could erode the macroeconomic stability currently attained and would adversely impact our operation.

Effects of interest rate fluctuations

Most of our U.S. Dollar denominated debt accrues interest at a floating rate. An increase in interest rates implies a significant increase of our financial costs and materially affects our financial condition and our results of operations.

Effects of foreign currency fluctuations

A significant portion of our financial debt is denominated in U.S. Dollars. Therefore, a devaluation of the Argentine Peso against the U.S. Dollar would increase our indebtedness measured in Pesos and materially affect our results of operations. Foreign currency exchange rate fluctuations significantly increase the risk of default on our mortgages and lease receivables. Due to the fact that many of our customers have their cash flows in Pesos, a fluctuation of exchange rate may increase their U.S. Dollar-denominated liabilities. 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.

Operating costs and expenses

Allocation of selling expenses to business segments

Selling expenses related to the shopping centers and hotels 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, if existing, those located in shopping centers and hotels, based on the cost center which originated them.

Allocation of administrative expenses to business segments

Administrative expenses related to our shopping centers and hotel business segments are directly attributable to such segments because such segments are individually managed and are clearly identifiable. The remaining administrative expenses are allocated as follows:

57.80% of the Administrative expenses, without considering the original cost center, have been assigned to the Sales and Development segment, and 42.20% to the Offices and Other buildings for rental segment. Such percentages are calculated on the basis of operating assets and on revenues generated by each segment.

Administration expenses of the APSA cost center or hotels are assigned directly to the Shopping Centers and Hotels segments.

Allocation of results from the rescission of towers

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

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

This allocation of profits stems from the retained interests of APSA in the Tarjeta Shopping trusts. These profits have been allocated to the Shopping Centers segment.

Allocation of results from operations and holding of real estate assets

These results are allocated to the segment that generates them.

Allocation of the goodwill amortization

This includes mainly the amortization of goodwill stemming from the acquisition of APSA and APSA s subsidiaries, which is allocated to the Shopping Centers segment.

Allocation of other expenses and revenues to business segments

Financial Results. Includes interest income, interest on discounting assets and liabilities, gain on financial operations, financial expenses, gain on exposure to inflation, exchange gain (loss) and other financial results which can be allocated to each segment, as described below:

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

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

Gain on exposure to inflation, exchange gain (loss) and other financial results. In the case of Shopping Centers and Hotels, they are charged to the segments giving rise to them. The remaining items are recorded in Financial and Other operations as they are not directly related to any segment.

*Gain on equity investments***.** It is allocated to the corresponding segments. Gain on equity investments carrying out activities not falling under any of our segments are recorded under Financial and Other operations .

Other expenses, net. Only those associated to Shopping Centers and Hotels are segregated by segment. The remaining items are allocated to Financial and Other operations as they are not directly related to any segment.

Minority interest. This result is allocated among the segments of the company that generate it.

Income tax and asset tax. The corresponding income tax and asset tax is allocated to each segment.

Business Segment Reporting

We have determined that our reportable segments are those that are based on our method of internal reporting. Accordingly, we have five reportable segments. These segments are development and sales of properties , office and other non-shopping center rental properties , shopping centers , hotel operations and financial operations and others . The Consolidated Financial Statements were prepared in accordance with the procedure established by Technical Resolution No. 21 of the F.A.C.P.C.E. (*Federación Argentina de Consejos Profesionales de Ciencias Económicas*), which requires the consolidation of every line of our balance sheets, statements of income and statements of cash flows, with the financial statements of those companies in which we have direct or indirect control.

A general description of each segment follows:

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

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

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

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

Financial operations and others. This segment primarily includes revenues and associated costs generated from the sale of equity securities, other securities-related transactions and other non-core activities.

We measure our reportable segments based on net income. Inter-segment transactions, if any, are accounted for at current market prices. We evaluate performance and allocate our resources to each segment based on net income. We do not depend on any single client.

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The following tables show certain operating data by business activity:

	For the fiscal year 2005 (in millions of Pesos)					
	Development and sale of properties	Offices and other non-shopping center leased properties [a]	Shopping centers	Hotel operations	Financial operations and others	Total
Revenues	32.3	19.4	230.2	87.1	0.9	369.9
Costs	(16.9)	(7.7)	(92.4)	(48.9)	(0.9)	(166.8)
Gross profit	**15.4**	**11.7**	**137.8**	**38.2**		**203.1**
Gain from valuation of inventories at fair market value	17.3					17.3
Selling expenses	(2.6)	(0.9)	(24.6)	(9.8)		(37.9)
Administrative expenses	(9.5)	(9.2)	(31.6)	(19.4)		(69.7)
Gain in credit card trust			0.4			0.4
Gain from operations and holdings of real estate assets, net	0.5	12.2	13.1	2.1		27.9
Operating income	**21.1**	**13.8**	**95.2**	**11.1**	**(0.0)**	**141.2**
Amortization of goodwill			(1.7)			(1.7)
Financial results, net	(5.8)	(4.3)	(17.3)	(4.2)	19.4	(12.2)
Equity (loss) gain from related companies			(2.3)	12.2	57.0	66.9
Other (expenses) income, net			(8.1)	0.2	(6.7)	(14.6)
Income before taxes and minority interest	**15.3**	**9.5**	**65.9**	**19.3**	**69.6**	**179.6**
Income tax and asset tax	(13.1)	(1.8)	(33.6)	(1.2)	(3.5)	(53.2)
Minority interest		(2.1)	(17.3)	(3.8)		(23.2)
Net income	**2.2**	**5.6**	**15.0**	**14.3**	**66.1**	**103.2**
Total assets	**399.2**	**423.2**	**1,135.4**	**135.2**	**431.4**	**2,524.4**

[a] Includes offices, stores and residential buildings.

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	For the fiscal year 2004 (in millions of Pesos)					
	Development and sale of properties	**Offices and other non-shopping center leased properties [a]**	**Shopping centers**	**Hotel operations**	**Financial operations and others**	**Total**
Revenues	30.3	15.1	143.2	71.3	0.9	260.8
Costs	(25.9)	(8.3)	(72.4)	(40.0)	(0.8)	(147.4)
Gross profit	**4.4**	**6.8**	**70.8**	**31.3**	**0.1**	**113.4**
Selling expenses	(4.0)		(9.8)	(8.2)		(22.0)
Administrative expenses	(6.7)	(4.3)	(23.6)	(15.6)		(50.2)
Gain in credit card trust			0.3			0.3
Gain from operations and holdings of real estate assets, net	7.0	27.7	25.7	2.7		63.1
Operating income	**0.7**	**30.2**	**63.4**	**10.2**	**0.1**	**104.6**
Amortization of goodwill			(2.9)			(2.9)
Equity (loss) gain from related companies	(0.2)		(1.1)		28.0	26.7
Financial results, net	(6.1)	(6.2)	(12.5)	(4.9)	41.3	11.6
Other expenses, net			(5.8)	(2.1)	(5.7)	(13.6)
(Loss) Income before taxes and minority interest	**(5.6)**	**24.0**	**41.1**	**3.2**	**63.7**	**126.4**
Income tax and asset tax	(0.5)	(3.3)	(16.2)	(3.1)	(2.6)	(25.7)
Minority interest	0.4	(1.3)	(9.2)	(2.7)		(12.8)
Net (loss) income	**(5.7)**	**19.4**	**15.7**	**(2.6)**	**61.1**	**87.9**
Total assets	**355.2**	**331.2**	**1,056.9**	**138.5**	**326.6**	**2,208.3**

[a] Includes offices, stores and residential buildings.

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	For the fiscal year 2003 (in millions of Pesos) [1]					
	Development and sale of properties	Offices and other non-shopping center properties	Shopping centers	Hotel operations	Financial operations and others	Total
Revenues	46.6	17.8	113.8	57.7	0.6	236.5
Costs	(46.5)	(9.1)	(67.1)	(31.4)	(0.6)	(154.7)
Gross profit	**0.1**	**8.7**	**46.7**	**26.3**		**81.8**
Selling expenses	(4.0)	(0.1)	(17.6)	(6.9)		(28.6)
Administrative expenses	(6.1)	(4.4)	(21.4)	(13.3)		(45.2)
Gain on purchasers rescissions of sale contracts	0.0					0.0
Loss in credit card trust			(4.1)			(4.1)
Gain (loss) from operations and holdings of real estate assets, net	12.9	(1.9)	10.5			21.5
Operating income	**2.9**	**2.3**	**14.2**	**6.1**	**0.0**	**25.5**
Amortization of goodwill			(6.6)			(6.6)
Financial results, net	(2.1)	(2.1)	83.2	11.1	225.2	315.3
Equity loss from related companies	(0.3)		(12.1)		(2.3)	(14.7)
Other income (expenses), net			13.2	(3.7)	(10.4)	(0.9)
Income before taxes and minority interest	**0.5**	**0.2**	**91.9**	**13.5**	**212.5**	**318.6**
Income tax and asset tax benefit (expense)	0.7	(1.0)	(46.8)	1.4	49.2	3.5
Minority interest	5.1	(1.4)	(35.2)	(4.2)		(35.7)
Net income (loss)	**6.3**	**(2.2)**	**9.9**	**10.7**	**261.7**	**286.4**
Total assets	**342.9**	**293.4**	**1,044.2**	**138.8**	**262.7**	**2,082.0**

Results of Operations for the fiscal years ended June 30, 2005 and 2004.

Revenues

Revenues increased by 41.8% from Ps. 260.8 million for the fiscal year ended June 30, 2004 to Ps. 369.9 million for the fiscal year ended June 30, 2005. This increase is due to an increase in revenues from all our business units.

Development and Sale of Properties. Revenues from development and sale of properties increased by 6.8%, from Ps. 30.3 million for the fiscal year ended June 30, 2004, to Ps. 32.3 million for the fiscal year ended June 30, 2005. The increase in revenues in the development and sale of properties segment was mainly attributable to the net effect of (i) the Ps. 23.6 million increase in sales of Dock III; (ii) the Ps. 3.5 million decrease in sales from the residential communities of Abril, which decreased by 48%; (iii) the Ps. 11.8 million decrease in sales of undeveloped parcels of land arising from non-recurring sales during the past fiscal year of Benavídez; and (iv) the decrease of Ps. 5.9 million in the sale of other real estate, due to the non-recurring sale of Dock II for Ps. 5.2 million.

Offices and other non shopping center rental properties. Revenues from Offices and other *non shopping center rental properties* increased by 28.3%, from Ps. 15.1 million for the fiscal year ended

June 30, 2004, to Ps. 19.4 million for the fiscal year ended June 30, 2005. This increase is mainly due to a 29.7% increase in revenues from office rents, from Ps. 13.8 million in the fiscal year ended June 30, 2004, to Ps. 17.9 million for the fiscal year ended June 30, 2005. This increase in revenues is attributed to (i) the increase in the occupancy rates and monthly rental income of the majority of the buildings, principally in Intercontinental Plaza Tower for Ps. 1.2 million, Maipú 1300 for Ps. 0.8 million, Costeros Dock IV for Ps. 0.6 million and Libertador 498 for Ps. 0.5 million, and (ii) the purchase of Bouchard 710, a new building for lease which provided revenues of Ps. 0.4 million during June 2005. The percentage of room occupied in this segment increased by 13% from 76% as of June 2004 to 89% as of June 2005.

Shopping Centers. Revenues from Shopping centers increased by 60.6 % from Ps. 143.2 million during the fiscal year ended June 30, 2004, to Ps. 230.2 million during the fiscal year ended June 30, 2005. The increase is attributed principally to (i) an increase of 46.2% in revenues from leases and services, from Ps. 113.2 million to 165.5 million mainly due to a sustained increase of 29.6% in sales of our tenants (from Ps. 1.148 million in 2004 to Ps. 1.488 million in 2005) shown in the growth of our revenues from rental and admission rights for Ps. 37.7 million, the inclusion of Mendoza Plaza Shopping´s revenues of Ps. 9.2 million resulting from the consolidation of such company as from October 1, 2004 due to gaining control as a result of the acquisition of an additional 49.9% interest and the inauguration of Alto Rosario Shopping that took place on November 9, 2004 which produced an increase in revenues of Ps. 5.5 million and (ii) an increase of 114.9% in revenues from credit card operations from Ps. 30.0 million to Ps. 64.6 million due to the growth of our customer portfolio, our sales and the number of cardholders, all driven by the economic recovery that has taken place during the year, which led Tarjeta Shopping to the opening of new branches in different cities country-wide. This last fact generated a significant growth of the credit portfolio, which went from Ps. 92 million in fiscal year 2004 to Ps. 204 million in 2005 (the securitized portfolio included). The percentage of occupancy rates of our Shopping centers stayed at 99% during this year.

Hotels. Revenues from hotel operations increased by 22.2%, from Ps. 71.3 million for the fiscal year ended June 30, 2004 to Ps. 87.1 million for the fiscal year ended June 30, 2005, due to an increase in average price per room from Llao Llao from Ps. 460 during fiscal year 2004 to Ps. 547 during fiscal year 2005 and an increase in average occupancy in all our hotels, from 68% during the fiscal year 2004 to 75% during the fiscal year 2005. Revenues from Hotel Sheraton Libertador increased by Ps. 4.9 million, revenues from the Hotel Intercontinental increased by Ps. 7.1 million and revenues from Hotel Llao Llao increased by Ps. 3.8 million.

Financial operations and others. Revenues from Financial operations and others remained constant at Ps. 0.9 million both fiscal years. Revenues included in this line represent fees for services with no specific allocation to any of the previous segments.

Costs

Costs increased by 13.2%, from Ps. 147.4 million during the fiscal year ended June 30, 2004 to Ps. 166.8 million for the fiscal year ended June 30, 2005. This variation is mainly due to the net effect of (i) an increase in costs in the Shopping centers and Hotels and (ii) a decrease in costs in the Development and sale of properties and Offices and other non-shopping rental property segments. Costs as a percentage of revenues decreased from 56.5% for the fiscal year ended June 30, 2004 to 45.1% for the fiscal year ended June 30, 2005.

Development and Sale of Properties. Costs related to Development and Sale of Properties decreased by 34.5%, from Ps. 25.9 million for the fiscal year ended June 30, 2004 to Ps. 16.9 million for the fiscal year ended June 30, 2005 as a result of a decrease in the operation volume of sales as well as to a low cost of sales in the case of Dock III in comparison with costs of sales recorded in the cases of Benavídez and Dock II. Costs relating to Development and Sale of Properties as a percentage of revenues from the segment decreased from 85.1% during the fiscal year ended June 30, 2004 to 52.5% during the fiscal year ended June 30, 2005.

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Offices and other non shopping center rental properties. Costs of Offices and other non shopping center rental properties decreased by 7.2%, from Ps 8.3 million during the fiscal year ended June 30, 2004 to Ps. 7.7 million during the fiscal year ended June 30, 2005. This decrease in cost of Offices and other segment was mainly due to a reduction in maintenance expenses of vacant space in our buildings during this year as a result of higher occupancy rates in our buildings. The main component of cost of offices is the depreciation of leased properties.

