CRESUD INC
Form 6-K
September 22, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

For the month of September, 2008

CRESUD SOCIEDAD ANONIMA COMERCIAL INMOBILIARIA

FINANCIERA Y AGROPECUARIA

(Exact name of Registrant as specified in its charter)

CRESUD INC.

(Translation of registrant s name into English)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Moreno 877, 23rd Floor, (C1091AAQ)

Buenos Aires, Argentina

(Address of principal executive offices)

Form 20-F _T_ Form 40-F ___

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___ No _T_

CRESUD S.A.C.I.F. and A

(THE COMPANY)

REPORT ON FORM 6-K

Attached is an English translation of the Annual Report and Financial Statements corresponding to the fiscal year ended on June 30, 2008 and 2007.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera

y Agropecuaria

Annual Report and Financial Statements

corresponding to the fiscal years

ended June 30, 2008 and 2007

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

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CORPORATE PROFILE

We are a leading Argentine agricultural company engaged in the production of basic agricultural commodities with a growing presence in the Brazilian agricultural sector through our investment in BrasilAgro Companhia Brasileira de Propriedades Agrícolas (BrasilAgro). We are currently involved in a range of activities including crop production, beef cattle raising and milk production. Our business model, which we seek to roll out abroad, taking into account the specific conditions of each country, focuses on the acquisition, development and exploitation of properties having attractive prospects for agricultural production and/or value appreciation and the selective disposition of such properties where appreciation has been realized. Our shares are listed on the Buenos Aires Stock Exchange and the NASDAQ.

As of June 30, 2008, we owned 18 farms with approximately 443,532 hectares. Approximately 24,305 hectares of the land we own are used for crop production, approximately 91,040 hectares are for beef cattle production, 90,000 hectares are for sheep production, 4,320 hectares are for milk production and approximately 3,335 hectares are leased to third parties for crop and beef cattle production. The remaining 230,532 hectares of land reserve are primarily natural woodlands. In addition, through our subsidiary Agropecuaria Cervera S.A. we have the rights to 162,000 hectares of land for a 35-year period that can be extended for another 29 years. Also, during fiscal year 2008 ended on June 30, 2008, we leased 29,942 hectares from third parties for crop production and 32,895 hectares for beef cattle production.

During the fiscal years ended June 30, 2007 and 2008, we had consolidated sales of Ps.110.3 million and Ps.162.6 million, production income of Ps.102.8 million and Ps.159.8 million, and consolidated net income of Ps.49.4 million and Ps.22.9 million, respectively. During the fiscal years ended June 30, 2007 and June 30, 2008, our total consolidated assets increased 93.1% from Ps.1,071.9 million to Ps.2,069.8 million, and our consolidated shareholders equity increased 113.6% from Ps.825.0 million to Ps.1,762.3 million.

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

	Land Use Fiscal Year ended June 30,				
	2004(1)(7)	**2005**(1)(8)	**2006**(1)(9)	**2007**(1)(9)(10)(11)	**2008**(1)(9)(10)(11)
	(in hectares)				
Crops(2)	27,358	39,831	41,283	53,579	63,900
Beef Cattle(3)	125,669	96,380	129,946	114,097	123,935
Milk	1,001	1,776	1,698	2,609	4,320
Sheep				90,000	90,000
Natural woodlands(4)	266,916	263,177	418,477	393,677	385,573
Owned farmlands leased to others	13,996	9,978	14,229	13,771	8,467
Total(5)	**434,940**	**411,142**	**605,633**	**667,733**	**674,195**

(1) Includes 35.723% of approximately 8,299 hectares owned by Agro-Uranga S.A., an affiliated Argentine company in which we own a non-controlling 35.7% interest.
(2) Includes wheat, corn, sunflower, soybean, sorghum and others.
(3) Breeding and fattening.
(4) We use part of our land reserves to produce charcoal, rods and fence posts.
(5) As of June 30, 2004, farmlands were leased in which 9,766 hectares were assigned to agricultural production. As of June 30, 2005, farmlands were leased in which 16,299 hectares were assigned to agricultural production. As of June 30, 2006, farmlands were leased in which 17,004 hectares were assigned to agricultural production and 32,647 to beef cattle production (including the Ñacurutú farm). As of

June 30, 2007, 25,307 hectares were leased for agricultural production and 29,208 hectares were leased for beef cattle production. As of June 30, 2008, 30,449 hectares were leased for agricultural production and 32,895 were leased for beef cattle production.

(6) Includes 618 hectares of the Los Maizales farm and 706 hectares of the El Silencio / San Luis farm.

(7) Includes 8,360 hectares of the El Tigre farm purchased on April 30, 2003 and does not include 6,478 hectares of the 41-42 farm, the title deed to which was executed on November 26, 2003.

(8) Includes 977 hectares of the San Enrique farm and 30,350 hectares of the Ñacurutú farm, sold in fiscal year 2005.

(9) Includes 6,022 hectares of the San Pedro farm purchased on September 1, 2005 and approximately 162,000 hectares through our 99.99% interest in Agropecuaria Cervera S.A. which holds, among other assets and rights, the concession for the start-up of production pertaining to a comprehensive development project. Does not include 5,727 hectares of the El Gualicho farm sold on July 25, 2005.

(10) Does not include 20,833 hectares of the Tapenagá farm, 14,516 hectares of the Los Pozos farm and 50 hectares of the El Recreo farm, which were sold in fiscal year 2007.

(11) Includes 24% of 170 hectares owned by Cactus Argentina S.A.

We are also indirectly engaged in the Argentine real estate business through our subsidiary Inversiones y Representaciones S.A., one of Argentina s largest real estate companies. IRSA is engaged in a range of diversified real estate activities including residential properties, office buildings, shopping centers and luxury hotels in Argentina. A majority of our directors are also directors of IRSA. As of June 30, 2008, Cresud held an interest of 42.13% in IRSA. At the closing of fiscal year 2008, our investment in IRSA represented approximately 35.1% of our total consolidated assets, and during fiscal year 2008 our gain from our investment in IRSA was Ps.31.5 million.

