IRSA INVESTMENTS & REPRESENTATIONS INC
Form 20-F
December 30, 2003
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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, 2003

OR

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

For the transition period from ______ to ______

Commission file number: 1-13542

IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANÓNIMA

(Exact name of Registrant as specified in its charter)

IRSA INVESTMENTS AND REPRESENTATIONS INC.

(Translation of Registrant s name into English)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Bolívar 108

(C1066AAB) Buenos Aires

Argentina

(Address of principal executive offices)

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

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

* 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, 2003 was **212,184,281**

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

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IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANÓNIMA

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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 Sociedad 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;

- 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 Pe

This annual report contains our audited consolidated financial statements as of June 30, 2003 and 2002 and for the years ended June 30, 2003, 2002 and 2001. Our consolidated financial statements have been audited by Price Waterhouse & Co., independent auditors, whose report is included herein.

Except as discussed in the following paragraph, we prepare our consolidated financial statements in Pesos and in conformity with Argentine GAAP and the regulations of the *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 financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 21 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 (loss) income and shareholders equity.

As discussed in Note 4.o. to our 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 the accompanying financial statements.

Additionally, as discussed in Notes 3.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

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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 also restated until that date, using a conversion factor of 1.1237.

Since Argentine GAAP still required companies to prepare price-level restated financial statements, the application of the *Comisión Nacional de Valores* resolution represents a departure from generally accepted accounting principles. However, such a departure has not have a material effect on the accompanying financial statements.

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

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

- we have not adjusted monetary items as such items were, by their nature, stated in terms of current general purchasing power in our consolidated financial statements;

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

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

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

Also contained elsewhere in this annual report are the consolidated financial statements of Alto Palermo Sociedad Anónima (APSA) (APSA), as of June 30, 2003 and 2002 and for the years ended June 30, 2003, 2002 and 2001, which have been audited by Price Waterhouse & Co., member firm of PricewaterhouseCoopers, independent auditors, whose report is included elsewhere herein. At June 30, 2002 we owned 49.7% of APSA. At June 30, 2002, we owned 54.79 % of APSA.

Except as discussed in the following paragraph, APSA prepares its financial statements in conformity with Argentine GAAP which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 17 to APSA s consolidated financial statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to APSA, and a reconciliation to U.S. GAAP of net (loss) income and shareholders equity.

As discussed in Notes 3.c. to APSA´s consolidated financial statements, contained elsewhere in this annual report, in order to comply with regulations of the *Comisión Nacional de Valores*, APSA discontinued inflation accounting as of March 1, 2003. This accounting practice represents a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on its financial statements.

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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 1999, 2000, 2001, 2002 and 2003 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, 2003, 2002 and 2001 and the selected consolidated balance sheet data as of June 30, 2003 and 2002 have been derived from our consolidated financial statements included in this annual report which have been audited by Price Waterhouse & Co., Buenos Aires, Argentina, independent auditors.

As discussed in Notes 3.d. to our consolidated financial statements, contained elsewhere in this annual report, on January 14, 2003, the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA) and the *Comisión Nacional de Valores* approved, with certain amendments, Technical Resolutions No. 16, 17, 18, 19 and 20 issued by the *Federación Argentina de Consejos Profesional en Ciencias Económicas* (FACPCE), which establish new accounting and disclosure principles under Argentine GAAP. The consolidated statements of income data for the years ended June 30, 2000 and 1999 and the selected consolidated balance sheet data as of June 30, 2001, 2000 and 1999 have been derived from our audited consolidated financial statements that are not included herein, which have been restated to give retroactive effect to the recently adopted accounting standard, except for certain valuation and disclosure criteria that in accordance with the transition provisions have been applied for prospectively.

Our financial statements are presented in Pesos. Except as discussed in the following paragraph, our financial statements are prepared in accordance with Argentine GAAP, which differs in certain significant respects from U.S. GAAP. Note 21 to our consolidated financial statements provides a description of the principal differences between Argentine GAAP and U.S. GAAP affecting our net (loss) income and shareholders equity and a reconciliation to U.S. GAAP of net (loss) income reported under Argentine GAAP for the years ended June 30, 2003, 2002 and 2001, and of shareholders equity reported under Argentine GAAP as of June 30, 2003 and 2002. The differences involve methods of measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC.

As discussed in Note 4.o. to our 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 we believe that such departure has not had a material effect on our financial statements.

Additionally, as discussed in Notes 3.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

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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 also restated until that date, using a conversion factor of 1.1237.