Shopping Centers. Costs related to Shopping centers increased by 27.3% from Ps. 72.4 million in the fiscal year ended June 2004 to Ps. 92.4 million in the fiscal year ended June 30, 2005. This increase is due to: (i) an increase of 14.2% in leases and services costs mainly due to a Ps. 4.9 million cost resulting from the opening of Alto Rosario Shopping and a Ps. 3.2 million cost relating to the consolidation of Mendoza Plaza Shopping S.A. as of October 2004. The expenses that were modified are charges for amortization and non-recovered expenses; and (ii) a 77.1% increase of credit card operations cost due to an increase of Ps. 3.6 million in expenses arising from salaries and social security charges and of Ps. 1.5 million in taxes, duties and contributions as a result of the expansion and opening of new branches, a higher charge in commissions and interest of Ps. 2.3 million and an increase in fee and services expenses of Ps. 1.6 million, due to the new issues of the securitization program.

Hotels. Costs from hotel operations increased by 22.2%, from Ps. 40.0 million during the fiscal year ended June 30, 2004 to Ps. 48.9 million during the fiscal year ended June 30, 2005, primarily due to the increase in revenues. Higher costs of hotels are also due to an increase in depreciation and salaries and social security contributions. Costs relating to hotel operations as a percentage of revenues from the segment remained constant at 56.2% for both fiscal years.

Financial operations and Others. Costs from Financial operations and other segments increased by 25% from Ps. 0.8 million for the fiscal year ended June 30, 2004 to Ps. 0.9 million for the fiscal year ended June 30, 2005. Costs included in this line represent expenses incurred in the rendering of services that generate revenues.

Gross Profit

As a result of the foregoing, the gross profit increased by 79.1%, from Ps. 113.4 million during the fiscal year ended June 30, 2004 to Ps 203.1 million during the fiscal year ended June 30, 2005.

Gain from valuation of inventories at fair market value

This line was generated during the current year and arises as a result of valuing at fair market value those inventories on which we have received advances that fix prices, and the contract terms and conditions of the transactions that we have signed assure the effective conclusion of the sale and the gain. Such a valuation criteria was principally applied to the Cruceros and Dock III undertakings in a total amount of Ps. 17.3 million.

Selling Expenses

Selling expenses increased by 72.3%, from Ps. 22.0 million during the fiscal year ended June 30, 2004 to Ps. 37.9 million during the fiscal year ended June 30, 2005, primarily due to the net effect of (i) a decrease in sales and developments selling expenses and (ii) an increase in Offices and others, Shopping Centers and Hotels selling expenses. Selling expenses as a percentage of revenues increased from 8.4% during the fiscal year ended June 30, 2004, to 10.2% during the fiscal year ended June 30, 2005.

Development and Sale of Properties. Selling expenses from Development and Sale of Properties decreased by 35.2%, from Ps. 4.0 million during the fiscal year ended June 30, 2004 to Ps. 2.6 million during the fiscal year ended June 30, 2005, as a consequence of the decrease in sales operations during this fiscal year and due to the fact that the principal sale transaction of the current period, Dock III, had no direct commercial expenses or significant commissions. Main components of selling expenses of Development and Sale of Properties are commissions and expenses from sales, sealing and gross sales tax.

Offices and other non shopping center rental properties. Selling expenses relating to Offices and other non shopping center rental properties increased from Ps. 0.05 million during the fiscal year ended June 30, 2004 to Ps. 0.9 million during the fiscal year ended June 30, 2005. The increase of marketing expenses is principally related to the increase in revenues in such segment.

Shopping Centers. Selling expenses relating to Shopping centers increased by 150.4% from Ps. 9.8 million during the fiscal year ended June 30, 2004 to Ps. 24.6 million during the fiscal year ended June 30, 2005. The increase was mainly due to the following: (i) selling expenses from leases and services increased by 109.4%, from Ps. 5.2 million for the fiscal year ended June 30, 2004 to Ps. 10.9 million for the fiscal year ended June 30, 2005, mainly due to an increase of Ps. 3.4 million in provision for bad debts, an increase of Ps. 1.4 million in turnover taxes in line with our higher revenues, the inclusion of expenses of Mendoza Plaza Shopping for 1.3 million due to its consolidation, and stamp taxes due to the opening of Alto Rosario of Ps. 0.4 million; and (ii) marketing expenses of Credit Cards increased from Ps. 4.5 million during year 2004 to Ps. 13.5 million during fiscal year 2005 due to an increase of Ps. 6.3 million in advertising expenses, a higher charge of Ps. 2.1 million in turnover taxes as a result of our higher revenues, and an increase in bad debts of Ps. 0.5 million in line with the growth of our credit portfolio.

Hotels. Selling expenses relating to Hotel s operations increased by 20.1% from Ps. 8.2 million during fiscal year 2004 to Ps. 9.8 million during fiscal year 2005, manly due to an increase in the gross sales tax, salary and social security and the tourism agencies commissions due to an increase in revenues in the segment in line with higher activities.

Administrative Expenses

Administrative expenses increased by 38.8%, from Ps. 50.2 million during fiscal year 2004 to Ps. 69.7 million during fiscal year 2005, due to an increase in administrative expenses relating to all business units. The main components of administrative expenses are salaries and social security, fees and compensation for services, and depreciation and amortization.

Development and Sale of Properties. Administrative expenses of Development and Sale of Properties increased by 42.2%, from Ps. 6.7 million during the fiscal year ended June 30, 2004 to Ps. 9.5 million for the fiscal year ended June 30, 2005, primarily due to (i) a Ps. 1.1 million increase in salary and social security; (ii) a Ps. 0.6 million increase in Directors fees; and (iii) the change in percentages of pro-rata allocation of the administration expenses between both fiscal years among this segment, and Offices and other non-shopping center leased properties segment. Administrative expenses of Development and Sale of Properties as a percentage of revenues from this segment increased from 22.1% during the fiscal year ended June 30, 2004 to 29.5% during the fiscal year ended June 30, 2005.

Offices and other non-shopping center leased properties. Administrative expenses of Offices and other non-shopping center leased properties increased by 113.0%, from Ps. 4.3 million during the fiscal year ended June 30, 2004 to Ps. 9.2 million during the fiscal year ended June 30, 2005. The increase is mainly due to the change in percentages of pro-rata allocation of the administration expenses between both fiscal years among this segment and the Development and Sale of Properties segment and, in a lesser degree, a Ps. 0.8 million increase in salaries and social security charges and a Ps. 0.4 million increase in Directors fees.

Shopping Centers. Administrative expenses of Shopping centers increased by 33.7%, from Ps. 23.6 million during the fiscal year ended June 30, 2004 to Ps. 31.6 million during the fiscal year ended June 30, 2005, primarily as a result of (i) the increase in administrative expenses from leases and services as a result of: the consolidation of Mendoza Plaza Shopping s administrative expenses of Ps. 1.3 million, an increase of the board of directors´ fees of Ps. 1.5 million, an increase of the amount of salaries, bonuses and social

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security charges of Ps. 1.4 million and an increase of tax charges, duties and contributions of Ps. 1.1 million, mainly due to an increase of the financial transactions tax; (ii) the increase in administrative expenses from credit card operations of Ps. 6.7 million mainly due to: increases in the amount of salaries, bonuses and social security charges as a consequence of an increase in the Company s payroll, in fees and third parties services related to new issues of our securitization programs and in tax charges, duties and contributions and rent expenses due to the opening of new branches and (iii) the decrease of Ps. 4.0 million in other administrative expenses allocated to Shopping Centers segment due to the change in percentages of pro-rata between both fiscal years.

Hotels. Administrative expenses of Hotels increased by 24.5%, from Ps. 15.6 million for the fiscal year ended June 30, 2004 to Ps. 19.4 million during the fiscal year ended June 30, 2005, mainly due to (i) a Ps. 2.6 million increase from Hotel Llao Llao as a consequence of the increase in taxes, services and salaries, which was mainly due to the higher payroll and higher salaries attributable to the increase in the hotel activity. The increase in taxes and rates is mainly due to the higher municipal tax and the financial transaction tax; (ii) a Ps. 0.9 million increase from Sheraton Libertador hotels, as a consequence of the increase in fees and compensation for services; and (iii) a Ps. 1.0 million increase from Hotel Intercontinental. Administrative expenses of Hotels as a percentage of revenues from hotel operations increased from 21.9% during the fiscal year ended June 30, 2004 to 22.3% during the fiscal year ended June 30, 2005.

Gain in Credit Card Trust

This result stems from the retained interests held by Alto Palermo in the Tarjeta Shopping Credit Card Trusts. The results of Credit Card trusts increased from Ps. 0.3 million during fiscal year 2004 to Ps. 0.4 million during fiscal year 2005.

Gain from Operations and Holdings of Real Estate Assets, net

The results from operations and holdings of real estate assets, net, decreased from one year to another by Ps. 35.2 million, from a gain of Ps. 63.1 million for the fiscal year ended June 30, 2004 to a gain of Ps. 27.9 million for the fiscal year ended June 30, 2005. The lower income generated during the present year in comparison with the previous year is due to a lower amount of recovery of the allowance for the impairment of real estate assets.

Operating Income

As a result of the foregoing, our operating income increased by 35.1% from a profit of Ps. 104.6 million during the fiscal year ended June 30, 2004 to a profit of Ps. 141.2 million during fiscal year 2005.

*Development and Sale of Properties. O*perating income from Development and Sales of properties increased from Ps. 0.7 million during the fiscal year ended June 30, 2004 to Ps. 21.1 million for the fiscal year ended June 30, 2005.

Offices and other non-shopping center rental properties. Operating income from Offices and other non-shopping center leased properties decreased from Ps. 30.2 million during the fiscal year ended June 30, 2004 to Ps. 13.8 million for fiscal year 2005.

Shopping Centers. Operating income from Shopping Centers increased from Ps. 63.4 million during fiscal year 2004 to Ps. 95.2 million during fiscal year 2005.

Hotels. Operating income from hotels increased by 9.1% from Ps. 10.2 million during fiscal year 2004 to Ps. 11.1 million during fiscal year 2005.

Financial operations and Others. Operating income from Financial Operations and Others segment decreased by Ps. 0.1 million from a gain of Ps. 0.06 million for the year ended June 30, 2004 to a loss of Ps. 0.04 million for the fiscal year ended June 30, 2005.

Amortization of goodwill

The loss reported under this heading mainly includes (i) the amortization of goodwill stemming from the acquisition of APSA s subsidiaries: Shopping Alto Palermo S.A. (SAPSA), Fibesa S.A. and Tarshop S.A.; and (ii) the amortization of the negative goodwill from the purchase of stock in APSA. Amortization of goodwill decreased by 42.7% from Ps. 2.9 million during fiscal year 2004 to Ps. 1.7 million during fiscal year 2005, largely due to positive amortization related to an increase in negative goodwill during the current year.

Financial results, net

Financial results, net showed a variation of Ps. 23.8 million, from a gain of Ps. 11.6 million during the fiscal year ended June 30, 2004 to a loss of Ps. 12.2 million during the fiscal year ended June 30, 2005. The main reasons for this variation were: (i) the exchange difference gain with regard to the previous year amounting to Ps. 17.0 million, owing to the appreciation of the Peso to the U.S. Dollar from 2.958 in 2004 to 2.887 in 2005; (ii) a gain of Ps. 48.7 million generated in the previous year from Banco Hipotecario shares, that, as a result of a change in valuation criteria, were recorded using the equity method of accounting, disclosed under Equity gain (loss) from related parties in the Income Statement, (iii) the lower discounts obtained this year amounting to Ps. 5.0 million; and (iv) the Ps. 13.2 million decrease of financial costs due mainly to the decrease in financial debt as a consequence of conversions of our convertible notes made by holders and the settlement of APSA Notes and Senior Notes.

Equity gain (loss) from related companies

Gain from related companies increased by Ps. 40.2 million from Ps. 26.7 million during the fiscal year ended June 30, 2004 to Ps. 66.9 million during the fiscal year ended June 30, 2005. This increase is mainly due to: (i) a higher gain of Ps. 29.0 million recorded in the current year compared to previous year related to our investment in Banco Hipotecario, and (ii) a gain of Ps. 12.2 million during the fiscal year 2005 corresponding to the hotels segment.

Other expenses, net

Other expenses, net increased by Ps. 1.0 million, from a loss of Ps. 13.6 million during the fiscal year ended June 30, 2004 to a loss of Ps. 14.6 million during the fiscal year ended June 30, 2005, primarily due to the net effect of (i) an increase of Ps. 2.9 million in the tax on personal assets of shareholders; (ii) an increase in donations for Ps. 1.5 million; and (iii) a decrease of Ps. 3.3 million in the charge for contingencies due to lower exposures from lawsuits.

Income before Taxes and Minority Interest

As a result of the foregoing, income before taxes and minority interest increased by 42.1%, from Ps. 126.4 million during the fiscal year ended June 30, 2004, to Ps. 179.6 million during fiscal year 2005.

Minority Interest

Minority interest increased by 80.3% from a loss of Ps. 12.8 million during fiscal year 2004 to a loss of Ps. 23.2 million during fiscal year 2005, mainly due to (i) the increase in the results of the Shopping Center segment which increased the results of the minority shareholders, net of the increase in the Company s ownership interest in APSA; and (ii) the increase in the results of our subsidiary Palermo

Invest which increased the results of the minority shareholders from Ps. 0.8 million during fiscal year 2004 to Ps. 2.1 million during fiscal year 2005.

Income Tax and Asset tax

Income tax and asset tax increased by Ps. 27.5 million, from Ps. 25.7 million during the fiscal year ended June 30, 2004, to Ps. 53.2 million during the fiscal year ended June 30, 2005. The effective tax rates for fiscal years 2005 and 2004 were 30% and 20%, respectively. These effective rates differ from the statutory tax rate mainly due to non-deductible amortization and depreciation charges originated by inflation accounting and the inventories costs considering that it have been adjusted by inflation in accordance with accounting principles. We record income taxes using the deferred tax method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We have treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes as prescribed by Argentine GAAP.

Net income

As a result of the foregoing, net income increased by 17.5% from a gain of Ps. 87.9 million during the fiscal year ended June 30, 2004 to a gain of Ps. 103.2 million during the fiscal year ended June 30, 2005.

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

Revenues

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

Development and Sale of Properties. Revenues from Development and Sale of Properties decreased by 35.0%, from Ps. 46.6 million for the fiscal year ended June 30, 2003, to Ps. 30.3 million for the fiscal year ended June 30, 2004. This decrease was attributable to (i) a Ps. 9.7 million reduction in sales of housing units principally in Alto Palermo Park as a result of the sale of this property during 2003; (ii) a Ps. 6.8 million decrease in sales of residential communities mainly Abril, which fell by 50%; and (iii) a Ps. 11.7 million decrease in sales of other properties due to the sale of Hotel Piscis for Ps. 9.9 million during 2003. Such decreases were partially offset by the sale of Benavídez in 2004 for Ps. 11.8 million.

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

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Shopping Centers. Revenues from Shopping Centers increased by 25.8 %, from Ps. 113.8 million during the fiscal year ended June 30, 2003, to Ps. 143.2 million during the fiscal year ended June 30, 2004. The increase was attributed principally to a 26.5% increase in income from leases and services, from Ps. 88.8 million to Ps. 113.2 million, and an increase of 20.5% from Tarjeta Shopping s revenues, from Ps. 24.9 million to Ps. 30.0 million. The percentage of occupancy ratios of our Shopping Centers increased from 96% in fiscal year 2003 to 99% in fiscal year 2004.