In September 2005, we, together with certain Brazilian partners, founded BrasilAgro, a startup company organized to exploit opportunities in the Brazilian agricultural sector. In April 2006, BrasilAgro increased its capital through a global and domestic offering of common shares, and as of June 30, 2008, we owned 14.39% of the outstanding common shares of BrasilAgro. As of June 30, 2008, our investment in BrasilAgro represented approximately 8.3% of our total consolidated assets.

LETTER TO SHAREHOLDERS

To our shareholders:

The international demand for agricultural commodities such as those produced by, amongst other countries, Argentina, is still on the rise. On top of the increased consumption of food arising from higher purchasing power in Asia s major emerging economies, there is a growing tendency to replace fossil fuels with bio-fuels or to use them on a supplementary basis. Given this context, we estimate that this cycle of high relative commodity prices shall continue for some years up and until a number of technological breakthroughs currently in the development stage are finally in production since these improvements might help to increase crop productivity. Hence, prospects for the agricultural and livestock production and development industries in Argentina are attractive given the high competitiveness and performance of this sector compared to other countries.

Although fiscal year 2008 has been a volatile year in terms of price levels and markets, our production activities continued to perform very well as shown by sown surface areas, production volumes and margins. In addition, the support provided by the investors community to our business was demonstrated once again in March this year when we offered 180 million shares pursuing a capital increase that was fully subscribed. A major portion of such capital stock increase shall be applied to the international expansion of our businesses to regions where we have envisaged the possibility of realizing land appreciations by anticipating the land appreciation cycle in much the same way as we have been doing in Argentina.

The value of farmlands in Argentina continued its upward trend during the year, contributing to the value appreciation of the existing portfolio.

Our Company played an active role in land acquisitions this year, as shown by

- the purchase of the remaining 25% of the 72 hectares in La Adela farm located in the Province of Buenos Aires. Following this purchase, the La Adela farm s total surface area is 1,054 hectares.

- the purchase of 80% of the La Esperanza farm (980 hectares) located in the Province of La Pampa, for a price of US$1.3 million. La Esperanza is adjacent to our El Invierno farm. Together, these two farms make up a 50% larger productive unit.

- The acquisition of 10,910 hectares in the Estancia Carmen farm located in the Province of Santa Cruz, adjacent to our 8 de Julio farm, for a price of US$0.7 million. Together, Estancia Carmen and 8 de Julio, represent more than 100,000 hectares for sheep production.

With respect to the appreciation of our portfolio, we continued with our policy to sell properties, clearly evidencing their potential as a source of income. Since farms have been booked at acquisition value, this potential for appreciation is not reflected in our balance sheet.

In this respect, we have realized a portion equivalent to a fifth of La Esmeralda farm in the Province of Santa Fé, for a value 8 times higher than its book value. Besides, we sold 4,974 undeveloped hectares located in an area that is far away from the sections we are now developing in Los Pozos , a farm located in the Province of Salta, which had been acquired at an approximate value of US$ 10/hectare and have now been realized at a value close to US$ 250/hectare.

Meanwhile, we continue with our development efforts over the remaining 240,000 hectares at Los Pozos which we consider to have much higher potential for appreciation as we have already assigned more than 30,000 to the production stage. Hosting about 50,000 head of cattle, Los Pozos represents one of Argentina s most important beef cattle farms with extremely high yields and margins. In addition, we have converted approximately 1,500 hectares into agricultural production obtaining high soybean yields.

During fiscal year 2008 we continued our regional expansion strategy by increasing our interest in BrasilAgro to 14.39% as of June 30, 2008. Also as of that date, BrasilAgro had 7 properties totaling 145,327 hectares, purchased at highly attractive values compared to the average prices prevailing in the respective regions, all of which have a huge appreciation potential. As part of the roll-out of its business plan, in fiscal year 2008 BrasilAgro announced the first sale of one of its properties. On June 17, 2008, 2,022 hectares in the Engenho farm were sold, at a gain of 116% compared to their purchase value. During the next fiscal year we will continue to look for new business opportunities with the purpose of consolidating a solid portfolio of properties.

In much the same way as we have launched our business in Brazil, we also envisage investment opportunities in line with our land development model in other countries in the region such as Paraguay, Bolivia and Uruguay. South America is one of the regions with the most abundant freshwater supply, that can be exported to other markets in the form of agricultural commodities. As a result, the region reflects higher growth rates than other regions in terms of addition of new lands for farming and production of food. At present we are studying specific possibilities in these countries where we see a significant land value appreciation potential, as one of the intended uses of the proceeds of our stock capital increase mentioned above. The Company has recently taken the first step in this direction by entering into a number of agreements in order to act in the real estate, agricultural, livestock and forestry markets in Paraguay. In this initial stage we acquired 20,000 hectares and we have the possibility of adding 50,000 more by virtue of the agreements made.

Another aim pursued by Cresud s capital increase has been to use the proceeds to increase our investment in IRSA. We believe that IRSA is the best vehicle for accessing the urban real estate market given its substantial and diversified portfolio of residential and commercial properties, the strength of its management and what we believe are its attractive prospects for future growth and profitability. As of June 30, 2008, our ownership interest in IRSA was 42.13%.

We aspire to have the best property portfolio in Latin America where low population density and hence larger number of hectares available for production result in a unique capacity for exporting commodities. We will continue to work for Cresud to attain the position as best vehicle for tapping opportunities in the region leading to the consolidation of a regional property portfolio with major appreciation potential.