Since Argentine GAAP still required companies to prepare price-level restated financial statements, the application of the *Comisión Nacional de Valores* resolution represents a departure from generally accepted accounting principles. However, such a departure has not have a material effect on the accompanying financial statements.

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

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

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

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.

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	As of and for the Year Ended June 30,					
	2003	2003	2002	2001	2000	1999
	(US$ 000) [(1)]	*(Ps.000)* [(2)]	*(Ps.000)* [(2)]	*(Ps.000)* [(2)]	*(Ps.000)* [(2)]	*(Ps.000)* [(2)]
INCOME STATEMENT DATA						
Argentine GAAP						
Sales	76,048	212,935	137,640	224,665	256,608	305,397
Costs	(51,054)	(142,950)	(84,093)	(125,155)	(131,766)	(158,124)
Gross profit	24,994	69,985	53,547	99,510	124,842	147,273
Selling expenses	(9,137)	(25,583)	(11,281)	(22,279)	(22,624)	(25,278)
Administrative expenses	(14,902)	(41,725)	(32,057)	(39,996)	(47,373)	(42,245)
Gain on purchasers rescissions of sales contracts	3	9				
Loss in credit card trust	(1,456)	(4,077)				
Gain (loss) from operations and holdings of real estate assets, net [(3)]	7,681	21,507	(46,840)	(7,127)	(3,029)	956
Operating income (loss)	7,183	20,116	(36,631)	30,108	51,816	80,706
Amortization of goodwill	(2,367)	(6,631)				
Equity (loss) gain from related parties	(4,599)	(12,877)	102	847	23,332	47,765
Financial results, net	112,659	315,445	(505,757)	(99,408)	(45,446)	(1,246)
Other income (expenses), net	1,027	2,875	(4,857)	(5,917)	(7,160)	10,629
Income (loss) before taxes and minority interest	113,903	318,928	(547,143)	(74,370)	22,542	137,854
Income tax benefit (expense)	502	1,406	(2,230)	37,783	(22,533)	(31,511)
Minority interest	(12,103)	(33,889)	5,650	(5,243)	(1,159)	(4,174)
Net income (loss)	102,302	286,445	(543,723)	(41,830)	(1,150)	102,169
Income (loss) per share [(4)]	0.49	1.37	(2.62)	(0.20)	(0.01)	0.54
Income (loss) per GDS [(4)]	4.88	13.65	(26,21)	(2.05)	(0.06)	05.40
Average outstanding shares	209,840	209,840	207,412	204,189	204,652	189,058
U.S. GAAP						
Sales	82,211	230,190	164,575	245,137	250,466	297,670
Net income (loss) [(4)]	68,303	191,248	(731,470)	22,501	(18,988)	46,195
Net (loss) income before extraordinary items and accounting changes	68,303	191,248	(731,470)	(1,398)	(15,071)	35,465
Basic net income (loss) per GDS[(4)]	3.25	9.1	(35.3)	(1.1)	(0.92)	2.44
Basic net (loss) income before extraordinary items and accounting changes per GDS[(4)]	3.25	9.1	(35.3)	(1.1)	(0.73)	1.86
Weighted average common shares outstanding	209,840	209,840	207,412	204,189	204,652	189,058
BALANCE SHEET DATA						
Argentine GAAP						
Cash and current investments	80,817	226,287	69,251	112,643	91,474	97,516
Inventories	8,336	23,342	79,432	103,592	145,921	173,281
Mortgages and leases receivable, net	13,704	38,371	17,012	117,156	135,222	158,090
Non-current investments [(5)]	154,914	433,760	593,759	769,794	932,118	812,590
Fixed assets, net	427,686	1,197,521	380,703	471,276	507,359	569,511
Total current assets	103,073	288,603	153,170	256,425	263,758	367,236
Total assets	733,201	2,052,964	1,292,704	1,669,888	1,871,369	1,956,780
Short-term debt [(6)]	34,342	96,159	635,533	395,666	221,461	278,444
Total current liabilities	61,592	172,458	681,029	433,393	265,596	326,130
Long-term debt [(7)]	211,466	592,104	975	29,231	234,365	229,329
Total non-current liabilities	224,996	629,988	4,061	41,642	287,127	279,579
Minority Interest	157,619	441,332	84,894	128,410	119,988	128,504
Shareholders equity	288,995	809,186	522,720	1,066,443	1,198,658	1,222,567

U.S. GAAP						
Total assets	719,625	2,014,950	1,192,552	1,614,723	1,810,553	1,910,823
Total shareholders equity	225,248	630,693	370,250	986,537	1,151,142	1,193,018