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

Financial operations and others. Revenues from Financial operations and others increased by 37.4% from Ps. 0.6 during the fiscal year ended June 30, 2003, to Ps. 0.9 million for the fiscal year ended June 30, 2004. Revenues included in this line represent fees for services with no specific allocation to any of the previous segments.

Costs

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

Development and Sale of Properties. Costs related to Development and Sale of Properties decreased by 44.4%, from Ps. 46.5 million in the fiscal year ended June 30, 2003 to Ps. 25.9 million for the fiscal year ended June 30, 2004 mainly as a result of a decrease in total costs per square meter sold due to lower sales and to a lesser degree, as a result of a decrease in maintenance expenses of the available for sale properties due to a small portfolio. Costs relating to Development and Sale of Properties as a percentage of revenues from the segment decreased from 99.7% during the fiscal year ended June 30, 2003 to 86.2% during the fiscal year ended June 30, 2004.

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

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

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

Financial operations and Others. Costs from Financial operations and others segment increased by 36.2% from Ps. 0.6 for the fiscal year ended June 30, 2003 to Ps. 0.8 million for the fiscal year ended June 30, 2004. Costs included in this line represent expenses incurred in the rendering of services that generate revenues.

Gross Profit

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

Selling Expenses

Selling expenses decreased by 23.0%, from Ps. 28.6 million during the fiscal year ended June 30, 2003 to Ps. 22.0 million during the fiscal year ended June 30, 2004, primarily due to the net effect of (i) a decrease in selling expenses in Development and Sale of Properties and Offices and other Non-shopping center leased properties of Ps. 0.1 million and (ii) a decrease in selling expenses of Shopping Centers and Hotels of Ps. 6.5 million. Selling expenses as a percentage of revenues decreased from 12.1% during the fiscal year ended June 30, 2003, to 8.4% during the fiscal year ended June 30, 2004.

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

Offices and other Non-shopping center leased properties. Selling expenses relating to Offices and other Non-shopping center leased properties decreased by 32.5%, from Ps. 0.1 million during the fiscal year ended June 30, 2003 to Ps. 0.05 million during the fiscal year ended June 30, 2004.

Shopping Centers. Selling expenses relating to Shopping Centers decreased by 44.1%, from Ps. 17.6 million during the fiscal year ended June 30, 2003 to Ps. 9.8 million during the fiscal year ended June 30, 2004. This decrease was mainly due to a 73.2% decrease in the allowance for doubtful accounts, from Ps. 5.6 million during fiscal year 2003 to 1.5 million during fiscal year 2004, as a consequence of the improvement during the year in the collection activities carried out by our shopping centers which was partly offset by (i) a 36% increase in gross sales tax, from Ps. 4.4 million during the fiscal year ended June 30, 2003 to Ps. 6.0 million during 2004, due to a similar increase in our revenues, (ii) a 106.8% increase in advertising expenses, from Ps. 1.3 million in fiscal year 2003 to Ps. 2.6 million in fiscal year 2004, and (iii) an 80 % increase in the cost of personnel, from Ps. 1.2 million during fiscal year 2003 to Ps. 2.2 million during fiscal year 2004.

Hotels. Selling expenses relating to Hotel operations increased by 18.8%, from Ps. 6.9 million during fiscal year 2003 to Ps. 8.2 million during fiscal year 2004, mainly due to an increase in advertising expenses and an increase in the gross sales tax as a consequence of an increase in revenues.

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Administrative Expenses

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

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

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

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

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

Gain on Purchasers Rescissions of Sales Contracts

This line showed a 100% decrease from Ps. 0.009 million during fiscal year 2003 to zero during fiscal year 2004. The 2003 gain relates to the rescission of Torres de Abasto sales contracts.

Gain (Loss) in Credit Card Trust

The results of our participation in the Credit Card Trusts increased, from a loss of Ps. 4.1 million during fiscal year 2003 to a gain of Ps. 0.3 million during fiscal year 2004.

Gain from Operations and Holdings of Real Estate Assets, net

Gain from Operations and Holdings of Real Estate Assets, net, increased by Ps. 41.6 million, from Ps. 21.5 million for the fiscal year ended June 30, 2003 to Ps. 63.1 million for the fiscal year ended June 30, 2004. The increase was mainly due to the net impact of (i) the Ps. 64.3 million gain attributed to the net recovery of the allowance for the impairment of real estate during fiscal year 2004 in comparison to the Ps. 11.4 million gain recorded in fiscal year 2003 and (ii) the non-recurring gain on the sale of stock in Valle de Las Leñas of Ps. 10.0 million

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Operating Income

As a result of the foregoing, Operating Income increased from Ps. 25.5 million during the fiscal year ended June 30, 2003 to Ps. 104.6 million during fiscal year 2004.

Development and Sale of Properties. Operating results from Development and Sale of Properties decreased by 72.9%, from a profit of Ps. 2.9 million during the fiscal year ended June 30, 2003 to a profit of Ps. 0.7 million for the fiscal year ended June 30, 2004.

Offices and other Non-shopping center leased properties. Operating results from Offices and other Non-shopping center leased properties increased from a profit of Ps. 2.3 million during the fiscal year ended June 30, 2003 to a profit of Ps. 30.2 million for fiscal year 2004.

Shopping Centers. Operating results from Shopping Centers increased from a profit of Ps. 14.2 million during fiscal year 2003 to a profit of Ps. 63.4 million during fiscal year 2004.

Hotels. Operating results from Hotels increased 64.2%, from a profit of Ps. 6.1 million during fiscal year 2003 to a profit of Ps. 10.2 million during fiscal year 2004.

Financial operations and Others. Operating income from Financial operations and Others segment increased from a gain of Ps. 0.04 million for the year ended June 30, 2003 to a gain of Ps. 0.06 million for the fiscal year ended June 30, 2004.

Amortization of Goodwill

The loss reported under this heading mainly includes (i) the amortization of goodwill stemming from the acquisition of APSA subsidiaries: SAPSA, Fibesa and Tarshop S.A., and (ii) the amortization of the negative goodwill from the purchase of stock in APSA during the current fiscal year. The amortization of goodwill decreased by 56.2%, from a loss of Ps. 6.6 million during fiscal year 2003 to a loss of Ps. 2.9 million during fiscal year 2004 due to the positive amortization of negative goodwill mentioned before.

Financial Results, net

Financial results, net decreased by Ps. 303.7 million, from a gain of Ps. 315.3 million during the fiscal year ended June 30, 2003 to a gain of Ps. 11.6 million during the fiscal year ended June 30, 2004. This variation was due to (i) a Ps. 201.7 million decrease in exchange differences with regard to the previous year, owing to the depreciation of the Peso against the U.S. Dollar from 2.80 in 2003 to 2.958 in 2004, (ii) the Ps. 39.1 million loss on the financing of assets compared to the previous year, mainly due to the drop in the results generated by APSA and as a result of exchange differences and derivatives as caused by the 5.6 % depreciation of the Peso with respect to the Dollar (in 2003 the value of the currency had a reverse behavior, appreciating by 26%). This depreciation negatively affected the value of the interest rate swap; (iii) the drop in the discounts obtained during fiscal year 2004, which amounted to Ps. 7.2 million, on the purchase of loans with HSBC abroad, compared with the previous year in which the discounts obtained had amounted to Ps. 36.9 million through the prepayment of the debt to GSEM for approximately Ps. 26.0 million and from the accounting measurement as of June 30, 2004 of the debt to HSBC as compared with the amount settled subsequent to the financial closing date, which generated a discount of Ps. 10.7 million according to Argentine GAAP; (iv) the Ps. 32.1 million gain obtained during fiscal year 2003 as a result of the adjustment made to our liabilities to fair market value at the established 8% annual market rate, changing the value of these debts which previously had a book value calculated at the rate in force at the time of refinancing; and (v) a Ps. 5.0 million decrease in financing expenses resulting from the repurchase of the loans with HSBC banks and the conversions made by holders of our convertible notes.

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Equity (Loss) Gain from Related Companies

The net results derived from affiliated companies increased by Ps. 41.4 million, from a loss of Ps. 14.7 million during the fiscal year ended June 30, 2003 to a gain of Ps. 26.7 million during the fiscal year ended June 30, 2004. This increase was mainly due to (i) the gain of Ps. 30.1 million recorded in the fiscal year 2004 as a result of the change in the valuation criterion applied to Banco Hipotecario from net realization value to proportional equity value, and (ii) a lower loss of Ps. 11.0 million from our investments in Alto Palermo, Pérez Cuesta and E-Commerce Latina, which decreased from a Ps. 12.1 million loss during fiscal year 2003 to a Ps. 1.1 million loss during fiscal year 2004.

Other Expenses, net

Other Expenses, net increased Ps. 12.7 million, from a loss of Ps. 0.9 million during the fiscal year ended June 30, 2003 to a loss of Ps. 13.6 million during the fiscal year ended June 30, 2004, primarily due to the net fluctuation generated by (i) the non-recurrence of the Ps. 13.0 million gain recorded in 2003 from the repurchase of APSA Notes and Senior Notes in the open market; (ii) the loss related to tax on personal assets of shareholders recorded in 2004 of Ps. 4.1 million (this tax regime did not exist in 2003); (iii) a lower charge of donations of Ps. 3.2 million as compared to fiscal year 2003; (iv) a non-recurring loss of Ps. 2.1 million related to gross sales tax recorded in fiscal year 2004, and (v) a decrease in the charge for contingencies of Ps. 2.3 million as compared to fiscal year 2003.

Income before Minority Interest and Taxes

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

Minority Interest

Minority Interest decreased by 64%, from a Ps. 35.7 million loss during fiscal year 2003 to a Ps. 12.8 million loss during fiscal year 2004, mainly due to (i) the reduction in our minority interest in Alto Palermo and the interests held by Alto Palermo in its subsidiaries, which decreased from a Ps. 35.2 million loss during the fiscal year ended June 30, 2003 to a Ps. 9.2 million loss during the year ended June 30, 2004 and (ii) the reduction in our minority interests in Palermo Invest, which decreased from a Ps. 3.7 million gain during fiscal year 2003 to a Ps. 0.8 million loss during fiscal year 2004.

Income Tax and Asset Tax

Income Tax and Asset Tax decreased by Ps. 29.2 million, from a Ps. 3.5 million benefit during the fiscal year ended June 30, 2003, to a Ps. 25.7 million expense during the fiscal year ended June 30, 2004. The Ps. 29.2 million change was mainly due to the net impact of (i) the difference in the income tax charge corresponding to IRSA which represented an expense of Ps. 52.6 million, from a Ps. 48.9 million benefit corresponding to fiscal year 2003 to a Ps. 3.7 million expense during fiscal year 2004 (ii) the Ps. 30.5 million variation in the income tax charge for Alto Palermo, from a Ps. 46.8 million expense during the fiscal year ended June 30, 2003 to a Ps. 16.2 million expense during the fiscal year ended June 30, 2004 and (iii) the Ps. 4.3 million (expense) variation in the income tax charge for Llao Llao Resort S.A. between both fiscal years. The effective tax rates for fiscal years 2004 and 2003 were 20% and 1%, respectively. These effective rates differ from the statutory tax rate mainly due to non-deductibe amortization and depreciation charges originated by inflation accounting and the inventories costs considering that it have been adjusted by inflation in accordance with accounting principles. We record income taxes using the deferred tax method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We have treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes as prescribed by Argentine GAAP.

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Net income for the year

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

Banco Hipotecario S.A. s Results of Operations

Overview

We do not consolidate the Consolidated Financial Statements of our subsidiary Banco Hipotecario. However, according to Rule 3-09 of Regulation S-X, IRSA is required to include the separate financial statements of Banco Hipotecario in this Form 20-F because Banco Hipotecario is a significant equity affiliate of IRSA. This Operating and Financial Review and Prospects should be read together with Banco Hipotecario s Consolidated Financial Statements contained in this annual report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. These forward-looking statements include, among others, those statements including the words expects , anticipates , intends , believes and similar language. The actual results may differ materially and adversely from those anticipated in these forward-looking statements as a result of many factors, including those set forth elsewhere in this prospectus.

Banco Hipotecario maintains its financial book and records in Pesos and prepares its financial statements in conformity with Argentine Central Bank s policies which prescribe the reporting and disclosure requirements for banks and financial institutions in Argentina (Argentine Banking GAAP). These rules differ in certain respects from generally accepted accounting principles in Argentina (Argentine GAAP). A description of significant differences between Argentine Banking GAAP and Argentine GAAP are set forth in Note 6 to the Consolidated Financial Statements. Argentine Banking GAAP and Argentine GAAP also differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the Consolidated Financial Statements, as well as additional disclosures required by US GAAP and regulations of the SEC. See Note 35 to the Consolidated Financial Statements of Banco Hipotecario for a description of the principal differences between Argentine Banking GAAP and US GAAP as they relate to Banco Hipotecario, and the reconciliation to US GAAP of net income (loss) and shareholder s equity.

Since 2003, a remarkable improvement has been recorded by the Argentine economy, which put an end to the economic recession that had started in the second half of 1998, and worsened at the end of 2001 and the first half of 2002. Certain economic indicators have shown signs of recovery, though still at low levels. Also, interest rates have fallen and the foreign exchange market has stabilized. The financial system has gradually recovered its liquidity levels, recording an increase in deposits and in certain types of borrowings.

In spite of the change in the economic trends mentioned above, the current situation is characterized by high levels of unemployment and a major external public and private debt burden as well as country risk indicators far above normal average.

Argentine Public Debt Restructuring Process

On March 18, 2005, the Republic of Argentina announced the final results of its offer to exchange certain of its outstanding debt securities with an aggregate eligible amount (representing principal and past-due interest as described in Argentina s offering document) of approximately US$81.8 billion, consisting of a total of 11 series of Par Bonds, Quasi-par Bonds and Discount Bonds (collectively, the New Bonds) and five series of GDP-linked Securities. Pursuant to the terms of the offer, all currency conversions were made using currency exchange rates in effect on December 31, 2003.

Eligible creditors holding approximately 76% of the government s securities participated in the offer, which expired on February 25, 2005. In the offer, US$62.3 billion equivalent aggregate principal amount of the government s securities were tendered and accepted for exchange. Settlement of the offer was scheduled to begin on April 1, 2005 and was postponed to June 2, 2005. On that date Argentina issued US$35.3 billion equivalent aggregate principal amount of New Bonds.

Argentina s exchange offer is expected to alleviate the economic crisis and should have an overall positive impact on the condition of the financial system.

Current Situation

Beginning in December 2001 through the first quarter of 2003, Argentina experienced a deep economic crisis that resulted from unprecedented political and economic disruptions. This crisis paralyzed Argentina s economy and adversely affected Banco Hipotecario s business.

During 2003 and 2004 the Argentine economy showed signs of recovery reflected in most leading economic indicators. Based on existing data, the Argentine economy appears to have regained part of the ground lost in 2002. Though positive, the effects of the economic crisis continue to affect the economy and by no means can there be any assurance that economic recovery will continue. The Argentine economy continues to suffer the consequences from the pending restructuring programs of private issuers (including public utilities) and the reestablishment of long-term rules and regulations for the financial system that are still pending.

During 2003 and 2004, GDP increased by 8.8% and 9% according to INDEC estimates. In US Dollar terms, GDP increased from US$69.8 billion in 2002 to US$87.2 billion in 2003. As of December 31, 2004, GDP amounted to US$93.3 billion according to INDEC estimates. The official unemployment rate decreased to 13.0% as of the first quarter of 2005, according to INDEC. As of June 30, 2004, approximately 40% of the population was below the poverty line as compared to 38.3% in 1999, according to INDEC.