These times of major challenges find us involved in projects with demanding objectives. I would hence like to thank our shareholders, investors, customers and suppliers for their trust and unremitting support, and to our directors and employees for their unconditional efforts and unfailing commitment, without which it would be impossible to achieve our goals year after year.

City of Buenos Aires, September 8, 2008

Saul Zang

Vice President

OUR STRATEGY

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

Focus on maximizing value of our agricultural real estate assets

We conduct our agricultural activities with a focus on maximizing the value of our real estate assets. We seek to rotate our portfolio of properties over time by purchasing large parcels of land which we believe have a high potential for appreciation and selling them selectively as opportunities arise to realize attractive capital gains. We believe that our ability to realize gains from appreciation of our farmlands is based on the following principles:

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

Applying modern technologies to enhance operating yields and property values. We believe that an opportunity exists to improve the productivity and long-term value of inexpensive and/or underdeveloped land by investing in modern technologies such as genetically modified and high yield seeds, direct sowing techniques, machinery, crop yield optimization through land rotation, irrigation and the use of fertilizers and agrochemicals. To enhance our cattle production, we use genetic technology and have a strict animal health plan controlled periodically through traceability systems. In addition, we have introduced a feedlot to optimize our beef cattle management and state-of-the-art milking technologies in our dairy business.

Anticipating market trends. We seek to anticipate market trends in the agribusiness sector by (i) identifying opportunities generated by economic development at local, regional and worldwide levels, (ii) detecting medium- and long-term increases or decreases in supply and demand caused by changes in the world s food consumption patterns and (iii) using land for the production of food and energy, in each case in anticipation of such market trends.

International expansion. Although most of our properties are located in different areas of Argentina, we are actively analyzing various expansion opportunities in other Latin American countries. We believe that an attractive opportunity exists to acquire and develop agricultural properties outside Argentina, and our objective is to replicate our business model in such other countries which include, among others, Brazil, Bolivia, Paraguay and Uruguay. For example, in 2005 we and several Brazilian partners founded BrasilAgro. As of June 30, 2008, BrasilAgro had 7 properties totaling 145,327 hectares, purchased at highly attractive values compared to the average prices prevailing in the respective regions, all of which have a huge appreciation potential.

Increase and optimize production yields

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

Implementation of technology. We seek to continue using state-of-the-art technology to increase production yields. We plan to make further investments in machinery and the implementation of agricultural techniques such as direct sowing to improve cereal production. We believe that we may improve crop yields by using high-potential seeds (GMOs) and fertilizers and by introducing advanced land rotation techniques. In addition, we intend to continue installing irrigation equipment in some of our farms to achieve higher output levels.

We seek to continue improving beef cattle production through the use of advanced breeding techniques and technologies related to animal health. We plan to improve the use of pastures and expect to make further investments in infrastructure, including installation of watering troughs and electrical fencing.

We have implemented an individual animal identification system, using plastic tags for our beef cattle and RFID tags for our dairy cattle, to comply with national laws on traceability. Also, we acquired software from Westfalia Co. which enables us to store individual information about each of our dairy cows. In the beef cattle business, we initiated Argentina s first vertically integrated beef cattle processing operation by entering into a partnership with Cactus Feeders and Tyson Foods (through its controlled subsidiary Provemex Holdings LLC), hereinafter Tyson Foods , to set up Cactus Argentina S.A. (Cactus), a feedlot and slaughterhouse operator.

In connection with our milk production, we plan to continue developing our activities through the use of state-of-the-art technology and advanced feeding and techniques relating to animal health.

Increased production. We seek to increase our crop, beef cattle and milk production in order to achieve economies of scale by:

Ø Increasing our owned land in various regions of Argentina by taking advantage of attractive land purchase opportunities as they arise.

Ø Leasing productive properties to supplement our expansion strategy, using our liquidity to make productive investments in our principal agricultural activities. We believe that leasing enhances our ability to diversify our production and geographic focus, in particular in areas not offering attractive prospects for appreciation of land value.

Ø Developing productive properties in areas where agricultural production is not developed to its full potential. As of June 30, 2008, we owned 230,532 hectares of land reserves and held 153,041 hectares under concession located in under-utilized areas where agricultural production is not yet fully developed. We believe that technological tools are available to improve the productivity of such land and enhance its long-term value. However, existing or future environmental regulations may prevent us from completely developing our land reserves, requiring us to maintain a portion of such land as unproductive land reserves.

Ø Diversifying market and weather risk by expanding our product and land portfolio. We seek to continue diversifying our operations to produce a range of different agricultural commodities in different markets, either directly or in association with third parties. We believe that a diversified product mix mitigates our exposure to seasonality, commodity price fluctuations, extreme weather conditions and other factors affecting the agricultural sector. To achieve this objective in Argentina, we expect to continue to own and lease farmlands in various regions with differing weather patterns and to continue to seed a

range of diversified products. Moreover, we believe that continuing to expand our agricultural operations outside of Argentina will enhance our ability to produce new agricultural products, further diversifying our mix of products, and mitigate further our exposure to regional weather conditions and country-specific risks.

Preservation of long-term value of our investment in IRSA

We seek to maintain the long-term value of our significant investment in the urban real estate sector through IRSA. We believe that IRSA is an ideal vehicle through which to participate in the urban real estate market due to its substantial and diversified portfolio of residential and commercial properties, the strength of its management and what we believe are its attractive prospects for future growth and profitability.

MACROECONOMIC CONTEXT

International Context

The international scenario has exhibited sustained deterioration since the financial crisis originated in the USA and its impact on the international credit market. As a result, from the stand point of economics and finance, uncertainty has grown and global growth expectations have been revised down, particularly with respect to the G3 countries. According to the estimates prepared by the World Bank, growth in the USA fell almost one fourth from its former level, from 2.9% in 2006 to 2.2.% in 2007 whilst growth forecasts for 2009 are 1.9%. In the case of Japan, this indicator would have fallen from 2.2.% in 2006 to 2.0% in 2007. And in the European Union this indicator would have sustained a decrease from 2.8% to 2.7% in the same period. However, it remains to be seen whether the developing countries with better growth prospects, such as Brazil, China, India and Russia will be able to offset the slow-down in the most developed countries.