CASH FLOW DATA

Argentine GAAP

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Net cash provided by operating activities	31,092	87,058	53,178	107,756	139,231	128,106
Net cash (used in) provided by investing activities	(13,385)	(37,479)	(19,637)	81,756	(37,482)	(208,106)
Net cash provided by (used in) financing activities	39,066	109,386	(42,551)	(185,013)	(117,401)	(130,544)
U.S. GAAP						
Net cash provided by operating activities	19,691	55,135	11,871	98,299	102,162	152,259
Net cash (used in) provided by investing activities	(18,664)	(52,260)	(21,049)	80,728	(416)	(232,618)
Net cash (used in) provided by financing activities	39,085	109,439	(41,427)	(173,958)	(117,394)	(130,537)
Effect of exchange rate changes on cash and cash equivalents	18,480	51,743	2,043			
Effect of inflation accounting	(526)	(1,472)	39,113			

OTHER FINANCIAL DATA

Argentine GAAP						
Depreciation and amortization	28,137	78,784	23,635	25,961	29,244	24,076
Capital expenditures [8]	14,147	39,611	48,692	68,974	41,962	209,243
Ratio of current assets to current liabilities	1.673	1.673	0.225	0,592	0.993	1.126
Ratio of shareholders equity to total liabilities	1.008	1.008	0.763	2.244	2.169	2.018
Ratio of non-current assets to total assets	0.859	0.859	0.882	0.846	0.860	0.811
Profitability [9]	0.430	0.430	(0.684)	(0.037)	(0.001)	0.540

(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, 2003 which was Ps. 2.8 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 .

(2) In thousands of constant Pesos of June 30, 2003, except for ratios and weighted average number of shares outstanding. Includes adjustment by inflation as of February 28, 2003. Sums may not total due to rounding.

(3) Includes unrealized gains from temporary investments in affiliated companies with non-voting rights, capital issuance premium and loss from write off of real estate assets for certain periods. See Note 8 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) Includes parcels of undeveloped land.

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

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

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

(9) Net Profit (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

Since April 1, 1991 until the beginning of 2002, the Law No. 23,928 and its Regulatory Decree No. 529/91 (together the Convertibility Law) were applicable in Argentina. The Convertibility Law established a fixed exchange rate under which the Argentine Central Bank was obliged to sell U.S. dollars to any person at a fixed rate of one Peso per U.S. dollar.

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

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

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

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

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

- the rate of exchange is determined by free supply and demand;
- exchange transactions may only be carried out by entities authorized by the Argentine Central Bank to do so;
- transfers abroad by the private non-financial sector, the financial sector and public companies which do not depend on the state for their budget for principal servicing of financial loans or profit or dividend remittances will require prior approval from the Argentine Central Bank, regardless of their method of payment. This requirement will not apply to transfers relating to (i) debt agreements with international agencies, (ii) debt with banks participating in the financing of investment projects jointly financed by international agencies, and (iii) debt agreements with official credit agencies or debt guaranteed by them.

Before 1991, the Argentine currency had experienced a significant number of large devaluations and Argentina had adopted and operated under various exchange control policies. We cannot assure you that the executive branch will continue its current policies or that further devaluations will not take place.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. dollars expressed in nominal Pesos per U.S. dollar. On December 16, 2003, the applicable Peso/U.S. dollar exchange rate was Ps.2.97 to US$ 1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Pesos.

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Nominal Exchange Rates (5)

	Exchange Rate			
	High(1)	Low(2)	Average(3)	Period End
Year Ended December 31, 1998	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 1999	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2000	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2001(4)	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2002	3.8500	1.4750	3.2154	3.3700
Month Ended May 31, 2003	2.8900	2.7120	2.8000	2.8500
Month Ended June 30, 2003	2.8000	2.7200	2.7500	2.8000
Month Ended July 31, 2003	2.8700	2.7100	2.8700	2.9200
Month Ended August 31, 2003	2.9100	2.8350	2.9060	2.9560
Month Ended September 30, 2003	2.9300	2.8400	2.8650	2.9150
Month Ended October 31, 2003	2.8550	2.7870	2.8150	2.8650
Month Ended November 30, 2003	2.9950	2.8475	2.8839	2.8575

(1) The high rate shown was the highest month-end rate during the year or any shorter period, as noted.
(2) The low rate shown was the lowest month-end rate during the year or any shorter period, as noted.
(3) Average of month-end rates.
(4) From December 23, 2001 through January 11, 2002 Banco Nación did not publish an official exchange rate due to governmental suspension of the exchange market.
(5) All prices are mid market prices.