Additionally, in 2003 and 2004, Argentina posted a fiscal surplus of approximately Ps.1,805.3 million and Ps.11,657.8 million, respectively. As of July 31, 2005, Argentina recorded a fiscal surplus of approximately Ps.7,500 million. After the settlement of its exchange offer, Argentina s sovereign debt outstanding amounted to US$125.35 billion, representing 134.3% of the GDP (Gross Domestic Product) estimated for the year ending December 31, 2004.

During 2003 and 2004, inflation increased by 4.3% and 7.9% as measured by the wholesale price index, and 3.7% and 6.1% as measured by the CPI, compared to the levels posted in 2002 and 2003, respectively. As of June 30, 2005, inflation increased by 3.6% as measured by the wholesale price index, and by 6.1% as measured by the CPI. The preceding information is based on data published by the Ministry of Economy and the Argentine Central Bank.

Notwithstanding the gradual improvement of Argentine economy during 2003 and 2004, political and economic conditions in Argentina continue to change and remain subject to significant uncertainties.

Changes to the legal system which have severely affected Banco Hipotecario s business

Banco Hipotecario s financial condition and results of operations have been materially and adversely affected by the drastic political, economic and legal changes that took place in Argentina in 2002. Following is a summary of the principal changes that were implemented in the past three years.

Loans in foreign currency. Pursuant to Law 25,561, Decree 214/02 and subsequent regulations (i) certain foreign currency-denominated debts were converted into peso-denominated debts at a one-to-one exchange rate, (ii) certain foreign currency-denominated public sector debts were converted into peso-denominated debts at an exchange rate of Ps.1.40 per US$1.00 and (iii) foreign currency-denominated bank deposits were converted into peso-denominated bank deposits at an exchange rate of Ps.1.40 per US$1.00. Effective February 3, 2002, those measures contemplated the application of CER to the loans granted to the non-financial private sector and to the non-financial public sector plus a fixed interest rate, depending on the type of operation.

CER and CVS. Decree 762/02 amended the regulations mentioned in the preceding paragraph excluding from the application of CER those loans granted to individuals by financial institutions, as follows: (i) loans secured by mortgages on the only family dwelling of debtors, originally issued in US dollars up to Ps.250,000, (ii) consumer loans originally issued for up to Ps.12,000 or the equivalent in any other foreign currency, whether or not secured by a mortgage, and (iii) pledge consumer loans originally issued for up to Ps.30,000, or the equivalent in any other currency. Those loans were adjusted effective October 1, 2002 by applying the CVS, as published by the INDEC. Decree 762/02 was subsequently amended by law 25,796, which requires that the CER index that was applied to loans denominated in dollars or another currency other than pesos, be re-adjusted to take account of changes in the CVS as reported by the INDEC. Such re-adjustment could be made in the period from October 1, 2003 through March 31, 2004. From April 1, 2004, no further adjustments have been made in respect of any index.

Public-sector debt. Decree 1387/01 dated November 1, 2001, established the possibility of financial institutions to exchange public-sector debt instruments and loans under the Promissory Note/Bond program for new loans issued by the Government. Conversion was made at face value and at a one-to-one rate, in the same currency as that of the exchanged public-sector obligation.

Decree 471, dated March 8, 2002, established that the obligations of the national, provincial and municipal public sectors outstanding as of February 3, 2002, and denominated in US dollars or any other currency, that were incurred pursuant to contracts governed by Argentine law, were to be converted into pesos at an exchange rate of Ps.1.40 per US dollar, or its equivalent in other foreign currency, with their principal adjusted by the CER. The obligations of the national public sector converted into pesos accrued interest at rates ranging from 2% to 5%, depending on the characteristics of the original debt.

On August 27, 2002, Decree 1579/02, mandated the Fiduciary Fund for Provincial Development to assume provincial debt instruments (government securities, bonds, treasury bills or loans) that were to be voluntarily converted into bonds (BOGAR) or loans (promissory notes) secured by federal tax collections.

Through Resolutions 539/02 and 611/02 dated October 25 and November 12, 2002, respectively, the Ministry of Economy established the unified calculation method applicable to debts encompassed by the conversion regime established by Decree 1579/02, and set a time limit for financial institutions having made offers to convert provincial public debt within the framework of Decree 1387/01 and complementary rules to declare their intention to withdraw those offers.

On November 19, 2002, the Ministry of Economy issued Resolution 624/02, establishing the provincial public debt eligible to be exchanged for secured bonds and loans issued by the Fiduciary Fund for Provincial Development.

Foreclosures. On February 14, 2002, Law 25,563 amending Law 25,589 was enacted providing for the suspension of certain bankruptcies and foreclosures (including foreclosures on mortgage loans) for a period of 180 days from the law s effective date. Such period was extended for 180 days more by Law No. 25,589 and afterwards for 90 days more by Law No. 25,640 of September 2002, expiring on February, 2003. Moreover, on January 17, 2005, the province of Buenos Aires enacted law 13,302, suspending for 180 days foreclosures on real estate loans where the loan related to the debtor s primary dwelling provided that the real estate current tax value does not exceed Ps.90,000. This law further provides that the suspension of foreclosures on a debtor s primary dwelling will be extended by one year if the borrower was unemployed on the date of enactment of such law. Finally on November 2, 2005, the National Congress passed law 26,062 which suspends for 120 days the enforcement of all court decisions establishing the mortgage foreclosure on real state properties intended for sole family dwelling due to eligible loans complying with the requirements and maximum amount set forth by law 25,798.

Compensation granted by the Argentine government to financial institutions. Through Decree 905, the Government established the issuance of National Government Compensating Bonds or BODEN, to compensate financial institutions for the negative effects on their assets conversion into pesos at different exchange rates of receivables and obligations denominated in foreign currency and to cover the negative difference between assets and liabilities denominated in foreign currency arising from their conversion into pesos. In September 2002 and October 2005, the Argentine Central Bank credited US$356.0 million and US$ 16.8 million, respectively in BODEN due 2012, completing the compensation process for conversion into pesos at different exchange rates of receivables and obligations denominated in foreign currency. From September 28, 2005 through December 13, 2005, the Argentine Central Bank credited US$652 million in BODEN due 2012 corresponding to the compensation to cover the negative difference between assets and liabilities denominated in foreign currency arising from their conversion into pesos. The amount received represents approximately 77% of the total. Bank s right for compensation for this concept. The remaining amount is expected to be subscribed by the Bank in the period ending June 30, 2006.

Treatment of assistance granted by the Central Bank

Effective April 1, 2003, the Argentine government issued Decree 739/03 which set forth the rescheduling of the balances owed by financial institutions under rediscounts and advances granted to them by the Argentine Central Bank that were effective as of the date of said Decree. This Decree allows financial institutions to restructure the repayment of the unpaid balances under such transactions, in no more than 70 installments. See Argentina Banking System and Regulation Foreign Deposits and Foreign Exchange - Rescheduling of the financial institutions obligations under rediscount and advance transactions . Subsequently, the executive power issued Decree 1262/03 establishing that the conditions for the amortization of rediscounts may be modified, and extended the maximum number of installments up to one hundred and twenty (120) installments, each of which shall be equivalent to a percentage not lower than 0.40% of the adjusted principal amount due to the Argentine Central Bank. On September 11, 2003, amended on February 4, 2004, Banco Hipotecario submitted to the Argentine Central Bank a schedule for the repayment of Banco Hipotecario s debt for rediscounts received from the Argentine Central Bank, as prescribed by Section 3 of Decree No. 1262/03, as well as a transformation and reorganization plan to strengthen Banco Hipotecario s efficiency and profitability. Through Resolution No. 308 dated November 4, 2004, the Board of Directors of the Argentine Central Bank resolved that Banco Hipotecario should repay the assistance loan granted by the Argentine Central Bank as a portion of any foreign debt repurchase. In this regard, on November 11 and December 1, 2004, Banco Hipotecario prepaid the financial assistance loan granted by the Argentine Central Bank in the amounts of Ps.10.0 million and Ps.30.0 million, respectively, in order to settle in advance Banco Hipotecario s repurchase of restructured foreign debt. On January 20 and February 25, 2005, Banco Hipotecario participated in the tender offers established by the Argentine Central Bank in accordance with the guidelines of Communications A 4268 and 4282, the amounts of Ps.63.8 million and Ps.16.9 million, respectively, having been accepted in settlement of the previously refinanced debt. Finally, on May 3, 2005, Banco Hipotecario repaid in advance all the assistance loans granted by the Argentine Central Bank. The total amount paid was Ps.233.5 million, including principal and accrued interest.

Restructuring of all of Banco Hipotecario s financial liabilities

As a result of the recession in Argentina and the government measures described above, Banco Hipotecario experienced a severe liquidity crisis during 2002 and 2003. Due to the unavailability of financing from any source, on August 16, 2002, Banco Hipotecario suspended payment on all of Banco Hipotecario s debt obligations and initiated the negotiation of a comprehensive debt restructuring plan comprising Banco Hipotecario s obligations that as of December 31, 2003 totaled approximately Ps.2,849.2 million and on approximately Ps.889.5 million of loans due to foreign banks and other entities.

As of August 16, 2002, following Banco Hipotecario Board s resolution to suspend payment on Banco Hipotecario s debt obligations, Banco Hipotecario postponed servicing of its debt until a successful restructuring was completed. Banco Hipotecario reported the event to the Argentine Central Bank, the *Comisión Nacional de Valores* and the Buenos Aires Stock Exchange on August 16, 2002. On August 14, 2003, Banco Hipotecario launched an exchange offer for all series of its then outstanding notes and total bank debt.

On December 29, 2003, the date on which the exchange offer participation period expired, Banco Hipotecario accepted all validly tendered securities in compliance with the conditions for the exchange offers and the simultaneous restructuring of all of Banco Hipotecario s outstanding debt with Banco Hipotecario s bank creditors. On January 14, 2004, settlement of the offers took place.

The aggregate principal amount of outstanding bond debt that participated in the exchange offer was Ps.2,662.2 million, representing approximately 93% of the aggregate principal amount of Banco Hipotecario s bond debt outstanding at that date. Of the principal amounts validly offered, approximately 77% (Ps.2,060.9 million) opted to receive long-term securities (bonds due 2013), approximately 7% (Ps.168.1 million) opted to receive cash, and approximately 16% (Ps.433.3 million) opted to receive medium-term guaranteed notes due 2010.

Of an aggregate principal amount of Ps.889.6 million of bank debt outstanding at December 29, 2003, 100% participated in the simultaneous restructuring. Of that amount, approximately 20% (Ps.187.4 million) opted to receive long-term loans, approximately 10% (Ps.98.4 million) opted to receive cash and approximately 70% (Ps.608.0 million) opted to receive medium-term guaranteed loans due 2010.

As of December 31, 2003, Banco Hipotecario recognized in Banco Hipotecario s financial statements the effects of the restructuring as follows (i) a gain of Ps.232.0 million and Ps.254.4 million relating to the restructuring of Banco Hipotecario s notes and bank debt, respectively, due to the reduction in principal amounts outstanding; (ii) a gain of Ps.209.3 million attributable to lower interest accrued in 2003 (recorded as an adjustment to financial expenses); (iii) a gain of Ps.88.0 million in interest savings accrued in 2002 (recorded as an adjustment to other profits line item in the statements of income); and (iv) the establishment of a reserve for Ps.59.3 million related to the issuance of stock appreciation rights, or Stars , that were made available as a feature of Banco Hipotecario s medium-term guaranteed debt.

The medium-term guaranteed debt issued in the exchange offers is secured by a trust under Argentine law. In December 2003, Banco Hipotecario, as trustor, and ABN AMRO Bank N.V., as trustee, entered into a Trust Agreement, pursuant to which Banco Hipotecario transferred government securities (BODEN 2012) and secured loans to the Trust. The Trust maintains these assets for the benefit of the holders of the medium-term guaranteed debt. The Trust was established to secure principal and interest payments on the new notes. The Trust s assets consist only of the securities and loans transferred by Banco Hipotecario and their respective proceeds.

After January 14, 2004, the exchange transaction settlement date, Banco Hipotecario continued to exchange old notes with holders who did not participate in the offers. As of June 30, 2005, the face value of the obligations exchanged amounted to US$7.0 million and Euro 8.5 million. At that date, Banco Hipotecario had an aggregate of US$45.5 million (equivalent principal amount) of old notes outstanding after giving effect to these post-settlement date exchanges.

In August 2004, Banco Hipotecario made the first amortization payment due on Banco Hipotecario s medium-term guaranteed debt issued in the restructuring and subsequently has made all payments corresponding on such debt.

In November 2005, Banco Hipotecario repurchased the remaining stock of our medium term guaranteed bond issued in connection with the restructuring in January 2004. As a result of that repurchase, Banco Hipotecario triggered a mandatory redemption of the medium term guaranteed notes that had been issued to bondholders in the restructuring and which Banco Hipotecario were required to redeem per the terms of the supplemental indenture under which those notes were issued. Banco Hipotecario issued a notice of redemption in respect of these medium term guaranteed notes on December 7, 2005 and announced that the mandatory redemption was scheduled for January 13, 2006.

Summary of measures adopted by Banco Hipotecario

Following the financial crisis in Argentina, Banco Hipotecario implanted the following key measures designed to improve solvency, liquidity and return on capital:

Restructuring all Banco Hipotecario s financial liabilities, amounting to approximately US$1,208.4 million, thus aligning principal and interest payments with Banco Hipotecario s cash flow without having to rely on the stock or flow of deposits, thus becoming the first financial institution in Argentina to achieve this objective.

Reducing Banco Hipotecario s debt by US$361.0 million, extending the average life or its outstanding debt, and reducing average interest rates, thus matching the term of lending and borrowing transactions, achieving proper financial intermediation margins and full hedging of foreign currency-denominated liabilities.

Achieving high liquidity levels, as reflected in the significant stock of liquid assets, stable cash flow from operations and low uses of funds projected for the medium term.

Positioning Banco Hipotecario as one of the private banks with highest net worth in Argentina, with high asset/equity ratios and high provisioning of non-performing loans, which implies a low exposure to credit risk from the private sector.

Reducing Banco Hipotecario s equity exposure to the public sector risk by matching most of its assets exposed to public sector risk with borrowings from the Argentine Central Bank.

Attaining high profitability rates by controlling operating expenses and generating stable operating results.

Re-establishing access to the domestic Argentine capital markets, where since June 2004, Banco Hipotecario led the sale of four series of Cédulas Hipotecarias in aggregate principal amount of approximately Ps.227.2 million, issued under Banco Hipotecario s Cédulas Hipotecarias Argentinas Global Program.

Develop new lines of credit outside of the mortgage sector.

Provide commercial banking and related services.

Expand Banco Hipotecario s retail network and related services.

Develop new construction financing and mortgage-related products.

Develop Banco Hipotecario s base of depositors and increase deposit taking.

On August 3, 2004, Banco Hipotecario serviced the first principal payment under Banco Hipotecario s medium-term guaranteed notes due 2010 in an amount of US$21.0 million and Ps.5.5 million. In addition, on August 4, 2004 Banco Hipotecario released excess collateral under such debt in an aggregate amount of US$79.5 million of BODEN due 2012 and US$32.4 million of guaranteed loans. On September 2, 2004, Banco Hipotecario obtained short term financing granted by a foreign entity for US$20 million, being the first Argentine bank to obtain foreign financing since the crisis. In addition, on September 30, 2004, and January 28, 2005, Banco Hipotecario accessed new foreign financing in an aggregate principal amount of US$65 million and US$30 million respectively.