On top of the liquidity risk brought about by the financial crisis, there is the increase in the prices of oil and agricultural commodities. However, given the cooling of the world economy, a deceleration is expected in food price growth rates, which might also lead to the possibility of an increase in supply.

Therefore, although the financial scenario faced by Argentina features increased external fragility and global economic slow-down, it still offers opportunities to continue to generate positive export balances through the international prices of primary commodities and exports of industrial manufactures.

The Argentine Economy

Despite the criticism against the economic policy adopted by the Government and concerns regarding inflationary pressures during the first half of 2008, Argentina keeps posting healthy macroeconomic indicators: trade and fiscal surplus, achievement of monetary targets and high levels of reserves allow to dispel fears of an economic crisis and underpin growth projections in the whereabouts of 6% for the current year, according to private sources (Estudio Broda).

Given that growth for 2007 was 8.5%, the floor for 2008 s growth has been estimated at 3.6%, which combined with an estimated 1.3% expansion in the first quarter, assumes 7% growth for the whole current year according to Fundación Capital, thus marking the sixth year in a row for Argentina s growth. The first quarter of 2008 showed a positive 8.4% change compared to the first quarter of 2007.

The services sector appears to be the most dynamic, increasing by 9.0% compared to the first quarter of 2007. Special emphasis is warranted by the sectors wholesale and retail trade (8.8%) and hotels and restaurants (9.3%). Besides, the production of goods grew by 5.9% driven by construction (9.6%) and by the manufacturing industry (6.8%).

In addition, demand is being driven by Total Consumption and its relative weight (79%). This indicator continued to show an upward trend at the beginning of 2008 though at a slower pace than in 2007. In particular, Private Consumption (68% of Aggregate Demand) has been growing at an average 8.8% rate year-on-year and it is expected to continue this trend throughout 2008, though at a lower rate due to the following: 1) contributions to be paid by employees into the Pay-As-You-Go pension system are now the same as those paid into the Capitalization pension system, 2) reduced employment generation and 3) more moderate salary increases.

Gross Domestic Fixed Investment (GDFI) appears to be the most dynamic component in demand as it has outperformed the economy (13.6% growth year-on-year) and has exceeded the expectations of the last quarter of 2007. This account s dynamics can be explained by 1) purchases of durable production equipment (mainly imported) and 2) the construction industry.

The external sector keeps posting good results. In terms of quantities, the ranking of exports would be led by industrial manufactures and agricultural manufactures. In addition, the trade balance surplus was US$ 2,947 million for the first quarter of the current year, with a year-on-year positive 50% change and indicative of a reversal in 2007 s trend: in the first quarter of 2008 exports rose by 42% year-on-year whereas imports grew by 40%. According to the Argentine Central Bank, the reason for this increase in imports is the Domestic Absorption of consumer and capital goods.

Public finance continues to reflect a primary surplus which results from a combination of increased revenues and a curb on expenditures. According to the Argentine Central Bank, in the first two months of 2008 the Non-financial public sector posted Ps.6,568 million as primary surplus, 82% higher than in the same period of 2007. By the same token, National Tax Revenues for the last twelve months (second quarter of 2007 first quarter of 2008) stood for 25% of GDP, driven by Value Added Tax, export taxes and social security.

As regards export taxes, in November 2007 the Argentine Government raised the withholding rates applied on exports of soybean and soybean by-products (from 27.5% to 35%), wheat (from 20% to 28%) and corn (from 20 to 25%). Through this scheme, the Government withheld a fixed percentage over the FOB price of grains, which meant that any future price increase would have had an impact on both the farmers and the Government s revenues. In early March 2008, the Argentine Executive Branch issued Resolution No. 125/08 pursuant to which the above scheme was transformed into a sliding scale withholding system for oilseed, grains and by-products. Under Resolution 125/08, the withholding rate (in percentage) would increase to the same extent as the crops price: the Government would collect the increase in prices in excess of certain levels and the farmers would be faced with a scheme similar to maximum prices. However, this scheme encountered fierce opposition by farmers representatives, which triggered a conflict that altered the commercialization and transport of merchandise, halted activities, reduced export registrations and led to massive popular protests both for and against the implementation of the sliding-scale withholdings. Finally, the Argentine Congress decided to repeal Resolution No. 125/08 and to reinstate the previous scheme of fixed withholdings.

Besides, public expenditures slowed down in the first months of the current year due to the decreased impact of arrears in payments of social security liabilities and grew less than revenues, contrary to what was seen in 2007.

Despite a volatile international context, the primary surplus coupled with the pre-financing of 2007 materially reduced the need to obtain financing and to place debt in the markets or to resort to disbursements by international credit agencies or Argentine Central Bank advances. Consequently, the public sector generated a contraction in the monetary basis that exceeded the targets in the 2008 Monetary Program.

In turn, the political and economic crisis from March to June 2008 took its toll on country risk indices. JP Morgan s EMBI+ exceeded 700 basis points in August this year, marking a peak for the calendar year (See Figure 1). Besides, the Argentine government s risk of default as measured by the 10-year Credit Default Swap spread posted 800 basis points in June 2008. Although these indicators point to levels similar to the year 2000 levels, previous to Argentina s economic and financial crisis of 2001, it must be noted though that the remaining indicators draw a picture that is indeed in stark contrast to the situation in the year 2000 and so, there would be no reason to infer that the country is headed towards a crisis by focusing only on the EMBI+.