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

Fluctuations in the exchange rate between the Peso and the U.S. dollar may affect the U.S. dollar equivalent of the Peso price our US$100.0 million Convertible Notes on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*). Increases in Argentine inflation or devaluation of the Argentine currency could materially and adversely affect our operating results.

B. Capitalization and Indebtedness

This item is not applicable.

C. Reasons for the Offer and Use of Proceeds

This item is not applicable.

D. Risk Factors

You should consider the following risks with respect to an investment in our company and 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. It is known that investing in companies which operate in emerging markets such as Argentina is more risky than investing in companies which operate in consolidated markets such as the United States.

Risks Related to Argentina

Overview of Argentine economic and political risks

All of our operations and properties are located in Argentina. Domestic demand for our rental and development properties broadly reflects prevailing conditions in the Argentine economy. Accordingly, contraction in the domestic economy or other adverse economic conditions may reduce demand for our properties and their values and may adversely affect our ability to meet our obligations. The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth and high and variable levels of inflation. In 1988, 1989 and 1990, the annual inflation rates were approximately 338%, 4,924% and 1,344%, respectively, based on the consumer price index and

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approximately 432%, 5,386% and 798%, respectively, based on the wholesale price index. As a result of inflationary pressures, the Argentine currency was devalued repeatedly during the 1960s, 1970s and 1980s, and macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the U.S. dollar. To address these pressures, the Argentine government implemented various plans and utilized a number of exchange rate systems during this period. At various times throughout Argentine history, the foreign exchange market has been subject to exchange controls.

In 1991, the Argentine government launched a plan aimed at controlling inflation and restructuring the economy, enacting the Convertibility Law. The Convertibility Law fixed the exchange rate at one Peso per U.S. dollar and required that the Argentine Central Bank maintain reserves in gold and foreign currency in an amount at least equivalent to the monetary base. Following the enactment of the Convertibility Law, inflation declined steadily and the Argentine economy experienced growth through most of the period from 1991 to 1997. In the fourth quarter of 1998, however, the Argentine economy entered into a recession that caused the gross domestic product to decrease by 3.0% in 1999, 0.5% in 2000 and 4.9% in 2001. During the second half of 2001, Argentina s recession worsened significantly, precipitating the political and economic crisis described in greater detail below. During 2002, the gross domestic product dramatically decreased by 10.9% as compared to 2001, while prices increased approximately by 41.0% and 118.0%, based on the consumer price index and on the wholesale price index, respectively. During 2003, economic indicators showed some signs of recovery. During the first half of 2003, the gross domestic product increased by 6.6% as compared to the same period in 2002, while prices increased by 10.2% and 8.1% based on the consumer price index and on the wholesale price index, respectively.

Political and economic instability has affected and could affect in the future commercial and financial activities

Following his election in October 1999, President Fernando De la Rúa was confronted with the challenges of dealing with Argentina s enduring economic recession and obtaining political consensus on critical issues related to the economy, public sector spending, legal reforms and social programs.

This government took certain measures that caused social discontent and the resignation of Minister of Economy, Domingo Cavallo. On December 21, 2001, after declaring a state of siege, President De la Rúa resigned in the midst of an escalating political, social and economic crisis.

Following the resignation of an interim President only one week after his appointment, on January 1, 2002, the Legislative Assembly elected *Peronista* senator Eduardo Duhalde as President to serve for the remaining term of former President De la Rúa. During the government of President Duhalde a number of far-reaching initiatives were undertaken, including:

- ratifying the suspension of payment of almost all of Argentina s sovereign debt declared by the interim President;
- ending the Peso-U.S. dollar Parity set forth in the Convertibility Law and the resulting devaluation of the Peso;
- converting certain U.S. dollar-denominated debts (ruled by Argentine Law) into Peso-denominated debts at a one-to-one exchange rate plus CER (as defined below);
- converting, with limited exceptions (financial and commercial), U.S. dollar-denominated bank deposits into Peso-denominated bank deposits on an exchange rate of Ps. 1.4 per U.S. dollar plus CER (as defined below); and

enacting an amendment to the Argentine Central Bank s charter to allow it to print currency in excess of the amount of the foreign reserves it holds.

On April 27, 2003, the presidential elections took place, in which Carlos Menem and Néstor Kirchner obtained the first and second place, respectively, in terms of votes. On May 14, 2003, Carlos Menem decided not to participate in the run-off. Based on Menem s decision, Kirchner was elected President of Argentina on May 25, 2003 for a four-year term ending December 10, 2007.

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