On August 3, 2005, Banco Hipotecario made the second principal payment in the amount of US$16.7 million and the fourth interest coupon payment in the amount of US$2.8 million in respect of Banco Hipotecario s medium-term guaranteed debt. In addition, on August 4, 2005 Banco Hipotecario requested ABN Amro, as trustee, to release from the assets held in trust as collateral for the medium-term guaranteed debt, US$34 million of BODEN due 2012, US$1.2 million of guaranteed governments loans and US$24.2 million in cash. The excess of assets deposited in trust as collateral for such debt results from the repayment of principal, buyback and subsequent cancellation of a substantial portion of the referred

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debt and the interest payments made by the Argentine government on the BODEN due 2012 given as collateral for the medium-term guaranteed debt.

Factors Affecting Comparability of Financial Data

Banco Hipotecario s consolidated results of operations for the twelve-months periods ended June 30, 2005, 2004 and 2003, and Banco Hipotecario s financial condition at those dates reflect significant ongoing changes in the nature of Banco Hipotecario s business, the composition of Banco Hipotecario s loan and investment portfolios, changes in Banco Hipotecario s sources of funding and in the regulatory environment. Subsequent to the economic crisis in Argentina the Bank have complemented his traditional mortgage lending with other types of banking services. As a result of these changes, Banco Hipotecario s results of operations for the twelve months period ended June 30, 2005 and 2004 are not comparable in many important respects to the results for preceding periods and are not necessarily indicative of Banco Hipotecario s future results.

As of January 1, 2002, Banco Hipotecario resumed the application of inflation adjustments pursuant to the Central Bank s, the FACPCE s and CNV s Resolutions which established that financial statements for periods ended in 2002 would be restated for inflation from January 1, 2002 by applying the WPI as follows:

- non-monetary items and income statement amounts are adjusted in terms of the then-current general purchasing power;
- monetary items are not adjusted as such items are, by their nature, stated in terms of their current general purchasing power; and
- monetary gains and losses are recognized in the income statement, reflecting the effect of holding monetary assets and liabilities in periods of inflation.

On March 25, 2003, Decree 664/03 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003 and on April 8, 2003 the Central Bank discontinued inflation accounting effective as of March 1, 2003. For comparison purposes, Banco Hipotecario s financial statements as of and for the year ended December 31, 2002 have been restated in constant Argentine pesos as of February 28, 2003. The WPI increased approximately 0.74% from January 1, 2003 to February 28, 2003.

Principal Accounting Policies

Government and corporate securities

Government securities Compensatory bonds

Argentine Central Bank accounting rules regarding investments in government securities allow banks to classify their portfolio of government securities into two balance sheet categories: trading and investing securities. Trading securities are marked to market daily with the resulting gain or loss reflected in the statements of income. Investing securities are carried at cost plus accretion of discount or amortization of premiums and accrued interest, as applicable.

The compensatory bonds Banco Hipotecario receives are classified as Investing securities at par value based on Argentine Central Bank accounting rules, notwithstanding that the estimated market value of such bonds is lower than such par value. As of June 30, 2005, the BODEN were trading in the secondary market at a price of approximately US$89 for every US$100 of nominal value. As market conditions change, adjustments to the estimated market value of the BODEN are not reflected in Banco Hipotecario s financial position. Future sales or settlements of the BODEN will reflect the market conditions at the time and may result in a significant gain or loss that represents the difference between the settlement amount and the then carrying value.

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Other accounts receivable with the government Additional bonds

Banco Hipotecario s right to receive BODEN that are issued in hedge transactions is classified as Other receivables from financial transactions and is being recognized at par value of the BODEN to be issued, notwithstanding that the estimated market value of the BODEN linked to such right is significantly below such carrying value. As of June 30, 2004 and June 30, 2005, the BODEN were trading in the secondary market at a price of approximately US$84.7 and US$88.7, respectively, for every US$100 of nominal value.

Reserve for loan losses

Banco Hipotecario s reserve for loan losses is maintained in accordance with the regulations established by the Argentine Central Bank. Under such regulations, a minimum allowance for loan losses is calculated primarily based upon the past due status of Banco Hipotecario s mortgage loan borrowers. Although Banco Hipotecario is required to follow the methodology and guidelines for determining Banco Hipotecario s reserve for loan loss as set forth by the Argentine Central Bank, Banco Hipotecario is allowed to provide additional allowances for loan loss reserves. The determination of the allowance for loan losses requires significant use of estimates.

Banco Hipotecario classifies its loans based upon their past due status consistent with the requirements of the Argentine Central Bank. Minimum loss percentages required by the Argentine Central Bank are also applied to the totals in each loan classification. Balances of loans and reserves are charged-off and reflected on Banco Hipotecario s balance sheets three months from the date on which the loans were fully covered by Banco Hipotecario s loan loss reserves.

Bank premises, foreclosed assets and intangible assets

Argentine Central Bank S rules required us to restate for inflation our bank premises, foreclosed assets and intangible assets, using the WPI index (see note 1 to the Consolidated Financial Statements of BH SA). Future sales of such assets will reflect market values at the time and may differ from the carrying value at the balance sheet date.

Twelve month periods ended June 30, 2005 and 2004

General

The following table sets forth the principal components of Banco Hipotecario s net income for the twelve-month periods ended June 30, 2005 and 2004.

	Period ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		
Financial income	681.5	1,177.8	(42.1)
Financial expenses	(388.9)	(208.5)	86.5
Net financial income	292.6	969.3	(69.8)
Provision for losses on loans	(16.7)		100.0
Net contribution from insurance [1]	37.0	39.0	(5.1)
Other income from services	43.7	24.7	76.5
Other expenses on services	(14.8)	(25.1)	(40.8)
Administrative expenses	(147.0)	(133.3)	10.3
Miscellaneous income, net [2]	(42.3)	3.2	NM
Minority interest	5.6	(7.8)	172.1
Income tax	(7.0)	(3.6)	95.6
Net income	151.0	866.6	(82.6)

(1) Insurance premiums minus insurance claims paid.

(2) Miscellaneous income minus miscellaneous expenses.

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Net Income

Banco Hipotecario s net income for the year ended June 30, 2005 of Ps. 151.0 million was Ps.715.6 million lower than the Ps.866.6 million recorded for the year ended June 30, 2004, principally due to:

- higher financial income resulting from the suspension of the CVS index on pesified mortgage loans, lower income as a result of a cut off in the principal amount of bonds and debt with financial institutions in the period ended June 30, 2005 and lower income from mortgage backed securities and other investments;
- higher financial expenses from Argentine Central Bank borrowings due to the greater impact of the CER index during the period, partially offset by lower average outstanding balances, and higher interest due on foreign currency-denominated financing due to the increase in interest rates;
- the adverse effect of the appreciation of the Peso against the US dollar on Banco Hipotecario s net foreign currency position in 2005; and
- higher administrative expenses due to Banco Hipotecario s increased level of business activities.

These factors were partially offset by:

- higher income from derivative transactions aimed at reducing the effect of the appreciation in the price of Banco Hipotecario s shares and currency swaps to hedge net financial income against the effect of changes in the CER on indexed liabilities;

higher income from services due to the new products offered by Banco Hipotecario; and

Financial Income

The following table sets forth the principal components of Banco Hipotecario s financial income for the twelve-month periods ended June 30, 2005 and 2004.

	Periods ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		

Mortgage loans and other financial transactions	189.7	335.5	(43.4)
Income from restructuring of bonds		232.0	
Income from restructuring of financial loans		254.4	
Government guaranteed loans	92.1	54.9	67.9
Compensatory and other BODEN	59.9	29.2	105.3
Buyback of restructured debt	109.1	85.7	27.3
Hedges	76.4		
Mortgage-backed securities	36.3	32.4	12.2
Other loans	22.1	34.4	(35.7)
Government and Private Securities	82.6	98.3	(16.0)
Cash and due from banks	1.0	0.7	35.8
Interbank Loans	1.2	0.3	100.0
Others	10.9	20.0	(46.5)
Total	681.5	1,177.8	(42.1)

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Banco Hipotecario s financial income decreased by 42.1% to Ps.681.5 million for the period ended June 30, 2005 as compared to Ps.1,177.8 million for the period ended June 30, 2004 primarily as a result of:

- the positive effect of the CVS index on pesified mortgage loans recorded during the twelve months period ended on June 30, 2004 which did not occur in the twelve month period ended on June 30, 2005;
- the effect of the restructuring of bonds and financial loans in the period ended June 30, 2004;
- lower income from mortgage backed securities as a result of lower income from investments in financial trusts; and
- lower income from government and private securities as a result of lower market prices.

These factors were partially offset by:

- higher income from compensatory and additional BODEN resulting from the increase in the Libor rate during the period ended on June 30, 2005;
- higher income from guaranteed loans and other public sector loans due to the increase in the CER index;
- higher income from the buyback of restructured financial indebtedness at market prices; and
- higher income from derivative operations resulting from hedging transactions, including Banco Hipotecario s total return swap.

Financial Expenses

The following table sets forth information regarding Banco Hipotecario s financial expenses for the periods ended June 30, 2005 and 2004.

	Periods ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		
Bonds and similar obligations	109.8	(44.1)	NM
Borrowings from Argentine Central Bank	219.2	127.4	72.1
Borrowings from banks	28.8	27.3	5.3
Effects of changes in exchange rates	6.1	70.5	(91.3)
Time deposits	18.0	1.1	NM
Other[(1)]	2.5	16.3	(84.8)

Contributions and taxes on financial income	14.5	10.1	44.2
Total	388.9	208.5	86.5

(1) Includes interest and other amounts payable on savings accounts, checking accounts, and other deposits.

Banco Hipotecario s financial expenses for the period ended June 30, 2005 increased 86.5% to Ps.388.9 million from Ps. 208.5 million for the period ended June 30, 2004 primarily as a result of:

- the higher impact of the CER index accrued on Argentine Central Bank borrowings partially offset by lower average balances;

higher financial expenses from foreign currency-denominated liabilities due to new external financing and higher interest accrued on restructured debt, partially offset by lower average balances of restructured debt and the effect in the cut off in the interest rates of Banco Hipotecario s external restructuring debt and

higher interest liabilities resulting from increased average balances on savings accounts and time deposits.

These effects were partially offset by the negative effect of the appreciation of the peso against the US dollar on Banco Hipotecario s net foreign currency position.

Provision for Losses on Loans

The following table sets forth Banco Hipotecario s provision for loan losses for the periods ended June 30, 2005 and 2004.

	Periods ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		
Provision for loan losses	16.7		NM
Charge-offs	72.8	177.8	(59.0)

Banco Hipotecario s provision for loan losses for the period ended June 30, 2005 amounts to Ps. 16.7 million. During the period ended June 30, 2004, Banco Hipotecario did not record any provision for loan losses as a result of the increase in the asset quality.

Net Contribution from Insurance

The following table sets forth the principal components of Banco Hipotecario s net contribution from insurance for the periods ended June 30, 2005 and 2004.

	Periods ended June 30		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		
Insurance premiums earned:			
Life	12.9	14.5	(10.9)
Property damage	27.8	28.0	(0.9)
Unemployment	1.6	1.8	(8.7)

Other	2.5	2.0	22.9
Total premiums earned	44.8	46.3	(3.3)
Insurance claims paid:			
Life	0.4	0.2	91.7
Property damage	6.9	6.6	4.1
Unemployment	0.2	0.2	(32.8)
Other	0.3	0.2	25.7
Total claims paid	7.7	7.3	5.9
Net contribution from insurance	37.0	39.0	(5.1)

Banco Hipotecario s net contribution from insurance activities of Ps.37.0 million during the period ended June 30, 2005 decreased by 5.1% or Ps.39.0 million, compared to the period ended June 30, 2004. This decrease was primarily a consequence of lower premiums earned during the year as a result of

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prepayments and lack of mortgage loan originations, partially offset by new products launched and the improvements in the quality of Banco Hipotecario s portfolio.

Other Income from Services

The following table includes the principal components of Banco Hipotecario s other income from services for the periods ended June 30, 2005 and 2004.

	Periods ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		
Loan servicing fees from third parties	2.1	2.7	(23.9)
FONAVI commissions	3.0	2.9	4.3
Other Commissions	26.8	1.6	NM
Total commissions	31.9	7.3	NM
Recovery of loan expenses	9.1	16.1	(43.4)
Other	2.7	1.4	97.3
Total	43.7	24.7	76.5

Banco Hipotecario s income from services increased to Ps.43.7 million for the period ended June 30, 2005 from Ps.24.7 million in the same period of 2004, as a result of higher commissions for technological services partially offset by lower recoveries of loans expenses as a result of lower balances on mortgages loans.

Other Expenses on Services

The following table includes the principal components of Banco Hipotecario s other expenses on services for the periods ended June 30, 2005 and 2004:

	Periods ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		
Structuring and underwriting fees	5.0	14.1	(64.7)
Banking services	7.0	9.1	(23.0)

Commissions on third party originations	0.3	0.4	(29.4)
Collections	0.2	0.2	9.6
Others	0.9	0.2	NM
Total	13.3	24.0	(44.5)
Contributions and taxes on income from services	1.5	1.1	56.6
Total	14.8	25.1	(40.8)

Banco Hipotecario s other expenses on services decreased 40.8% to Ps.14.8 million for the period ended June 30, 2005 from Ps.25.1 million in the period ended June 30, 2004, primarily due to lower commissions paid in connection with structuring and underwriting fees.

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Administrative Expenses

The following table sets forth the principal components of Banco Hipotecario s administrative expenses for the periods ended June 30, 2005 and 2004.

	Periods ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		
Salaries and social security contributions	73.1	72.6	0.7
Advertising expenses	7.2	2.7	169.3
Value added tax and other taxes	10.2	9.5	7.0
Directors and syndic s fees	2.8	7.2	(60.3)
Fees for administrative services	13.2	6.1	115.4
Maintenance and repairs	36.3	31.2	14.6
Other	4.2	3.6	17.0
Total	147.0	133.3	10.3

Administrative expenses for the period ended June 30, 2005 increased 10.3% to Ps. 147.0 million from Ps. 133.3 million for the period ended June 30, 2004. The main reasons for this increase were higher salaries and social security contributions required under applicable regulations in Argentina, higher advertising expenses related to the launch of Banco Hipotecario s new products and an increase in other fees related to the actions adopted by Banco Hipotecario in developing its retail banking business.

Miscellaneous Income

The following table sets forth Banco Hipotecario s miscellaneous income for the periods ended June 30, 2005 and 2004.

	Periods ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos as, except for percentages)		
Penalty interest	9.6	11.5	(16.9)
Loan loss recoveries	59.2	53.3	11.1
Gain on restructuring debt		88.0	
Recovery provisions of loan losses		30.0	
Other	15.3	21.1	NM
Total	84.0	203.9	(31.3)

Banco Hipotecario s miscellaneous income decreased 31.3% to Ps. 84.0 million for the period ended June 30, 2005 from Ps.203.9 million for the year ended June 30, 2004 primarily as a result of gain proceed from restructuring debt and recovery of provision for loan losses on Public Sector in 2004.