Figure 1. EMBI+ Argentina, JP Morgan July 2007 May 2008

Source: Center for International Economics, Ministry of Foreign Affairs, Foreign Trade and Worship (Centro de Economía Internacional, Ministerio de Relaciones Exteriores, Comercio Internacional y Culto).

NOTE: Final data as of May 2008.

As concerns monetary policy, it must be emphasized that compliance by the Argentine Central Bank with the monetary targets fixed for the year 2007 accompanied by a policy of preventive reserve accumulation that covers 160% of the monetary basis and amounts to approximately US$ 50 billion (18% of GDP) dispelled doubts about the Argentine Central Bank s ability to maintain the value of currency. Faced with the international financial crisis and the uncertainty arising from the conflict with farmers triggered by the Government s attempt at implementing a sliding-scale withholding scheme over exports of grains, the Central Bank sent clear signs that it intended to loosen pressure on the foreign exchange market.

The second quarter of 2008 showed an increase in the demand for foreign currency, major volatility in deposits and increased short-term interest rates. However, the Central Bank still managed to meet the monetary targets thus marking the twentieth quarter of monetary compliance and combated the expectations of an Argentine Peso depreciation through major interventions in the foreign exchange market to regularize the demand of money and supply the market with liquidity. Thus, short-term interest rates in the monetary markets, which had started to rise in late April and during May, started to decrease in June. As regards the deposits held by the private sector in the financial system, although there has been a transfer of funds to sight deposits during the May turbulence, the situation of deposits was normal again in June, with the last twelve months coming to a close with a 17.5% year-on-year increase in sight deposits and a 15.7% increase year-on-year in term deposits.

The level of activity continues to perform positively and so do the level and quality of employment. If the downward trend in the unemployment level were to continue, the unemployment rate would post its lowest level since 1992 and it would represent 7% of the Economically Active Population, 0.5 percentage points below the measurement for the last four-month period of 2007. In the third calendar quarter, unemployment rate had been higher than in the previous quarter (8.4% compared to 7.5%) though this can be due to seasonal factors and according to the Argentine Central Bank, it would be reverting in the coming quarters. Services sectors continue to lead the ranking of creation of new jobs whilst the production of goods would see its demand remain constant.

When it comes to inflation, there are discrepancies between analysts and experts as regards the criteria employed in the calculation of the Consumer Price Index (CPI) by the Argentine Institute of Statistics and Census (INDEC). In May 2008, INDEC changed the methodology applied to calculate the CPI for the Greater Buenos Aires area by shrinking the scope of the analysis to focus on the behavior of 440 products whereas until April this scope had encompassed at least 800 products. Besides, goods will now stand for 62% of the sample whereas they previously stood for 53% of the sample and services will now stand for 38% of the sample though they had previously stood for 47% of the sample.

Along the same lines, discrepancies revolve around the set of available indicators, namely: Consumer Price Index Greater Buenos Aires, Consumer Price Index Rest (INDEC s approach to underlying inflation which excludes regulated prices and the prices that sustain seasonal changes such as food, clothing, tourism and education), Domestic Wholesale Price Indices (IPIM in Spanish), Construction Cost Index (ICC in Spanish) and GDP Implied Price Index (IPI in Spanish). According to the CPI for the Greater Buenos Aires area, inflation would be in the region of 9.0% as of June 2008 and for the calendar year (cumulative for eleven months), whereas the year-on-year change as of March 2008 (a comparison to March 2007) points to an 8.8% increase. Besides, the Consumer Price Index Rest points to an 11.4% increase for the same period and the Consumer Price Index Argentina points to a 10% increase year-on-year as of February.

The Provincial Directorate of Statistics and Censuses of San Luis referred to year-on-year changes in CPI for nine jurisdictions (La Pampa, Misiones, Neuquén, Río Negro, Salta, San Luis, Santa Fe, Tierra del Fuego-Río Grande-Ushuaia) ranging from 21% to 34%.

In turn, the Domestic Wholesale Price Index points to a year-on-year 14.6% increase as of May 2008, driven by the prices of imports and manufactured goods. The Construction Cost Index shows a 19.1% year-on-year rate as of May 2008, which is 0.6 percentage points above the measurement for May 2007. Lastly, the GDP Implied Price Index continued to show acceleration in the third quarter of the calendar year with a year-on-year 20% rate explained mainly by export prices (33.35% year-on-year) whereas the implied prices in Private Consumption showed a year-on-year 15.56% variation.

Finally, it must be noted that various private consultancy organizations estimated inflation at about 20% for the year 2007 and forecasted a price increase of at least 25% for 2008 on the basis of their own surveys, salary agreements, etc.

As regards salaries, 2007 came to a close with salary increases unheard of in the current economic expansion cycle with a year-on-year 22.7% variation. Along the same lines, private sector registered employees are expected to exhibit salary raises in excess of 20% per annum as a result of the basic collective bargaining agreements already executed; non-registered employees are expected to see their salaries rise by 24.1% and the public sector is expected to continue granting salary raises as it has been lagging behind and thus granting higher raises in the last year.