Miscellaneous Expenses

The following table sets forth the principal components of Banco Hipotecario s miscellaneous expenses for the period ended June 30, 2005 and 2004:

	Periods ended June 30,		% Change
	2005	2004	2005/2004
	(in millions of Pesos, except for percentages)		
Provision for lawsuit contingencies	1.3	37.8	(96.5)
Provision for miscellaneous receivables and others	4.6	4.5	1.4
Provision StAR granted creditors under guaranteed debt	15.0	59.3	(74.7)
Provision for administrative organization	92.2	61.8	49.0
Other	13.3	37.3	(64.3)
Total	126.4	200.7	(37.0)

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Banco Hipotecario s miscellaneous expenses decreased 37.0% to Ps.126.4 million for the periods ended June 30, 2005 from Ps.200.7 million for 2004 primarily as a result of:

- higher provisions recorded in the period ended June 30, of 2004 related to lawsuit contingencies, and
- charges recorded during the first half of 2005 in order to provision for the contingent effects related to the appreciation in the trading price of our Class D shares, which is designed to account for the higher value attributable to the stock appreciation rights issued with and attached to our Medium Term Guaranteed Debt due 2010 and Banco Hipotecario s management compensation plan, which was approved by the Bank s shareholders at their meeting dated May 31, 2004.

This effect was partially offset by higher provision for administrative organization , principally as a result of certain differences under discussion with Argentine Central Bank related to the asymmetric pesification compensation.

Twelve month periods ended June 30, 2004 and 2003

General

The following table sets forth the principal components of Banco Hipotecario s net income for the period ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos except for percentages)		
Financial income	1,177.8	512.6	129.8
Financial expenses	(208.5)	(1,241.7)	(83.2)
Net financial income	969.3	(729.1)	233.0
Provision for losses on loans		(122.0)	(100.0)
Net contribution from insurance	39.0	36.9	5.7
Other income from services	24.7	37.7	(34.2)
Other expenses on services	(25.1)	(31.3)	(19.8)
Administrative expenses	(133.3)	(119.9)	11.2
Miscellaneous income (loss), net	3.2	(132.9)	(102.4)
Monetary adjustment		(218.0)	(100.0)
Minority interest	(7.8)	7.9	(198.7)
Income tax	(3.6)		100.0
Net income (loss)	**866.6**	**(1,270.7)**	**(168.2)**

Net Income (Loss)

Banco Hipotecario s net income increased to Ps.866.6 million for the period ended June 30, 2004 from a net loss of Ps. (1,270.7) million for the period ended June 30, 2003. This increase was primarily as a result of:

a higher financial income as a result of the reduction in the principal amounts of bonds and financial debt with financial entities and the positive effect of the prepayment of financial debt, as a result of the CVS index application in the individual loan portfolio previously pesified,

lower financial expenses due to the lower interest rate offered to creditors in Banco Hipotecario s debt restructuring process, and as a result of lower interest rates and CER on Argentine Central Bank loans and advances, higher net miscellaneous income, as a result of lower interest rates offered to creditors corresponding to the period according to the effective date of restructuring debt, partially offset by higher miscellaneous expenses as a result of provisions related to taxes and expenses due to Banco Hipotecario s debt restructuring process and the recording of the Stock Appreciation Right granted to creditors under the medium term guaranteed debt,

no provision for losses on loans due to an improvement in Banco Hipotecario s individuals loan portfolio and no significant additional impairment of the individual loan portfolio,

there were no monetary adjustments due to the suspension of the inflation adjustment application effective as of March 1, 2003, and

higher minority interest due to the improvement in the income from the activity of Banco Hipotecario s consolidated subsidiaries.

Financial Income

The following table sets forth the principal components of Banco Hipotecario s financial income, for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	**2003**	**2004/2003**
	(in millions of Pesos except for percentages and basis points)		
Financial Income:			
Interest on loans and other receivables	226.4	262.1	(13.6)
Income from restructuring of bonds	232.0		100.0
Income from restructuring of financial loans	254.4		100.0
Income from Guaranteed loans	54.9	35.9	52.9
CVS index on pesified loans	121.3	11.8	927.9
CER index on pesified loans	40.0	156.8	(74.5)
Prepayment bonds and other financial loans restructured at discount	66.2		100.0
Government securities and other investment	130.7		100.0
Compensatory and hedge bonds	29.2	21.6	35.2
Others	22.6	24.4	(7.4)
Total	**1,177.8**	**512.6**	**129.8**

Banco Hipotecario s financial income increased 129.8 % to Ps. 1,177.8 million for the period ended June 30, 2004 as compared to Ps. 512.6 million for the period ended June 30, 2003 primarily as a result of:

a reduction in the principal amount of bonds and financial debt with financial entities, as a result of Banco Hipotecario s financial debt restructuring,

the positive effect of the prepayment of financial debt, application of the CVS index on Banco Hipotecario s mortgage loan portfolio to individuals previously pesified,

higher income from government securities and other investments due to the appreciation of certificates of participation in financial trust and the appreciation of marketable securities held by Banco Hipotecario,

higher income from guaranteed loans, as a result of higher average balance,

higher income from Compensatory Bonds and Hedge Bonds as a result of accrued interest,

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These factors were partially offset by:

- lower income from pesified loans due to a decrease in the CER index,
- lower income from loan portfolio as a result of lower average balances, partially offset by an improvement of Banco Hipotecario s asset quality.

Financial Expenses

The following table sets forth information regarding Banco Hipotecario s financial expenses, for the periods ended June 30, 2004 and 2003.

	Period ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, except for percentages and basis points)		
Financial Expenses:			
Bonds and similar obligations	(44.1)	121.5	(136.3)
Borrowings from Argentine Central Bank	127.4	316.1	(59.7)
Borrowings from banks	27.3	509.0	(94.6)
Effects of changes in exchange rates	70.5	287.5	(75.5)
Other	17.3	4.1	321.9
Contributions and taxes on financial income	10.1	3.5	188.6
Total	**208.5**	**1,241.7**	**(83.2)**

Banco Hipotecario s financial expenses for the period ended June 30, 2004 decreased 83.2% from Banco Hipotecario s financial expenses for the period ended June 30, 2003 primarily as a result of:

- the impact of a decrease in interest rates on bonds and interbank loans which were restructured, from an average annual interest rate of 10% to approximately 3% during the twelve month period ended June 30, 2004;
- a decrease in interest rates and CER on Argentine Central Bank borrowings and borrowing from banks; and
- lower effects of changes in exchange rates as a result of the stabilization of the Argentine Economy.

Provision for Losses on Loans

The following table sets forth Banco Hipotecario s provision for loan losses for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, except for percentages)		
Provision for loan losses		122	(100.0)
Total		122	(100.0)
Charge-offs	177.8	155.7	14.2

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During the period ended June 30, 2004 Banco Hipotecario did not record any provision for loan losses as a result of the increase in the asset quality. During the period ended June 30, 2003, Banco Hipotecario recorded a Ps. 122.0 million provision related to Banco Hipotecario s post-1991 loans portfolio due to the increase in non-performing construction loans and related to Banco Hipotecario s pre-1991 and post-1991 loans to individuals to reflect Banco Hipotecario s policy adopted in 2002 to maintain loan loss reserves in an amount of approximately 70% of all non-performing loans to individuals.

Net Contribution from Insurance

The following table sets forth the principal components of Banco Hipotecario s net contribution from insurance for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	**2003**	**2004/2003**
	(in millions of Pesos except for percentages)		
Insurance premiums earned:			
Life	28.0	29.4	(4.8)
Property damage	14.5	13.9	4.3
Unemployment	1.8	1.9	(5.3)
Other	2.0	1.4	42.9
Total premiums earned	46.3	46.8	(1.0)
Insurance claims paid:			
Life	6.6	8.0	(17.5)
Property damage	0.2	1.0	(80.0)
Unemployment	0.2	0.7	(57.1)
Other	0.2		100.0
Total claims paid	7.3	9.9	(26.3)
Net contribution from insurance	**39.0**	**36.9**	**5.7**

Banco Hipotecario s net contribution from insurance increased by 5.7 % for the period ended June 30, 2004 compared to the period ended June 30, 2003 primarily due to a 26.3% decrease in insurance claims paid (life and property damage), partially offset by lower premiums earned due to lower average loan balances.

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Other Income from Services

The following table includes the principal components of Banco Hipotecario s other income from services for the periods ended June 30, 2004 and 2003.

	Periods ended June 30, 2004	Periods ended June 30, 2003	% Change 2004/2003
	(in millions of Pesos except for percentages)		
Loan servicing fees from third parties	2.7	3.3	(18.2)
The investments of loans expenses paid by share parties	16.1	18.7	(13.9)
FONAVI commissions	2.9	2.9	
Other	3.3	12.9	(74.4)
Total	**24.7**	**37.7**	(34.2)

Banco Hipotecario s other income from services decreased 34.2 % for the period ended June 30, 2004 compared to the period ended June 30, 2003 primarily due to lower average loan balances.

Other Expenses on Services

The following table includes the main components of Banco Hipotecario s other expenses on services for the periods ended June 30, 2004 and 2003.

	Periods ended June 30, 2004	Periods ended June 30, 2003	% Change 2004/2003
	(in millions of Pesos, except for percentages)		
Structuring and underwriting fees	14.1	23.2	(39.1)
Commissions on third party originations	0.4	0.6	(33.3)
Collections	0.2	0.6	(8.3)
Banking services	9.1	6.1	110.0
Other	0.2	0.1	(30.4)
Total	**24.0**	**30.6**	(21.6)

Contributions and taxes on income from services	1.1	0.7	57.1
Total	**25.1**	**31.3**	(19.8)

Banco Hipotecario s other expenses on services decreased 19.8% from Ps.31.3 million in the period ended June 30, 2003 to Ps.25.1 million for the period ended June 30, 2004, primarily due to lower commissions paid in connection with structuring and underwriting fees. This decrease in other expenses on services was partially offset by an increase in banking services as a result of higher expenses on services incurred by Banco Hipotecario in connection with its new financial products.

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Administrative Expenses

The following table sets forth the principal components of Banco Hipotecario s administrative expenses for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos, 2004, except for percentages)		
Salaries and social security contributions	72.6	69.1	5.1
Fees and external administrative services	6.1	6.1	
Directors and syndics fees	7.2	2.9	148.3
Maintenance and repair	31.6	30.9	2.6
Advertising expenses	2.7	0.5	40.0
Value added tax and other taxes	9.5	8.3	14.5
Other	3.6	2.1	66.7
Total	**133.3**	**119.9**	11.2

Banco Hipotecario s administrative expenses increased 11.2 % from Ps.119.9 million for the period ended June 30, 2003 to Ps.133.3 million for the period ended June 30, 2004 primarily as a result of:

an increase in advertising expenses related to Banco Hipotecario s efforts to develop its strategy of becoming a diversified financial institution,

higher fees and administrative services as a result of Banco Hipotecario s financial debt restructuring advisory services,

an increase in taxes related to higher advertising expenses, and

an increase in salaries and social contributions due to higher salaries in Banco Hipotecario s subsidiaries.

Miscellaneous Income

The following table sets forth Banco Hipotecario s miscellaneous income for the periods ended June 30, 2004 and 2003.

Periods ended June 30,	% Change

	2004	2003	2004/2003
	(in millions of Pesos except for percentages)		
Penalty interest	11.5	14.5	(20.7)
Loan loss recoveries	53.3	50.1	6.4
Gain on restructuring debt	88.0		100.0
Recovery provisions of loan losses	30.0		100.0
Other	21.1	6.0	251.6
Total	203.9	70.6	188.8

Banco Hipotecario s miscellaneous income increased to Ps.203.9 million for the period ended June 30, 2004 from Ps. 70.6 million for the period ended June 30, 2003 primarily as a result of:

the reduction in interest rates corresponding to prior years as a result of the debt restructuring process,

higher income from subsidiaries included in Other Miscellaneous Income, and

recovery of provision for loan losses on Public Sector.

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Miscellaneous Expenses

The following table sets forth the principal components of Banco Hipotecario s miscellaneous expenses for the periods ended June 30, 2004 and 2003.

	Periods ended June 30,		% Change
	2004	2003	2004/2003
	(in millions of Pesos except for percentages)		
Provision for lawsuit contingencies	37.8	36.0	(5.0)
Provision for other contingencies and miscellaneous receivables	4.5	7.5	(40.0)
Provision StAR granted creditors under guaranteed debt	59.3		100.0
Miscellaneous assets loss	9.7		100.0
Prepayment mortgage loans at discount	8.2	51.6	(84.1)
Provision for taxes	32.0		100.0
Provision for administrative organization	3.9	48.0	(91.9)
Difference in compensatory and hedge bonds	4.7	49.3	(84.1)
Provision for restructuring expenses	36.5		100.0
Other	4.1	11.2	(40.3)
Total	**200.7**	**203.6**	**(1.4)**

Banco Hipotecario s miscellaneous expenses decreased to Ps. 200.7 million for the period ended June 30, 2004 from Ps.203.6 million for the period ended June 30, 2003, primarily as a result of:

- lower provisions for administrative organization related to severance payments and the early retirement plan implemented during late 2002;
- lower provisions for certain differences under discussion with Argentine Central Bank related to the asymmetric pesification compensation; and
- lower expenses attributable to the campaign during 2002 which promoted the early prepayments of pre-1991 and post-1991 loans at a discount.

This decrease was partially offset by:

- provisions due to the recording of the stock appreciation rights granted to creditors under the guaranteed debt;

expenses and taxes related to expenses paid on Banco Hipotecario s financial debt restructuring process; and

loss on sales of miscellaneous asset.

Income Tax

Prior to January 1, 1996, Banco Hipotecario was exempt from payment of income tax. Beginning January 1, 1996, Banco Hipotecario was only exempt from payment of income tax on income attributable to its residential mortgage lending activities. Effective October 1997, as a result of its conversion to a *sociedad anónima* , Banco Hipotecario became subject to payment of income tax in Argentina except on its income attributable to mortgage loan commitments made prior to that date.

As a general rule, Argentine tax law allows the deduction of expenses related to a business activity if profits from that activity are taxable. If an enterprise engages in both taxable and non-taxable businesses activities, as Banco Hipotecario does, the portion of its business expenses related to the taxable business

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may be determined by direct allocation of expenses to particular business activities or by the apportionment method. The Argentine tax code gives preference to the direct allocation method of accounting over the apportionment method in determining deductible expenses, providing that the apportionment method may only be used in circumstances where it is not possible to make direct allocation of expenses to taxable income.

Until December 31, 1998, Banco Hipotecario determined its income tax based on the expense apportionment method, treating as deductible the portion of expenses arising from applying to the total expenses incurred the ratio of taxable income to total income. Since the year ended December 31, 1999, income tax has been calculated taking account of the direct relationship between expenses and the taxable or non-taxable income to which those expenses relate. The apportionment method has only been used for those expenses that are not directly allocable to the income producing sources.

Banco Hipotecario has filed income tax returns for each of 2002, 2003 and 2004, which were prepared in compliance with the aforementioned methodologies. As a result, Banco Hipotecario has recorded tax loss carry forwards for each of 2002, 2003 and 2004 of Ps. 162,7 million, Ps. 3,131.6 million, and Ps. 2,086.5 million, respectively. Banco Hipotecario expect to have no income tax payable for 2005. Currently, the application of such methodologies for tax deductions is subject to review by the Administración Federal de Ingresos Públicos - Dirección General Impositiva, the Federal Public Income Administration or AFIP , and as of the date hereof the AFIP has not rendered a ruling in connection with this matter either upholding or rejecting the methodology described above.

Interest Rate Sensitivity

A key element of Banco Hipotecario s asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity measures the change in net financial income as assets and liabilities re-price following a change in market interest rates. An asset and liability structure is matched when an equal amount of assets and liabilities re-price as a result of a change in interest rates. Any difference between re-pricing assets and liabilities results in a gap or mismatch and a change in net financial income when interest rates change.

The following table shows Banco Hipotecario s interest-earning assets and interest-bearing liabilities positions by re-pricing period as of June 30, 2005. The table shows the impact that an increase in short-term interest rates (less than twelve months) results in a reduction in Banco Hipotecario s net interest income as a higher amount of liabilities than assets reprices, while a decrease in short-term interest rates has the opposite effect.

	As of June 30, 2005									
	Immediately	**1 Through 6 months**	**6 Through 12 months**	**1 Through 3 years**	**3 Through 5 years**	**5 to 10 years**	**10 to 15 years**	**Over 15 years**	**Non-rate Sensitive**	**Total**
	(in millions of Pesos, except for percentages)									
INTEREST EARNING ASSETS										
Cash and due from banks	61.3								169.5	230.8
Government and private securities		128.6	12.1	79.5	198.5	198.4	19.3	51.8	35.5	723.7
		24.9	25.0	100.7	98.1	209.7	113.1	130.1	6.5	708.1

Pre-1991 loans-individual mortgage										
Post-1991 loans-individual mortgages		30.0	30.5	125.4	115.1	223.4	123.4	12.6	29.7	690.1
Other loans		274.3	47.6	224.7	78.1	613.6	102.8		7.0	1,348.1
Other receivables from financial transactions		11.6				2,919.2	138.0	32.7		3,101.5
Other receivables			76.7	155.5	160.4	230.0				622.6
Total interest earning assets	61.3	469.4	191.9	685.8	650.2	4,394.3	496.6	227.2	248.2	7,424.8
Cumulative interest earning assets	61.3	530.7	722.4	1,408.3	2,058.4	6,452.9	6,949.5	7,176.6	7,424.8	
INTEREST-BEARING LIABILITIES										
Bonds	176.7	28.1		24.7	738.1	1,433.1				2,400.7
Other banks and international entities	58.2	220.6	57.8	133.9	47.2	41.0				558.7
Argentine Central Bank						2,042.4				2,042.4
Deposits	335.2	91.0								426.2
Total interest bearing liabilities	570.1	339.7	57.8	158.6	785.3	3,516.5				5,428.0
Asset/liability gap	(508.8)	129.7	134.1	527.2	(135.1)	877.8	496.6	227.2	248.2	1,997.0
Cumulative gap	(508.8)	(379.0)	(245.1)	282.1	(147.0)	1,025.0	1,521.6	1,748.7	1,997.0	
Ratio of cumulative gap to cumulative total interest earning assets	(829)%	(71)%	(34)%	20%	7%	16%	22%	24%	27%	

Exchange Rate Sensitivity

Banco Hipotecario s exposure to foreign currency fluctuations arises from its foreign currency-denominated assets and liabilities. On June 30, 2005 and June 30, 2004, Banco Hipotecario s total foreign currency-denominated liabilities were Ps.3,970.6 million and Ps.3,730.5 million, respectively, all of which were US dollar-and Euro-denominated obligations. On June 30, 2005 and June 30, 2004, Banco Hipotecario s US dollar-denominated assets (including BODEN) were Ps.4,023.8 million and Ps.4,198.4 million, respectively, and Banco Hipotecario s Euro-denominated assets were Ps.959.6 million and Ps.702.7 million, respectively, while Banco Hipotecario s U.S. Dollar-denominated liabilities were Ps.2,986.2 million and Ps.2,666.1 million, respectively, and Banco Hipotecario s Euro-denominated liabilities were Ps.984.3 million and Ps.1,064.5 million, respectively.

Liquidity

Banco Hipotecario s general policy has been to maintain liquidity adequate to meet Banco Hipotecario s operational needs and financial obligations. At June 30, 2005, Banco Hipotecario s liquid assets consisted of:

Ps.314.1 million of cash and due from banks;

Ps.275.2 million of Argentine government and corporate securities classified as held for trading; and

Ps.155.5 million of Argentine Central Bank Bills.

Cash Flows from Operating Activities. The changes in cash flows from operating activities were mainly due to the change in:

Provision for losses on loans and for contingencies and miscellaneous receivables, net of reversals,

Net (gain) loss on government securities, and

Net change in other assets and liabilities.

Cash Flows From Investing Activities. The changes in cash flow from investing activities were due to changes in net loans from Ps.268.6 million in June 2004 and Ps.297.7 million in June 2005 respectively.

Cash Flows from Financing Activities. The changes in cash flows from financing activities were mainly due to the decrease in proceeds from principal payments on Bonds, Notes and Long Term debts, as a result of the changes in Banco Hipotecario s restructuring financial debt in 2004 and 2003.

Funding

Historically, Banco Hipotecario financed Banco Hipotecario s lending operations mainly through:

- the issuance of fixed and floating rate securities in the international capital markets,
- other financing arrangements with international and domestic financial institutions,
- securitizations of mortgage loans,
- cash flow from existing loans,
- deposits, and

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Argentine Central Bank long term loans.

At June 30, 2005 and 2004, Banco Hipotecario had four principal funding sources: bonds, Argentine Central Bank advances, other liabilities from financial institutions and deposits. The table below sets forth Banco Hipotecario s liabilities outstanding with respect to each of Banco Hipotecario s sources of funding as of the dates indicated.

	At June 30,		% Change
	2005	2004	2005/2004
Bonds [1]	2,345.8	2,735.8	(14.3)
Borrowings from Argentine Central Bank	2,042.4	2,193.5	(6.9)
Borrowings from banks and international entities	542.8	354.2	53.2
Deposits	423.4	181.4	133.4
Total	5,354.4	5,464.9	(2.0)

(1) Excludes accrued interest.

On May 3, 2005 Banco Hipotecario prepaid outstanding balances due to the Argentine Central Bank of approximately Ps.233.5 million in respect of advances. The outstanding amount reflected above as due to the Argentine Central Bank includes debt to be incurred in connection with the subscription of BODEN.

As result of the subscription process of Hedge BODEN 2012, the advances to be incurred for the acquisition of National Government Bonds, were reduced in approximately Ps. 1,662.2 million until December 13, 2005.

The restructuring resulted in a reduction of Banco Hipotecario s debt by approximately US$361.3 million, the extension of terms to an average life of approximately 6.5 years and a 5% reduction in average interest rates. Consummation of the debt restructuring has enabled Banco Hipotecario to regain financial stability and bolstered its financial condition, allowing it to reach remarkable liquidity and solvency ratios unparalleled in the Argentine financial System.

Bonds

On June 30, 2005, the contractual residual nominal value of Bonds amounted to Ps.2,345.8 million. This amount includes Argentine Mortgage Bonds issued under Banco Hipotecario s Global Euro Medium Term Notes (EMTN) Program, ordinary Bonds not convertible into shares under the Global Medium Term Notes (GMTN) Program, and new debt issued in connection with Banco Hipotecario s restructuring.

The principal amount values of the different series of notes Banco Hipotecario has issued and outstanding is as follows:

	Date of issue	Maturity Date	Annual interest rate	Residual face value at June 30, 2005
			(%)	(millions of Pesos)
EMTN (CHA)				
Series III (US$100,000,000)	Aug. 7, 1996	Aug. 7, 2006	10.625	2.0
GMTN				
Series I (US$300,000,000)	Apr. 17, 1998	Apr. 17, 2003	10.000	34.8
Series IV (US$175,000,000)	Dec. 3, 1999	Dec. 3, 2008	13.000	1.6
Series VI (US$135,909,000)	Mar. 15, 1999	Mar. 15, 2002	12.250	2.0
Series XVI (US$125,000,000)	Feb. 17, 2000	Feb. 17, 2003	12.625	29.5
Series XVII (EURO 100,000,000)	Mar. 27, 2000	Mar. 27, 2002	9.000	2.5
Series XXII (EURO 100,000,000)	Oct. 18, 2000	Oct. 18, 2000	8.750	0.6

	Date of issue	Maturity Date	Annual interest rate	Residual face value at June 30, 2005
Series XXIII (EURO 150,000,000)	Feb. 6, 2001	Feb. 6, 2004	10.750	20.6
Series XXIV (US$107,000,000)	Mar. 15, 2002	Mar. 15, 2005	9.000	17.7
Series XXV (EURO 165,700,000)	Mar. 15, 2002	June 15, 2005	8.000	20.2
Subtotal				129.5
Notes Issued in Restructuring:				
Guaranteed bonds (US$107,941,000)	Sep. 15, 2003	Aug. 3, 2010	Libor + 2.5	148.4
Long term bonds (US$449,880,000)	Sep. 15, 2003	Dec. 1, 2013	3.0 6.0	1,142.3
Long term bonds (Euro 278,367,000)	Sep. 15, 2003	Dec. 1, 2013	3.0 6.0	923.6
Accrued interest				54.8
Total				2,400.6

During 2004, Banco Hipotecario redeemed a portion of Banco Hipotecario s outstanding notes issued in the restructuring, as follows:

Medium-term guaranteed bonds (US$) for a face value of US$33.7 million.

Long-term bonds (US$) for a face value of US$7.7 million.

Long-term bonds (Euro) for a face value of Euro 4.5 million.

During the first six months of 2005, Banco Hipotecario redeemed a portion of Banco Hipotecario s outstanding notes issued in the restructuring, as follows:

Medium-term guaranteed bonds (US$) for a face value of US$5.2 million.

Long-term bonds (US$) for a face value of US$25.1 million.

Long-term bonds (Euro) for a face value of Euro 5.7 million.

The results of these operations have been recorded under financial income in Banco Hipotecario s income statements.

Borrowings from Banks and International Entities

During 2004 and 2005, Banco Hipotecario incurred the following indebtedness:

On September 2, 2004, Banco Hipotecario obtained a loan from Credit Suisse First Boston International in an aggregate principal amount of US$65.0 million, due August 25, 2005.

On September 30, 2004, Banco Hipotecario obtained a loan from Deutsche Bank AG, London Branch in an aggregate principal amount of US$20.0 million, due March 31, 2006.

On January 28, 2005, Banco Hipotecario obtained a loan from Deutsche Bank AG, London Branch in an aggregate principal amount of US$30.0 million, due July 28, 2006.

On August 25, 2005, Banco Hipotecario obtained a loan from Deutsche Bank AG, London Branch in an aggregate principal amount of US$50.0 million, due August 28, 2006.

Borrowings from the Argentine Central Bank

On November 11 and December 1, 2004, Banco Hipotecario pre-paid the financial assistance loans granted by the Argentine Central Bank in amounts totaling Ps.10.0 million and Ps.30.0 million, respectively, in order to settle in advance restructured foreign debt. On January 20, 2005 and February 25, 2005, Banco Hipotecario took part in the tender offer established by the Argentine Central Bank, for Ps.63.8 million and Ps.16.9 million, respectively, having been accepted in settlement of the previously refinanced debt. On May 3, 2005 Banco Hipotecario fully prepaid all outstanding balances due on this indebtedness of approximately Ps.233.5 million. As of June 30, 2005, Banco Hipotecario has recorded in Banco Hipotecario s financial statements borrowings from the Argentine Central Bank totaling Ps.2,042.4 million in respect of advances Banco Hipotecario expects to incur in the future for its right to subscribe additional BODEN.

Loan Securitization Program

In 1996, 1997, 2000, 2001, 2002, 2004 and 2005, Banco Hipotecario established twelve separate mortgage trusts under Banco Hipotecario off-balance sheet securitization program. For each mortgage trust, Banco Hipotecario transferred a portfolio of Banco Hipotecario loans to a trustee, which then issued senior bonds, subordinated bonds and certificates of participation. The payment obligations of these instruments are secured by the trust assets consisting of the portfolio of individual residential mortgage loans and any reserve fund established by Banco Hipotecario for such purpose. The holders of the securities have no recourse against Banco Hipotecario if the trustee defaults in its payment obligations. Notwithstanding this fact, certain holders of bonds issued by the mortgage trusts have sued Banco Hipotecario for the effects of the devaluation of the Peso and its impact on the value of the trust assets.

The first mortgage fund (BHN I Mortgage Fund) was established in October 1996 with approximately US$93.0 million of mortgage loans and a reserve fund of US$9.7 million. The second mortgage trust (BHN II Mortgage Trust) was established in May 1997 with approximately US$106.6 million of mortgage loans and a reserve fund of US$1.4 million. The third mortgage trust (BHN III Mortgage Trust) was established in October 1997 with approximately US$105.4 million of mortgage loans and a reserve fund of US$1.4 million. The fourth mortgage trust (BHN IV Mortgage Trust) was established in March 2000 with approximately US$195.0 million of mortgage loans and a reserve fund of US$8.1 million. The fifth mortgage trust (BACS I) was established in February 2001 with approximately US$115.9 million of mortgage loans and a reserve fund of US$3.1 million. The sixth mortgage trust (BACS Funding I) was established in November 2001, with approximately Ps.29.9 million of mortgage loans. The seventh mortgage trust (BACS Funding II) was established in November 2001 with approximately Ps.12.1 million of mortgage loans. The eighth mortgage trust (Banco Hipotecario I) was established in February 2002 with approximately Ps.43.4 million of mortgage loans. The ninth trust (*Cédulas Hipotecarias Argentinas* Series I, 2004 1) was established in June 2004, with approximately Ps.50.0 million of mortgage loans. The tenth trust (Argentine Mortgage Bonds Financial Trust Series II, 2004 2) was established in November 2004, with approximately Ps.50.0 million of mortgage loans. The eleventh trust (Argentine Mortgage Bonds Financial Trust Series III, 2005 1) was established in April 2005, with approximately Ps.62.5 million of mortgage loans. The twelfth trust (Argentine Mortgage Bonds Financial Trust Series IV, 2005 2) was established in June 2005, with approximately Ps.64.6 million of mortgage loans. We acquired subordinated debt notes relating to the BHN I, the BHN III, BHN IV and BACS I issued in respect of the fifth mortgage trusts. See note 21 to Banco Hipotecario audited financial statements.

On June 25, 2004, Banco Hipotecario led the sale of the first series of Cédulas Hipotecarias Argentinas in the local capital market. The aggregate amount of the offering was Ps.50 million, consisting of Ps.40 million of Senior Bonds and Ps.10 million of Subordinated and Certificates of Participation issued under the Ps.500 million Program. The issue was largely oversubscribed and attracted interest from a large number of retail and institutional investors. The securities are collateralized by residential mortgage loans and were rated AAA by Standard & Poor s.

On November 17, 2004, Banco Hipotecario successfully closed its second series of Cédulas Hipotecarias in the local capital market for an aggregate amount of Ps.50 million, issued under the Cédulas Hipotecarias Argentinas under the Ps. 500 million Program. The offer was oversubscribed by approximately three times the authorized amount issued. The bonds accrue variable interest at the higher of CER + 3% and the interest rate for time deposits between Ps. 0.1 million and Ps. 0.5 million, up to 59 days, reported by Argentine Central Bank + 4% subject to a floor of 8% per annum and a ceiling of 15% per

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annum. The securities are collateralized by residential mortgage loans and were rated ra AA by Standard and Poor s.