Source: *World Bank, Central Bank of Argentina, INDEC, Fundación Capital and FIEL*

Main Indicators

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Actual GDP Growth (in %)	-4.4%	-10.9%	8.8%	9.0%	7.5%	8.5%	8.5%
Inflation (Combined prices) in % *	-1.7%	49.4%	16.0%	5.9%	16.8%	9.8%	8.5%
Unemployment Rate ***	20.5%	20.7%	14.5%	13.0%	10.7%	8.7%	7.6%
Primary Surplus (w/o privatizations) in % of GDP	0.5%	0.7%	2.3%	3.9%	3.4%	3.5%	3.2%
Exports - FOB (US$ million)	26,610	25,710	29,565	34,550	38,200	46,569	55,779
Imports - CIF (US$ million)	20,320	8,991	13,834	22,447	28,600	34,152	44,706
Trade balance (US$ million)	6,289	16,719	15,731	12,103	9,600	12,410	11,073
Balance of Payments Current Account (US$ billion)**	-3,291	8,673	7,659	3,349	3,250	8,053	7,466

Source*: INDEC*

(*) Consumer Price Index Greater Buenos Aires INDEC
(**) On an accrual basis
(***) Country average (as a % of Economically Active Population)

AGRICULTURE AND CATTLE RAISING SECTORS IN ARGENTINA

Argentina has gained in strength in recent years as one of the world s leading food producers and exporters. It is the second largest country in South America after Brazil and has particularly favorable natural conditions for diversified agricultural production: vast extensions of fertile land and varied soil and weather patterns.

During the decade of the nineties, the Argentine agricultural industry experienced sweeping changes, such as a significant increase in production and yield (thanks to a sustained agricultural modernization process), relocation of production (crops vs. livestock) and a significant restructuring process within the industry, as well as land concentration. Taking advantage of a favorable international context, the agriculture and cattle raising sector as been one of the major drivers of the Argentine recovery after the economic and financial crisis of 2002.

In the last two years there was a general increase in agricultural commodity prices that represented a huge opportunity for the industry. This also led the Argentine Government to increase export withholding rates for soybean and its derivatives (from 27.5% to 35%), wheat (from 20% to 28%) and corn (from 20% to 25%).

Agriculture Sector

According to estimates of the Argentine Secretary of Agriculture, Cattle Raising, Fisheries and Food Industries (SAGPyA in Spanish), during the 2007/2008 farm season the grain production is expected to be slightly higher than the previous season, reaching over 95 million tons, another record hit for Argentina. This increase compared to the previous season is explained mainly by the increase in sown area, which rose 5%, as yields were affected by various weather problems.

Since 1994, agricultural production has been growing significantly as a result of changes in production systems with the extension of direct sowing, biotechnology and the larger use of agrochemicals, fertilizers and irrigation. In addition, the increase in sown areas with the incorporation of marginal areas to production and the expansion of agricultural activity into traditionally cattle raising areas, added to higher yields, have been the major drivers of growth.

As shown by grain production indicators (according to SAGPyA s data), crop volumes have grown 116% from 1996 to 2008, from a 44 million production for the 1995/96 season to 95 million in 2007/2008. Along with this production process, crop exports have also shown a sustained growth in the last years. Argentina is the third worldwide exporter of soybean and the largest global supplier of soybean pellets and oil, the second worldwide exporter of corn, and it is positioned among the five largest exporters of wheat.

Source: Agricultural Estimates SAGPyA.

Source: Agricultural Estimates SAGPyA.

According to estimates prepared by the United States Department of Agriculture (USDA), USDA Agricultural Baseline Projections to 2017, the Argentine agricultural production continues to have very good prospects, and the country is positioned as a strong competitor of the US in the agricultural and cattle raising sector.

In recent years the global consumption of cereals, oilseeds and beef has exceeded production, resulting in a substantial reduction of stocks and rise in prices. During the next decade, market conditions are expected to remain tight as concerns many commodities, and their high prices will be presumably maintained.

Along with the strong worldwide economic growth and rising demand for agricultural products, global agricultural trade is expected to increase in the next decade. Moreover, the rapid expansion of ethanol and biodiesel production in certain countries will significantly impact on global demand for staples such as corn, vegetable oils and sugar cane, also affecting world price relations.

According to the USDA s report, as a general framework, a worldwide growth is expected at an annual average global rate of 3.5% from 2008 to 2017, with 5.8% rates in developing countries. Actually, the growth in these countries which change their eating habits in line with improved revenues- accounts for the strong demand for food products expected over the next years. This strong demand from developing countries is reinforced by population growth rates, which continue to be almost double that of developed countries. However, the international trade of animal products still depends strongly from demand in developed countries and the access to markets resulting from existing commercial treaties.

Traditional exporters of agricultural commodities such as Argentina, Australia, Canada, the European Union and the United States will continue to have a leading role during the next decade. However, a growing presence is expected from countries that are making large investments in their agricultural sectors, such as Brazil, Russia, Ukraine and Kazakhstan.

According to the USDA s report, the production of biofuels is experiencing a swift expansion in several countries. Projections assume that over the next 10 years the most significant increase in biofuel production will occur in the European Union, Brazil, Argentina and Canada, pushing up the already growing demand for seeds used for the production of oils. Argentina is the first exporter of soybean oil and derivatives, showing its large milling capacity, small domestic demand for these products and export tax policy that favors the export of soybean derivatives and biodiesel as compared to soybeans. Biodiesel production in Argentina is expected to double from 2007 to 2017.

In addition, ethanol production in the United States has rapidly increased in the last years, from les than 3 billion gallons in 2003 to 6 billion in 2007. The expansion of this industry will continue, particularly in the next years, reaching 12 billion gallons in 2010. Market adjustments to the rising demand for corn intended for ethanol production extend beyond the grains sector: relative price movements generate adjustments in the supply and demand for other grains, and the high costs of food products affect the livestock sector, trimming growth in the production of beef products over the next years.

Due to the increase in the production of ethanol from corn in the United States, the USDA expects an increase in the production and export of corn for countries such as Argentina, Brazil, Ukraine and South Africa. Argentina is expected to maintain its leadership position as second worldwide exporter of corn, increasing the area allocated to this crop as a result of the rise in prices.

According to the USDA, the main expansion of sown area will occur in countries with available land reserves such as Brazil, Argentina, and other Latin American countries, some countries of Eastern Europe and Ukraine. Near two thirds of the growth in world production will result, however, from higher crop yields.