On April 7, 2005, Banco Hipotecario successfully closed its third series of Cédulas Hipotecarias in the local capital market for an aggregate amount of 62.5 million, issued under the Cédulas Hipotecarias Argentinas under the Ps.500 million Program. The offer was oversubscribed by approximately three times the authorized amount issued. The bonds accrue variable interest at the higher of CER + 1% and the interest rate for time deposits between Ps. 0.1 million and Ps. 0.5 million, up to 59 days, reported by Argentine Central Bank + 2% subject to a floor of 8% per annum and a ceiling of 15%per annum. The securities are collateralized by residential mortgage loans and were rated ra AA by Standard and Poor s.

On June 16, 2005, Banco Hipotecario successfully closed its fourth series of Cédulas Hipotecarias in the local capital market for an aggregate amount of 64.6 million, issued under the Cédulas Hipotecarias Argentinas under the Ps.500 million Program. The offer was oversubscribed by approximately four times the authorized amount issued. The bonds accrue variable interest at the higher of CER + 1% and the interest rate for time deposits between Ps.100.000 and Ps.500.000, up to 59 days, reported by Argentine Central Bank + 2% subject to a floor of 8% per annum and a ceiling of 15% per annum. The securities are collateralized by residential mortgage loans and were rated ra AA+ by Standard and Poor s.

Deposits

Pursuant to a Argentine Central Bank requirement, historically Banco Hipotecario could not accept deposits other than savings accounts that were assumed in November 1994 from Caja Nacional de Ahorro y Seguros (the Argentine postal savings system), deposits related to Banco Hipotecario lending transactions and institutional deposits in excess of Ps.1.0 million.

Banco Hipotecario bylaws contained an identical restriction on Banco Hipotecario s ability to accept deposits. Although Banco Hipotecario did not historically rely upon deposits as a principal source of funding, Banco Hipotecario engaged in limited deposit taking activities. Banco Hipotecario s other deposits consist of checking accounts maintained by different provincial housing funds and agencies representing Argentine government contributions from the collection of federal taxes which have been set aside for use by the provinces for special purposes and transferred to these accounts.

In December 2001 Banco Hipotecario received authorization from the Central Bank to accept time deposits for individuals as well as institutions and amended Banco Hipotecario s bylaws accordingly, with approval of a majority of Banco Hipotecario s shareholders as required by Argentine Corporate Law. At June 30, 2005 and 2004 Banco Hipotecario s total deposits consisted of the following:

			% Change
	At June 30, 2005	**At June 30, 2004**	**2005/2004**
Checking accounts	19.9	13.3	(49.6)
Saving accounts	115.9	51.6	124.6
Time deposits	269.6	101.6	165.4
Other deposits accounts	14.7	13.8	6.5
Accrued interest payable	3.2	1.1	1.9

Total	423.4	181.4	133.4

Banco Hipotecario s current strategy is to increase deposits significantly over time in order to achieve significant liquidity to maintain and further develop Banco Hipotecario s financing activities.

B. Liquidity and Capital Resources

Our liquidity and capital resources include our cash and cash equivalents, proceeds from bank borrowing and long-term debt, capital financing and sales of real estate investments.

As of June 30 2005, we had a working capital of Ps. 78.8 million. At the same date, we had cash and cash equivalents totaling Ps. 142.6 million, an increase of 16.0 % from Ps. 122.9 million of cash and cash equivalents held as of June 30, 2004.

Our operating activities resulted in net cash inflows of Ps. 93.5 million, Ps. 74.7 million and Ps. 93.9 million for fiscal years 2005, 2004 and 2003, respectively. The operating cash inflows for fiscal year 2005 primarily resulted from operating gains of Ps. 127.2 million, an increase in customer advances, salaries and social security payable and taxes payable of Ps. 12.0 million, and an increase in trade accounts payable of Ps. 21.0 million, partially offset by an increase in mortgages and leases receivables for Ps. 49.2 million and a decrease in other liabilities of Ps. 17.7 million. The operating cash inflows for fiscal year 2004 primarily resulted from operating gains of Ps. 90.6 million and an increase in trade accounts payable of Ps. 14.4 million, partially offset by a decrease in other liabilities of Ps. 24.6 million. The operating cash inflows for fiscal year 2003 primarily resulted from operating gains of Ps. 16.4 million, an increase in accrued interest of Ps. 56.5 million and a decrease in inventories of Ps. 35.3 million, partially offset by an increase in mortgages and leases receivables of Ps. 9.2 million.

Our investing activities resulted in net cash outflows of Ps. 126.7 million, Ps. 97.2 million and Ps. 40.6 million for fiscal years 2005, 2004 and 2003, respectively. In fiscal year 2005 we made investments in fixed assets of Ps. 79.3 million, primarily as a result of (i) the development of Alto Rosario Shopping and improvements made in other shopping centers totaling Ps. 50.9 million, and (ii) the partial payment for the acquisition of Bouchard 710 building for Ps. 20.4 million. In fiscal year 2005 we invested Ps. 35.0 million in the acquisition of additional shares and convertible notes of APSA and in the partial payment for the acquisition of the additional 49.9% of Mendoza Plaza Shopping. We also made a payment of US$ 4 million (Ps. 11.7 million) in connection with a contract entered into with CSFB in June 2005, pursuant to which we are committed to acquire in specific circumstances a loan with a mortgage guarantee on an office building in the City of Buenos Aires for US$ 10.0 million. In fiscal year 2004 we made a net investment of Ps. 70.3 million in shares of Banco Hipotecario and we also invested in fixed assets for Ps. 26.4 million primarily in connection with the development of Alto Rosario Shopping. In fiscal year 2003 we made investments in our subsidiaries for Ps. 31.7 million (primarily in APSA) and in fixed assets for Ps. 10.8 million.

Our financing activities resulted in net cash inflows (outflows) of Ps. 52.9 million, Ps. (47.6) million and Ps. 109.4 million for fiscal years 2005, 2004 and 2003, respectively. Our net cash provided by financing activities for fiscal year 2005 was due to the issuance of common stock as a result of the exercise of warrants of Ps. 105.7 million, proceeds from issuance of short-term and long-term debt totaling Ps. 117.2 million and proceeds from the settlement of the swap agreement for Ps. 15.8 million, partially offset by the payment of short-term and long-term debt for Ps. 167.3 million, the payment of dividends by our subsidiaries to minority shareholders totaling Ps. 10.3 million, the settlement of debt owed to minority shareholders for Ps. 2.5 million and the payment of Ps. 5.8 million to CSFB as guarantee of the debt owed by our subsidiary HASA. Our net cash used in financing activities for fiscal year 2004 was primarily due to the payment of short-term and long-term debt, and seller financing totaling Ps. 67.8 million and the payment of dividends by our subsidiaries to minority shareholders of Ps. 4.9 million, partially offset by the proceeds from the issuance of common stock as a result of the exercise of warrants for Ps. 24.8 million. Our net cash provided by financing activities for fiscal year 2003 was primarily due to the proceeds from issuance of short-term and long-term debt of Ps. 397.3 million, partially offset by the payment of short-term and long-term debt, seller financing and mortgages payable totaling Ps. 281.7 million.

We believe our assets have potential for growth. Our level of indebtedness, most of which is long-term, and the cash proceeds from the exercise of warrants attached to our Convertible Notes, place us in a good position to finance new projects and seek expansion opportunities.

Our indebtedness

Our total outstanding debt as of June 30, 2005, amounted to Ps. 483.7 million, as compared to the Ps. 603.9 million as of June 30, 2004. This decrease is attributed to the conversion of IRSA s and APSA s Convertible Notes for US$ 29.0 million and US$ 1.8 million respectively and to several debt buybacks and reductions conducted during the year, as described below.

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Pursuant to Decree No. 214/02, part of our indebtedness was pesified, although a large portion, governed by foreign laws, continued to be U.S. Dollar-denominated. Pesified indebtedness is to be adjusted by the CER index.

On May 24, 2000, we entered into a US$ 80.0 million Syndicated Loan Agreement (the Syndicated Loan Agreement) arranged by Bank Boston N.A. Loans under this Syndicated Loan Agreement bear interest at three-month LIBOR plus a margin of 500 basis points.

Amounts owing under the Syndicated Loan Agreement were payable in U.S. Dollars. Although final maturity on the loan agreement was on August 30, 2002, due to the continuing effects of economic recession, the unavailability of financing sources and the succession of recent governmental measures adversely affecting the normal operations of the banking and payments system, we could not make the scheduled payment on that date. As explained below, we renegotiated this Syndicated Loan Agreement under new conditions.

On December 18, 2000, we issued US$ 43.5 million unsecured Class 2 Floating Rate Notes due December 24, 2001 (the Class 2 Floating Rate Notes). Proceeds from this issuance were used to repay certain outstanding short-term indebtedness. Our Class 2 Floating Rate Notes matured in December 2001, and we were unable to pay the principal then due. As a result of such non-payment, in December 2001, we entered into negotiations with the holders of our Class 2 Floating Rate Notes and on February 8, 2002, we agreed with our holders to replace the Class 2 floating interest rate for an annual fixed interest rate of 12%. Pursuant to a new deferral, granted on October 31, 2002, the principal of and interest on our Class 2 Floating Rate Notes were due in full on November 14, 2002 and were further renegotiated as explained below. We also agreed with our holders on a capitalization of the interest due on October 31, 2002. On May 15, 2002, we had repurchased from Banco Sudameris its participation in the mentioned Class 2 Floating Rate Notes of US$ 6.8 million.

On November 15, 2002, we signed a Framework Refinancing Agreement (the Framework Refinancing Agreement) to refinance the Syndicated Loan Agreement of US$ 80.0 million and the Class 2 Floating Rate Notes amounting, at that time, to US$ 37.0 million through the following schedule:

- US$ 13.6 million were paid in cash, reducing the principal;

- US$ 15.0 million were exchanged for Convertible Notes at a rate of 8% and maturing in the year 2007;

- US$ 37.4 million in Series 03 Secured Notes due 2009 with a 90-day LIBOR plus 200 base points and maturing in the year 2009. These notes are secured by a first mortgage drawn out on some of our properties for an amount equivalent to 50% of the debt; and

- US$ 51.0 million Unsecured Loan Agreement (the Unsecured Loan Agreement) expiring in the year 2009. 69% of this loan accrues interest at a ninety-day LIBOR plus 200 base points, whereas the remainder accrues interest at a phased fixed rate starting at 5.5% and reaching 6.5%.

The offer of Convertible Notes into ordinary shares was successfully completed on November 21, 2002, for a total amount of US$ 100 million. These notes are accompanied by a warrant that offers the option to purchase additional shares. The subscription price was 100% of the face value of the Convertible Notes, which accrue interest at an annual 8% payable semiannually and maturing in November 2007. The conversion price is US$ 0.5450 per ordinary share, in other words each note may be converted into 1.8349 ordinary shares. The funds generated by the issue were mainly allocated to the settlement and restructuring of the liabilities existent at the date, and to finance our working capital and for other general corporate purposes.

Due to the distribution of 4,587,285 treasury shares, we have adjusted the conversion price of our Convertible Notes according to the subscription clauses. The conversion price of the Convertible Notes decreased from US$ 0.5571 to US$ 0.5450 and the warrants price went from US$ 0.6686 to US$ 0.6541. Such adjustment was effective as from December 20, 2002.

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During fiscal years 2003, 2004 and 2005, certain holders of our Convertible Notes for a total amount of US$ 41.5 million exercised their conversion rights and, as a result, we issued 12,531 shares, 23,734,388 shares and 52,448,952 shares of common stock, respectively. At June 30, 2005 the outstanding balance of our Convertible Notes amounted to US$ 58.5 million. Subsequent to 2005 fiscal year-end, we issued 2,738,039 shares as a result of the conversion of US$ 1,492,234 of our Convertible Notes. As of November 30, 2005 the outstanding balance of our Convertible Notes amounts to US$ 57.0 million.

In addition, during fiscal years 2004 and 2005, we issued 13.1 million shares and 56.0 million shares of common stock in exchange for US$ 8.5 million and US$ 36.6 million in cash, respectively, as a result of the exercise of warrants. At November 30, 2005 the number of outstanding warrants amounts to 57.8 million.

On December 4, 2002, we paid off our debt with GSEM/AP Holdings, L.P. (Goldman Sachs) which amounted to US$ 16.3 million including the principal and accrued interest, with a total payment of US$ 11.1 million.

On July 25, 2003, we made a prepayment to HSBC Bank Argentina S.A. of US$ 16 million under the US$ 51.0 million Unsecured Loan Agreement whose final expiration is in November 2009. This transaction involved a payment of US$ 10.9 million, representing 68% of the face value of the debt and a discount of US$ 5.1 million.

On March 17, 2004 we repurchased from HSBC Bank London Plc. US$ 12 million under the US$ 51 million Unsecured Loan Agreement, maturing in November 2009. The transaction value totaled US$ 8.6 million, was at a discount of 28%, and resulted in a US$ 3.4 million discount.

On October 24, 2005, we issued an offer for repurchasing our debt for up to 85% of our outstanding nominal amount. The offer is addressed to all the holders of our Series 03 Secured Notes and Syndicated Loan. The deadline for effective payment was November 21, 2005, but none of the holders accepted our repurchasing offer.

In January 2001, our subsidiary Hoteles Argentinos S.A., holder of 100% of the Hotel Sheraton Libertador, obtained a loan of US$ 12.0 million from BankBoston N.A. Subsequently, Bank Boston N.A sold this loan to Marathon Master Fund Ltd. This loan expires in January 2006 and accrues a quarterly interest at the LIBOR plus a markup ranging between 401 and 476 basis points, according to the value of certain financial indicators. This loan was not converted to Pesos and is stated in U.S. Dollars because it is governed by the laws of the State of New York. There are currently installments of the principal and interest that are overdue and unpaid. This loan is with no recourse to us. On December 16, 2004, our wholly-owned subsidiary Ritelco S.A. acquired 100% of the debt Hoteles Argentinos had with Marathon Master Fund, Ltd. Ritelco S.A. paid a total amount of US$ 8.0 million.

On March 23, 2005 Ritelco S.A. sold to CSFB the loan agreement for US$ 8 million in cash and we entered into an agreement with CSFB pursuant to which, among other things, we guarantee the payment of the debt owed by HASA once the debt is restructured and in the event of non-compliance we shall repurchase the loan agreement for US$ 8.0 million. As guarantee for this transaction, we made a payment of US$ 2.0 million to CSFB which is disclosed as a collateral deposit within Other receivables and prepaid expenses, net in our consolidated balance sheet. In connection with the restructuring process being carrying out, HASA must present a restructuring plan of the collateralized loan prior to March 15, 2006. The debt owed by HASA has been valued at US$ 8.0 million in our consolidated balance sheet.

On June 2, 2005 we entered into an agreement with CSFB pursuant to which we are committed to acquire from CSFB in specific circumstances a loan with a mortgage guarantee on an office building in the City of Buenos Aires for US$ 10.0 million. We made a payment of US$ 4 million in connection with this contract. The loan has a nominal value of US$ 12.8 million and CSFB is actually the creditor.