Beef Cattle Sector

In the past years, the worldwide beef market has experienced sweeping changes and great dynamism due to international supply and demand conditions.

On the side of demand, in 2007, in a context of higher revenues available to consumers prompted by the worldwide increase in GDP per capita and regained consumers trust, there was a rise in beef consumption, which in turn spurred new investments in livestock and beef production.

On the other hand, the international trade was affected by the influence of several animal diseases, particularly the BSE (bovine spongiform encephalopathy or mad cow disease) and the foot-and-mouth disease (FMD), which had an effect on the production and the prices of the main exporter countries. According to FAO estimates, world production of cattle beef increased 2.7% in 2007, with China, Argentina, India and Brazil as the countries that saw the largest expansion in production as compared to 2006.

The higher demand and contraction in supply, the outbreak of animal diseases, together with the changes in the exchange rates, resulted in a remarkable variation in trade guidelines which derived in a rise in the trade of beef from South America.

Argentina, with a stock near 55 million cattle heads, is one of the main worldwide producers and exporters of beef. Approximately 80% of the country s production is sold in the domestic market where Argentineans lead the list of beef consumers with 66kg per capita in 2007.

As a result of the strong demand -both domestic and foreign- and stagnated supply, an exponential increase in consumer prices was generated. To counteract this effect the withholding rate was increased, a minimum weight of slaughtered animals was established, and foreign sales of cattle beef cuts were momentarily suspended. The number of slaughtered animals in 2007 reached 14.9 million head compared to 13.4 million head recorded in 2006, the third record high in history. Production in 2007 went up by 5.9% compared to the previous year, reaching 3.2 million tons of dressed carcass. However the increase in the slaughtering and production of beef was prompted by the liquidation of stocks, which will result in higher constraints in the medium term. For the first four months of 2008, total dressed carcass production reached 999 thousand tons, i.e., beef production accumulated a decrease of 1.0% compared to the same period of 2007.

Source: SAGPyA

As concerns cattle beef foreign sales, 2007 was another year marked by quantity restrictions on export volumes, which have been imposed since March 2006. According to data from the Argentine Sanitation and Quality Service Agency (SENASA in Spanish), during 2007, 539 thousand tons of cattle beef were exported (in terms of dressed carcasses). This meant a 4.6% drop compared to export volumes in 2006. In monetary terms, foreign sales generated revenues of US$ 1,281 million, 6.8% higher than in 2006. This rise is explained by the increase in prices, particularly as concerns Hilton cuts. In 2007, the principal destinations of Argentine cattle beef exports were Russia, Chile, Hong Kong, Germany and Israel, which together purchased nearly 58% of total beef exports. For the first five months of 2008, cattle beef exports reached 155,723 tons (in terms of dressed carcasses), 13.3% lower than the volume exported in the period from January to May 2007.

The development of the livestock sector in Argentina has always been closely linked to control foot-and-mouth disease (FMD). Having been declared free of the disease with vaccination in 2002, in February 2006 there was an outbreak that affected this status. The outbreak was quickly brought under control and the country regained the status of FMD-free country in early 2007.

BSE still affects livestock at the worldwide level. Argentina is one of the world producers, together with Australia, Finland, Iceland, Norway, New Zealand, Paraguay, Singapore, Sweden and Uruguay, that has been recognized as a BSE-free country . The SENASA has played a major role in this issue, as it soon imposed sanitation control measures to isolate the country and prevent the disease.

Milk Sector

According to the Food and Agriculture Organization of the United Nations (FAO), the world production of milk rose 1.8% in 2007, reaching 676.3 million tons. Total milk production has remained relatively constant, whereas a deceleration in the growth of major milk producers and exporters has been observed. Production of the five largest export countries, which account for 40% of the world production of milk and contribute 80% of exports, has remained unchanged from the levels recorded in the previous year. In Oceania, the adverse weather conditions might affect the performance of Australia and New Zealand. The sharpest rises in production have been seen in Asia, which has become the largest producing region of the world. This area is also a strong importer of milk products, and absorbs a considerable portion of world production. In Latin America and the Caribbean many countries have emerged as exporters or have started to replace imports with domestic production in recent years, and a significant growth is forecast for this region.

In 2007, total milk production in Argentina was 9,527 million liters, 6.2% below the total recorded in 2006. This decrease was mainly explained by the floods and subsequent drought that strongly impacted on the industry, combined with other problems such as the closure of dairy farms and lower investment in the business.

Source: SAGPyA

In regard to exports, the principal destinations of Argentine milk exports in 2007 were Algeria, Venezuela and Brazil. According to official data, in 2007 250,450 tons of milk products were exported, representing revenues of 744,245 thousand dollars. These figures represented drops of 30% in volume and of almost 6% in value compared to the previous year. It should be noted that milk product prices experienced a significant increase in the international market.

Appreciation of Land Value

From 2002 to 2007, Argentine land values accounted for a very significant rise mainly as a consequence of the attractive international prices of grains. Besides, the technological package consisting of direct sowing, the application of fertilizers, soil humidity handling and agrochemicals have helped extend

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agricultural borders in many areas. The increase in productivity has driven prices in many regions that were formerly regarded as marginal areas for agriculture purposes. The chart below shows the changes in the prices for nucleus, mixed and breeding farm areas since 1990:

Source: Revista Márgenes Agropecuarios

During the first half of 2008, the value of land appreciated approximately 17% as concerns corn fields, and approximately 30% as concerns cattle raising fields.

Product Prospects [(1)]

The sources of the following information are the SAGPyA, the USDA, the Instituto Interamericano de Cooperación para la Agricultura, Márgenes Agropecuarios, the Food and Agriculture Organization of the United Nations and internal data.

Wheat

USDA projections for the 2008/2009 campaign at global level estimate a production of approximately 670.75 million tons of wheat, 10% higher than the previous campaign. In the northern hemisphere, where many crops have reached a well-developed stage, a wheat production increase is forecast especially in North America and Europe.

As regards Argentina, USDA projects a 13.5 million ton production for the 2008/2009 season, 11.2% lower than the prior year campaign. The rising prices of supplies required for wheat implantation, coupled with low soil humidity, have led to the impossibility in some cases, and lack of incentive in others, to grow this crop. For these reasons the SAGPyA forecasts a reduction in sown area of approximately 18% compared to the previous season.

Corn

Globally, USDA estimates a 1.8% drop in corn production, totaling 775.29 million tons vis-à-vis 789.15 million tons in the previous cycle. The sown area in the United States, the largest world producer, decreased 7% compared to the 2007/08 cycle. This circumstance, combined with the accelerated consumption growth rates, translates into smaller remaining stocks and ensuing improvement in international prices.

For Argentina, the USDA estimates that corn production would reach approximately 22.0 million tons, 4.8% higher than the previous campaign.

Soybean

In the case of soybean, for the 2008/2009 campaign, USDA projects a world production of 237.36 million tons, 8.8% more than the previous year. Given the high current prices and growing demand for soybean, a significant expansion in sown area is forecast for the next campaign. This trend is also strengthened by the rising oil prices, which have reached new record highs, bolstering returns in the biodiesel industry. United States, the largest world producer of soybean, expanded its sown area to the detriment of smaller areas earmarked for corn.

For Argentina, USDA estimates project a production of 49.5 million tons for the 2008/2009 campaign, 6.5% higher than the previous year.

Sunflower

Globally, sunflower production for the 2008/2009 campaign is projected at approximately 32.5 million tons compared to 27.2 million tons in the previous year. Sunflower oil has a strong demand due to its quality, and prices have remained far from the rest of vegetable oils, showing that demanders for sunflower oil are unable to replace this oil with lower quality substitutes. This circumstance has been one of the drivers for the upward trend experienced in international oil prices.

In Argentina, the interest in sunflower has increased, resulting in a larger sown area totaling approximately 2.95 million hectares. The satisfactory results of the previous cycle are likely to prompt extended coverage, particularly in the northwest region, San Luis, Córdoba and Entre Ríos. According to the USDA, the Argentine production of sunflower is forecast to be 5 million tons, an 8% increase compared to the previous campaign.

Beef Cattle

World beef prices have remained generally stable since late 2006. However, according to FAO estimates from 2008 onwards there will be rising pressures in beef cattle prices, as a result of the higher prices of grains that reduce the availability of pastures and increase animal foodstuff costs, the appreciation of the dollar and the diversification of eating habits in developing countries, which have increased beef consumption and decreased their share of basic cereals.

As concerns world beef cattle production, for 2008 the FAO estimates a 1.1% growth, reaching 68 million tons. However, local regulations on beef exports might cushion increases in beef prices in the Argentine market, affecting beef production for 2008/2009 in Argentina.

Milk

In recent months, the prices of many dairy products in the international market have reached high levels, essentially due to the fact that world milk production has not kept pace with increasing demand. Although milk production in Argentina slightly decreased during 2007, FAO estimates forecast a 6% increase for 2008. Investments made in the milk producing sector are enabling Argentina to focus on global export markets, especially in the powdered milk and cheese sectors. However, growth may be adversely affected by high prices in cereal crops and fodder cereals that reduce available pastures, increase feeding prices and affect the profitability of dairy products.

(1): Sources: SAGPyA, USDA, Instituto Interamericano de Cooperación para la Agricultura, Márgenes Agropecuarios, Food and Agriculture Organization of the United Nations and internal data.

BUSINESS DESCRIPTION

Our Company

We are a leading Argentine agricultural company engaged in the production of basic agricultural commodities with a growing presence in the Brazilian agricultural sector through our investment in BrasilAgro Companhia Brasileira de Propriedades Agrícolas (BrasilAgro). We are currently involved in a range of activities including crop production, beef cattle raising and milk production. Our business model, which we seek to roll out abroad, taking into account the specific conditions of each country, focuses on the acquisition, development and exploitation of properties having attractive prospects for agricultural production and/or value appreciation and the selective disposition of such properties where appreciation has been realized. Our shares are listed on the Buenos Aires Stock Exchange and the NASDAQ.

As of June 30, 2008, we owned 18 farms with approximately 443,532 hectares. Approximately 24,305 hectares of the land we own are used for crop production, approximately 91,040 hectares are for beef cattle production, 90,000 hectares are for sheep production, 4,320 hectares are for milk production and approximately 3,335 hectares are leased to third parties for crop and beef cattle production. The remaining 230,532 hectares of land reserve are primarily natural woodlands. In addition, through our subsidiary Agropecuaria Cervera S.A. we have the rights to 162,000 hectares of land for a 35-year period that can be extended for another 29 years. Also, during fiscal year 2008 ended on June 30, 2008, we leased 29,942 hectares from third parties for crop production and 32,895 hectares for beef cattle production.

During the fiscal years ended June 30, 2007 and 2008, we had consolidated sales of Ps.110.3 million and Ps.162.6 million, production income of Ps.102.8 million and Ps.159.8 million, and consolidated net income of Ps.49.4 million and Ps.22.9 million, respectively. During the fiscal years ended June 30, 2007 and June 30, 2008, our total consolidated assets increased 93.1% from Ps.1,071.9 million to Ps.2,069.8 million, and our consolidated shareholders equity increased 113.6% from Ps.825.0 million to Ps.1,762.3 million.

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

	Land use				
	Fiscal Year ended June 30,				
	2004(1)(7)	2005(1)(8)	2006(1)(9)	2007(1)(9)(10)(11)	2008(1)(9)(10)(11)
	(in hectares)				
Crops(2)	27,358				